

GROWTH & INFRASTRUCTURE SCRUTINY COMMITTEE 6 OCTOBER 2010

ENERGY CONSUMPTION TAX POSITION

Report by Interim Head of Sustainable Development

Background

1. The CRC Energy Efficiency Scheme started in April 2010, and by April 2011 will introduce a tax on energy consumption. The scheme, designed to incentivise energy efficiency, requires the council to purchase carbon allowances to cover the amount of energy it forecasts to consume each year. The council will be participating against other public and private organisations and its performance will be published on a publically available league table each year. The council's position in the league table will be dependant on its energy efficiency performance, and will dictate the degree of financial rewards or penalties it will receive in year.
2. Between 2011 and 2013 the price of carbon is fixed at £12 per tonne, with an unlimited number of allowances available in the market. In 2013 a cap will be introduced to the number of allowances available, therefore increasing the price per tonne of carbon.

Statutory minimum

3. If the council maintains its 2008/09 carbon footprint and merely complies with the scheme, the cost of allowances will rise to £2.8 mill per year by 2013 (assuming £50/tonne). The council is also likely to be at the bottom of the league table due to poor energy performance and will face additional financial pressure (penalties) of £1.4mill by 2015.

	Cap on available allowances				
	2011/12 (£000s)	2012/13 (£000s)	2013/14 (£000s)	2014/15 (£000s)	2015/16 (£000s)
League table gearing	+/-10%	+/-20%	+/-30%	+/-40%	+/-50%
Good performance rewards (income)	-68	-136	-849	-1,132	-1,415
Net position on the league table	-679	-679	-2,830	-2,830	-2,830
Poor performance penalties (pressure)	-68	-136	849	1,132	1,415

Forecasting our current position

4. Based on our actual carbon footprint from 2008/09 (61,500 tonne), taking account of 2009/10 reduction and a forecasted reduction of 3% year on year from 2011/12, the council's tax position has been profiled to show that the cost of allowances will be £679k in 2011/12 increasing to £2.6mill by 2013/14.
5. The council will not know its position in the league table until it is published in July 2011 and therefore will not know if it will be rewarded or penalised; this forecast is based on the assumption that through the basic compliance work already completed and the successful implementation of early actions the council will be in the upper half of the league table and so will be in a net nil position with the likelihood of a small financial reward (£10,000s).
6. The profiling above includes the assumption that allowances will cost £50/tonne on the primary market when the cap is introduced, with associated penalties of +/- £1.2mill by 2015 depending on energy efficiency performance. If allowances need to be purchased in the secondary market the price could escalate up to £150/tonne.

Cross Cutting Theme

7. The council's carbon tax position will be impacted by any decisions made through the council's main energy consumption functions e.g. Property Asset Strategy, Street Lighting, ICT. Performance could be improved through the reduction in corporate (non-school) buildings, but these savings could be negated by the use of temporary builds for schools unless we're able to procure buildings with high energy ratings. The council needs to take advantage of the current changes to assess the suitability of the existing business model being used to achieve energy efficiency in light of the new directorate and council structure, and the tax imposed by the CRC scheme.

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