

Cabinet Committee on Climate Change and the Environment

Meeting to be held on 8th December 2010

Part I - Item No. 5

Electoral Division affected:
All

Carbon Reduction Commitment – Update on Implications of Comprehensive Spending Review

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Executive Summary

The Committee will recall the report of July 2010 on the implications for Lancashire County Council of the Carbon Reduction Commitment (CRC) energy Efficiency Scheme. This further report seeks to inform the Committee of the likely implications of the changes to the CRC scheme brought about as a result of the Government's recent Comprehensive Spending Review (CSR).

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. In addition the Committee is asked to approve the proposal to respond to the current consultation by Government on the operation of the amended scheme and to directly address passing the cost of purchasing carbon allowances to schools.
- c. Note that the Committee will receive further reports as details on the changes to the CRC scheme are made available.

Background and Advice

The CRC scheme came into effect on 1st April 2010. The County successfully registered as a participant by the deadline of 30th September 2010. Preparations are now underway to collate the 'Footprint' report and the first monitoring year report to be submitted after the end of March 2011. In addition work is underway to begin the 'Evidence Pack' necessary for external audit.

An internal cross directorate officer team has been set up to develop participation strategies covering finance, legal, procurement, property and audit issues. It is proposed that this team will periodically report to the Committee for ratification of proposed actions.

The major concern of this report however, are the changes to the CRC Energy Efficiency Scheme brought about by the Government's Comprehensive Spending Review (CSR).

The CSR document states that:-

"Revenue raised from the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme will be used to support public finances (including spending on the environment), rather than being recycled to participants".

The Government expects to raise approximately £1 billion per annum by doing this.

The key (currently understood) changes to the CRC affecting Lancashire County Council arising from the CSR announcement are:-

1. The first sale of carbon allowances will take place at the end of 2011/12 (From April 2012 to July 2012) instead of at the end of 2010/11. This will be based upon actual rather than anticipated emissions and therefore remove the opportunities for carbon trading.
2. There will be no recycling of the cost of purchasing allowances.
3. There is still no means for the Council to charge schools for purchase of carbon allowances for their emissions.
4. The introductory phase will be extended until the end of March 2014 from March 2013.
5. The price of carbon in the introductory phase will be set by HM Treasury in the budget statement (currently set to be £12 per tonne but this may change).
6. League table will be retained although this will have reputational impact only.
7. Evidence Pack, Footprint Report, Annual Report and auditing arrangements remain a requirement.
8. Retrospective purchase of allowances may be changed in future to make carbon trading a possibility again. This would require 'double' purchasing of allowances in some future year with the attendant cash flow implications.

Clearly the two most significant changes are firstly the cancelling of recycling payments which turns the CRC scheme into a direct tax on carbon and means the Council will now, instead of having a value at risk of plus or minus £180,000 in year 1 of the CRC scheme, have an additional revenue charge to meet of £1.8 million pounds. Secondly the £900,000 or so of this that relates to schools will have to be borne directly by the Council with no means of being able to pass it on. A slight mitigating factor is that the first payment year has been delayed by 12 months.

It is proposed to report to the Committee on any future developments.

Consultations

The Department for Energy and Climate Change (DECC) launched a consultation on the changes to the CRC scheme on 17th November 2010. Crucially this consultation does **not** concern the removal of recycling payments **nor** the ability (or otherwise) for the Council to pass the cost of allowances to schools.

It is proposed that a response to the consultation be submitted to DECC by the deadline of 17th December 2010.

Implications:

This item has the following implications, as indicated:

Risk management

The CRC scheme now represents a revenue liability to the Council with no prospect of bonus payments from recycling. This makes carbon and energy reduction measures more important than ever. Although it must be remembered that the cost of carbon per kWh of energy is still currently far less than the cost of the energy itself. It is recommended that carbon and energy reduction activities should continue to be supported as a priority.

Finance

The County will face a cost of approximately £1.8 million in 2012/13 for the purchase of carbon allowances although, as this relates to emissions in 2011/12 it will have to be accounted for in 2011/12. £900,000 of this will be for schools with currently no way of recharge. There is therefore, currently no incentive for schools to reduce their carbon emissions (although energy efficiency is still an effective means of reducing revenue running costs). It is proposed that this matter be raised with Government and they be urged to consider allowing participant Councils to pass the cost of purchasing carbon allowances to schools to restore the incentive element of the CRC scheme.

Reputation

The league table of participants will still be published to act as a reputational driver for change. However, if there remains no incentive for schools to reduce their emissions this may jeopardise league table position.

**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