

# **LONDON BOROUGH OF HAMMERSMITH & FULHAM**

**Report to:** Cabinet

**Date:** 01/04/2025

**Subject:** Carbon Offset Cost Guidance Note

**Report of:** Councillor Andrew Jones, Cabinet Member for the Economy

**Report author:** David Gawthorpe, Team Leader, Policy and Spatial Planning

**Responsible Director:** Bram Kainth, Executive Director for Place

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## **SUMMARY**

This report seeks approval from Cabinet to publish a carbon offset cost guidance note. The purpose of the note is to provide guidance which will help planners and developers calculate the carbon offsetting costs on major development sites which is intended to incentivise developers to include more on-site carbon reduction measures. The note introduces a sliding scale approach to calculating carbon offset payments. These payments are used to supplement on-site carbon savings and to achieve an overall net-zero carbon performance.

The H&F Local Plan (2018) sets out the council's vision of being the greenest borough and delivering an environmentally sustainable borough by 2035. As part of this vision, new development will be required to minimise energy use and the use of other non-renewable resources, as well as facilitating an increase in the use of low and zero carbon technologies to help minimise carbon dioxide emissions and air pollutants harmful to health. This will particularly be required of major developments as buildings are the main source of carbon emissions in H&F. According to the latest available data from the London Energy and Greenhouse Gas Inventory (LEGGI), buildings are responsible for 78% of the borough's total emissions.

In 2019, the council declared a Climate and Ecological Emergency and subsequently adopted a Climate and Ecology Strategy in 2021 which sets out the route to net zero greenhouse gas emissions by 2030 for the borough.

The guidance in the note will be relevant to major domestic and non-domestic mixed-use developments. The note is intended for use by developers, landowners, homeowners, planning officers, and other interested parties when preparing and assessing planning applications and negotiating s106 agreements (planning obligations). The note should help improve implementation and delivery of policy objectives which reflect the Council's ambitions for climate mitigation and adaptation.

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## **RECOMMENDATIONS**

1. That Cabinet approval be given for the guidance to be published and used to assist in calculating Carbon offset costs on development sites.

## Wards Affected: All

| Our Values  | Summary of how this report aligns to the H&F Values  |
|---|--|
| Building shared prosperity                                      | The guidance seeks to promote good practice and guide development on Climate change matters.     |
| Creating a compassionate Council                                | The Council will be providing guiding principles for development associated with Climate Change  |
| Doing things with local residents, not to them                  | Planning together for growth and well-being.   |
| Being ruthlessly financially efficient                          | The costs associated with this consultation will be funded from existing approved budgets        |
| Taking pride in H&F   | Contributing towards the growth and greening of the borough.                                     |
| Rising to the challenge of the climate and ecological emergency | The Council helping support local residents adapt to and mitigate the impacts of Climate Change. |

## Financial Impact

It is proposed to move away from the GLA default cost of £95/tonne when calculating payments for developments that have not achieved net zero carbon. This rate is considered insufficient to cover the actual cost of offsetting 1 tonne of CO<sub>2</sub> and is therefore also considered insufficient to incentivise developers to include more onsite carbon reduction measures. Instead it is proposed to implement a new sliding scale of charges, where charges per tonne generally increase in line with the proportion of carbon emissions being offset, as opposed to being mitigated on site. Councils are free to set their own carbon offset charges, although the proposals have been benchmarked for reasonableness with other Councils that have also departed from the GLA default cost.

Although the purpose of the carbon offset charge is to incentivise carbon neutral developments and make developers pay where this is not possible, for information, to date the council has collected approximately £5.4m in total carbon-offset contributions, that are ringfenced for investment in schemes that have a like for like carbon reduction. It is expected that this fund will continue to grow under the proposed charging mechanism, as carbon zero developments are rare.

The costs of publishing the note will be contained within existing revenue budgets, mainly those relating to staffing and minor printing costs within the Policy and Spatial Planning revenue budget.

*Kellie Gooch, Head of Finance (Place), 24 February 2025*

## Legal Implications

The Climate Change Act 2008 (the Act) is the statutory basis for the UK's approach to tackling and responding to climate change. The Act places a legal duty on central government to set legally binding targets to reduce UK greenhouse gas emissions to net-zero by 2050. The council has powers to administer and distribute grant funding pursuant to s1 of the Localism Act 2011.

Section 106 of the Town and Country Planning Act 1990 enables the council to enter into a legal agreement with developers to mitigate the impacts of a development proposal. The Council enters into section 106 agreements with developers to secure carbon offsetting contributions on the basis that they are to be spent on the implementation of projects to reduce carbon emissions in its area.

*Glen Egan, Assistant Director of Legal Services, 5 February 2025*

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## Background Papers Used in Preparing This Report

None.

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## DETAILED ANALYSIS

### Proposals and Analysis of Options

1. The purpose of the note is to provide guidance on carbon offsetting and to help implement the actions contained in the council's climate change strategy.

#### What is carbon offsetting?

2. As the local planning authority, the Council is responsible for ensuring that all new development proposals comply with local and London-wide planning policy, and for securing and allocating any relevant planning obligations.
3. Carbon offsetting is a planning obligation collected under Section 106 of the Planning and Country Act 1990 (commonly known as section 106 agreements) that allow new developments to comply with local planning policy where it is not feasible or practical to achieve all necessary carbon emissions savings at the development site.
4. The carbon offset is collected as a financial contribution which is then ring-fenced and used to 'offset' the carbon footprint of the new development that has not been covered by on-site measures by funding carbon saving projects elsewhere in the local authority area. To date, the council has collected approximately £5.4 million in total carbon-offset contributions. The council is developing a framework for allocating these funds and we anticipate they will be used for important projects, including piloting new technologies in H&F, covering cost uplifts to make standard projects more climate-friendly, supporting community-focused climate initiatives, and funding a renewable energy-focused apprenticeship scheme.

## Calculation and collection of payments

5. Cash in lieu payments for carbon offset are only accepted where developments have clearly demonstrated to the Council, with submitted evidence, that it is not technically or financially possible to achieve the necessary emissions reductions on site. All carbon offset payments are secured by legal agreement and collected upon commencement of the development scheme, unless otherwise agreed in writing.
6. The council has carried out an internal review of the costs incurred when implementing carbon reduction measures in the borough using funds collected from developers' carbon offset payments. This showed consistently that the costs of offsetting 1 tonne of CO<sub>2</sub> through these projects was much higher than £95/tonne which is the rate currently used (as set out in the London Plan 2021). The London Plan encourages boroughs to set their own local cost of carbon.
7. In addition, the "Delivering Net Zero" report published in 2023 has found that calculating carbon offset payments using a higher cost of carbon than £95/tonne would incentivise developers to include more on-site carbon reduction measures.
8. In 2024, the council commissioned a Carbon Pricing Viability Assessment (see appendix 3) to assess and test the viability of different development types to accommodate a range of carbon offset rates in order to better reflect the costs of implementing local carbon reduction measures and encourage maximisation of on-site carbon reduction measures. This assessment looked at 2 approaches: (i) increasing the cost through setting a single increased cost of carbon per tonne and (ii) using a "sliding scale" of costs with higher cost of carbon per tonne used where a greater proportion of carbon emissions are being offset but progressively lowering the costs/tonne for sites achieving higher carbon reductions through on-site measures.
9. Both approaches have been found to provide developers with a financial incentive to adopt on-site carbon reduction measures in preference to offsetting. The council has decided that the sliding scale approach shown in the guidance note provides the most effective incentive. The viability assessment also concluded that such an approach would result in developers benefitting from higher residual land values if carbon emissions are reduced using on-site solutions in comparison to full offsetting.
10. Full details on the viability assessment can be found in the report (appendix 3) including information on ability of different development typologies to accommodate a range of carbon offset rates ranging from £200 to £880. It is important to note that the proposal to increase the carbon offsetting cost will not affect other S106 contributions on development sites, such as affordable housing. The viability assessment has confirmed that the proposed rates are feasible for development sites within the borough, alongside all other potential contributions a developer may need to make.
11. The Options available to the Council are as follows:
  1. To publish the note for use in calculating carbon offset costs on development sites and negotiating planning obligations.

2. To maintain the status quo and continue to negotiate carbon offset costs through planning obligations based on the London Plan £95 per tonne cost.
12. The recommendation is option one above, that the Council publish the note. Option two would mean that the actual cost of carbon on development sites is not being met by the current price of £95/tonne.
13. The guidance note has been drafted in consultation with the Climate Change Strategy Team and multiple departments across the council who have specialist knowledge on these topic areas. The need for a note on Carbon offsetting has been promoted by Cllr Harcourt.
14. Once published, the note will be a useful guide to help calculate the true cost of carbon on development sites and will help in planning decisions although it will not be part of the development plan.

### **Reasons for Decision**

15. To progress the note to ensure that up-to-date guidance is in place to support the adopted Local Plan.
16. The publication of the note will provide more detail on carbon offsetting in the borough aiding s106 negotiations, although it will not be part of the development plan.

### **Equality Implications**

17. An Equalities Impact Assessment (EQIA) has been carried out, in relation to the note (see appendix 2), and it shows only neutral or positive impacts of the planning guidance on protected groups.
18. The EQIA assists the Council in demonstrating compliance with its public sector equality duty under Section 149 of the Equality Act 2010.

### **Risk Management Implications**

19. The report demonstrates how the council priority of doing things with and not to residents through the consultation process has been addressed. The report sets out a clear rationale for calculating the carbon costs on development sites. The guidance is intended to incentivise carbon reduction on development sites. This is in line with the council priority of tackling climate change.

*Implications completed by: David Hughes, Director of Audit, Fraud, Risk and Insurance, 7 February 2025.*

### **Climate and Ecological Emergency Implications**

20. The built environment accounts for 78% of the borough's direct emissions, with significant emissions arising from both the construction and operation of new development. Effective planning policy and guidance is therefore essential to ensure new development adheres to the highest possible low-carbon and biodiversity standards.
21. The publication of this guidance note on carbon offset costs enables the Council to better assess planning applications for new development and this will help the built environment contribute to achieving net zero greenhouse gas emissions. The positive impacts of this note on climate change are numerous and a driver for change and investment in green infrastructure.

*Implications completed by: Hinesh Mehta, Assistant Director, 7 February 2025*

## **Section 106**

21. The note will aid the Council in securing appropriate conditions or obligations to mitigate any effects on the climate arising from development,

*Implications completed by: Matthew Paterson, Head of Spatial Planning – 7 February 2025*

## **LIST OF APPENDICES**

- Appendix 1 – Carbon Offset Cost Guidance Note
- Appendix 2 – Equalities Impact Assessment
- Appendix 3 – Carbon Pricing Viability Assessment