Fair Miles

A Preliminary Business Plan for a scheme to offset travel carbon in Powys

Final Draft

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Contents

1. Outline of the Business Idea

The fundamental idea is to establish a scheme whereby individuals, businesses and organisations situated in Powys can voluntarily contribute funds into a scheme in proportion to the amount of air and road travel they or their employees carry out, and to invest those funds in local energy efficiency and renewable energy projects, such that the carbon dioxide saved by those projects in their lifetime is at least equal to the carbon dioxide emitted as a result of the travel. Those contributing could therefore reasonably claim that they had offset their travel carbon by saving an equivalent amount elsewhere.

The scheme would support projects in Powys, so that contributors can see the results of their contributions. The scheme would also provide information and support to assist contributors in reducing their air and road travel, and so reduce carbon emissions directly. The scheme would be transparent and accountable, so that contributors could be confident that sufficient carbon was really being saved, and would have sufficient evidence to convince others of this where necessary.

2. Aims and Objectives

The underlying aims of the scheme are:

- To reduce carbon dioxide emissions, both through the installation of measures and through reduction in air and road travel
- To support local sustainable economic development, by maximising local income and savings, and reducing the amount of money spent on energy from outside the county.

The objectives of the scheme are:

- To raise funds for local energy efficiency and renewable energy installations, and so allow ongoing carbon saving work in the county without reliance on restricted and temporary public funding.
- To give local people, businesses and organisations a means to offset their travel carbon in a convincing way, where they can see the results of their contributions.
- To provide people, businesses and organisations with a comprehensive local fully funded public transport support service.

3. Market

Broadly speaking the scheme has three potential markets - private individuals, private companies and other organisations.

3.1 **Private individuals**

The recent proliferation in carbon offsetting schemes, and the general increase in awareness of climate change and transport's contribution to it, suggest that many members of the general public are interested in the idea of reducing and/or offsetting their personal transport carbon emissions, at least in principle. Clearly some will be more concerned than others, and some will be more able to pay than others.

There is no information on how many people are both sufficiently concerned and sufficiently able to pay into a scheme. However, in a county with a population of over 130,000 it is reasonable to assume that there are some thousands of people who fall into that category. It is also reasonable to assume that the number will increase as climate change awareness and concern increases, and will increase further if the credibility of offsetting schemes is increased.

3.2 Private companies

Powys is host to a wide range of private companies, mostly in the small to medium size range. A significant number of these companies have shown an interest in improving their environmental performance or image, and … have so far joined the Green Dragon scheme. Powys is also host to a significant number of sustainable energy companies, and companies providing other environmental goods and services.

Many of these companies will already be doing something to reduce their car and air business travel. All of them potentially have an interest both in helping to reduce travel further and in offsetting the carbon emissions from their remaining travel.

3.3 Other organisations

Many of the other organisations in Powys are similar to the private companies in terms of their potential interest in the scheme. However, one organisation with a number of different interests is Powys County Council.

PCC is the largest employer in the county, and probably has the highest staff transport bill. All local authorities in Wales have an obligation to reduce their own CO_2 emissions. PCC also has an interest in making Powys a more sustainable county, and in all the benefits that support for local energy efficiency and renewable energy measures will bring.

PCC has therefore been considered as a special case as a potential contributor to the scheme, but it is important not to forget other large public sector bodies such as the Health Trust.

3.4 Market Research

Several versions of a questionnaire were drawn up, and distributed in a number of ways to the following groups:

- Members of EcoDyfi
- SMEs on EcoDyfi's database
- Employees of Powys County Council
- Travel Agents in Powys
- Car rental companies in Powys

Appendix 1 includes samples of the main variants of the questionnaire, and an analysis of the results. Some groups provided far greater amounts of feedback than others, but sufficient information has been gathered to draw some tentative conclusions.

In addition, Powys County Council was approached as a potential contributing organisation, and the views were sought of a number of environmental and transport organisations. There has been useful feedback from CAT, Greenpeace, Transport 2000, Sustrans, Friends of the Earth and Dilwyn Jenkins.

In summary, there is significant interest in the scheme in some quarters, and a marked preference amongst some for a scheme that supports local projects. However, serious questions were raised about the validity of offsetting as a principle, both by potential contributors and other interested organisations. These questions are considered below in sections 6 and 7.

There was also significant concern about the price being suggested for offsetting carbon. The price for initial consideration was determined at £50 per tonne of CO_2 by a process described below in section 4.2. Of the 22 EcoDyfi members who have responded so far, 91% were in favour in principle but only 40% would consider supporting it at the prices quoted. It is reasonable to assume that some of these 40% would reconsider following further investigation of the figures quoted by other organisations. We can also assume that EcoDyfi members are committed to actions to improve the sustainability of the local economy. They are a prime target market for a scheme such as this, and a scheme that is too expensive for them must be considered too expensive for almost everyone.

The response from Powys County Council employees was broadly similar, although the level of response was far lower and the level of interest among respondents was slightly lower. Of the eleven complete responses received, eight (73%) were broadly in favour, but only four (36%) would support it at the suggested price. Two of the three who opposed the scheme denied that there was any link between CO_2 emissions and global warming.

There was little response from the travel agents and car hire companies. Some travel agents responded verbally, either declining to take any further interest or already promoting an existing scheme. Both car hire companies that responded were strongly opposed to anything that might discourage car travel or increase its cost.

Some organisations and individuals interested in the scheme attended the workshop (see section 11) and contributed to the development of recommendations for taking the idea forward.

4. Numerical Calculations

The calculations required as the basis for the scheme fall into two parts – the amount of CO_2 generated by each car or air journey, and the amount of money required to offset that CO_2 through funding local installations.

4.1 CO_2 Emissions

Road travel emissions vary with the size and type of vehicle, driving style, number of passengers and the types of road covered. However, for private car travel, most UK sources quote figures from the National Atmospheric Emission Inventory, which categorise vehicles as follows:

Type of vehicle	**kg CO_2 per mile**
Small petrol	0.26
Medium petrol	0.30
Large petrol	0.35
Small diesel	0.26
Large diesel	0.31

While this is a fairly crude mechanism for calculating the exact emissions for a particular journey, over a large number of journeys it is likely to provide a reasonable estimate of total emissions. Number of passengers is ignored, with emissions given per car instead, which is appropriate if we assume that only one person per car will be paying offsets.

Air travel is more complicated to calculate, for a number of reasons. Firstly, fuel consumption does not vary linearly with distance covered. Secondly, different types of plane, with different fuel efficiencies, are used for long haul and short haul flights. And thirdly, emissions at higher altitudes have a greater impact on the climate than emissions at ground level.

Opinions vary about the influence of these factors and how they should be accounted for. However, a study by the Environmental Change Institute analyses the different approaches and suggests a preferred methodology. The study provides a graph depicting CO_2 emissions per kilometre against length of flight, and suggests that actual emissions should be multiplied by a factor of 1.9 to determine their global warming potential in comparison to equivalent emissions at ground level.

Based on this study, we developed a fairly simple formula that mimics the graph from the study and applies the 1.9 metric. This formula has been used for calculating emissions for the purposes of the feasibility study.

Some organisations recommend a higher factor of 2.7, based on work by the Intergovernmental Panel on Climate Change, but most carbon offsetting schemes do not apply a factor at all.

4.2 Cost of CO_2 Offsets

The proposed scheme would provide CO_2 offsets through providing capital support for the installation of energy efficiency and renewable energy systems in Mid Wales. The cost required per tonne of CO_2 is therefore dependent on the cost of installing such measures, and on the amount of carbon dioxide the measures can be expected to save.

The Energy Savings Trust publishes figures on the capital cost and expected carbon saving of common domestic energy efficiency measures in the UK. Figures for some Common measures are shown in the table below, together with figures for small scale renewable energy systems, based on the author's own experience.

The right hand columns of the table show the percentage of the full capital cost that could be provided by our scheme at various costs per tonne of CO_2.

Measure	Typical capital cost (£)	Lifetime CO2 saving (t)	% funded at £10 per tonne	% funded at £30 per tonne	% funded at £50 pr tonne	% funded at £70 per tonne
Loft Insulation to 300mm:						
Currently with 0mm	206	37.08	100%	100%	100%	100%
Currently with 50mm or less	196	16.43	84%	100%	100%	100%
Currently with 100mm	149	1.24	8%	25%	42%	58%
Currently with 200mm	103	0.3	3%	9%	14%	20%
Hot water tank jacket	14	1.51	100%	100%	100%	100%
Pre 76 Cavity Insulation	313	45.97	100%	100%	100%	100%
Floor insulation	500	11.62	23%	70%	100%	100%
Solar HW	2063	8.42	4%	12%	20%	29%
Low energy light bulb	3	0.12	40%	100%	100%	100%
Solid wall insulation (external)	2500	52.8	21%	63%	100%	100%
Solid wall insulation (internal)	3750	50.05	13%	40%	67%	93%
Draught proofing	135	3.01	22%	67%	100%	100%
Condensing boiler (B Rated to A rated)	850	2.8	3%	10%	16%	23%
Condensing boiler (old to A rated)	850	11.19	13%	39%	66%	92%
Central Heating controls	165	2.35	14%	43%	71%	100%
Radiator panels	11	0.06	6%	17%	28%	39%
Double Glazing to replace old single, per m^2	620	1.29	2%	6%	10%	15%
Pellet central heating (as against new gas)	10000	85.5	9%	26%	43%	60%
6kW wind turbine (4.5 m/s avge wind speed)	19500	283.8	15%	44%	73%	100%

Not all of these figures are necessary reliable as guides for approving activities. For example, the costs for solid wall insulation will rarely be so low in practice, and only more exposed households will experience the average wind speeds quoted. In practice, should the scheme go ahead, each installation or group of similar installations would have to be assessed individually to determine an acceptable intervention rate.

However, the figures can be used to predict the range of measures that could be partly or totally funded at different process per tonne of CO_2. It is an aim of the project to provide a wider ranging source of funding that supports significantly more options than existing funding streams.

Looking at the figures in the table, we can see that charging £10 per tonne of CO_2 would only allow 100% support for a very limited range of interventions – loft insulation where there was none present, hot water tank insulation where there was none, and insulation of existing wall cavities. These measures are routinely supported through existing schemes, such as EEC funded utility programmes, HEES and CO2i.

As a result, the numbers of appropriate properties with willing owners in Powys is limited, and any new scheme restricted to Powys could have difficulty in finding sufficient properties to offset its full quota, as well as having difficulty in demonstrating additionality where there is such a range of funding options.

If the price is increased to £30 per tonne, then replacement low energy lightbulbs also qualify for 100% funding, as does loft insulation where a minimal layer of insulation already exists. Certain other measures also start to qualify for a significant contribution (e.g. 70% for floor insulation, 44% for a wind turbine), but most are still effectively excluded, with grants of less than 30% possible.

At £50 per tonne, the majority of measures can attract a useful contribution, with eight measures qualifying for 100% funding. This figure was therefore chosen as a starting point for evaluating the scheme, and formed the basis for the market research carried out.

It is not anticipated that all funds would be used to support domestic scale measures. However, the economics of larger community scale schemes are too variable to allow any useful generalisations to be drawn, and so the target price for the purposes of this feasibility study were based purely on the economics of domestic measures.

5. Competitors

There are a number of national and international carbon offsetting schemes in place. The most commonly referenced schemes are described below.

Name:	Climate Care
Cost per tonne CO_2:	£7.50
Projects supported:	
Comments:	

Name:	CarbonNeutral Company
Cost per tonne CO_2:	£7.40 to £9.30
Projects supported:	
Comments:	

Name:	CO_2balance.com
Cost per tonne CO_2:	£9.00
Projects supported:	EE
Comments:	Will not support RE as too expensive. Will not support projects where others are claiming carbon benefits (e.g. where ROCs are produced)

Name:	PURE (the Clean Energy Trust)
Cost per tonne CO_2:	£14.00 without gift aid, £10.29 with
Projects supported:	
Comments:	

Name:	Carbon Offsets Ltd
Cost per tonne CO_2:	£7.05
Projects supported:	EE, RE and forestation, all in developing countries
Comments:	

Name:	Global Cool
Cost per tonne CO_2:	£20.00 of which £10.00 goes direct to carbon saving projects
Projects supported:	EE, RE and generic support
Comments:	Use celebrities to support very different image. Do not offer travel offsetting as such, but ask for donations at £20.00 per tonne CO_2 to be avoided. Half the money goes on support for the EE and RE industries, other energy support groups, and admin.

5.1 Impact of Competitors

The scale of the competition is in itself an issue, with many of the existing schemes having acquired a high profile and a presence within existing travel web sites and promotional material. Any new scheme will have considerable work to do to establish itself.

However, the most significant impact of the competition is the market price for carbon offsets that has been established. Anyone who has considered the option seriously will have found a price range of £7.00 to £14.00, with most schemes asking less than £10.00 per tonne of CO_2. This is substantially less than the figures suggested for a Mid Wales scheme, as highlighted in 4.2 above.

For a new scheme to operate successfully at anything like the figures proposed, it will have to offer something additional that is seen as worth something to potential contributors.

6. Other Barriers

6.1 Opposition to the Concept

There is some opposition to the concept of buying carbon offsets to compensate for one's travel emissions. Tony Juniper, director of Friends of the Earth, said that "offsetting schemes encourage individuals, businesses and governments to avoid action and carry on polluting." Other organisations and individuals share this view, and questions have been raised about the validity of many scheme operators' claims. This has led to the Government launching a voluntary code of practice, in an attempt to distinguish between "valid" and "invalid" offsets. However, this government initiative does nothing to consider the concept of offsetting, a concept that is already at the heart of policy on fighting climate change.

The UK Government has been instrumental in taking the idea of carbon trading forward, particularly at a corporate level. This approach has met with considerable criticism, partly no doubt because Government and big business are not the most trusted sectors in society, and also because early implementation schemes have been too cautious to have any obvious impact. This limited progress has not helped the image of the wider principle of carbon offsetting, making it harder for schemes to gain support, even if they can demonstrate real benefits.

Many offsetting schemes attract more specific criticism due to some of the detail of how they are operated. Some of these can more readily be avoided in a new scheme than others. The general criticism of offsetting schemes can be broken down into the following more detailed points:

- The emissions from the contributors' transport still exist, while the contributors are encouraged to believe that they do not.
- Schemes always seek out the cheapest projects and locations, in order to offer the lowest price for offsetting. This encourages the developed world to

continue to pollute, while paying the minimum amount to the developing world to make up for it. We should be cleaning up our own mess.

- There is a time delay between the transport emissions and the compensatory savings, which may occur over several decades. In the meantime there is a net increase in atmospheric CO_2, with a resulting impact on climate. There are no models capable of quantifying this effect to allow any attempt at compensating for it.
- Voluntary contribution schemes merely cater to those who care, who can afford to pay the extra, and who are probably already doing as much as they feel able to to minimise their car and air travel. They preach to the converted only, and so do nothing to reduce car and air travel directly, even as a minor financial incentive.
- Too much of the money is spent on administration.
- The projects supported would have happened anyway, so there is no extra carbon saving.
- The projects supported would have happened eventually, so the amount of carbon saved is less than the full amount claimed based on the project's expected life.
- The projects supported increase energy supply availability and so support increased energy use rather than reducing CO_2 emissions.
- The projects supported are claiming benefits for carbon reduction from other sources, such as subsidised tariffs for sale of energy, and so the carbon reductions are being counted twice.
- Emissions from aircraft have a greater impact on the climate than ground level emissions, and some schemes do not take this into account. There is no consensus on the scale of the differential.
- Where scheme support aforestation, there is never sufficient information available on the future of the forest and its timber, and on what would otherwise have happened to the land and used and the markets served, to allow accurate calculation of additional carbon sequestered.

6.2 Code of Practice

The Government's reaction to criticism of offsetting schemes has been to find a simple way of ensuring that carbon is genuinely saved. They have done this by suggesting that all accredited schemes should invest only in Certified Emission Reductions (CERs), as determined by the EU or under the Kyoto agreement. This could potentially answer some of the points above, but it does pose a problem for the scheme proposed here.

Currently, this certification is only practicably available for large projects that can cover the administrative costs in applying and complying. The small scale projects that are envisaged in Mid Wales would not be eligible support under the current terms of the proposed Government accreditation.

Government ministers have confused the matter somewhat, by referring to their proposed accreditation as a Gold Standard for carbon offsetting schemes. In fact, the Gold Standard is an existing, internationally recognised set of criteria for carbon

reduction projects, which sets a higher standard for sustainability, local consultation and demonstration of additionality than is required for CERs.

It is also possible to obtain the Gold Standard for non-certified projects, often referred to as Voluntary Emission Reductions (VERs), but the administrative cost is not substantially less. There is therefore a proposal to develop a simplified Gold Standard procedure for VERs, to allow good quality small projects to gain suitable recognition for voluntary offsetting schemes such as the one proposed here.

7. Options for Addressing Barriers

7.1 Competition

Clearly it will not be possible to compete with the major existing schemes on price. It may be necessary to reduce the price per tonne of CO_2 somewhat, so as to reduce the differential to something more palatable. This could be possible through restricting the range of technologies supported, or through limiting the number of the more expensive options supported. Another options would be to split the funds raised between local projects and cheaper projects in developing countries. However, the price per tonne will clearly be more than that asked for by the main players.

If a scheme is to be marketed on that basis, then it needs to be sold as something different. It needs a Unique Selling Point, or USP in marketing jargon.

Our scheme already has a USP in that it supports local projects, so local contributors can see where their money is going, making the scheme more credible. Supporting local projects also means that local communities and the local economy receive the other benefits that energy projects bring beyond environmental and cost savings.

This is clearly an attractive element of the scheme to some potential contributors, and is therefore clearly worth something. However, our initial market research suggests that many would baulk at paying the premium suggested for this benefit only. It may therefore be necessary, in pure marketing terms, to come up with other USPs to increase the value of the "product" further.

In the current marketplace, the clear way to generate additional USPs is to address as many as possible of the criticisms levelled at offsetting schemes (see 6.1). In other words, if we address some of the other barriers this will help us address the barrier of the competition and its market price.

7.2 The emissions from the contributors' transport still exist

The underlying issue here is that, when people or organisations contribute to a scheme, they are generally encouraged to believe that their transport emissions have been wiped off the board. This encourages them to feel OK about those emissions, which discourages them from putting any effort or money into finding more sustainable options.

Most offsetting schemes make a very strong link between the contributors' travel emissions, and the emission reductions of the projects supported. It is key to their marketing strategies, but also key to the criticism laid against them. One major exception is Global Cool, where contributors are merely asked for a donation to offset one tonne of CO_2. No direct link is made with the contributors' travel emissions *per se*. It is merely stated that we all emit CO_2 and should feel obliged to do something about it, which could include supporting carbon savings elsewhere.

All schemes state somewhere that it is important to reduce transport emissions first before offsetting the remaining carbon. Some are more up front about this than others, but none are presented with the first step of the scheme being to support actual changes in transport practice. Perhaps there is an opportunity for a new scheme to turn the process round and market itself as a transport emissions avoidance programme, with carbon offsetting tacked on at the end of the process to address the remaining emissions.

7.3 There is a time delay between the transport emissions and the compensatory savings

This is an inevitable consequence of the principle of offsetting through supporting energy efficiency and renewable energy schemes (and tree planting schemes too). It could perhaps be compensated for by supporting more carbon savings than appears to be required at first. However, no-one is capable of calculating a figure for how much we need to compensate.

A slightly different angle on the same approach might be to limit the project life over which a project's carbons savings are counted. For example, if only the first ten years of an installation's savings are counted then there is less time delay to worry about, as well as extra savings in the longer term to compensate for the short term mismatch. Either way, one effect would be to increase the cost per tonne of carbon further, in conflict with the apparent need to limit the price.

Another option is to accept that offsetting is imperfect, and to shift the emphasis as per 7.2. This does not address the time delay issue, but it does reduce its relevance to the credibility of the scheme.

7.4 Voluntary contribution schemes preach to the converted only

This is an inevitable issue with any scheme not brought about as a government led compulsory scheme. However, if the emphasis outlined in 7.2 is taken, then it may be possible to target those who are willing and able to pay (the "converted in principle") but are not seriously altering their travel practices, through a mixture of ignorance and habit. For many individuals and organisations, it may be possible to offer "fiscally neutral" options, where the cost of their revised travel plan plus the cost of offsetting remaining emissions is less than what they currently spend on travel. Whether they actually change their travel sufficiently to achieve this cost balance is beyond our control, but the incentive for real change in transport emissions at source has been brought to the front of the agenda.

7.5 Too much of the money is spent on administration

It may be possible to fund the administration of the scheme entirely out of the tax savings made possible by treating contributions as charitable donations (see 9.1).

7.6 The projects supported would have happened anyway, or eventually

Adherence to the Gold Standard should address this, at least in theory. Limiting the eligible project life, as in 7.3, would reduce concern over this. However, a scheme that did not promote the offsetting part as the main thrust could argue that it is merely doing its best to ensure that these problems are avoided, without entirely undermining the scheme's credibility.

7.7 The projects supported increase energy supply availability

This can similarly be addressed in theory through the Gold Standard, but is still an unavoidable concern for a scheme that promotes offsetting as a real solution.

7.8 The projects supported are claiming benefits for carbon reduction from other sources

This is easily avoided by providing 100% funding for energy efficiency and renewable heating technologies only in the UK, or by restricting match funding sources to exclude any others that would wish to claim the carbon savings. Renewable electricity schemes could only be supported if the scheme was not registered for Renewables Obligation Certificates, as these are effectively a carbon trading mechanism of their own.

7.9 Emissions from aircraft have a greater impact on the climate

Again, all that can be done is take a methodology that represents the best guess, and avoid claiming that contributors' travel emissions have been entirely accounted for.

8. Legal Structures

The choices of legal structure available to the scheme can immediately be separated between **Non Charitable** and **Charitable. Non Charitable** forms include companies limited by shares, companies limited by guarantee and Community Interest Companies. All of these forms require registration with Companies House and are subject to the rules and regulations of the Companies Act 1985. However **Non Charitable** forms are generally not able to benefit from the receipt of grants or donations and rate relief, neither are they able to benefit from the various tax relief schemes available to charities and so on this basis it is likely that **Charitable** status would be worthwhile.

As a **Charity,** the project must apply to the Charity Commission for charitable status and comply with the rules and regulations of the Charities Act 1993, including the Statement of Recommended Practice SORP 2005 which came into effect on 31st March 2005. (A new Charities Bill 2006 has recently been passed and is due for implementation during 2007 and 2008). The main disadvantage of charitable status is the restriction of business activities to exclusively charitable, however it is felt that this would have a less detrimental effect on the operation of the Project than the inability to raise money through grants, donations, rates and tax relief.

There are various **Charitable** legal structures that the Project can adopt, as follows:

- Unincorporated charitable association;
- Charitable trust;
- Charitable community benefit societies (BenComs);
- Incorporated charity;
- Charitable incorporated organisation.

The relevant advantages and disadvantages of the above structures are detailed below.

8.1 Unincorporated charitable association

Unincorporated association status is usually chosen when a number of individuals agree or "contract" to come together for a common purpose, which may be of a social nature. Its rules and regulations are set out in a governing document.

Advantages	**Disadvantages**
Relatively straightforward and cost Nothing to set up.	The association has no separate legal identity.
They do not need to register with or be regulated by either Companies House or the Financial Services Authority.	The members will have to sign loans and contracts as individuals and carry the risk of personal liability.
	The association cannot own property or other assets for the community.

8.2 Charitable trust

Trusts are unincorporated companies which do not distribute their profits and are managed by trustees. The trustees do not benefit from the trust, but act on behalf of

the community for whose benefit it is set up. Trusts have a trust deed which protects their social objectives and covers the terms under which an individual or organisation is given assets. It also lists the intended beneficiaries and the conditions under which the trust's assets may be used.

Advantages	Disadvantages
Relatively straightforward and cost effective to set up.	The trust has no separate legal identity.
They do not need to register with or be regulated by either Companies House or the Financial Services Authority.	The trustees are personally liable for the trust's liabilities.
A trust can hold ownership of property and other assets for the community.	
Trusts may write an asset lock into their rules to secure assets for the intended community.	

8.3 Charitable community benefit societies (BenComs)

BenComs are incorporated industrial and provident societies (IPS) that conduct business for the benefit of their community. Profits are not distributed amongst members or external shareholders, but returned to the community. They are run and managed by their members. They can apply for charitable status and if successful are known as exempt charities which report to the Financial Services Authority (FSA) rather than the Charity Commission.

Advantages	Disadvantages
They can raise funds by issuing shares to the public.	They need to register with the Financial Services Association (FSA).
They do not need to register with Companies House.	The registration fee costs between £40 and £950 per year, depending on whether it registers under self-written rules or FSA approved rules.
They have a separate legal identity.	To register as a BenCom, you must demonstrate your social objectives and your reasons for registering as a society, rather than a company.
	As a BenCom is not registered with the Charity Commission it does not hold the registration status nor registered number which may harm its fundraising efforts.

8.4 Incorporated charity (limited by guarantee)

An incorporated charity is regulated by both the Charity Commission and Companies House and is governed by a Memorandum and Articles of Association.

Advantages	Disadvantages
It is generally accepted as a more accountable form than, for example, an unincorporated association.	The charity is regulated by Companies House as well as the Charity Commission.
Each member enjoys limited liability equal to the guarantee given that a certain sum will be put towards the company's finances if the company is wound up.	
It has a separate legal identity.	

8.5 Charitable incorporated organisations (CIO)

This form is specifically tailored for charities registered in England and Wales and is aimed at new organisations and existing charities that meet all the criteria for being a charity but do not want to use the charity form.

Advantages	Disadvantages
It is generally accepted as a more accountable form than, for example, an unincorporated association.	Unlikely to come into force until early 2008 under the Charities Act 2006: Implementation Plan as issued by the Office of the Third Sector.
Each member enjoys limited liability equal to the guarantee given that a certain sum will be put towards the company's finances if the company is wound up.	
It has a separate legal identity.	
Unlike incorporated charites, CIOs will only report to the Charity Commission and not to Companies House.	
A choice of formats and administration will be available to suit organisations of all sizes, with or without membership structure.	

8.5 Preferred Option

The Charitable Incorporated Organisation (CIO) combines the benefits of both charitable status and company status, but without the additional burden of Companies Act 1985 regulations. As such, this would ultimately be the preferred option, but is unlikely to be available for use until early 2008. If the scheme were to commece before then, it could operate as an Incorporated Charity, the disadvantages of which are purely administrative and would not hinder the progress of the project nor hold its members or trustees open to risk of personal liability. An incorporated charity would be able to convert to a charitable incorporated organisation (CIO) when this form becomes available.

9. Tax implications

The sections below set out the tax implications for the scheme (assuming it takes the structure of an incorporated charity); and also the effect of Gift Aid, Payroll Giving and Share Giving on the Fair Miles project, individual donors and company donors.

9.1 Income and corporation tax

Income tax or corporation tax may be assessable on the profits of a trading organisation, whether that organisation is charitable or not. Trading by charities can take a number of different forms, but most fall into one of two broad categories:

- trades which form a primary purpose of the charity or trades which are carried out mainly by its beneficiaries, or
- trades which are not part of the primary purpose of the charity, but which are intended to raise funds for charitable purposes.

There is a limited exemption from tax for the profits of trades carried out by charities. To qualify for exemption, the profits must be used only for the purposes of the charity and the trade must meet one of the following three conditions:

1. The trade must be part of a primary purpose of the charity or ancillary to this primary purpose trade;
2. The work in connection with the trade must be mainly carried out by the beneficiaries of the charity;
3. The turnover of the non primary purpose trade must fall within certain limits (currently the lower of £50,000 or 25% of gross income).

Normally, a trade involves the sale of goods or services to customers as part of a commercial enterprise. If the only income received by the project is by way of donations (i.e. the donor does not receive any benefit from the charity by way of goods or services), then this is construed as non business income and therefore outside the scope of tax. However the above points need to be considered if the project receives any trading income.

9.2 VAT

If income or corporation tax relief is available for particular trading activities, this does not automatically mean that relief from VAT is also available. VAT applies to a wide range of goods and services supplied in the course of business. It can also apply to any charitable activities which involve the supply of goods or services.

The concept of "business" is a fundamental one. It governs both a business' obligation to charge output VAT and also their ability to recover VAT which is a cost of their business. It is important to note that "business" for VAT purposes has a different meaning from "trading" as used by the Charity Commission and Inland Revenue.

An entity is generally seen as being in "business" in VAT terms if it does something for consideration. It does not matter why the entity undertakes the activity, whether it is a profitable activity or indeed who pays for the goods and services provided. What matters, is that the entity makes a compulsory charge to someone for providing something to them in return.

When someone provides a grant, the VAT system does not generally recognise that the grantor is buying goods or services. This is because in most cases, they are not themselves consuming what they pay for. An activity which is entirely funded by grants will automatically be "non business" for VAT purposes.

Donations are also treated as outside the scope of VAT, when the person paying the money has no right to receive anything in return other than a token, eg. a flag or sticker. Provided that the donors to the Fair Miles project do not receive anything in return for their donation, it can be treated as outside the scope of VAT. If however it is deemed for whatever reason that the donations received are in fact business income and when totalled with any other business income received exceeds the current VAT threshold of £60,000, the project will need to register for VAT and account for output VAT.

The following VAT reliefs apply to all charities regardless of whether they are VAT registered:

- advertising, including badges, banners etc.
- donated goods;
- goods used by charities to collect donations;
- purchase of medical goods;
- purchase of buildings.

9.3 Sponsorship

Sponsorship is often an important source of funds for many charities. If it is no more than a straight donation, with nothing required in return, then there will be no question of "trading" or "business". It should however be borne in mind that the sponsor could not expect to get any tax relief against profits for their payment. For this reason sponsors usually look for some tangible return for their generosity. The activity will move into a trade/business where a charity incorporates large and prominent displays of the sponsor's logo or corporate colours or mentions specific products or services in publicity for events for example.

9.4 Gift Aid

Gift Aid allows charities to reclaim the basic rate of tax on donations received from UK taxpayers. As the current basic rate of income tax is 22% this means that the charity can claim an extra 28p for every £1 given.

For a donation to qualify for Gift Aid the donor must be a UK taxpayer. They must pay enough income tax or capital gains tax in the same year to at least equal the amount of tax the charity will reclaim from HM Revenue & Customs in respect of their donations. A donor gives their formal consent for the charity to Gift Aid their donation by completing a Gift Aid declaration which includes the name of the charity; the donor's name and address; the donation(s) to be covered by the declaration and the tax condition.

Gift Aid is designed only for donations where no benefit is rewarded to the donor in return for their gift. Gift Aid donations cannot be used for payments made for goods or services, but a small token of appreciation (eg. a charity newsletter or low value gift) is acceptable. The rules about the maximum level of any benefit that can be given to donors are as follows:

Amount of donation	**Value of benefits**
£0 to £100	Up to 25% of donation
£101 to £1,000	Up to £25
More than £1,000	Up to 2.5% of the donation

These limits apply to each donation from individuals, self employed people and partnerships and if they are breached then the donation becomes trading income. Where the donation is from a company, there is no limit on what benefits may be given in return unless it is a "close company" for tax purposes. A close company means one that is controlled by five or fewer people. In this case, neither the company nor any person connected with the company can receive benefits of a value which exceeds the limits for individual donations.

Cash donations by individuals

If an individual donor is a basic rate taxpayer, then there is no further effect on their tax status once the donation has been given. However if a donor pays tax at the higher rate of income tax, currently 40%, they can also claim tax relief for themselves at 18p of their gross donation, or 23p for every £1 given through Gift Aid.

Cash donations by businesses
Companies: when a company makes a donation, it gets tax relief by deducting the amount given from profits and pays less corporation tax. The company should retain any correspondence with the charity as evidence of the gift.

Self-employed people: a Gift Aid donation from a self employed person should be treated the same as an individual.

Partnerships: a Gift Aid donation from a partnership should be split equally between the partners and treated as a donation from an individual.

9.5 Payroll Giving

Payroll Giving is a scheme that enables employees to give to any UK charity straight from their gross salary (before tax is deducted) and to receive immediate tax relief of up to £4 for every £10 donated. It is a tax effective way for an employee to give a regular or one-off amount direct from their salary to charity.

Unlike Gift Aid, all the tax relief is given to the donor. The donation is simply a pre-tax deduction, reducing the amount of income tax taken from the donor's pay. This means that the donor gets immediate tax relief at their highest rate of tax.

From an employer's perspective, there is barely any cost or administrative resource incurred in setting up a scheme. Administration costs are deductible from their profits for tax purposes. Payroll Giving is a great way for businesses, through the new Quality Mark scheme, to demonstrate commitment to the causes that their employees care about.

9.6 Share Giving

When donors give or sell shares to a charity they can get substantial relief on their income tax bill as well as exemption from capital gains tax on any gains they may have made on the shares. As with Payroll Giving all the tax relief goes to the donor. It is the donor's responsibility to keep adequate records to enable them to claim their tax relief they are entitled to. Donors should claim their tax relief by completing the appropriate section of their tax return.

10. Financial Viability of the Scheme

Given the uncertainties at this stage of how the scheme might operate, particularly in relation to the points outlined in sections 6.1 and 7, and the limited market research completed to date, it is not possible to predict accurately whether the scheme is financially viable. However, it is possible to model a simple scheme in basic terms, based on a number of assumptions, and so establish what level of support would be required as a minimum in order to support the scheme.

Appendix 2 shows the model used, with one set of assumptions made. This version of the model assumes that one large organisation signs up, but for a trial scheme including 200 of its staff, along with 20 SMEs and 200 individuals. Half the individuals are assumed to make donations under Gift Aid, and 30% of the SMEs are assumed to donate the gross amount before tax relief. The combination of these two tax benefits has been used as the management payment for the scheme. The model assumes that £50 per tonne of CO_2 is viable.

The outputs of the model are:

Total grant raised per year	£106,087
Annual management fee	£29,670
Total CO_2 "offset"	2122 tonnes

Clearly at this level the scheme would produce a useful amount of capital support, as well as a significant management fee in the order of sufficient to fund a full time member of staff within an existing organisation.

11. Workshop Results

A workshop was held on the 8th of March 2007 in the Gwalia, Llandrindod Wells. Representatives from Powys County Council plus a few other interested organisations and individuals attended. The workshop commenced with a presentation of the contents and conclusions of the draft business plan, followed by an open discussion and ending with recommendations for taking the concept forward.

A number of points arose during the discussion:

Powys County Council are in the process of negotiating a reduction in the mileage rate offered to employees for use of their own cars for business travel. It was agreed that this was therefore an ideal time to make a firm proposal to the council, as there was a possibility of making a commitment to contribute to the scheme without an immediate increase in the travel budget. Possible savings from the reduction in rates would be reduced, but this was seen as more palatable than an actual increase.

It was agreed that it would be much easier to get the scheme off the ground if Powys County Council were contributing, although it would not necessarily be impossible without them.

It was agreed that it would be easiest, both for Powys County Council and for administration of the scheme, to start with a pilot project in one part of Powys. Given the existence of EcoDyfi and Llanidloes Energy Solutions, both with active environmentally concerned members, it was suggested that a pilot project covering one or both of these areas would be an appropriate place to start.

It was also noted that Marches Energy Agency are operating a carbon offsetting scheme in the West Midlands (Project Carbon) and might be willing to extend their existing scheme across the border into Powys.

The general principle of developing a scheme as described above was generally approved.

12. Conclusions and Recommendations

The broad conclusions of the study are:

- It would be possible to set up and operate a carbon offsetting scheme at a local scale (Powys or Mid Wales), and for the scheme to be entirely self financing in the medium to long term.
- If the scheme were to support a wide range of local energy technologies, the resulting high price per tonne of CO_2 would be a potential barrier to success.
- To be successful, such a scheme would have to offer something better than most existing schemes.
- The best solution would be to develop a scheme that is first and foremost a travel planning and carbon budgeting tool, with offsetting appearing very much as a secondary element to mitigate the remaining travel carbon.

Recommendations for further action are:

- That Powys County Council be formally approached to establish the likelihood of their contributing to the scheme for some or all of their employees.
- That Glasu act as secretariat for the group of interested parties that has arisen, to ensure that information is shared and that the impetus for developing a scheme does not fade.
- That Glasu consider funding further work to develop a scheme in detail, and/or to run a pilot scheme.
- That organisations be sought who might be interested in developing and operating the scheme.