

ECONOMIC DEVELOPMENT COMMITTEE EDC 03-01 (p3)

Date: Wednesday 14 February 2001

Time: 15.05-15.35

Venue: Committee Room 1, Cardiff Bay

Title: Carbon Trust update

Purpose

1. To update the Committee on progress in establishing the Carbon Trust (Wales) as part of the Carbon Trust (UK), including the proposals for a service delivery programme tailored to the needs of Wales.

Summary

2. The Carbon Trust (UK) will be an independent not-for-profit company limited by guarantee, funded from climate change levy receipts. It will be charged with accelerating the take up of low carbon technology by business and other organisations and "fits" with the Assembly's Sustainable Development scheme "learning to live differently". The Assembly is working with the Trust to establish an office in Wales and a service delivery plan for Wales. This is very much work in progress, albeit with a tight timescale, and the Committee is asked to note progress to date and work in hand.

Timing

3. The Carbon Trust will be established over the next few weeks and will formally begin operations on 1 April 2001 and will include an office for Wales. The intention would be for the Trust Chairman/Deputy Chairman and Manager for Wales to update the Committee on service delivery arrangements before the summer recess.

Background

4. The Climate Change Levy (CCL) will be introduced from 1 April 2001. Full details of the levy and a variety of associated issues are included in "The Climate Change Levy – A guide for Industry, Commerce and the Public Sector" at Annex 1. The guide was produced for a series of conferences on the levy and other issues run by the Assembly under its Business and Environment campaign (over 300 delegates registered).

5. This paper does not address the merits of the implementation of the levy. It takes as its starting point the fact that the levy will be introduced on 1 April and the consequent need to recycle the revenues in Wales - given the UK government has said that the levy will be tax neutral. The revenue raised, £1 billion, will be recycled through a 0.3% cut in National Insurance Contributions and a £150m package of measures to encourage the development of low carbon technology. The package includes circa £30m for the establishment of a UK Carbon Trust (see section 4 of Annex 1)

The UK Carbon Trust

6. The Advisory Committee on Business and the Environment (ACBE), which is business led and advises government on a range of business related environment issues, first proposed the establishment of a Carbon Trust in 1999 (page 7 Annex 1). ACBE was asked to develop its thinking and after consultation the First Minister agreed to the establishment of the Trust and the Prime Minister announced it in October 2000. Since then officials have been working up proposals aimed at tailoring delivery of the Trust to meet the needs of Wales.
7. The Trust will be a new, independent, non profit-making private company limited by guarantee. It will recycle up to £133 million of climate change levy receipts (including the £100m enhanced capital allowance scheme (Section 10 Annex 1). The aim is to accelerate the take up of cost effective, low carbon technologies (those technologies that minimise the use of carbon based fuels e.g Combined Heat and Power systems) and other measures by business and other levy payers. It will also take over the non-domestic elements of the existing UK wide Energy Efficiency Best Practice Programme (Section 13 Annex 1) on 1 April 2001.
8. The Trust's aim will be to set up and run an integrated programme of measures to accelerate the research, development and take up of low carbon technologies and energy saving measures. It will have twin environmental and commercial objectives :
 - Environmental - reduction of CO₂ emissions, maximising efficient use of resources,
 - Commercial - enhancing the competitive position of industry, in the short term, reduced energy costs in the long term, preparing industry for a low carbon economy e.g. bringing

forward new product objectives.

The Trust will achieve these goals by direct action including:

- Education – business and the workforce
- Energy efficiency advice and technology

management of the UK wide Energy Efficiency Best

Practice Programme

- Fiscal incentives – the Trust will administer the

£100m enhanced capital allowances scheme

- Providing or locating capital
- Funding R+D projects
- Bringing together commerce and research
- Providing the focal point for emissions reductions in

industry/commerce

Further details of the main programme elements of the Trust's work are at Annex 2.

8. DETR and ACBE have taken the lead in preparing for the establishment of the Trust at a UK level but are consulting closely with the Assembly on key decisions such as the constitution and corporate governance of the company and the appointment of the Chairman and CEO. Indeed at a recent conference the ACBE spokesman welcomed "the added value the Assembly was bringing to the discussions".
9. The Trust is being established as a private company, outside Government but supported by it. The soon to be announced Chairman Designate and Deputy Chairman Designate along with the soon to be appointed Chief Executive Officer will determine how the Trust operates. Notwithstanding this, and in order to try and ensure an arm of the Trust is operational in Wales on 1 April, officials have been working on the arrangements for the establishment of a Carbon Trust (Wales). The Deputy Chairman designate has agreed, in principle, the outline proposals.

Carbon Trust in Wales

10. The Budget adopted by the Assembly on 7 December included £1.5m for the delivery of the Trust in Wales in 2001-02 and a £1.75m for the following two financial years. It has been agreed in principle that for the first year the Assembly will use the £1.5 m secured to "buy into" the UK Carbon Trust subject to it establishing service delivery mechanisms to meet the needs of Wales. Those service delivery mechanisms include :

Representation at all corporate levels – the Assembly will be asked to become a member of the Trust. As a member, the Assembly will have the right to appoint a non-executive Director to the Board. It is intended to appoint a senior official from the National Assembly for Wales.

Establishment of an Office in Wales - to facilitate local delivery it is proposed to establish an appropriately staffed "Carbon Trust Wales" office headed up by a Manager for Wales and a team of pro-active service deliverers incorporating some existing services e.g. the Assembly's team of business energy advisors. As a deliverer the Trust will be firmly embedded within the framework of Business Connect (or any successor gateway) and will need to work closely with other related service providers including the WDA, Wales Environment Centre, the Welsh Energy Agencies, Groundwork Wales and the Energy Savings Trust.

Development of a Service Delivery Plan for Wales – the Carbon Trust (Wales) will be expected to develop and deliver a costed service delivery plan tailored to the needs of Wales and taking account of the views of interested parties across Wales. To engender discussion officials have provided a first draft of the types of activity the Trust in Wales might be expected to undertake. This is very much work in progress and officials will need to take the work forward with the Chairman/CEO of the UK Trust.

Annexes 2 and 3 cover the Objectives of the Trusts and draft service delivery options.

The relationship between the Trust and the Assembly

11. Whilst the Trust is an independent private company the Assembly will influence its activities by :
- the presence of a non executive director on the Board;
 - targets set out in the delivery plan for Wales;
 - the Chairman/CEO reporting to the Assembly (including the Economic Development Committee) on the Trusts performance in Wales;
 - the manager Wales reporting to the CEO UK; and
 - co-ordinating activities with the Assembly and other service deliverers in Wales.

Officials are currently considering, internally and with DETR, the level and nature of

Financial controls that will need to be put in place.

Compliance

8. DETR are in the "lead" in establishing the Carbon Trust. They are relying on section 5 of the Science and Technology Act 1965. The Assembly can rely on section 33 of GOWA to consider and make representations on DETR's proposals for the Trust. Under the 1999 Transfer of Functions order, the Assembly has a concurrent function with DETR in respect of section 5. The Assembly can rely on that concurrent power and its supplementary powers under sections 40 and 85 of GOWA to take up membership in the Trust. There are no issues of regularity or propriety.

Financial Implications

14. There are no additional financial implications for the Assembly as a result of this submission. The Budget adopted by the Assembly on 7 December included £1.5 million for the Carbon Trust for 2001-02, 2002-03 and 2003-04. Financial Planning Division has been consulted about this submission and is content with the financial aspects.

Cross cutting themes

15. The proposals for a Carbon Trust Wales are fully in line with the Assembly's Sustainable Development policy which amongst other things commits the Assembly to grasping growth opportunities in sustainable development sectors e.g. energy efficient technologies and greater energy efficiency in business. Putting Wales First also has a commitment to "...projecting Wales as a world leader in environmental best practice". In considering the proposals for delivering the Trust in Wales account will need to be taken of the Committee's review of business support. In the latter context the Trust offers the opportunity to bring a new focus, and significant new funding, to this area of business support. It is vital that the Trust works with existing service providers in the public and private sectors, buying in services as appropriate, to maximise the benefits to Wales. The establishment of a Welsh arm of the Trust will facilitate this. The Trust will also, in due course, need to take account of the development by the Assembly of a strategic energy framework.

Action

16. The Committee is asked to:

- i. note progress in establishing the Trust at a UK and Wales level;
- ii. comment on the proposed goals, and actions to achieve those goals set out in

paragraph 8 above and the draft objectives set out in Annex 2 and 3.

Contact Point

ROB HOLT

Competitiveness and Infrastructure Division.

Annex 2: Service Delivery

Objectives of the Carbon Trust

1. The objects for which The Carbon Trust is established under the **draft** Memorandum of Association are:

- i. the reduction and limitation of emissions of carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride - referred to collectively as "greenhouse gases";
- ii. to further the development and market deployment of low carbon technology;
- iii. the promotion of energy efficiency;
- iv. to further the education and awareness of the need for lower carbon emission;
- v. the doing of all such other things as are incidental or conducive to the attainment of these objects.

Short, medium and long term activity

2. Based on ACBE's recommendations it is envisaged that in the short term the Carbon Trust will concentrate on promoting existing technologies and measures. For the medium term it would encourage and facilitate the deployment of newer technologies as they are nearing the market via demonstration schemes, the enhanced capital allowance scheme and other means. For the longer term it will be looking at ways to meet and develop consumer demand so that what consumers want can be delivered sustainably and at a lower carbon cost. This will not just require new technologies, but also a new approach and a new culture – a move to a low carbon economy.

3. The Trust will start with demand-side energy efficiency, including business transportation (freight, fleet logistics). However in time the Trust will need to address all low carbon technologies and the Trust's activities will be reviewed early in its operational life to decide whether to broaden its remit to cover the supply-side; primarily renewables.

Roles

4. In addition to the normal company activities (finance, procurement, marketing, legal), the Trust will have a number of core **co-ordination** roles. These include:

Integration - ensuring that the various measures are co-ordinated for example by linking tax incentives and R&D programmes so that support is directed only at new technologies, or linking advice and incentives so that companies can make the right investments.

Networking - building both strategic and tactical relationships to ensure that the Trust's activities complement and build on (and don't overlap with) the work of other low carbon organisations.

Market intelligence - working with and developing a "feel" for the low carbon technology market so that market deployment activities can be co-ordinated properly. A related role involves monitoring the relative impact of measures in the marketplace and adjusting the programme's priorities accordingly.

Energy Production - At this stage, the role of the Carbon Trust in respect of energy production matters has not been determined. In Wales we would hope to consider this within the debate on the Assembly's strategic energy framework.

5. In building and running its programme portfolio, the Trust will also need to develop a number of programme-orientated roles;

Deliver information and advice – From 1 April 2001 the Trust will take on the management of the non-domestic elements of the UK Wide Energy Efficiency Best Practice Programme (EEBPP). Companies need tailored information to help them identify energy saving opportunities, manage their energy properly and choose the right technologies. The information needs to be disseminated innovatively according to need - as written material, in seminars, on websites etc.

Run an energy audit programme - in many cases, particularly for SMEs, written material needs to be supplemented by on-site energy audits and structured advice from local consultants together with follow-up support to ensure that measures are implemented properly. This is a developing activity within the EEBPP that the Trust will need to develop and roll out.

Act as a Technical Authority - the Trust must provide reliable and authoritative advice free from undue market influence. This is particularly important for the Enhanced Capital Allowance (ECA) scheme. Here technologies must be

objectively weighed against energy saving criteria.

Sponsor R&D - the Trust needs to promote integrated, interdisciplinary R&D. A key role will be to find ways of linking "technology push" from the research base to the needs of business ("market pull"), working closely with business and the research base. Appropriate collaborative funding mechanisms also need to be established as well as links to international programmes.

Provide grants - in addition to the ECA scheme the Trust could also offer grants or other forms of investment support where this is a cost-effective option, for example through demonstration grants, or work with others to achieve the same ends, for example energy service companies and utilities. Grants apply particularly to SMEs, who do not receive the same level of support from ECAs as larger companies.

Facilitate training and education - the Trust will need to work with training organisations to give a higher profile to current vocational training initiatives (primarily aimed at energy professionals) and also to develop new approaches. The Trust could also develop a more formal role in either the delivery or accreditation of training.

Provide strategic analysis - the EEBPP has traditionally considered technology deployment only in the short to medium term - up to 10 years. This fits well with the Kyoto commitment period. However to prepare for commitments beyond 2012, the Trust will need to develop long-term low carbon deployment and policy scenarios taking into account projected infrastructural and societal changes.

Activities

6. Below is a list of activities, in the context of the market deployment timescale that the Trust **might** consider. It will be for the Trust Chairman and his executive team to present formal project proposals for consideration.

a) Long term (20-50 years) - strategic and policy studies on moving to a low carbon economy

- review existing strategic low carbon literature
- develop/adapt low carbon scenario modelling tools
- study the experience of other countries with established low carbon policies (Denmark, the Netherlands)
- analyse impacts of low carbon policies on competitiveness and employment
- carry out studies on longer term behavioural/social/demographic drivers
- carry out studies of policy interrelationships, e.g. impact on Nox/Sox emissions of CO2

measures.

b) Medium term (5-20 years)– bringing forward new technologies, developing the capacity to utilise them, set up new structures

- review existing collaborative R&D mechanisms,
- use lessons to set up R&D programme
- develop under- and post-graduate teaching material
- develop options for rationalising business support services
- develop options for exploiting local support networks and local sources of funds (e.g. EU Structural Funds)
- shape/influence international programmes to deliver low carbon outcomes
- signpost businesses to international funding and help with applications
- develop and promote workforce training initiatives
- develop new management practices – feed into EMAS/ISO development

c) Short term (0-3 years) – build awareness, offer incentives, accelerate deployment of existing technologies

- run the enhanced capital allowance scheme; maintain Energy Technology List
- develop alternative investment support mechanisms, especially for SMEs, such as demonstration schemes, energy services approaches
- deliver advice and information services
- run energy audit programme (Site Specific Advice)
- support long term energy efficiency agreements with key industrial sectors
- develop innovative marketing and dissemination techniques
- continue technology benchmarking
- maintain and develop EEBPP information library
- develop and cost proposals for grant/loan schemes

7. In conducting these activities the Trust will have to work in partnership with a wide range of organisations in the business, academic and public sectors across the UK.

Key Customers

8. The Trust will be responsible for recycling climate change levy revenues to help business and others implement cost-effective low carbon technologies. The Trust's programmes will cover all levy payers, with an emphasis on companies not receiving the 80% levy rebates and

particularly larger SMEs.

Annex 3

Carbon Trust Wales

1. The aim of the Carbon Trust office in Wales will be to deliver the Carbon Trust programme in Wales for the benefit of Welsh levy payers. The Chairman and his executive, in consultation with the Assembly, need to consider the detailed activities of the Wales office. No decisions have been made as to detail of service delivery arrangements of the Carbon Trust office in Wales but they **might** include:

- influencing Carbon Trust policy to reflect the specific requirements of Wales.
- developing a coherent and acceptable identity for the Carbon Trust(Wales) as the foremost deliverer of energy efficiency in Wales
- maximising the service delivery of low carbon initiatives in Wales through working closely with other local deliverers and thereby avoiding duplication of effort.
- managing the Energy Efficiency Best Practice Programme and the Enhanced Capital Allowance Schemes maximise the benefits for Welsh businesses
- To recruit, train and manage a coherent team of local Energy Advisors to provide on-site specific advice
- To work closely with the National Assembly for Wales to ensure that service delivery is consistent with their policies and direction.

2. Specific actions in Wales **could** include:

- exploring the possibility of additional funding from sources within Wales e.g. Objective One funding
- collation and management of all energy management information funded through the National Assembly for Wales and other available sources
- commissioning of a comprehensive energy supply and demand strategy for Wales
- analysis of the need for specific grants schemes to demonstrate low carbon technologies for businesses in Wales e.g. a challenge fund to stimulate cost-effective energy efficiency ideas and initiatives
- establishment of specific links with existing service providers to avoid duplication and maximise benefits.
- establishment of a local advisory committee to assess the potential for R&D in and advise the Carbon Trust on potential Welsh projects
- arranging an annual major Energy Management conference and exhibition
- evaluation of the need for investment in low carbon technology manufacturers in Wales
- establishment of a comprehensive database of Welsh businesses to help track energy efficiency contacts and outcomes, energy consumption data and act as a source for mail

outs for events and publications etc.

- undertake a programme of energy management related market research in Wales
- promotion and delivery of a Site Specific Advice (SSA) energy management, programme in Wales that would initially focus on small and medium sized enterprises.
- promotion/development of small and medium sized CHP in Wales
- development of training packages for educational establishments the Welsh energy consultancy community
- development a wide ranging programme of company transport activities e.g. fleet management, travel to work plans, use of clean fuels
- management of the Energy Efficiency Best Practice Programme plan for Wales tailoring services, seminars, advice to the needs of Wales and producing local good practice case studies.