

Cabinet Committee on Climate Change and the Environment

Meeting to be held on 15th March 2011

Part I - Item No. 4

Electoral Division affected:
All

Carbon Reduction Commitment – Update Consultation and Compliance

(Appendices 1 and 2 refer)

Contact for further information:

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Executive Summary

The Committee will recall the report of December 2010 on the implications for Lancashire County Council of the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and the proposed changes brought about as a result of the Government's Comprehensive Spending Review (CSR). This report provides an update on consultation and compliance.

Recommendation

The Cabinet Committee on Climate Change and the Environment is asked to:

- a. Note the content of this report and the likely impact the changes to the CRC scheme will have on the County's participation.
- b. Approve the continued participation in the consultation process with Central Government on the future of the CRC scheme.
- c. Support the seeking of redress from schools for the purchase of carbon allowances to help encourage effective carbon and energy management.
- d. Recognise and support the need for regular internal audit of the processes and procedures managed by the Property Group in compliance with the requirements of the CRC scheme.
- e. Note that the Committee will receive further reports as details on the changes to the CRC scheme are made available.

Background and Advice

The County is registered as a participant of the Carbon Reduction Commitment (CRC) scheme. A 'Footprint' report and first year 'monitoring report' are now required to be submitted to the Environment Agency by the 29th July 2011. The County's Property Group Energy Team are working on these items and also preparing an 'Evidence Pack' necessary for external audit. Participants will be audited on a 5 yearly basis but the order will be determined on a 'risk' basis. It is

therefore quite possible that, as a major emitter of carbon, Lancashire County Council may be amongst the first audits carried out.

After the launch of the Comprehensive Spending Review (CSR), the Government issued a consultation document regarding the impact this would have on the CRC scheme. The Council responded to this consultation and the response is attached at Appendix 1.

The key concern to the Council is the cancelling of recycling payments which now turns the CRC scheme effectively into a tax on carbon and means the Council will face an additional revenue charge of £1.8 million per annum. The omission of a mechanism to change the original rules of the scheme for the purchase of carbon allowances means also that the £900,000 or so of this that relates to schools will have to be borne directly by the Council. However, the Department for Education (DfE) has recently advised that purchase of carbon allowances for schools will be an allowable item against the central part of the schools' budget. Nevertheless this still has the effect of removing any direct incentive for individual schools to reduce their emissions.

The first purchase of allowances will take place from April 2012 and as this is for carbon emitted in 2011/12 it will require appropriate accruals to be made within the 2011/12 accounts. The additional revenue cost of £1.8m per annum has been recognised as a pressure within the Medium Term Financial Strategy and is reflected within the authority's Revenue Budget 2011/12 to 2013/14.

Consultations

A further consultation on the CRC scheme has been launched by The Department for Energy and Climate Change (DECC) as a result of responses received to the first. The response date of 11th March has passed so a response was prepared for approval by the Cabinet Member for Environment and Planning and has been returned already. The latest consultation response is attached at Appendix 2.

The consultation asked for comments in several key areas, these were:-

1. CRC organisational rules for private sector participants.
2. Review of CRC supply rules.
3. The CRC qualification criteria.
4. The overlap between existing carbon related schemes (such as Climate Change Agreements and EU Emissions Trading System) and the CRC.
5. The timing and frequency of the sale of carbon allowances from 2012 onwards.

Crucially this consultation does **not** concern the removal of recycling payments or the ability (or otherwise) for the Council to **directly** pass the cost of purchasing carbon allowances to schools.

Reputation

The league table of CRC participants will still be published although there are no longer any financial incentives to be gained from league table position following the removal of recycling payments. The impact will be reputational only.

An organisation's position in the initial CRC league table (to be published in October 2011) will be based on two so called 'early action metrics'. These are; the amount of energy consumption recorded by automatic meters (AMR) and whether the organisation has achieved accreditation from an approved body such as the Carbon Trust.

The Property Group is currently rolling out a programme of AMR in 2011 with the aim of obtaining accurate utility accounts to aid cash-flow and crucially, to assist in the drive to reduce energy consumption. The majority of these devices will not be operational in time for the start of the CRC scheme and will therefore have limited effect on league table position. Approximately a quarter of the County's emissions are covered by Carbon Trust Accreditation. There is a not insignificant cost associated with obtaining accreditation for the remainder of the County's emissions and at this time it is not proposed to pursue accreditation as there is no financial benefit to be gained. An additional pressure remains that if there is no incentive for schools to reduce their emissions through direct charging for allowances this may further jeopardise league table position.

Summary

Although Government has committed to simplify the CRC scheme it currently still remains as a significant piece of legislation for the County to comply with. Information reports will be brought to the Committee as the results of the latest consultation are announced and the scheme is further developed.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Directorate/Tel
Carbon Reduction Commitment	20 th July 2010	Matthew Tidmarsh/ Resources Directorate/ 01772 533243
Carbon Reduction Commitment Update of Implications of CSR	8 th December 2010	Matthew Tidmarsh/ Resources Directorate/ 01772 533243

Appendix 1- CRC Consultation Response 17th December 2010

Lancashire County Council

Proposed Response to the Consultation on Amendments to the CRC Energy Efficiency Scheme

December 2010

Respondent's Details:-

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Type of organisation: Local Authority (County Council)

Preamble and General Comments

This response will deal with the questions raised by the Government using the numbering in the original consultation document

However, it is this respondent's opinion that the Amendment Order and consultation ignore key concerns for participants of the CRC Scheme. These are briefly identified below and it is requested that specific note is made of these and consideration to a reply to the issues raised is given.

1. The failure of the Amendment Order to address the requirement for local authority participants with responsibility for schools to purchase allowances on their schools' behalf with no means of passing on this cost. With the recycling payments abolished there is no commensurate incentive for schools to take any action to reduce their emissions as they do not have to pay for the allowances. Schools generally account for approximately 50% of a local education authority's emissions so by not addressing this the Government will effectively remove these emissions from the scheme.
2. The Government has said that recycling of costs to participants is to be stopped and the revenue redistributed to support public finances, including spending on the environment. The CRC scheme now acts as an additional levy on emissions. It would seem that local authorities and other public bodies will pay this levy only for it to be redistributed back to the public sector. This seems to be an unnecessary administrative burden on public authorities and could be avoided by ring fencing the charge within relevant public bodies' accounts and utilising it for locally beneficial carbon, energy and environmental works.

Specific Consultation Response

The remainder of the document deals with the specific questions posed in the consultation:-

Question 1:

Do you agree with the Government's proposal to extend the introductory phase and the associated amendments? Yes/No.

Answer 1:

Yes.

Comment 1:

Extending the introductory phase seems to serve only to allow Government time to consult and it is suggested in the consultation document that this is more straightforward than amending the CRC scheme mid-phase. This would seem to imply that the result of any subsequent consultation would not be implemented mid-phase. This is welcomed.

Question2:

Do you agree with the Government's proposal to remove the information disclosure requirement? Yes/No.

Answer 2:

No.

Comment 2:

The removal of this requirement will not materially affect the participation of Lancashire County Council. However if, in subsequent phases, this requirement is removed it is likely that the scheme administrators will lose track of qualifying meters and it will no longer be clear whether all relevant emissions are being captured. This would also introduce a further complication if, in future, the threshold for participation were lowered.

Question 3:

Do you agree with the Government's proposal to amend the landlord/tenant rule in respect of Northern Ireland departments? Yes/No.

Answer 3:

Yes.

Comment 3:

This has no material impact upon the participation of Lancashire County Council in the CRC scheme.

Question 4:

Do you agree with the Government's proposals to redistribute the administrators' responsibilities? Yes/No.

Answer 4:

Yes.

Comment 4:

Again this has no material impact upon the participation of Lancashire County Council in the CRC scheme.

Question 5:

Do you agree with the Government's proposal to update reference errors in the original order? Yes/No.

Answer 5:

Yes.

Comment 5:

The correction of referencing errors should be referred to in the Amendment Order as a matter of course. Consultation on this seems unnecessary.

Question 6:

Do you agree with the Government's proposal to update the interpretation definitions? Yes/No.

Answer 6:

Yes.

Comment 6:

This has no material impact upon the participation of Lancashire County Council in the CRC scheme.

Appendix 2- CRC Consultation Response 11th March 2011.

To follow...