Haringey Council

Agenda item:

Cabinet 8th February 2011

Report Title: **Carbon Reduction Programme – Investment Strategy**

Report of: **Director of Corporate Resources**

Contact Officer : **Ben Brown**
Sustainable Procurement Manager
Ben.brown@haringey.gov.uk
020 8489 2132

Wards(s) affected: **None**	Report for: **Key Decision**

1. Purpose

1.1 To provide an update on the progress to date in achieving the Council's carbon reduction target of 40% from corporate buildings by 2015 and outline the next stage of the investment strategy required to support the carbon reduction programme.

1.2 To recommend to Cabinet the optimum level of investment over the next three years as part of the Council's Medium Term Financial Plan.

2. Introduction by Cabinet Member for Resources

2.1 The improvement to the local environment for the residents of Haringey remains one of our key objectives despite the savage cuts in government funding announced in the past few months. Reducing our carbon footprint as a Council is a key element of our Greenest Borough Strategy.

2.2 As this report shows the Council has made solid progress towards its stated aim of reducing the carbon emissions from corporate buildings by 40% by 2015. However, further investment was always going to be required and we can now demonstrate a track record in invest-to-save energy reduction schemes that supports our desire to increase the level of investment in this area at no net cost to our residents.

2.3 I therefore strongly recommend the proposals in this report.

3. Recommendations

3.1 To approve the allocation of an additional £0.5m of the Financial Investment Reserve to the Sustainable Investment Fund.

3.2 To agree in principle to the use of up to £1million in prudential borrowing for further investment in carbon reduction projects subject to a viable business case supporting each project.

4. Local Government (Access to Information) Act 1985

4.1 The following background papers were used in the preparation of this report:

- Annual Carbon Report to Full Council on 17th January 2011
- The Climate Change Act 2008

5. Background

5.1 Two of the Council's strategic priorities are:

- making Haringey one of London's greenest boroughs;
- encouraging lifetime well-being, at home, work, play and learning.

Part of the Greenest Borough Strategy includes the commitment to both measure the Council's energy consumption and achieve a 40% reduction in associated CO_2 emissions from the 2006-07 level from all of its buildings, including schools, by 2015.

5.2 The Council is on track to meet this target having achieved a 10% reduction by the end of the first quarter of 2010-11. The success to date is the result of a range of initiatives detailed in the Carbon Management Plan, developed in conjunction with the Carbon Trust. The Plan considers the Council's leadership role in carbon reduction and hence sets out a target to reduce corporate emissions by 40% five years before the same borough-wide target of 40% is to be achieved in 2020.

5.3 The associated Carbon Management Action Plan has been supported with £0.5m of investment through a Sustainable Investment Fund (SIF) which forms part of the Council's Financing Reserve. The revenue cost savings that result from the use of these investment monies are recycled through the SIF each year.

5.4 As well as underpinning the Council's Greenest Borough Strategy, achieving the carbon reduction targets will have significant financial benefits in terms of both cost savings and cost avoidance through lower energy consumption. Despite smarter energy procurement though the Council led consortia of local authorities, energy prices will increase by some 20% over the next twelve months. And as the demand for energy grows, particularly from countries with developing economies, and the government seeks to exercise some control of demand through higher taxation, prices are likely to continue to increase over the next five years.

5.5 The Council's existing energy bill is some £9.1m per annum comprising:

- £3.7m for administrative buildings and buildings used for service provision (eg libraries, care homes, leisure centres etc.)
- £1.7m for housing, and
- £3.7m for schools (which is likely to grow as a result of school expansions through the BSF and Primary Capital Programmes).

5.6 The 10% reduction in consumption achieved to date has delivered annual cost savings of £0.3m against a capital investment of £0.5m. The annual cost saving is currently running at some £0.2m representing a pay-back of less than three years. The investment so far has included a voltage optimisation project, boiler improvement works and various schemes within the Council's swimming pools.

5.7 There continue to be a great number invest-to-save opportunities designed to build on the successes achieved so far and further reduce the Council's carbon footprint. Furthermore, with the government's recent introduction of what now amounts to a carbon tax, any new investment will both reduce existing costs and avoid additional costs.

6. New Investment Opportunities

6.1 It is very difficult to make accurate projections for energy costs over the next eighteen months let alone the next four years to 2015. However, even based on modest increases of the order of 5% per annum, and assuming the Council retains its existing property portfolio, a further 30% reduction in energy usage would represent an annual saving of £3.3m by 2015. Furthermore, the reduction of carbon emissions from 36,583 to 21,350 tonnes would reduce the Council's yearly carbon tax (under the Carbon Reduction Commitment) by £0.2m.

6.2 There are already a wide range of new energy saving investment opportunities that are available that will enable the Council to make further significant steps towards the 40% reduction in CO2 emissions. These opportunities include:

- improvements to street lighting;
- draught-proofing, insulation works, further voltage optimisation, lighting controls, variable speed drives and 'zoning in corporate administrative buildings;
- upgrade to condensing boilers;
- LED car park lighting;
- the use of some wind turbines.

These works, based on current technology, have the potential to reduce emissions by a further 10%. However, with continuing improvements in technology this could rise to 15% by 2015. This will require an additional £1.5million in investment which represents the optimal level necessary to support such an improvement programme.

6.3 Indeed a number of investment scenarios have been explored ranging from £0.5m to £2.5m but above the £1.5m level the nature and scale of the works, again based on current technology, delivers pay-back periods in excess of five years which is considered to be too long in the current economic environment.

6.4 Allied to this investment there are a number of other initiatives through the schools sustainable investment fund, ‘behaviour change’ and ‘smart working’ programmes and some rationalisation of the Council’s existing property portfolio that will deliver another 15% reduction in emissions over the next four years. Altogether, this would deliver the Council’s 40% target.

7. Sources of Funding

7.1 Whilst the current returns on investment represent excellent value for money, the 2015 target will not be achieved through simply recycling existing savings. It is therefore necessary to identify alternative sources of funding to ensure the 2015 target is achieved. Various alternatives are being explored and these are detailed below; however, the Council will need to be prepared to make the necessary investment through some use of prudential borrowing, subject to a supporting business case, to maintain the progress against the Carbon Management Action Plan.

External Funding

7.2 A number of external funding sources continue to be explored. The government sponsored Salix Finance Scheme is a match funding source of capital borrowing but, given the current restrictions now in place over further government capital investment this source cannot be guaranteed. Other sources of both government and European funding are being examined to see whether they represent a better option than the use of either Council Reserves or prudential borrowing.

Return on Existing Investments

7.3 As has already been stated above the Council has already seen a return of some £0.3m in its investments to date and these will continue to be recycled through the Sustainable Investment Fund. However, the cash flow in the SIF, as it currently stands, is not sufficient to fund all the projects in the Carbon Management Action Plan within the requisite timescales. It would be possible to reallocate up to a further £0.5m of the Financing Reserve into the SIF which would strengthen the cash flow position of the Fund.

Local Renewable Energy Sources (LRES)

7.4 Work is being undertaken to secure a return on investment through the installation of LRES schemes such as solar panels. Whilst existing roof lease rental schemes with energy providers do not provide payback within 5 years (as the Council only receives a minor offset in energy consumption and none of the feed-in-tariff revenue), officers are investigating new funding models that would see the Council receive a portion of the feed-in-tariff and hence significantly improve pay-back periods. Indeed, pay-back periods will naturally come down over the next couple of years simply as a result of technological improvements in the products on the market.

Prudential Borrowing

7.5 The Council's Capital Programme makes specific reference to the need to maintain the option for the use of either capital receipts or prudential borrowing for invest-to-save schemes. Clearly, the energy reduction schemes being proposed fall into this category. Therefore, provided that a suitable business case supports a scheme investment proposal, with a pay-back of within five years, prudential borrowing should remain a source of funding option for the Council.

8. Summary

8.1 Steady progress has been achieved in reaching the Council's Greenest Borough Strategic target of a 40% reduction in the CO_2 emissions from Council buildings by 2015. To maintain this progress against the associated Carbon Management Action Plan, additional investment of up to £1.5m in energy saving schemes will be required over the next four years.

8.2 Whilst a good return has been achieved against the £0.5m of investments to date it will not be possible to rely on the recycling of the energy costs savings alone to fund the investment requirements within the timeline of the Action Plan. Whilst the recycling of these savings through the Sustainable Investment fund will continue the focus will primarily be on securing external funding.

8.3 However, access to external funding in the current economic climate is limited and the Council therefore needs to put in place fall-back sources of funding to support the investment programme. Two such sources are currently available: the reallocation of monies in the Financing Reserve to the Sustainable Investment Fund and the use of prudential borrowing.

8.4 This report recommends the use of both sources up to a combined sum of £1.5m in the event that alternative external funding is not available and subject to a robust business case supporting each new investment proposal.

9. Comments of the Chief Financial Officer

9.1 The level of cost savings from the Sustainable Investment Fund (SIF) investments of £0.5m to date total £0.3m. This saving has been transferred back into the SIF giving a current balance on the Fund of some £0.2m. The SIF forms part of the Financing Reserve which will have a projected balance of £4.3m as at 31st March 2011.

9.2 The Capital Programme, which forma part of the Council's Medium Term Financial Plan, assumes provides for the use of prudential borrowing for invest-to-save schemes provided any proposals are supported by a robust business case.

10. Comments of the Head of Legal Services

10.1 The Head of Legal Services notes the contents of the report and does not have any specific comments.

10.2 As regards any individual projects which arise in relation to the Council's Carbon Reduction programme, officers must ensure that any procurement is carried out in compliance with European procurement regulations (where applicable) and the Council's Contract Standing Orders.

Haringey Council