

**HAMPSHIRE COUNTY COUNCIL****Decision Report**

<b>Decision Maker:</b>	Cabinet
<b>Date:</b>	27 February 2012
<b>Title:</b>	An Energy Strategy for Hampshire County Council
<b>Reference:</b>	3548
<b>Report From:</b>	Director of Economy, Transport and Environment Director of Culture, Communities and Business Services

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**1. Executive Summary**

1.1. The purpose of this paper is to seek Cabinet approval for an interim Energy Strategy approach. This is designed to build on work completed so far and develop internal expertise and capacity on energy issues, with a view to further refining developing the Energy Strategy and action plan in the longer-term.

1.2. This paper seeks to:

- (i) outline the key risks and opportunities for the County Council as a result of the rapidly changing energy landscape;
- (ii) explore the need for the organisation to develop its responses and determine the most appropriate technologies, delivery mechanisms including potential partnerships and financial arrangements;
- (iii) propose an interim approach to energy, using a programme of pilot projects and feasibility studies to develop expertise and capacity in order to better understand the solutions available to the County Council;
- (iv) suggest that the County Council uses this learning to move towards a robust and informed Energy Strategy for the long term that will address future risks, challenges and opportunities.

**2. Contextual information**

2.1. Cabinet approved a Carbon Strategy and an associated Carbon Management Plan in July 2010. Progress on the delivery of the Carbon Management Plan

was reported to the Buildings, Land and Procurement Panel in October 2011 (see [Carbon Reduction Progress Report 2011](#)). When the Carbon Strategy was adopted in 2010, Cabinet requested that the Director of Culture, Communities and Business Services and the Director of Economy, Transport and Environment develop a wider Energy Strategy for the County Council.

- 2.2. Since that date, the energy agenda has become even more significant for the County Council and Hampshire. The need for sustainable energy generation, supply and use has come into focus at a national level. Within the contexts of energy security and affordability, climate change and future economic prosperity, a focused, coherent and effective response is required at a local level.
- 2.3. Work undertaken in the past 12 months has identified the key risks and opportunities for Hampshire County Council as a result of the rapidly changing energy landscape, which in turn has informed the development of the interim Energy Strategy approach presented in this paper.

### **3. Risks**

- 3.1. Energy consumers now face a number of significant challenges.

#### **Security of supply**

- 3.2. The UK energy supply is increasingly under threat as a result of a number of contributory factors including: higher levels of global energy consumption, growth in demand for energy resources, political instability and conflict in energy-rich countries, limits on production, a continuous decline in indigenous production, and an ageing energy infrastructure. The County Council is currently heavily reliant on grid-based electricity production from fossil fuel imports for its energy, making it vulnerable to world events, supply disruptions, and increasing fossil fuel prices.
- 3.3. Reducing the County Council's vulnerability to disruptions in local power supply and creating a safe and secure energy supply is critical to ensuring services are delivered as efficiently and reliably as possible. Furthermore, having a secure and sustainable energy supply for businesses and communities in Hampshire is essential for the local economy to function and for ensuring that residents have a safe and secure place to live and work.

#### **Energy costs**

- 3.4. The cost of energy to consumers in the UK has significantly increased over the last 20 years in the main due to limited or unstable supplies of oil, increasing demand for fossil fuels, and national and international policies designed to increase the cost of emitting carbon.
- 3.5. The County Council currently (2011) spends in the region of £15.7 million on energy in its varied portfolio of buildings. (£11.5 million of this is within the school estate). Of the 670 sites that the County Council owns, 178 have an energy bill of over £20,000 per annum. This includes schools, residential care homes, museums and libraries as well as offices. Based on government price data combined with estimates of the EU carbon price (2010), County Council expenditure on non-schools energy could rise from the current £4.2 million to

nearly £8 million by 2020 and £16 million by 2030. Rising energy bills therefore present a risk to the County Council's ability to deliver its key services

- 3.6. Rising energy costs will also lead to an increase in fuel poverty<sup>1</sup> in the communities of Hampshire and detrimentally impact on local wellbeing. This could place further strain on existing services and in some cases require additional responses from the County Council, at a time of budgetary constraint.

#### **Carbon emissions and the cost of carbon**

- 3.7. Energy production and consumption from fossil fuel sources generates significant carbon emissions. The UK Government's energy policy aims to make high carbon energy increasingly expensive over time by placing levies on carbon-based energy generation and fossil fuels. Already, the County Council's Carbon Reduction Commitment bill for 2011/12 is approximately £1.1 million. In the long-term, this 'carbon taxation' is only likely to increase.

### **4. Opportunities**

#### **Reductions to revenue expenditure**

- 4.1. Reducing energy use and purchasing cheaper energy can help to reduce both the direct and indirect costs of energy. In addition to reducing costs directly through energy bills, using less energy would also help to avoid carbon taxes. These 'avoided costs' and savings may help to support the County Council's service delivery, and are therefore a significant aspect of any financial evaluation for energy investment business cases.

#### **Community benefits**

- 4.2. At a local level, there is an opportunity to use energy projects to create jobs, support economic development and increase wellbeing. The energy agenda is likely to have significant effects on Hampshire's residents and communities. As a community leader the County Council's role can be one of supporting appropriate activity across Hampshire in an integrated and coordinated way. Cabinet will be familiar with, for example, the Hampshire-wide Insulate Hampshire scheme, offering loft and cavity wall insulation. Whilst the scheme does not deliver direct benefits to the County Council and other Hampshire local authorities, it does provide indirect benefits in terms of supporting the most vulnerable, lowering levels of fuel poverty in Hampshire for the most deprived, improving energy efficiency across Hampshire, and reducing the county's overall carbon footprint.

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<sup>1</sup> A household is said to be in fuel poverty if it needs to spend more than 10% of its income on fuel to maintain a satisfactory heating regime. In 2009, approximately 21% of all UK households were in fuel poverty. The South East had a fuel poverty rate at 12% and Hampshire 11.5% (from DECC's annual report on fuel poverty statistics 2011).

### **Income generation**

- 4.3. In addition to energy and climate change policies designed to increase the cost of carbon intensive energy generation and consumption, the Government has also introduced a number of policies designed to increase the generation of low carbon heat and power through financial incentives. The County Council is eligible for these incentive schemes.
- 4.4. Recent changes to the Local Government Act 2003 also removed barriers preventing local authorities from selling electricity generated from renewable sources. This means that local authorities could invest in renewable energy infrastructure and sell any electricity generated either back to the National Grid or through 'private wire' connections to businesses and residents.

### **5. Developing an Energy Strategy**

- 5.1. The County Council would benefit from taking a strategic approach to the energy agenda, in order to minimise the risks posed to business continuity and service delivery, and maximise the potential benefits of sustainable energy practices.
- 5.2. In reviewing the above risks and opportunities for the County Council, a number of potential strategic responses to the energy challenge can be identified. A range of options based on County Council energy use reduction, energy purchase, and energy generation and sale can be developed. However, this is a complex area, new in many ways to the County Council. Space is needed for the organisation to develop its responses and determine the most appropriate technologies, delivery mechanisms, including potential partnerships, and financial arrangements, to enable it to fully capitalise on the opportunities presented by the energy agenda.
- 5.3. It is therefore recommended that in order to develop a robust long-term Energy Strategy for the County Council, an interim Energy Strategy approach should be adopted. This would build on work completed so far and develop internal expertise and capacity on energy issues, leaving the County Council well-informed and well-placed to determine the future long-term strategy and action plan.
- 5.4. The interim Energy Strategy approach proposes that a number of pilot projects and feasibility studies be undertaken to better understand the opportunities available to the County Council and the costs and benefits they present. Each project or study will provide lessons on the different types of projects the Council could get involved with, from single-building 'good housekeeping' projects, to large-scale community benefit projects. They will enable the exploration of key financial parameters including target rates of return and internal cost recovery. Studies will also help to identify the potential of energy to create new revenue streams and support future service delivery. They will enable the County Council to explore the processes and procedures necessary to ensure an optimum balance between local authority governance and private sector entrepreneurship.
- 5.5. Previous programmes of energy related work have provided valuable lessons in developing business cases, in areas such as procurement using partner

frameworks and the impact to time and officer cost involved in taking a schemes forward. For example work is currently underway to investigate further the business case for the development of a low carbon district energy scheme in Winchester; to explore options for Energy Performance Contracting across the built estate, including schools; and to consider the role of the County Council in the delivery of the Green Deal. Further opportunities for pilots and studies will be explored as and when it becomes appropriate to do so.

## **6. Future direction**

- 6.1. An interim approach to an Energy Strategy, based on a programme of selected pilot projects and feasibility studies, will provide officers with direct experience of a range of energy projects which can then be applied to the development of a long-term Energy Strategy and action plan.
- 6.2. Each project or study will be developed through an appropriate business case, and will be taken forward only when approved. Each business case will need to clearly demonstrate the direct benefits to the County Council of implementation (including any financial return), and highlight where appropriate any indirect benefits, or advantages for a wider Hampshire.
- 6.3. An allocation in the capital programme of £250,000 to support this work where a financial recharge is required, has been proposed for the period 2012-14.
- 6.4. This approach will enable the County Council to build capacity and explore future energy options in a managed and controlled way. Each opportunity or project idea can be considered on a case by case basis, taking forward only those which are most appropriate at a given time and enabling exposure to risk to be properly managed.

## **7. Recommendations**

- 7.1. That the interim Energy Strategy approach, outlined in paragraphs 5.3 and 5.4 above, be approved.
- 7.2. That the Director of Economy, Transport and Environment and the Director of Culture, Communities and Business Services be requested to implement this Strategy approach, through a programme of pilot projects and feasibility studies.
- 7.3. That detailed business cases be prepared for schemes to be considered by Cabinet in due course.

Rpt/3548/BB&SC

**CORPORATE OR LEGAL INFORMATION:****Links to the Corporate Strategy**

<b>Hampshire safer and more secure for all:</b>	Yes
Corporate Improvement plan link number (if appropriate):	
<b>Maximising well-being:</b>	Yes
Corporate Improvement plan link number (if appropriate):	
<b>Enhancing our quality of place:</b>	Yes
Corporate Improvement plan link number (if appropriate):	

**Other Significant Links**

<b>Links to previous Member decisions:</b>		
<u>Title</u> Carbon Strategy	<u>Reference</u> 1152	<u>Date</u> 26 July 2010
<b>Direct links to specific legislation or Government Directives</b>		
<u>Title</u> Climate Change Act CRC Energy Efficiency Scheme		<u>Date</u> 2008 2010

**Section 100 D - Local Government Act 1972 - background documents**

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

- 1.1. It is not considered that the interim Energy Strategy approach will have any adverse equality impacts.
- 1.2. However, there is the potential for positive impacts to be seen, depending upon the projects delivered. For example, the high costs of maintaining adequate internal temperatures can leave low income and vulnerable households subject to fuel poverty. Projects which improve people's ability to heat their homes may enable 'affordable warmth' for vulnerable groups and also bring additional health and social benefits.

### **2. Impact on Crime and Disorder:**

- 2.1. It is not considered that the interim Energy Strategy approach will have any adverse crime and disorder impacts.
- 2.2. However, having a safe and secure local energy supply may help to ensure that, for example, street lighting, operates efficiently and effectively, with associated positive effects on levels of crime and disorder.

### **3. Climate Change:**

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

Adoption of the interim Energy Strategy approach will potentially lead to a reduction in our carbon footprint and levels of energy consumption. Pilot projects are likely to increase energy efficiency, reduce energy usage, and decrease carbon emissions. There will also be possible opportunities to generate our own renewable, low-carbon energy.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Hampshire County Council is heavily reliant on grid-based fossil fuel imports for its energy. Climate change has the potential to significantly impact upon the energy sector. Changes to climate and severe weather events may affect the UK's capacity to generate energy and distribute power and may alter patterns of energy consumption and use. Because energy markets operate in a global context, climate change impacts elsewhere in the world that significantly impact global energy supply may also have the potential to indirectly affect Hampshire.

By taking action to increase security of local energy supply, and reducing our reliance on national infrastructure, Hampshire will be better placed should climate change lead to interruptions of energy supply.

It will also help to ensure business continuity and the maintenance of service delivery in the case of extreme weather events.