ABSTRACT: This report provides an update on the progress achieved in preparing Angus Council to participate fully in compliance with the new legal duty introduced by the Carbon Reduction Commitment (CRC) Energy Efficiency Order 2010 and recommends delegations to the Director of Corporate Services to facilitate scheme payments in a manner which is transparent, accountable and complies with best audit practice.

1. RECOMMENDATIONS

It is recommended that the Committee:

i. authorise the Director of Corporate Services to undertake the purchase and surrender of carbon allowances, and make other scheme payments, in accordance with the management arrangements established by the Environment Agency [EA] and Scottish Environmental Protection Agency [SEPA] for the CRC Energy Efficiency Scheme Order 2010 notwithstanding the scale of such payments.

ii. authorise the Director of Corporate Services to delegate this responsibility to the Head of Property in accordance with the associated responsibilities detailed in the Scheme of Delegation to Officers.

iii. authorise the Director of Corporate Services, with the guidance of the Head of Finance and the Chief Internal Auditor, to establish appropriate arrangements which enable the electronic payment process to be transparent, accountable and comply with best audit practice.

iv. instruct the Director of Corporate Services to submit an annual report detailing the outcome of the exercise of these delegations and advising the direct expenditure incurred through participation in the CRC Energy Efficiency Scheme Order 2010 process.

2. BACKGROUND

The Strategic Policy Committee, at its meeting of 7th September 2010 approved Report No: 668/10 and the management arrangements and nominated representatives being established to enable Angus Council to fulfil the new obligations introduced by the Carbon Reduction Commitment Energy Efficiency Order 2010 and the Climate Change (Scotland) Act 2009.

A range of management arrangements have been established in the interim and a number of policy reports have been prepared for consideration by the Carbon Reduction Member/Officer Steering Group at its initial meeting which will be in the May 2011 period.

Temporary supplementary funding has been provided in 2010/11 and enabled the provision of one additional energy technician and the engagement of specialist consultants to undertake control system audits. Technician duties have been reorganised on an area basis and two technicians have been out posted to Forfar and Montrose respectively.
All three technicians have created strong relationships with building managers and provided extensive energy management best practice and advice.

A mixture of new permanent supplementary funding and budget virement provided from 2011/12 has enabled:

- the annual purchase of carbon allowances for Angus Council
- the establishment of two new permanent energy technicians

Action is underway to recruit and appoint these technicians thereby establishing a four permanent technician team in comparison to the 2010/11 team of two permanent and one temporary technician.

This report recommends delegations to the Director of Corporate Services to facilitate CRC scheme payments in a manner which is transparent, accountable and complies with best audit practice.

3. CURRENT POSITION

The Coalition Government has, as part of its Comprehensive Spending Review in October 2010, taken steps to simplify the management arrangements associated with the Introductory Phase of the CRC Energy Efficiency Scheme Order 2010 and has advised an intention to further review options for further simplification.

The main changes comprise:

- the removal of the requirement for scheme participants to purchase carbon allowances at the start of each financial year based upon anticipated carbon dioxide emissions, excepting the first year of the introductory phase. Instead, participants will be required to purchase carbon allowances after the end of each financial year based upon actual carbon dioxide emissions
- the removal of recycling repayments previously intended to be made to participants based upon their carbon dioxide emissions reduction performance during the recently concluded financial year
- the removal of in-year carbon trading by participants
- uncertainty regarding the unit cost of carbon allowances which will be set by the Chancellor’s annual budget process and may be greater than the previously planned £12 per tonne

Notwithstanding these changes, Angus Council will continue to be required to purchase carbon allowances through the Environment Agency, ~£320,000 or more each financial year, as well as make scheme participation payments and, exceptionally, make payments where penalties are imposed for failure to comply with CRC scheme rules.

The Chancellor of the Exchequer, in his March 2011 Budget, has announced that the carbon allowances will be priced at £12 per tonne of carbon dioxide for 2011/12 and that the carbon price floor for electricity will start at around £16 per tonne from 1st April 2013 and follow a linear path to £30 per tonne in 2020.

It is anticipated that carbon allowance pricing will also follow this path resulting in an increase in costs for Angus Council from £320,000 in 2011/12 up to perhaps £790,000 in 2020/21. This would require Angus Council to reduce its CRC scheme carbon dioxide emissions by 60% for the CRC scheme charges to remain at the 2011/12 level.

Angus Council has no discretion and must purchase and then surrender carbon allowances sufficient to cover its carbon dioxide emissions, as specified by the CRC scheme, for the recently concluded financial year.

The actual costs will be determined by the Council’s end-of-year carbon dioxide emissions [tonnes] as reported to the Committee and the prevailing unit cost of carbon allowances [£/tonne]. Suitable budgetary provision will be established through the budget setting process for each financial year.

Payments for carbon allowance purchases will be via BACS transfer. Payments for other charges will be made electronically via a credit card in a secure payment facility at the EA CRC website or via BACS
transfer. None of these payments will be undertaken in accordance with the Council’s preferred method of an order being issued and one or more corresponding invoices being received, validated, authorised and paid.

The payment processes and the scale of carbon allowances single purchases without competitive tendering and without the normal procurement process do not comply with the requirements of the Financial Regulations.

The Corporate Services Committee is therefore recommended to:-

- authorise the Director of Corporate Services to undertake the purchase and surrender of carbon allowances, and make other scheme payments, in accordance with the management arrangements established by the Environment Agency and Scottish Environmental Protection Agency for the CRC Energy Efficiency Scheme Order 2010, notwithstanding the scale of such payments.
- authorise the Director of Corporate Services to delegate this responsibility to the Head of Property in accordance with the associated responsibilities detailed in the Scheme of Delegation to Officers namely:-
  - (15) to carry out the Primary Contact functions of the Council in accordance with the Carbon Reduction Commitment Energy Efficiency Scheme Order 2010 and to appoint Secondary Contact and Account Representatives as appropriate.
  - (16) to manage Angus Council’s response to the new duties specified in the Carbon Reduction Commitment Energy Efficiency Scheme Order 2010.
- authorise the Director of Corporate Services, with the guidance of the Head of Finance and the Chief Internal Auditor, to establish appropriate arrangements which enable the electronic payment process to be transparent, accountable and comply with best audit practice.
- instruct the Director of Corporate Services to submit an annual report detailing the outcome of the exercise of these delegations and advising the direct expenditure incurred through participation in the CRC Energy Efficiency Scheme Order 2010 process.

4. FINANCIAL IMPLICATIONS

The budget 2011/12 revenue budget includes £300,000 within Other Services to fund the purchase of carbon allowances for Angus Council’s carbon dioxide emissions in 2011/12. Any additional costs associated with carbon allowance purchases in 2011/12 over and above this provision will be funded from Angus Council’s provision for additional burdens, if required.

The annual cost will depend on the scale of carbon dioxide emissions reduction achieved by the Council and the unit cost of carbon allowances which will be set by the Chancellor’s annual budget process and may be greater than the previously planned £12 per tonne.

This purchase for 2011/12 will be undertaken in July 2012 in accordance with the scheme management arrangements and at yearly intervals thereafter.

EA will charge Angus Council for registration, currently £950, at the start of each and every phase of the scheme commencing in 2010/11 and at each phase change within the scheme. This will not be invoiced and will be paid through the same scheme management arrangements at the beginning of each new financial year.

SEPA will invoice Angus Council for an annual subsistence charge for participating in the scheme, currently £1,290, which will be paid through the same scheme management arrangements at the beginning of each new financial year.

Failure to comply with scheme requirements will require Angus Council to make payments when penalties are imposed. Such penalties vary according to the nature and duration on any non-compliance.

5. HUMAN RIGHTS IMPlications

There are no Human Rights Act implications specific to this report.
6. EQUALITIES IMPLICATIONS

The issues dealt with in this report have been the subject of consideration from an equalities perspective. An equalities impact assessment is not required.

7. SINGLE OUTCOME AGREEMENT

This report contributes to the following local outcome contained within the Single Outcome Agreement for Angus:-

- The carbon footprint of Angus is reduced.

8. RISK MANAGEMENT

Financial management arrangements established by Angus Council are designed to limit the opportunity for inappropriate or irregular payments and to ensure that payment processes are transparent, accountable and comply with best audit practice.

The mandatory electronic payment arrangements established by the Environment Agency do not comply with these processes but are nonetheless undertaken in a secure manner.

Payments are made to the UK Government which is not considered to be a financial or commercial risk.

9. CONSULTATION

The Chief Executive, the Head of Law and Administration and the Head of Finance have been consulted in the preparation of this report.

10. CONCLUSION

It is recommended that the Council notes the content of this report and approves the management arrangements and nominated representatives detailed in this report.

REFERENCES

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Note: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in preparing the above report.

Property/JP