



Belfast City Council

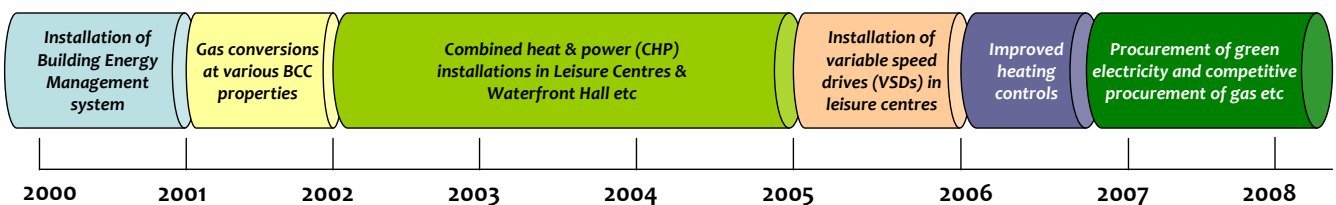
Report to:	Strategic Policy & Resources Committee
Subject:	INTRODUCTION OF CARBON REDUCTION COMMITMENT (Carbon Reduction Commitment) ENERGY EFFICIENCY SCHEME
Date:	19 November 2010
Reporting Officer:	Gerry Millar – Director of Property & Projects Ext. 6217
Contact Officer:	George Wright – Head of Facilities Management – Ext. 6232/5206

Relevant Background Information

Members will be aware that the issue formerly referred to as ‘global warming’ but now more usually referred to generically as ‘climate change’ is currently the subject of vigorous scientific and political debate internationally.

Clearly, the generation and consumption of energy (e.g. electricity and gas) involves a significant amount of CO₂ production, and in fact, the council’s current estimated CO₂ output from its existing property portfolio is around **17,000** tonnes per annum. It must first be pointed out that, in recent years, a number of significant energy-efficiency projects have been carried out which have reduced BCC’s CO₂ emissions by **17%**, and in most cases we have been successful in obtaining 100% external grant aid in order to make the necessary changes at no cost to the rate-payer (e.g. installation of combined heat and power plant [CHP] at leisure centres, building insulation, swimming pool covers, conversions from oil to natural gas etc). It should, however, be noted that the likelihood of obtaining 100% (or even match-funded) grants in the future is remote, and consequently that any future initiatives will have to be funded by the council.

The principal actions taken to date are illustrated below:



In terms of procurement of energy, the council has also been able to achieve a level of 85% of its electricity from ‘green’ sources (100% in City Hall) and is currently seeking competitive tenders for the supply of natural gas. It should be noted that under the Carbon Reduction Commitment Energy Efficiency Scheme, all electricity, irrespective of source, has to be reported at the ‘grid average’ emission rate.

Consequently, under current Carbon Reduction Commitment scheme conditions, the Council derives no benefit from purchasing green electricity, however it is understood that this is to be reconsidered, which may have implications for electricity generation at the North Foreshore site.

Background

On foot of the **Climate Change Act 2008** the Department of Energy & Climate Change (DECC) have introduced a statutory scheme designed to encourage improvements in energy management, in order to assist the government in delivering on its climate change obligations. This scheme is referred to as the CRC (Carbon Reduction Commitment) – Energy Efficiency Scheme and participation for organisations falling within the stated parameters became mandatory from April 2010.

The target sector for the Carbon Reduction Commitment is the group of large public and private sector organisations, which together account for around 10% of the UK's emissions. The scheme affects approximately 5,000 large organisations across the UK (although less than 100 in Northern Ireland), and includes Belfast City Council as a full participant. Although Belfast is the only local council to fall into this bracket there will be many other large public bodies in N.I. involved in the scheme. The council registered for the Carbon Reduction Commitment scheme as required in September 2010.

The Carbon Reduction Commitment scheme seeks to encourage organisations to reduce CO₂ emissions from their buildings and in so doing to reduce their potential liability under it by carrying out energy-efficient upgrading work to systems and services etc. No specific annual target for CO₂ reductions is mandated by the scheme or by the 2008 Act however, a reduction of 1% per annum has been adopted by the Department of Finance & Personnel (DFP) locally.

It must be emphasized that improving CO₂ emissions performance by doing this sort of upgrade work may result in an improved league-table position for the council and a reduced Carbon Reduction Commitment contribution, but this cannot be guaranteed even at quite high levels of investment. This is because our position on the table is relative and not absolute: it depends in part on the actions of others and, as the table is not limited to public-sector organizations, it is perfectly possible that private-sector companies may take commercial decisions around this sort of 'green' investment in order to improve their commercial and marketing position at levels which could wholly or partially negate any BCC investment in terms of league position.

Operation of the Carbon Reduction Commitment scheme

As originally conceived, the scheme involved a 'cap and trade' approach to carbon reduction, commencing in 2011/12. In essence, all of the qualifying organizations would be required to make payments into the scheme based on their levels of CO₂ emissions, at a fixed initial price of **£12** per tonne. The council's current level of CO₂ emissions is just over 17,000 tonnes per annum, which would require a payment of approx. **£205,000** per annum. However, by way of a lead-in mechanism for participants, the scheme also provides for a system of rebates during the first 5 years. In the first year, an organization will receive a rebate of between 90% and 110% (i.e. an organization can actually receive more in rebate than it paid in) on the basis both of its emissions performance against the base year of 2008 and also in terms of its performance in relation to what are described as 'early-action metrics'.

The principal early-action metric is the percentage of the total footprint emissions covered by ½-hour electricity and gas metering, with the target being set at **90%** or more. Members will be aware that this Committee has already agreed to provide funding from existing 2010/11 underspends to carry out the work necessary to achieve this level.

As a consequence - and assuming that our energy usage does not rise significantly - BCC's exposure under the current Carbon Reduction Commitment scheme can be no more than **£20,750** during 2011/12, and may be significantly less. The level of potential rebate then falls by 10% per annum for the remainder of the lead-in period, and will disappear completely in 2016/17.

However, it should also be noted that, in 2013/14, the total number of allowances available to the participating organizations is to be capped at a level lower than at present, and the intention is that the carbon ‘allowances’ would then be traded amongst the participants on a free-market basis. This reduction in supply would increase demand for the credits (by a factor of two or three by most estimates) and this, coupled with the falling potential levels of rebate, could potentially mean annual Carbon Reduction Commitment payments in the order of **£175,000** for the council at that time.

Further, once all rebates cease in 2016/17 the council would, under the current scheme, be faced with typical annual payments in the order of **£260,000** (if the 2013/14 increases in the cost of carbon allowances are modest) or up to **£420,000** in the worst-case scenarios.

Recent changes

Very recently, a number of issues have arisen which have the potential to significantly alter the operation of the proposed scheme as set out above. Firstly, the Climate Change Committee produced a paper entitled “**The Carbon Reduction Commitment Energy Efficiency Scheme – Advice to government on the second phase**” in September 2010. In essence this scheme makes a number of proposals, most notably:-

- ★ if a cap on available carbon allocations were to be introduced, the Committee recommends a reduction of up to 4% annually;
- ★ the Committee acknowledges the complexity of the cap and trade scheme and recommends doing away with this element and instead extending the first phase (i.e. no limit on the number of allocations which can be purchased at a fixed price, in advance of a more fundamental review and re-design of the scheme);
- ★ the Committee recommends separate league tables for the public and private sectors; and
- ★ the Committee is recommending the inclusion of emissions from renewable energies which are currently excluded from the scheme.

In addition, the **Spending Review 2010** document produced by HM Treasury in October 2010 contained the following provision (at S2-108):

“The Carbon Reduction Commitment Energy Efficiency scheme will be simplified to reduce the burden on businesses, with the first allowance sales for 2011-12 emissions now taking place in 2012 rather than 2011. Revenues from allowance sales totalling £1 billion a year by 2014-15 will be used to support the public finances, including spending on the environment, rather than recycled to participants”.

This proposal not only means that it is now very unlikely that there will be any financial implications for the council during the 2011/12 financial year but, more significantly, appears to provide that the self-regulating ‘cap & trade’ mechanism will be discontinued and that the scheme will essentially become a new form of direct taxation, with payments made direct to government rather than into the Carbon Reduction Commitment scheme’s ‘pot’ for re-distribution to contributors.

Finally, there are also indications that the N.I. Assembly is seeking to develop its own position in relation to carbon-reduction issues, and the NI Assembly Committee for the Environment has recently issued a council questionnaire, which seeks to establish a baseline situation locally, presumably as the basis on which to develop future policy-making in this area.

Summary

It appears likely that the Carbon Reduction Commitment scheme will be implemented as originally conceived in April 2011 and that CO₂ emissions returns will be submitted as required by July 2011. However it now appears to be unlikely that any payments under the scheme will be required during the financial year 2011/12; instead the first payment will be required in the 2012/13 financial year and will be based on actual emissions for the previous year.

The maximum total nett amount which the council would need to provide is **£20,750** (although this is of course based on current and historical BCC emissions trends, so if there were a significant increase in emissions during the measured period then this figure could increase somewhat).

It also seems clear that the Carbon Reduction Commitment scheme will be significantly modified as the result of both national and regional policy development, and also that officers will, as a consequence, require additional time in which to assess the various changes now being proposed and their likely financial and other implications for BCC.

Key Issues

The key issues are (a) the extent of the council's liability under the scheme in the upcoming 2011/12 financial year and (b) the likely format, scale and scope of the scheme in subsequent years.

Resource Implications

The maximum potential liability under the scheme in 2011/12 will be **£20,750** (subject to actual emissions levels) but it is very probable that no payments will in fact be required until 2012/13.

Under the current scheme, liability would double in the 2nd year and increase significantly in the 3rd year (to approx. £175,000) following the imposition of the carbon 'cap' and the floating of the price of carbon 'allowances' and - once all lead-in rebates are removed in 2016/17 - the council's liability would be in the order of £270,000 - £420,000 per annum under the Carbon Reduction Commitment scheme.

It is clear that the cost of carbon emissions will have very significant cost implications for BCC in the future, however as illustrated above the existing scheme is clearly going to change significantly in its scale, scope and applicability, and these changes must be properly assessed before the Committee can take any meaningful longer-term decisions in the matter.

Recommendations

It is recommended that, should a Carbon Reduction Commitment payment be necessary during 2011/12, the Committee authorise the Director of Property & Projects to make such payments under the Carbon Reduction Commitment scheme on the understanding that such payment(s) will not exceed £20,750 in total value.

It is further recommended that the Committee notes the potential uncertainty around the future format and scope of the Carbon Reduction Commitment scheme and agrees to receive a further report in early 2011, setting out the definitive situation in terms of the council's obligations under the scheme once the situation has clarified.

Key to Abbreviations

None.

Documents Attached

None.