

MIDLOTHIAN RISK AND AUDIT SERVICES

INTERNAL AUDIT REPORT



Subject: Carbon Management Reduction/Energy Saving

Issued to: John Blair, Director, Corporate Resources
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Members of the Audit Committee
Grant Thornton, External Auditors

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EXECUTIVE SUMMARY

Objective of the Audit

The objective of the audit was to review what controls and processes the Council had in place to ensure Midlothian Council act in accordance with with the Carbon Reduction Commitment Energy Efficiency Scheme (CRC EES) and the Climate Change (Scotland) Act 2009.

Remit and Scope

The audit was aimed at providing assurance that the Council fully complies with the CRC EES which was introduced by the Government in 2008.

On this occasion the following areas were included in the scope of the review:

- legislation compliance, including reviewing policies and procedures;
- embedding Carbon Management Reduction in the Council;
- determining roles and responsibility;
- recording and collection of data and performance indicators;
- findings from discussions with other local authorities; and
- compliance with the Financial Directives.

Excluded from Scope

- Feed in Tariff Scheme which has been agreed as not an option for the Council just now.

The audit was conducted in the later part of 2012/early part of 2013.

Background

The Climate Change (Scotland) Act 2009 is one of the key commitments by the Scottish Government to reduce greenhouse gas emissions, setting an 80% reduction target for 2050. Midlothian Council has a Performance Indicator (PI) within the Property and Facilities Management remit, but which is a corporate priority and reported quarterly under the 'Midlothian Council' performance report, to achieve 15% carbon reduction over the next 5 years and this is reported quarterly.

The Environment Agency (EA) has the overall responsibility for administering the CRC EES and in Scotland this is enforced by the Scottish Environment Protection Agency (SEPA).

The CRC EES is a mandatory scheme that covers all organisations (public and private) not included in other emissions trading schemes, and use more than 6,000 Mwh (megawatt hours) per year of electricity (equivalent to an annual electricity bill of about £500,000). The CRC EES scheme assists organisations to reduce their carbon emissions and energy bills. Organisations are required to purchase allowances from Government based on each tonne of CO₂ likely to be emitted from carbon used in their buildings based on the CRC footprint per annum.

The initial charge for allowances is set at a variable rate of £12 per tonne per carbon used which normally equates to an annual levy of £200,000. The £12 tonne is likely to increase in the future UK budgets and a figure of £16 tonne has been mentioned by CRC for 2014/15. Midlothian Council exceeds the 6,000 Mwh by a margin and is in the category of between 8,500 to 9,000 Mwh. The annual cost of energy in Midlothian is approximately £3.1 million.

The commitments relates only to non-domestic energy use so Council houses, for example, are not included because the tenants pay for the energy direct. However, Councils are expected to promote energy awareness within their communities and many use their

corporate website to achieve this. Within non-domestic energy use, there is core (main buildings) and non-core (e.g. communal stair lighting). Core energy use is the main focus for the Council.

Audit Conclusion

Strengths

1. Compliance with CRC EES and Certificate of Registration;
2. Appropriate Council officers on the certificate;
3. Use of CRC approved software 'Systems Link';
4. Automated meter readings account for over 90% of energy use, which results in automated payments to suppliers, and avoidance of using a 10% uplift;
5. Billing downloads and automated meters were found to be accurate;
6. Inclusion in the Scottish Procurement Framework avoided costs of around £380,000 in 2011/12;
7. Energy saving targets appear achievable, as per a headline PI;
8. Various energy saving initiatives are in place, which are listed later; and
9. An Energy Awareness Campaign is about to commence in Schools and Offices and a new member of staff will be involved in this

Areas for Improvement

1. Management has inherited a Carbon Management Plan that is in draft form only and is having to produce a new one;
2. There has been difficulty in having time to organise and activate a 'Carbon Management Board' and this is currently being addressed;
3. Carbon Management/Energy Saving has not been until now a regular Corporate Management Team (CMT) agenda item, yet the potential for savings is significant;
4. There is extra transparency and audit trail required in reports produced from 'Systems Link' to be able to quickly verify the data in the CRC annual report;
5. Because of the small Energy team, no independent checking of figures has been possible and expertise/knowledge is vested in one officer, the Energy Officer;
6. Basic procedures should be developed;
7. Improved communication should be in place with the Estates section in relation to property changes; and
8. Greater use could be made of spend-to-save schemes, which is acknowledged by the Corporate Management Team..

Internal Audit Opinion

We have been impressed with the knowledge and enthusiasm of the Energy Team, and their pursuit of further energy savings, and welcomed the report to the Corporate Management Team on 18th February 2013 ('Energy Awareness Campaign Strategy'). However, on this occasion, we have rated the audit findings as 'yellow'.

Colour	Level of Assurance	Reason for the level of Assurance given
Blue	Very High	Internal Control, Governance and the Management of Risk are at a very high standard with no unacceptable residual risk existing.
Green	High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Yellow	Moderate	Internal Control, Governance and the Management of Risk have

Colour	Level of Assurance	Reason for the level of Assurance given
		displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Amber	Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Red	Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

MANAGEMENT ACTION PLAN

This part of the Internal Audit report deals solely with the Areas for Improvement as outlined in the Executive Summary.

Level of Risk	Control Area	Audit Finding	Recommendation	Priority and Timescale	Responsible Officer
High	Investment in further carbon reduction/energy saving initiatives	<p>Internal Audit has evidence of various initiatives which have been completed, or are underway, within the Council to reduce energy costs or use. Through Procurement Scotland, as an example, there was a success in 2011/12 in reducing cost by some £380k.</p> <p>Reducing the usage of energy has also seen improvements to Midlothian House control system, boiler replacements and new schools that are more energy efficient are examples.</p> <p>However, it appears that further savings are achievable through energy awareness in the largest Council establishments and spend-to-save projects. With the price of CRC allowances (which is a tax) likely to rise to £16/tonne in 2015/16, a rise of £4, and also possible energy cost rises, extra initiatives appear essential. Rises after 2015/16 will be based on the RPI.</p> <p>Internal Audit has noted the employment of an Energy Assistant to help in the commencement of an Energy Awareness Campaign in Schools and Offices. Also noted is the report to CMT on 18/2/13 about further spend-to-save initiatives being considered.</p>	<p>The report to CMT on 18/2/13 has acknowledged that energy awareness needs to be significantly improved.</p> <p>There is no specific recommendation here and we refer management to recommendation 2, which is related.</p>	-	-
	Corporate Management Team Overview	<p>Apart from the Property and Facilities Management PI on Carbon Emission, it is Internal Audit's opinion that Carbon Reduction/Energy Saving has not had a significantly high profile at CMT. This is now rectified through the Energy Awareness Campaign Strategy approved by CMT on 18/2/13 and an acknowledgement that this subject is very important to the future, of avoiding penalties and</p>	<p>At each quarterly performance reporting, and on the production of the PFM PI, CMT should receive an update report on</p>	High Immediate & Ongoing	Head of Property and Facilities Management (Senior Engineer, M&E)

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		contributing to Council budget savings. However, there needs to be a change in culture amongst the Council's staffing establishment and because this is a corporate issue, the CMT needs to have regular updates. The CMT report of 18/2/13 mentioned that an awareness campaign of 2002/03 proved to be unsuccessful because of a lack of top-level support, restructuring and insufficient focus on the practical aspects of energy reduction. On this occasion (2013), there is little room for a repeat.	the Energy Awareness Campaign Strategy (NB: the CMT report of 18/2/13 did not stipulate the regularity of reports)		
	Accuracy of PI	It is important that the Property and Facilities Management PI on carbon emission saving, a corporate priority, is accurate, as well as being monitored. This is corporate priority Mc.1213.c-4a.3. We found that in Q3 12/13, the PI figure agreed with the working papers but the Q2 12/13 figure had been repeated from Q2 11/12.	The PI should be independently checked each quarter	High Immediate	Senior Engineer, M&E
Medium	Carbon Management Plan	The Property and Facilities Management services have inherited a Carbon Management Plan that has always been in draft form and has not been updated on an annual basis, which it should be. This was produced in conjunction with the Carbon Trust in Scotland but has never been ratified by Midlothian Council. Work is being carried out by the Senior Engineer M&E, which is requiring some back-tracking. Internal Audit acknowledges this work to remedy the weaknesses but recommends that the Plan should be discussed at CMT and then approved by Cabinet within a definite timescale.	Finalise the Carbon Management Plan and present it to CMT before approval by Cabinet	High ????	Head of Property and Facilities Management (Senior Engineer, M&E)
	Carbon Management Board	The Council is meant to have a Carbon Management Board which would ensure compliance and drive energy savings. This would engage all the key managers within the Council in charge of Council property, street lighting and vehicles etc. To date it has not been possible to fully engage these key managers, although liaison has taken place to a certain extent.	As part of quarterly reporting to CMT, the report should contain details of the work of the 'Carbon Management	High Immediate & Ongoing	Head of Property and Facilities Management (Senior Engineer, M&E)

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		Internal Audit views the existence of a 'Carbon Management Board' as essential but notes that CMT will be the senior management driver for change and that a 'Carbon Management Team' will be formalised (CMT report 18/2/13). Again, this initiative has to be effective and aid significant improvements.	Team', its business calendar and what it is achieving.		
	Audit trail – Systems Link software	The System Link software is a database used to monitor energy usage and provide management information. We understand it meets CRC EES official requirements and exceeds expectation for reporting to CRC EES. The database accommodates meter readings from suppliers via mail alerts and then access to the supplier website. This automation has been place for several years which cuts down drastically the number of physical invoices that have to be processed. Over 90% of meter reading, billing by suppliers and paying suppliers is automated. Systems Link provides reports at key stages e.g. the annual report on CRC. Internal Audit viewed the figures for 2011/12 and within the system reports it was difficult to see a full audit trail of the make-up of the year-end totals. The Energy Officer has agreed to review the audit trail in management information.	Improve the audit trail in relation to reports produced by Systems Link	Medium 30/4/13	Senior Engineer, M&E
	Internal Check	In the past, management information produced from the System Link has not been checked and it would be worthwhile, now that an Energy Assistant has been appointed and is now in place, for that person to help with the checking. This has been acknowledged by management	Coupled with a brief procedure for staff to follow (next recommendation), install an internal check routine of management information	Medium 31/5/13	Senior Engineer, M&E
	Procedures	Systems Link has validation tool for checking figures within the system. Furthermore, an evidence pack has to be maintained for compliance. This pack contains the annual	Recommendation as above	-	-

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		<p>report, footprint report, e-mails confirming registration details and letters to nominate officials. There is also Systems Link guidelines and CRC guidelines which can be located from the Environment Agency website. Evidence is stored on the system, or is maintained in manual files. Data is stored on Systems Link.</p> <p>Missing, is a brief procedure to invoke internal check and to train new members of staff in the essentials of Carbon Management/Energy Saving.</p>			
	Checking properties	It is acknowledged by management that there has been insignificant visiting of Council premises to ensure accuracy of energy use data and to increase energy awareness. As this is planned, Internal Audit is not making a recommendation.	-	-	-
Low	Corporate Website	<p>Midlothian Council has a duty to promote Energy Awareness throughout its community. Internal Audit noted that the 'Energy Awareness Campaign Strategy' report to CMT on 18/2/13 made mention only of internal Council energy awareness. There was no mention of the Midlothian Community. We also viewed the Council's website and found no mention of Energy Awareness until very recently (18/2/13 – Scots Together – Save on Energy, Together (open to anyone in Scotland)).</p> <p>Given that Council has a statutory duty to improve the well-being of the area, the above initiative is likely to be insufficient. Therefore, CMT should coincidentally give consideration to the community use of energy, as well as the Council's internal use.</p>			
	Accuracy of Totals	<p>All relevant premises, using core energy, should be included in the annual report on CRC, along with the energy used and the cost.</p> <p>We found that in the annual return, one meter at Penicuik High School was omitted from the return. This was a minor</p>	-	-	-

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		omission and represented only 1% of the total but indicates that a system of internal check mentioned above would be useful.			