

# WIRRAL COUNCIL

## PENSIONS COMMITTEE

27 JUNE 2011

<b>SUBJECT:</b>	<b>CARBON REDUCTION</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF FINANCE</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	
<b>KEY DECISION</b>	<b>NO</b>

### **1.0 EXECUTIVE SUMMARY**

- 1.1 This report sets out the arrangements being made by Wirral Council, as Administering Authority for Merseyside Pension Fund, for a Carbon Budget for the Authority, and indicates the implications for the MPF investment property portfolio.
- 1.2 The report describes the impact on the both the MPF investment properties and on their tenants of the carbon allowances charges, together with current and future options available to MPF to reduce carbon emissions.

### **2.0 RECOMMENDATION**

- 2.1 That Members endorse the proposed approach to carbon reduction at the MPF investment properties.

### **3.0 REASONS FOR RECOMMENDATION**

- 3.1 The Statement of Investment Principles includes a statement on responsible ownership, including how environmental, social and governance factors can affect investment performance. MPF is committed to ensuring improvement in the environmental performance of its properties and wishes to ensure that any decisions taken on investment within the buildings are with the objective of ensuring continual environmental improvement.
- 3.2 In the context of the MPF investment properties, regard will taken to the likely payback period of any significant investment proposals on properties which, potentially, MPF could dispose of at relatively short notice.

### **4.0 BACKGROUND AND KEY ISSUES**

- 4.1 MPF owns 28 investment properties, of which one is located in Wirral. MPF is one of many tenants in another MPF property, Castle Chambers, Liverpool.
- 4.2 There are differing arrangements with tenants at different locations. In certain buildings, MPF has no responsibilities under current legislation for carbon reduction:

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- single let properties where the tenant is fully responsible for making arrangements and paying for their energy consumption
  - those areas of multi let properties where the tenant undertakes similar responsibilities
- 4.3 The current legislation would however impact on MPF as follows:
- the areas of Castle Chambers occupied by MPF
  - common areas of Castle Chambers where energy costs are recovered via service charge from tenants
  - areas of Castle Chambers where tenants do not make their own arrangements for their energy consumption, but are charged by MPF via the service charge
  - all other properties where tenants are charged for energy consumption via the service charge
- 4.4 Within the context of arrangements made by the Administering Authority, the Cabinet has agreed that departments are allocated a non-financial carbon budget for the current financial year. The budget for the Finance Department includes the areas of Castle Chambers occupied by MPF. Each service's carbon budget is expected to decrease annually by its target figures, which equates to a 5% reduction to enable the Council to achieve its long term target of a 60% reduction by 2025. The Sustainability Unit will work with MPF with regard to the implementation of the Carbon Budget as part of normal business activities.
- 4.5 The property managing agents, CB Richard Ellis (CBRE), are providing the Sustainability Unit with details of energy consumption and emissions at the relevant locations. In addition, each Property and Asset Management Quarterly Report shows an Environmental Summary which sets out initiatives being taken or considered at all of the properties, including those where tenants have direct responsibility for their energy and emissions.
- 4.6 CBRE produced in December 2010 a sample report on Castle Chambers setting out a number of options to reduce the carbon output. There are a number of low cost easy wins, which will pay back in a relatively short period of time, and can be easily implemented. These include Passive Infra-reds (PIRs) and "hippos" in cisterns. Some options however have high capital costs with long payback periods, e.g. PV solar panels and new heating boilers. Long term trends in energy prices might reduce payback periods. Tenants within Castle Chambers, including MPF, have nominated "energy champions" to help achieve common objectives.
- 4.7 CBRE produced, in April 2011, an "Environmental Measures" document which sets out some examples of measures undertaken across the portfolio, and indicates progress towards the principles of ISO 14001 Accreditation which requires continual improvement in reducing carbon usage, record keeping, drawings and knowledge and control measures. A more pro-active approach can be taken within the seven multi-let properties which have site staff.

4.8 A carbon emission charge is scheduled to be levied in the summer of 2012 in respect of emissions in the financial year 2011/2012 at a rate of £12 per tonne. This will, where appropriate, be passed onto tenants via the service charge. Where these costs cannot be recovered, they will have to be absorbed by MPF, and shown as a reduction in net rental income to the Fund. Clearly therefore the interests of MPF and the tenants are aligned in terms of reductions in energy consumption and emissions.

4.9 As MPF is continually reviewing the property portfolio, decisions on future investments will have regard to carbon emission efficiency, together with other considerations.

## **5.0 RELEVANT RISKS**

5.1 There is a risk that the Castle Chambers element which will feature in the Finance Department carbon budget is not achieved. However the involvement of CBRE and nominated “energy champions” mitigate this risk.

5.2 The possibility of above average tax charges may combine with other factors to make service charges in MPF properties uncompetitive, with consequential risks of both losing, and failing to attract tenants. Close working relationships with CBRE should mitigate this risk.

## **6.0 OTHER OPTIONS CONSIDERED**

6.1 The only other option is to do nothing, which is contrary to the Statement of Investment Principles.

## **7.0 CONSULTATION**

7.1 Consultation with tenants as stakeholders is ongoing.

## **8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

8.1 None arising from this report.

## **9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

9.1 The net amount of property investment income will reduce for any carbon allowance charges not recoverable from tenants and in the medium term, pending the payback, from any associated costs of investment in carbon-reducing measures.

## **10.0 LEGAL IMPLICATIONS**

10.1 None arising from this report.

## **11.0 EQUALITIES IMPLICATIONS**

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)

(a) Is an EIA required?

No

## **12.0 CARBON REDUCTION IMPLICATIONS**

12.1 These are set out throughout the report.

## **13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

13.1 None arising from this report.

FNCE/127/11

**REPORT AUTHOR: GERARD MOORE**  
**FINANCIAL CONTROLLER**  
**MERSEYSIDE PENSION FUND**  
telephone: 0151-242-1307  
email: [gerardmoore@wirral.gov.uk](mailto:gerardmoore@wirral.gov.uk)

## **APPENDICES**

None

## **REFERENCE MATERIAL**

Reports from CB Richard Ellis -

December 2010: "Energy Reduction Scheme – Castle Chambers"  
March 2011: Property and Asset Management Quarterly Report  
April 2011 "Environmental Measures"

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Cabinet</b>	<b>14 April 2011</b>
<b>Cabinet</b>	<b>21 February 2011</b>