BRIEFING FOR THE HOUSE OF COMMONS ENERGY AND CLIMATE CHANGE COMMITTEE

MARCH 2012

Department of Energy and Climate Change

The CRC Energy Efficiency Scheme

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Summary

1 This briefing was prepared by the National Audit Office in response to a request from the Energy and Climate Change Committee for an independent overview of the development and implementation of the CRC Energy Efficiency Scheme (the Scheme). The Government has made a number of revisions to the Scheme since it was launched in April 2010, and in March 2012 published a consultation on proposals for further changes. This briefing provides an overview of the development of the Scheme and results achieved to date, to provide the Committee with context for its assessment of the proposals set out in the consultation document.

Overview of the Scheme

2 In 2010-11, large non-energy intensive organisations emitted 62 million tonnes of carbon dioxide, or around 10 per cent of the UK's total carbon dioxide emissions. The aim of the CRC Energy Efficiency Scheme is to improve the management of these emissions in order to help the Government meet its legally-binding targets to reduce emissions of carbon dioxide and other greenhouse gases to at least 34 per cent below 1990 levels by 2020, and to 80 per cent below 1990 levels by 2050. The Scheme is designed to complement the EU Emissions Trading System and Climate Change Agreements, which cover energy-intensive businesses, by targeting the emissions of large businesses and public sector bodies that are not covered by these other Schemes.

3 The Scheme requires large non-energy intensive organisations to measure and report their carbon dioxide emissions and purchase allowances issued by the Government for each tonne of carbon dioxide they emit. The Government considers that these measures will improve participants' awareness of their energy use data and increase the financial incentive to invest in energy efficiency. The Scheme also includes reporting in published league tables on participants' energy efficiency and emissions reduction with the aim of creating a reputational impact to encourage them to improve their performance.

4 For the purpose of the Scheme, the Department defined large non-energy intensive businesses as all organisations or groups of organisations that used more than 6,000 megawatt hours of electricity during 2008, as measured by their half-hourly electricity meters.[1] All organisations meeting these criteria and all UK Government departments were required to register for the Scheme by 30 September 2010. As at March 2012, there were some 2,750 registered participants, which include individual organisations as well as participants that are required to participate in group structures.

5 The first year of the Scheme, which ran from April 2010 to 31st March 2011, was a reporting only year in which participants had to report their emissions but did not have to purchase allowances. The first sale of allowances, for emissions during 2011-12, is provisionally scheduled to take place in June and July 2012, at a fixed price of £12 per tonne of carbon dioxide emitted. Participants will thereafter be allowed to buy or sell allowances on secondary markets. There will initially be no limit on the number of allowances sold, but under initial plans the number of allowances sold each year will be capped from April 2014 and allocated by auction. The Government is considering removing the cap on allowances as part of its proposals to simplify the Scheme.

6 Around 650 of the 2,750 registered participants have companies with more than 25 per cent of their emissions covered by Climate Change Agreements and are entitled to claim an exemption that means they do not have to annually report and surrender allowances for those specific companies and, if the remaining supplies are less than 1,000 megawatt hours, its entire organisation. Organisations that have less than 25 per cent of their emissions covered by Climate Change Agreements will not have to purchase allowances for those emissions that are covered by these agreements. Emissions from fuels burnt in installations covered by the EU Emissions Trading System are also excluded from the Scheme.

7 The concept for a UK emissions trading scheme was first put forward in 2005. The rationale was that large non-energy intensive organisations had significant potential to achieve cost-effective reductions in carbon dioxide emissions, but organisational structures, a lack of effective energy measurement or management and inertia created barriers to investment in energy efficiency. Following a series of consultations on options, the Scheme was launched in the UK in April 2010 under powers established in the Climate Change Act 2008, which made provision for the Secretary of State for Energy and Climate Change and the relevant authorities in Wales, Scotland and Northern Ireland to establish trading schemes designed to limit greenhouse gas emissions or encourage activities that reduce them.

[1] Half hourly meters automatically register electricity consumption every thirty minutes, and the Scheme covers all organisations owning half-hourly electricity meters settled on the half-hourly market that during 2008 consumed more than 6,000 megawatt-hours of half-hourly metered electricity or "dynamic supplies" (unmetered supplies which use a specific technique to calculate half hourly electricity consumption).

8 The Department of Energy and Climate Change (the Department) is responsible for the overall policy design of the Scheme and the Environment Agency (the Agency) administers the Scheme across the UK. Enforcement in relation to any non-compliance is undertaken by the Agency as the regulator in England and Wales and by the Agency's counterparts in Scotland and Northern Ireland. The Department funded the Agency's spending on establishing the Scheme and covers its on-going enforcement costs. All other costs incurred by the Agency and other regulators are recovered from Scheme participants.

9 The Scheme has undergone a number of changes since it was launched in April 2010. The most significant was the decision taken in October 2010 that proceeds from allowance sales would not be redistributed to participants according to their ranking in the performance league table, but would instead be retained by the Government. This decision means that the cost to Government of administering the Scheme will be far outweighed by proceeds from allowance sales, which are likely to exceed £700 million in 2011-12. Other changes included the decision to remove the requirement for organisations with half-hourly meters settled on the half hourly market that consumed less than the 6,000 megawatt hours threshold to report on their half-hourly electricity consumption at the start of each phase. The Department also delayed the first sale for allowances from 2011 to 2012 and extended the first phase of the Scheme by one year to March 2014. In March 2012, the Department published a consultation on proposals for further changes aimed at simplifying the Scheme.

10 The Department estimates that the Scheme as currently designed will incentivise participants to implement cost-effective energy efficiency measures that result in energy savings valued at £4 billion and avoid 32 million tonnes of carbon dioxide emissions over the next two decades, thereby achieving a net discounted economic benefit of £4.9 billion over the period to 2030. This is equivalent to each registered participant saving, on average, a discounted saving of £2.2 million in their energy bills over the period. The Government's preferred option for simplifying the Scheme is designed to reduce administrative costs by £337 million (discounted) up to 2030, from £534 million to £197 million. The Department's estimate of the effect of simplifications suggests that the impact on energy use and carbon savings will be marginal.

Key findings and risks

Compliance

11 **The Agency undertook a range of checks to ensure that all qualifying organisations registered for the Scheme.** The Agency used data on half-hourly electricity meters that it collected from energy suppliers and checks on group structures, exemption claims and organisations reporting that they were just under the threshold to confirm registration of organisations that appeared to qualify for the Scheme.

12 **Some 42 per cent of organisations participating in the Scheme had errors in their registrations**. The main errors were the omission of parts of groups of companies that were covered by the Scheme. The Agency believes this partly reflects aspects of the Scheme which some participants have found complex, particularly the way in which organisational boundaries are defined.

13 **It is too early to assess the effectiveness of the Agency's approach to ensuring emissions are accurately reported.** The Agency is at an early stage of auditing compliance with reporting requirements. The CRC Energy Efficiency Scheme order 2010 (the legislation underpinning the implementation of the Scheme) provides for a civil penalty to be imposed where there is an error of more than five per cent of reported supplies or emissions, which is the same level of materiality used to verify emissions reported under the EU Emissions Trading System. In contrast to participants in the EU Emissions Trading System, participants in the Scheme are not required to have their emissions independently verified by an accredited verifier, although participants are required to carry out a regular audit of their records.

Benefits realisation

14 **The Department's estimate of the economic benefits of the Scheme is subject to inherent uncertainty.** The Department estimates that over the next two decades, the Scheme will deliver economic benefits with a net present value of £4.9 billion. This is dependent on a number of important assumptions, including future energy prices, which are difficult to predict, and the impact of the Scheme on the take up of energy efficiency measures, for which there is no supporting evidence. Lower take up of energy efficiency measures or lower energy prices would significantly reduce the benefits, and the uncertainties in the Department's modelling increase the importance of having a robust approach to monitoring and evaluation.

15 **The data the Department will need to inform its assessment of the impact of the Scheme on carbon emissions will not be available until October 2012**. Before launching the Scheme in 2010, the Department estimated that during the first year, in which organisations must report their emissions but do not have to purchase allowances, the Scheme would save 46,335 tonnes in carbon dioxide emissions and that it would save 291,886 tonnes in the second year. The Department has baseline data for 2010-11 against which to compare participants' performance in subsequent years.

16 Current economic conditions could create barriers to investment that are not addressed by the Scheme. The Scheme increases the cost of carbon by requiring participants to purchase allowances for each tonne of carbon dioxide that they emit, and so provides an incentive to manage that cost. The Scheme was not designed to address the impact of funding constraints on decisions to invest in energy efficiency and the potential impact of such constraints on the achievement of the intended benefits of the Scheme is uncertain.

17 The Department is developing an evaluation strategy. In order to manage the risk of the Scheme failing to deliver the planned reduction in carbon dioxide emissions, which could have an impact on the achievement of legally-binding emissions reduction targets, it will be important for the Department to measure its impact over time. The Scheme itself provides information on participants' energy use. In order to inform decisions on whether the Scheme is working as intended or whether changes are needed, the Department's evaluation strategy will need to separate the impacts of the Scheme from other factors such as wider economic conditions or the impact of other policies.

Costs

18 The Scheme was originally designed to deliver a net financial benefit for private sector participants, but the removal of revenue recycling means that for this sector it represents a net cost. The Department estimates that although the Scheme will deliver a net benefit for the UK economy as a whole, the decision not to redistribute proceeds from allowance sales means that it will impose a net cost to the private sector, which without further simplifications will total £5.75 billion (discounted) over the next two decades. Despite identifying the redistribution of revenue to participants as having an important impact on investment in energy efficiency, the Department has not assessed the impact of removing revenue recycling from the Scheme. Similarly, the Department has not assessed the impact the Scheme will have on participants' competitiveness with organisations that are not covered by the Scheme now that it imposes a net cost to business.

19 A key challenge for the Department is to weigh up the need for incremental change in the Scheme design with the risk of creating instability and nugatory spend. Government policy on this Scheme has been in development since 2006, and the current consultation is only the latest in a series of consultations on the Scheme since it was launched. Based on experience to date, on-going instability in the design of the Scheme will create costs that could be avoided.

20 Administrative costs for participants have been considerably greater than the Department expected, and it is therefore taking steps to reduce them. The Department estimates that without simplifications to the Scheme, the discounted cost of participant administration across the private and public sector will be £534 million over the next two decades. This is based on a survey of participants carried out in 2011, which suggested that the first year of the Scheme cost participants on average between £30,000 and £36,000. This compares to the assumption the Department made in its 2010 Impact Assessment that it would cost between £7,000 and £29,000.

The Department believes that it can reduce compliance costs by up to £337 million over the next two decades, for example by removing the requirement for participants to submit a footprint report showing those energy supplies that are covered by the Scheme, which to date has made up an estimated 21 per cent of total administration cost (before accounting for the costs of trading and auctioning).

21 The Agency collected a surplus of £1.8 million in fees from participants during the first year of the Scheme. The Agency recovers its core administration costs from participants. In 2010-11, it collected £5.4 million, but spent only £3.6 million, giving it a surplus of £1.8 million. It retained the difference to support on-going operating costs, which in 2011-12 included the cost of the Agency's registration audit activities. In 2011-12 it estimates that it will collect £1.6 million from participants. The Agency plans to review its future charging levels and the most appropriate use of the remaining surplus once it is clearer what the impact of simplifications will be on chargeable activities within the Scheme.

22 There is scope to improve the Department's management of its funding of the Agency. The Department estimates that since October 2008 it has spent £10.3 million on the Scheme (including forecast spend for the 2011-12 financial year), of which £7.4 was paid as grant to the Agency to cover its spending on establishing the Scheme and enforcement costs. The Department did not finalise a budget for the Agency's spend on the Scheme in 2011-12 until November 2011, seven months after the start of the year, and so did not have an agreed baseline against which to monitor the Agency's spending on activities funded by the Department. The Agency provided the Department with monthly progress reports. The Department is required to include income from general administration charges to participants in its Resource Accounts and the income from the sale of allowances in its Trust Statement, and therefore needs assurance over its receipts.

23 If mandatory greenhouse gas reporting is introduced, it could potentially lead to duplication in emissions reporting. Under the Climate Change Act 2008, the Government must introduce by April 2012 regulation to make it mandatory under the Companies Act for the director's report of certain UK companies to include information on their greenhouse gas emissions, or lay a report before Parliament explaining why it has not done so. In July 2011, the Department launched a consultation on whether these disclosure requirements should be made statutory, which considered the options of encouraging voluntary reporting or making it mandatory for organisations that are quoted, defined as large under the Companies Act or that meet the threshold for qualification under the Scheme. If the regulation is introduced, it would require some organisations to report their carbon emissions under both the Scheme and mandatory reporting requirements. The impact would be reduced if, as proposed in one of the options put forward, the emissions reported in the director's report could follow the same reporting criteria as the Scheme.

Part One

Scheme aim and design

1.1 The CRC Energy Efficiency Scheme was introduced to help the Government meet its targets to reduce the UK's emissions of carbon dioxide and other greenhouse gases. This part of the report describes why the Government decided that intervention was necessary, and the scope and design of the Scheme.

The aim of the scheme

1.2 The Government has a legally-binding target, established in the Climate Change Act 2008, to reduce emissions of carbon dioxide and other greenhouse gases to at least 34 per cent below 1990 levels by 2020, and to 80 per cent below 1990 levels by 2050. The CRC Energy Efficiency Scheme is an emissions trading scheme that aims to help the Government cost-effectively achieve these targets by incentivising large non-energy intensive businesses, which account for around 10 per cent of the UK's total carbon emissions, to improve their energy efficiency.

1.3 The rationale for introducing the Scheme was that large non-energy intensive organisations had the potential to achieve significant cost-effective reductions in carbon emissions, but organisational structures, a lack of understanding of current energy use and opportunities for savings and inertia created barriers to investment in energy efficiency.[2] The concept for an emissions trading scheme targeting large non-energy intensive business and public sector bodies was first put forward by the Carbon Trust in 2005. The Government subsequently published a consultation in 2006 on this and an alternative option of introducing a system of voluntary benchmarking and reporting in order to reduce carbon emissions from large non-energy intensive organisations. Following a series of further consultations,[3] the Carbon Reduction Commitment, which was subsequently renamed the CRC Energy Efficiency Scheme, was launched in April 2010.

[2] Department for Environment, Food and Rural Affairs, *Consultation on measures to reduce carbon emissions in the large non-energy intensive business and public sectors*, November 2006. http://www.decc.gov.uk/assets/decc/what%20we%20do/a%20low%20carbon%20uk/crc/policy/epc-consultation.pdf

[3] The full set of consultation documents are available at http://www.decc.gov.uk/en/content/cms/emissions/crc_efficiency/policy/policy.aspx

The structure of the scheme

1.4 The Scheme requires large non-energy intensive organisations to measure and report on their carbon emissions and purchase allowances from the Government for each tonne of carbon dioxide they emit. The monitoring and reporting requirement is designed to improve organisational awareness of energy use and carbon emissions. The purchase of allowances puts a cost on carbon emissions and should therefore encourage participants to invest in energy efficiency. The first annual sale of allowances for emissions in 2011-12, is likely to be held in June and July 2012. Participants will be required to purchase allowances from the Government for each tonne of carbon dioxide they emit, initially at a fixed price of £12 for each allowance. The exact timing of the sale will be determined by Allocation Regulations, laid by HM Treasury under the Finance Act, which as at mid-March 2012 were in draft. Initially there will be no cap on the number of allowances that can be purchased, but under initial plans, from April 2014 the Government will issue a fixed number of allowances through annual auctions, which will set a cap on emissions.

1.5 Under allowance trading, participants can comply by reducing their emissions through energy efficiency measures or switching to lower carbon fuels. Alternatively, participants can purchase more allowances that give them the right to emit. Allowances can be purchased from Government in annual sales or in secondary markets, so in principle, participants who face higher emissions abatement costs can purchase excess allowances held by participants with lower abatement costs, who have reduced their emissions.

1.6 Another key element of the Scheme is annual reporting of performance by the Environment Agency in published league tables, which is intended to provide a reputational incentive for participants' to improve their energy efficiency. The first league table, published in November 2011, ranked participants based on their progress in taking early action to improve energy efficiency. In future years, the league tables will also take account of participants' performance in reducing their emissions. Under the original design of the Scheme, proceeds from the sale of allowances were to be redistributed to participants according to their ranking. In October 2010, the Government announced that sale proceeds would not be redistributed to participants but would instead be paid into the Consolidated Fund.

Administrative arrangements

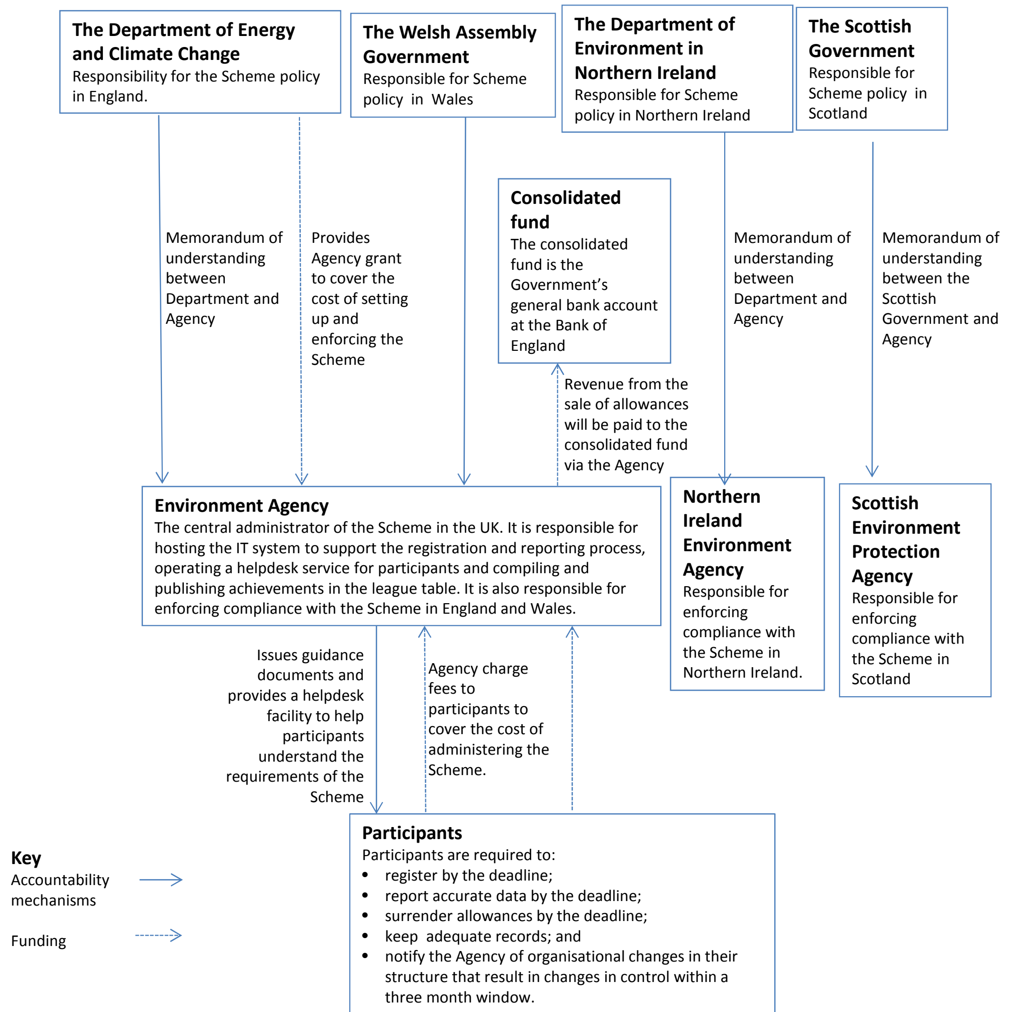
1.7 The Scheme was established under powers set out the in the Climate Change Act 2008, which made provision for the Secretary of State for Energy and Climate Change and the relevant authorities in Wales, Scotland and Northern Ireland to establish trading schemes designed to limit greenhouse gas emissions or encourage activities that reduce them. The Agency is responsible for administering the Scheme in the UK and enforcing compliance in England and Wales. Enforcement of the Scheme is carried out by the Scottish Environment Protection Agency in Scotland and by the Northern Ireland Environment Agency in Northern Ireland (**Figure 1**).

1.8 The Scheme is designed to cover emissions from large, non-energy intensive businesses and public sector bodies that are not already covered by the EU Emissions Trading System or Climate Change Agreements. For the purpose of the Scheme, the Department defined large non-energy intensive businesses as all organisations owning electricity meters settled on the half-hourly market that during 2008 consumed more than 6,000 megawatt-hours of half-hourly metered electricity or dynamic supplies (unmetered supplies which use a specific technique to calculate half hourly electricity consumption). All private sector organisations meeting this criterion were legally obliged to register for the Scheme by September 2010. All UK Government departments, including those that did not meet the qualifying criteria, were also required to register.

1.9 Participants are required to register as groups or as individual entities and to report under their top parent company, or if they meet the qualification criteria in their own right, they can participate as individual entities. Where the parent company is based overseas, it must nominate a UK-based member of the group, or if no such organisation exists, a UK based representative, to buy and sell allowances on behalf of the group or entity. Some participants are also covered by Climate Change Agreements and the EU Emissions Trading System, which specifically target energy intensive businesses. These participants do not need to annually report and surrender allowances for emissions covered by Climate Change Agreements or for fuels burnt in installations covered by the EU Emissions Trading System. In addition, companies with more than 25 per cent of their emissions covered by Climate Change Agreements are entitled to claim an exemption that means they do not have to annually report and surrender allowances for those specific companies and, if the remaining supplies are less than 1,000 megawatt hours, its entire organisation.

Figure 1

Administrative arrangements for the Scheme



NOTES

1. The Department of Energy and Climate Change became responsible for the Scheme when it was formed in October 2008. Prior to that, the policy was the responsibility of the Department for Environment, Food and Rural Affairs.
2. Delivery of the Scheme is overseen by a Project Board, which includes representatives from the Department, the Scottish Government, Welsh Assembly Government, the Department of Environment in Northern Ireland and the Environment Agency. The Board's role is to provide oversight of the Scheme and monitor delivery.

Source: National Audit Office

1.10 The Scheme has seven separate phases. The first lasts four years and is followed by a further five phases which each last six years and a final phase ending in March 2043, which lasts five years. Each phase is divided into a:

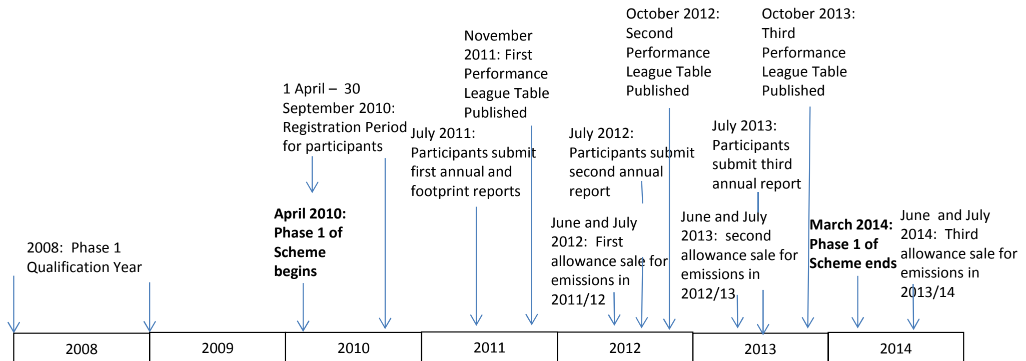
- qualification period, where organisations must assess whether or not they must participate in the Scheme;
- a registration period, where qualifying organisations must register with the administrator of the Scheme; and
- a 'footprint year' occurring at the start of each phase, where participants must submit a footprint report showing those energy supplies that are covered by the Scheme and demonstrate compliance with a statutory requirement[4] for participants to ensure that 90 per cent of their energy supply is regulated under the EU Emissions Trading System, Climate Change Agreements or the Scheme; and
- a number of compliance years in which participants must submit an annual report showing their emissions for the reporting period and buy allowances to cover these emissions (**Figure 2**).

1.11 Participants have to report their self-certified emissions and must also maintain 'evidence packs', to allow the Scheme regulator to audit their submissions. The evidence pack must contain an "audit certificate", signed by a person with management control of the organisation's activities, showing that either the participant or an external body has carried out an audit of their records. However, in contrast to participants in the EU Emissions Trading System, participants in the Scheme are not required to have their emissions independently verified by an accredited verifier. The CRC Energy Efficiency Scheme Order 2010 (the legislation underpinning the implementation of the Scheme) provides for financial penalties to be imposed against organisations that do not comply with the Scheme, including failure to register, report or surrender sufficient allowances. Financial penalties of up to £45,000 can be imposed on participants who fail to register or submit an annual or footprint report by the reporting deadline (and up to £90,000 if the organisation fails to submit both a footprint and annual report). An additional penalty of £40 per tonne of carbon dioxide emissions covered by the Scheme can be imposed on organisations that fail to submit annual reports after 40 days of the reporting deadline. The Order also provides for a civil penalty to be imposed where there is an error of more than five per cent of reported supplies or emissions.

[4] The requirement for participants to ensure that 90 per cent of their emissions are covered by Climate Change Agreements, the EU Emissions Trading System or the Scheme is set out in the CRC Energy Efficiency Scheme Order 2010, http://www.legislation.gov.uk/uksi/2010/768/contents/made.

Figure 2

Key milestones in the first phase of the Scheme



NOTE

1. The timing of the sale of allowances in the first phase of the Scheme will be determined by Allocation Regulations, laid by HM Treasury under the Finance Act. At the time of this report, the statutory instrument was in draft and proposed holding allowance sales in June and July each year.
2. The Agency intends to publish the Performance League Table each October for the remainder of Phase one, although this is not a legislative deadline imposed by the CRC order.

Source: The National Audit Office

1.12 Organisations with half-hourly meters settled on the half hourly market that consumed less than the 6,000 megawatt hours threshold were required to make an information disclosure of their half-hourly electricity consumption during 2008, but they do not have to report on their emissions or purchase allowances. A total of 12,944 organisations below the qualification threshold registered information about their half hourly meters in 2010-11.

Changes that have already been made to the Scheme

1.13 The Scheme was launched with the intention that it would be simple for participants to administer. Since its launch, the Scheme has, however, attracted on-going criticism from participants for being too complex and imposing unnecessary burdens. The Department recognises many of these criticisms, and has taken steps to simplify the scheme. It has:

- postponed the sale of allowances for carbon emissions in 2011-12 from the 2010-11 compliance year to the 2011-12 compliance year, so that participants could purchase allowances based on their actual emissions for the year rather than forecasts.

- removed the requirement for organisations owning at least one half-hourly meter settled on the half-hourly market, but whose energy use was below the qualifying threshold, to submit data to the Agency on their half hourly electricity meters at the start of each phase.
- extended the introductory phase of the Scheme from March 2013 to March 2014 to enable consultation on further changes.

Proposals for further changes to the Scheme

1.14 In June 2011, the Department published a paper setting out a number of high level proposals for further changes to the Scheme. Following stakeholder engagement during 2011, it published a consultation paper in March 2012. Changes proposed by the Department to reduce compliance costs include:

- Holding two sales of fixed price allowances each year instead of an annual auction, with no cap on the number of allowances sold. Allowances would be sold at a lower price at the start of the year, and at a higher price at the end of the year.
- Allowing organisations to report emissions and surrender allowances in 'natural business units.' The Department has proposed allowing parent companies the freedom to choose how to organise subsidiaries into subgroups for compliance purposes, providing that mutual agreement is indicated by all parties.
- Ending the requirement for organisations to submit footprint reports at the start of each phase.
- Reducing the number of the fuels covered by the Scheme from 29 to four (electricity, gas, and where used for heating, kerosene and diesel). The Department's analysis shows that other fuels that are currently included, such as petrol and liquid petroleum gas, account for 2.2 million tonnes (4 per cent) of emissions covered by the Scheme.
- Simplifying qualification rules so that organisations only need to measure their consumption of energy through half hourly meters that are settled on half-hourly market[5] rather than all half-hourly meters. This should remove the risk of the Scheme discouraging organisations from installing smart meters that provide half hourly readings but are not settled on half hourly markets.

[5] A settled half hourly meter is able to measure electricity supplied at least every half hour and is used by electricity generators, suppliers, distributors and transmitters to calculate the balance or imbalance between electricity consumed and electricity supplied.

- Reducing overlap with other schemes by allowing organisations to exclude all emissions from facilities that are covered by the EU Emissions Trading System or Climate Change Agreements for qualification purposes. This would remove the need to exempt organisations with more than 25 per cent of their emissions covered by Climate Change Agreements from reporting requirements.
- Applying automatic re-registration for organisations whose details remain unchanged, rather than requiring them to undertake the full registration process at the start of each phase.

1.15 The Department believes that although these changes would reduce the number of participants covered by the Scheme by 37 per cent, to 1,735, emissions of carbon dioxide covered by the Scheme would increase by around seven per cent, or 2.2 million tonnes. This is because changing the qualification threshold to only include settled meters would remove smaller organisations from the Scheme and removing the reporting exemption for organisations with more than 25 per cent of their emissions covered by Climate Change Agreements would mean that some emissions from existing participants would be brought back into the Scheme. In the remainder of this briefing, we examine the costs and benefits of the Scheme as currently designed (Part Two), and achievements to date (Part Three), to provide context for the Department's proposed simplifications.

Part Two

The costs and benefits of the Scheme

2.1 The Department's latest estimate, published in March 2012, is that over the next two decades, the Scheme will deliver a net economic benefit of £4.9 billion. In this part of the report, we examine the evidence underpinning this estimate.

Estimated net benefit

2.2 The Department has identified three main benefits of the Scheme, the largest of which, in economic terms, is a discounted saving of £4 billion in energy over the next 20 years through improved energy efficiency (**Figure 3**). The most significant cost, totalling £534 million, is complying with the administrative requirements of the Scheme. The simplification proposals put forward by the Department in its March 2012 consultation are designed to reduce total administration costs over the next two decades by £337 million, to £197 million.

Figure 3

The Department's estimates of the costs and benefits 2011-2030 (discounted to 2011)

Benefits	**£ millions**
Energy savings	4,064
Reduced emissions	1,258
Air Quality Benefits	419
Total benefits	**5,741**
Administration	(534)
Capital investment	(267)
Total costs	**(801)**
Net Benefits	**4,940**

NOTE

1. Discounted at 3.5 per cent, 2011 prices

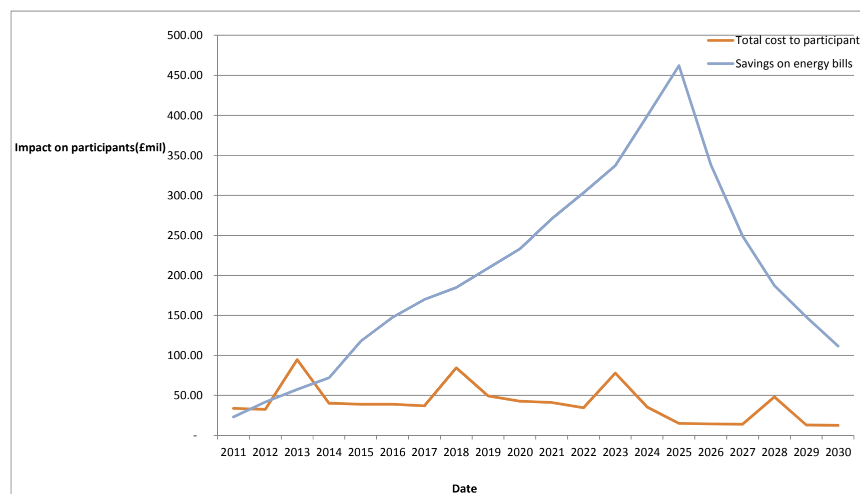
Source: Department of Energy and Climate Change

2.3 The Department's estimate that the Scheme will deliver a net benefit of £4.9 billion is 29 per cent higher than the £3.8 billion that was estimated in its January 2010 Impact Assessment, which was published just before the Scheme started. These estimates are not, however, directly comparable. The 2010 Impact Assessment assumed that the Scheme would last for 15 years, measured capital and administrative costs over a 15 year period and benefits over a 24 year period. The latest Impact Assessment assumes the Scheme will last for 14 years, measures administrative costs and benefits over a 20 year period and capital costs over a 14 year period. Neither Impact Assessment provides an explanation of why these time periods have been used, or why administration costs have been measured over 20 years and not the 14 year life of the Scheme.

2.4 Our analysis of the Impact Assessment shows that under the current Scheme design, the Department's estimate of the financial cost to participants of administration and capital investment in energy efficiency measures will exceed savings in energy bills during the initial years, but after 2013 savings will start to exceed costs. The cost peaks shown in **Figure 4** reflect the additional administrative costs to participants of preparing for each new Phase. For the purposes of modelling the impacts, the Department assumed that the Scheme would end in 2025 and that the benefits would therefore decline in subsequent years.

Figure 4

Costs and benefits to scheme participants, 2011-2030 (discounted to 2011)



NOTE

1. Discounted at 3.5 per cent, 2011 prices

Source: National Audit Office analysis of the Department's March 2012 Impact Assessment

2.5 In the remainder of this part of the report, we examine the key assumptions underpinning the Department's estimates of the costs and benefits of the Scheme.

Reduced emissions

2.6 The overall aim of the Scheme is to help the Government meet its legally-binding targets to reduce emissions of carbon dioxide and other greenhouse gas emissions and improve the energy efficiency of the target sector. Participants in the Scheme reported that in 2010-11, they emitted a total of 61.2 million tonnes of carbon dioxide[6], which was 14 per cent higher than the estimate the Department made in 2010 that the Scheme would cover 53.6 million tonnes of emissions[7].

2.7 The Department's modelling uses abatement cost curves prepared in 2005 for the non-domestic sector and industrial sectors, which suggest that between 2010 and 2025, a maximum of 16 per cent of the total carbon dioxide emissions of the sector could be cost-effectively abated through a combination of technical interventions, such as high efficiency heating, and behavioural measures, such as turning off electrical equipment when it is not in use. The Department has not updated these to reflect new technologies or the actual cost of abatement, although the models do assume that the energy efficiency of measures that abate carbon improve in line with historic improvements in energy efficiency.

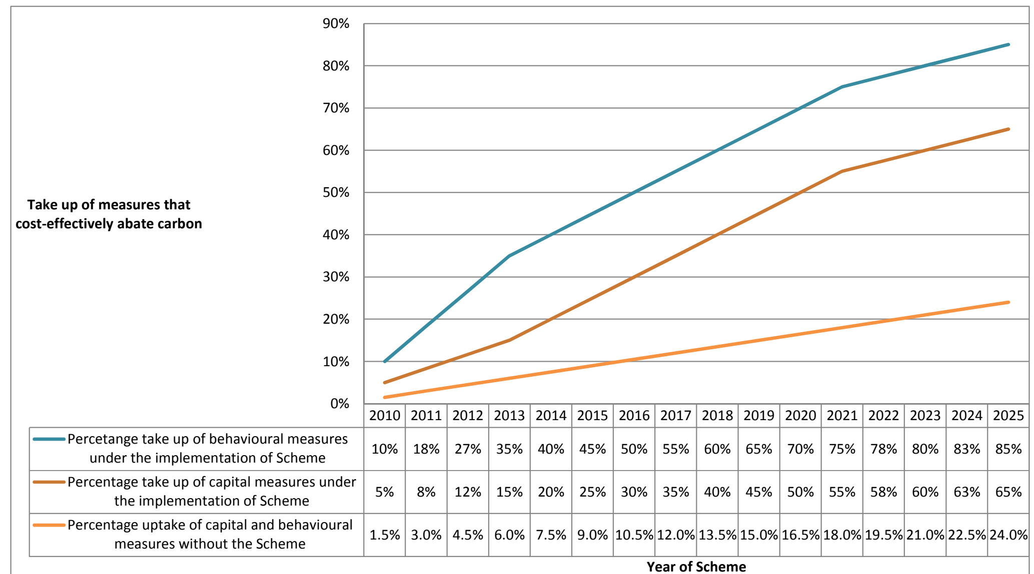
2.8 Forecasting the combined impact of the requirement to measure energy use, introducing allowance sales and the reputational impact of publishing league tables on investing in energy efficiency is extremely difficult. For the purpose of the model, the Department has assumed that over the first 15 years, the Scheme will increase the proportion of carbon emissions that can be cost effectively avoided through behavioural measures from 23 per cent to 83 per cent of the total potential from behavioural measures and for capital measures from 23 per cent to 63 per of the total for capital measures (**Figure 5**). The Department did not have access to supporting evidence on the likely impact of the scheme on take-up, and so it will need to put an evaluation strategy in place that will allow it to assess whether the Scheme is having the intended impact.

[6] The Department's recent Impact Assessment reported that the Scheme covered 61.6 million tonnes of carbon dioxide in 2010-11, whilst the league table reported that it covered 61.2 million tonnes of carbon dioxide. This is because the data used by the Department in its Impact Assessment was taken before the league table was published, and the Agency subsequently amended its estimate of the emissions coverage following checks on the data.

[7] The Department's 2010 Impact Assessment incorrectly quoted that the Scheme would cover 53.2 million tonnes of carbon dioxide. However, the model used by the Department in 2010 assumed that the Scheme would cover 53.6 million tonnes of carbon dioxide.

Figure 5

Department's estimate of the take up of cost-effective carbon abatement measures with and without the Scheme



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Percetange take up of behavioural measures under the implementation of Scheme	10%	18%	27%	35%	40%	45%	50%	55%	60%	65%	70%	75%	78%	80%	83%	85%
Percentage take up of capital measures under the implementation of Scheme	5%	8%	12%	15%	20%	25%	30%	35%	40%	45%	50%	55%	58%	60%	63%	65%
Percentage uptake of capital and behavioural measures without the Scheme	1.5%	3.0%	4.5%	6.0%	7.5%	9.0%	10.5%	12.0%	13.5%	15.0%	16.5%	18.0%	19.5%	21.0%	22.5%	24.0%

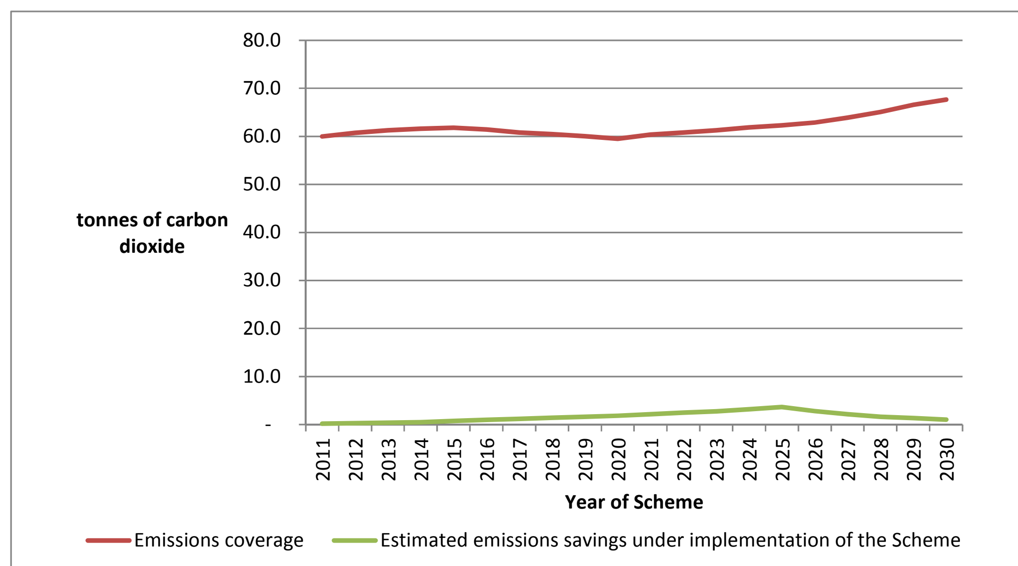
Source: National Audit Office Analysis of the Department's modelling

2.9 Based on these assumptions, the Department has estimated that the Scheme will save an annual average of 1.7 million tonnes of carbon dioxide emissions up to 2030, and a cumulative total of 32 million tonnes over the period. Our analysis of the Department’s data shows that over this period, this is equivalent to a 2.6 per cent reduction in total emissions among participants (**Figure 6** overleaf). The Department prepared these estimates by increasing the savings forecast in its 2010 modelling in proportion to the difference between the forecast and actual emissions covered by the Scheme. Its latest impact assessment also assumes an overall increase in emissions over time, whereas its earlier modelling assumed that overall emissions would remain constant.[8]

[8] The Department's future energy projections are based on assumptions made regarding future economic growth, fossil fuel prices, electricity generation costs, UK population and other key assumptions. They can be found on the Department website: http://www.decc.gov.uk/en/content/cms/about/ec_social_res/analytic_projs/en_emis_projs/en_emis_projs.aspx.

Figure 6

Total carbon emissions and forecast savings up to 2030 (million tonnes of carbon dioxide)



NOTE

1. For the purpose of its modelling, the Department assumed that the Scheme would end in 2025 and that the benefits would therefore decline in subsequent years.

Source: The Department of Energy and Climate Change data

2.10 The Department has estimated air quality benefits by increasing the estimate it made in its 2010 Impact Assessment by the percentage difference between the emissions coverage assumed in the 2010 impact assessment and the emissions reported by participants during the first year of the Scheme. The 2010 impact assessment calculated air quality benefits in line with guidelines for monetising air quality impacts that have since been updated. The Department has not updated its estimates to take account of this change

2.11 The benefits in the Department's Impact Assessment are very sensitive to changes in the take-up of energy efficiency measures. For example, if the take up of energy efficiency measures is 10 percentage points lower than it has assumed, the net present value of the Scheme would reduce by 40 per cent, to £2.9 billion. The Department's Impact Assessment and underlying analysis do not separate the impact of the requirement to purchase allowances from the reputational impact of publishing league tables. Nor does it show why the initial cost of allowances was set at £12, and the Department has not undertaken any sensitivity analysis of the impact of reducing or increasing the price. The Department identified in its 2010 Impact Assessment that redistributing proceeds from allowance sales to participants, based on their league table performance, would play an important part in incentivising take-up of energy

efficiency. The Department has not, however, assessed the impact of the decision not to redistribute proceeds to participants.

2.12 The Scheme is intended to incentivise investment in energy efficiency by increasing the cost of carbon emissions. It does not address the availability of funding or the opportunity cost of investing scarce management time in assessing options for achieving energy efficiency. These effects are extremely difficult to quantify, and the Department has not tried to model them.

2.13 Although the coverage of the Scheme is 14 per cent higher than assumed in the 2010 Impact Assessment, the energy savings are lower. This is because unlike in the 2010 Impact Assessment, the Department has removed the overlapping effects of other Government policies aimed at improving the energy efficiency of products and appliances, for example, through its policy of encouraging better labelling.

Savings in energy bills

2.14 The Department has estimated that increased take up of energy efficiency measures will deliver energy savings totalling £4 billion between 2011 and 2030. The Department calculated this using projected marginal fuel supply costs. The Department's modelling indicates that registered participants could expect an average saving on their energy bills of £2.2 million[9] over the period, based on the Department's projections of future market prices of fuel. Higher prices would lead to higher benefits because the savings are higher, and increase the incentive to invest in energy efficiency. These estimates are subject to significant uncertainty. The Department's analysis shows that lower energy prices could reduce the net benefit by 61 per cent. This suggests that the impact of a carbon price set at £12 for each tonne of carbon dioxide emitted, which in 2011 would have increased the retail price of electricity sold in the commercial sector by 4 per cent and gas by 7 per cent, may have a marginal effect on decisions to invest in energy efficiency relative to overall energy prices.

Cost to business

2.15 The largest cost to participants is the purchase of allowances. The Department did not treat this as a cost in its 2010 impact assessment on the basis that all proceeds would be redistributed to participants according to their league table performance, and so the net cost would be zero. However, the decision not to recycle revenue means that the purchase of allowances is now a net cost to participants, and this has fundamentally changed the financial impact of the scheme on participants. The Department's latest Impact Assessment excludes this cost on the basis that the cost to business of purchasing allowances creates an equivalent benefit for Government, and so the net impact on the UK economy as a whole is neutral. The Department has not assessed the impact of the Scheme having a net cost to business

[9] The average saving has been calculated across all 2,763 participants that are registered for the Scheme and includes participants that do not need to report or purchase allowances because of Climate Change Agreement exemptions.

participants' on their competitiveness with organisations that are not covered by the Scheme.

2.16 When the cost of allowances is taken into account, the Scheme has a net cost to business of £5.75 billion (**Figure 7**). In the first year of the Scheme, in which around 2,100 participants will be required to submit allowances, the net cost to business will be an estimated £738 million, or an average of £356,000 across the participants required to purchase allowances in 2011-12.

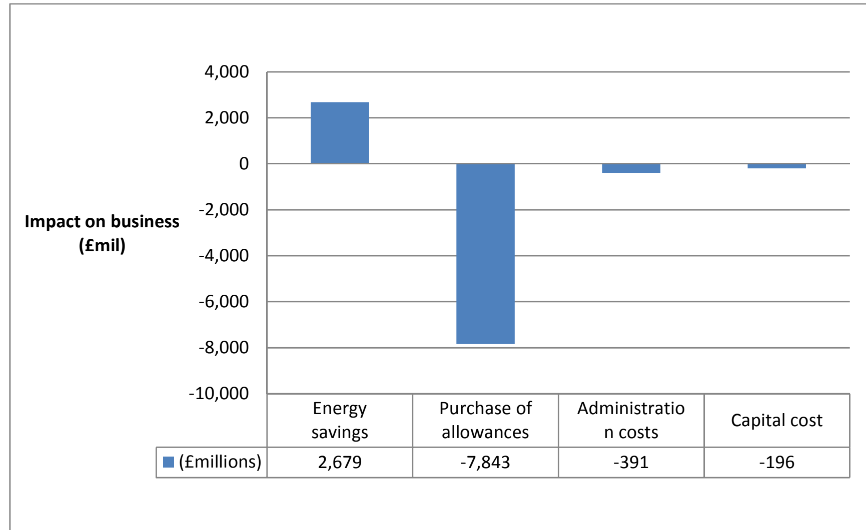
2.17 The Department estimates that without simplifications to the Scheme, the discounted cost of participant administration across the private and public sector will be £534 million over the next two decades. This is based on the results of a survey of participants carried out in 2011, which suggest that the first year of the Scheme cost participants on average between £30,000 and £36,000. This compares to the assumption the Department made in its 2010 Impact Assessment that it would cost between £7,000 and £29, 000. The Department's survey showed that participant costs are distributed across various administrative activities and include one-off costs, such as establishing a governance and compliance strategy and responding to consultation, and external costs such as consultancy advice (**Figure 8** overleaf). This does not include the administrative cost of participating in the auction and trading of allowances. The Department is aiming to achieve a significant reduction in compliance costs through the simplifications it has proposed in its March 2012 consultation.

Cost to government of administering the Scheme

2.18 The cost to the Department and Agency of running the Scheme is a small proportion of the overall cost of the Scheme. The Department's costs are limited to policy development and monitoring, and funding costs incurred by the Agency in setting up and enforcing the Scheme. All other costs incurred by the Agency have been recovered from participants by charging them an annual fee of £1,290, in addition to a one-off registration fee for the first phase of £950, that participants were required to pay when they first registered.

Figure 7

Total costs and benefits for business participating in the Scheme, 2011-2030 (2011 prices)



	Energy savings	Purchase of allowances	Administration costs	Capital cost
(£millions)	2,679	-7,843	-391	-196

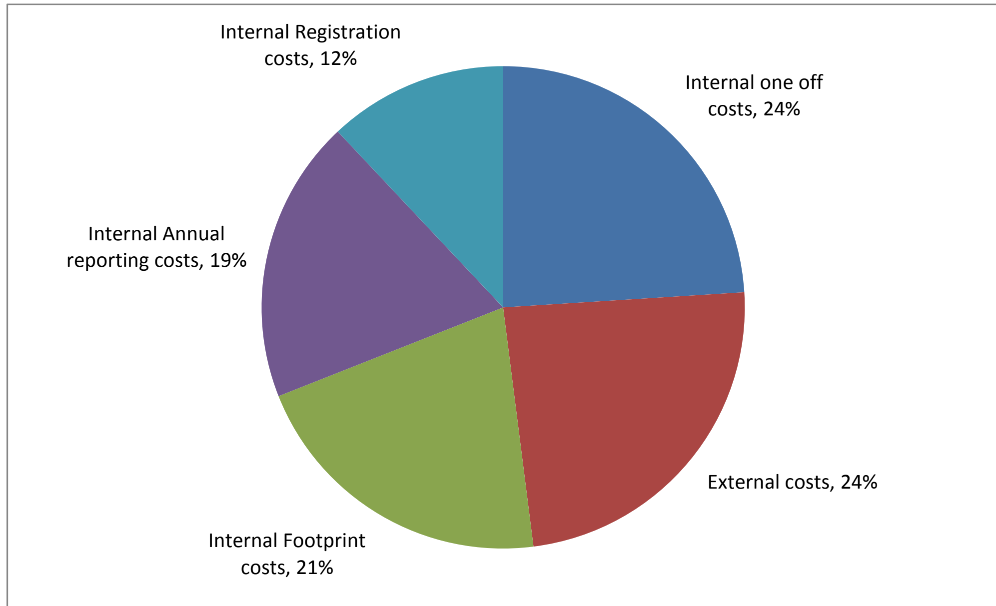
NOTES

1. Discounted at 3.5 per cent, 2011 prices.
2. The Department's calculations assume that allowance prices will be set at £12 for the first two years of the Scheme and £16 thereafter.
3. The figures have been adjusted to remove public bodies from the estimations.
4. Energy savings are calculated using the market prices of fuel.

Source: Department of Energy and Climate Change

Figure 8

Distribution of administrative costs to participants by activity



NOTE

1. External costs include one off costs, footprint costs, registration costs and annual reporting costs.

Source: Department of Energy and Climate Change

Part Three

Results to date

3.1 This part of the report examines the results achieved since the launch of the scheme in April 2010, covering compliance with registration and reporting requirements, the impact of the Scheme on energy efficiency and carbon emissions, and the actual cost of the Scheme to Government and business.

Compliance arrangements

3.2 Since the Scheme became operational in April 2010, the main compliance requirements for participants have been to register by 30 September 2010 and report on their carbon emissions by 29 July 2011. Organisations that do not comply with the Scheme can face financial penalties of up to £45,000 for failing to register or submit annual or footprint reports by the reporting deadline (and £90,000 where they fail to submit both footprint and annual reports). An additional penalty of £40 per tonne of carbon dioxide emissions covered by the Scheme can be imposed on organisations that fail to submit an annual report after 40 days of the reporting deadlines.

3.3 The Agency is responsible for monitoring compliance with the Scheme in England and Wales. To date, it has focused its strategy on helping participants comply with the Scheme by issuing guidance documents, maintaining a website page for the Scheme, providing a helpdesk service and contacting participants directly with updates and clarifications on Scheme requirements. The Agency has received a significant volume of enquires about the scheme, with the latest peak of 4,064 telephone enquiries and 1,598 email queries in July 2010, which was the deadline for submitting the first annual reports (**Figure 9** overleaf).

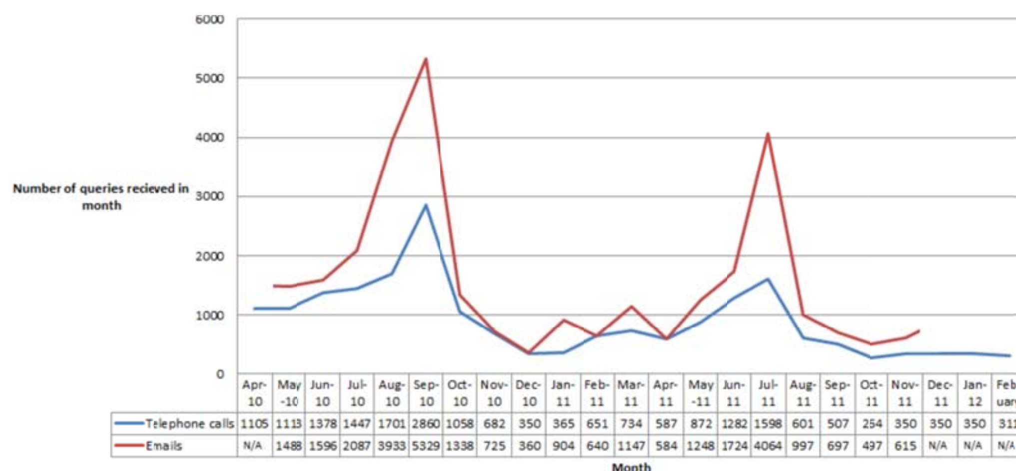
3.4 Surveys of participants carried out by the Agency in February 2011 and November 2011 show that 57 per cent of respondents were positive about the Agency's administration of the Scheme and more than 90 per cent considered the Agency to have demonstrated professionalism in its approach. The survey results also showed that the Agency could improve its overall support. The most commonly cited issues were that helpdesk staff lacked expertise or did not give the answers that were required or that the Agency's guidance or advice was sometimes inconsistent. The Agency has implemented a number of measures to improve the quality of its advice, and is consolidating its 32 main guidance documents (which had been published separately as policies were finalised) into one. The Agency is also exploring ways of improving performance against its target to respond to all e-mail enquiries within ten working days. Since launching the Scheme in April 2010, the Agency has met this target once, in December 2011, and has on average responded to 89 per cent of e-mail queries within 10 days.

3.5 The Agency and the other regulators have powers to take enforcement action where they find cases of non-compliance as follows:

- request participants to provide any information that they consider necessary to monitor compliance with the requirements of the scheme;
- enter and inspect premises and anything in or on those premises in order to monitor compliance with the Scheme;
- issue a notice requiring the participant to provide information in relation to a failure or suspected failure to comply with the Scheme;
- issue warning letters;
- publish details of non-compliance;

Figure 9

Volume of telephone and email enquiries about the Scheme received by the Agency's helpdesk



	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	February
Telephone calls	1105	1113	1378	1447	1701	2860	1058	682	350	365	651	734	587	872	1282	1598	601	507	254	350	350	350	311
Emails	N/A	1488	1596	2087	3933	5329	1338	725	360	904	640	1147	584	1248	1724	4064	997	697	497	615	N/A	N/A	N/A

NOTE

1. The number of queries received by the Agency since it started collecting data on email queries in April 2010 and telephone calls in May 2010. The Agency stopped monitoring the number of queries received from its email helpdesk in December 2011, due to the low volume of emails, but plans to re-introduce its monitoring before the next reporting window and sale of allowances, when it expects the volume to increase.

Source: Based on data supplied by the Agency

- impose civil penalties;
- issue enforcement notices requesting participants to take action to rectify their failure to comply, breach of which is a criminal offence; and
- when an annual report or footprint report is not provided 40 days after the deadline, the Environment Agency may determine the reports. In these instances there is provision in the CRC Order for civil penalties to be applied. These include a financial penalty of £45,000 and in the instance of annual reports, a financial penalty of £40 per tonne of carbon dioxide and doubling of a participants Scheme emissions for which allowances have to be surrendered.

The Government has issued statutory guidance to the Agency on enforcement for the Scheme.

3.6 In August 2011, the Agency established an Enforcement Panel, made up of senior staff from the Agency, which is charged with ensuring that its response to non-compliance with the Scheme is fair and consistently applied. The Panel considers all potential prosecutions or impositions of civil penalties, but does not consider every incident where the Agency takes some form of enforcement action. Organisations have the right to make an appeal against a civil penalty or enforcement notice. All appeals are made to the Secretary of State for Energy and Climate Change who appoints an independent person to hear the appeal and make recommendations before making a decision.

Registration

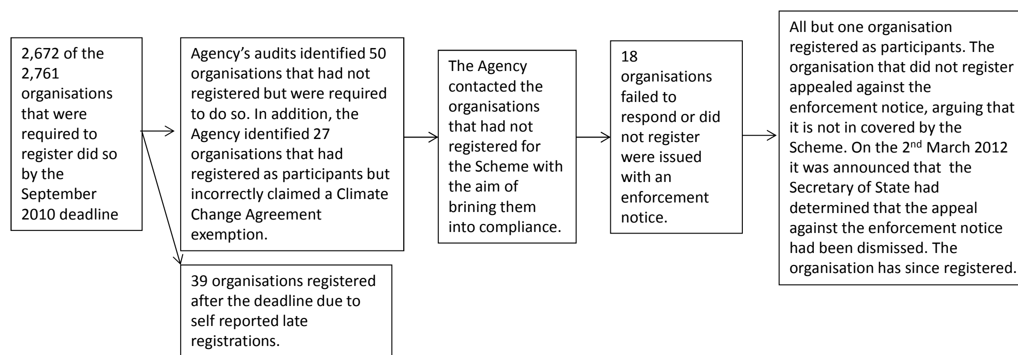
3.7 The Department estimated in its January 2010 impact assessment that 4,810 organisations would have to register for the Scheme, but the Agency adopted a lower number for planning purposes of 3,500 based on its experience of administering other schemes. At the time of writing this report, 2,767 participants had registered for the Scheme.

3.8 The Agency undertook a range of checks to ensure that all qualifying organisations registered for the Scheme. It compared data provided by electricity suppliers on all meters settled on the half hourly market through which they supplied electricity to identify meters that had not been declared during the registration process. The Agency's checks showed that most meters that had not been declared belonged to organisations whose energy use was below the qualifying threshold. The Agency also undertook checks on the ownership of meters and group structures and identified 50 participants that appeared to meet the qualifying criteria but had not registered. The Agency contacted these organisations to remind them of their obligation to register, and issued enforcement notices to 18 organisations that failed to respond, all of whom have now registered for the Scheme (**Figure 10** overleaf). The Agency's checks confirmed that most of the difference between the estimated and actual numbers registering was attributable to a higher than expected level of group registrations. In addition, the Agency identified 27 registered participants that had

incorrectly claimed a Climate Change Agreement exemption from reporting at the registration phase.

Figure 10

Enforcement action taken against organisations that did not register by the September 2010 deadline



NOTE

1. Since the registration deadline, the number of participants that are registered has increased to 2,767. This is due to organisational changes in group structure which have meant some organisations have since been required to register, or no longer qualify as participants, and accounts that have been closed, for example because the organisation has ceased trading and been dissolved.

Source: Agency data

3.9 In addition to checking the completeness of the registrations, the Agency also checked registrations to confirm that participants had correctly registered their group structure and included all of their half hourly electricity meters in their registration. The Agency found that 1,165 organisations (42 per cent of participants who are currently registered for the Scheme) had not registered correctly. The Agency believes this partly reflects aspects of the Scheme which some participants have found complex, particularly the way in which organisational boundaries are defined. The main risk associated with incorrect registrations is that part of a business group or some of an organisation's meters are omitted, so that emissions are underreported.

Reporting

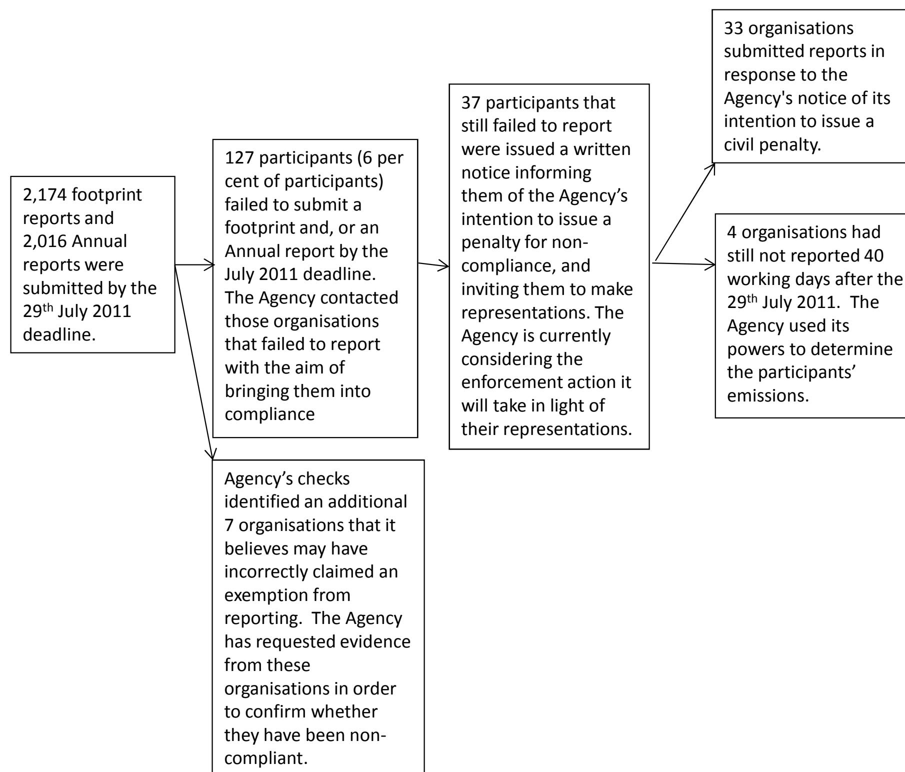
3.10 Accurate reporting on emissions is central to the effective operation of the Scheme as it determines how many allowances participants have to buy and their ranking in published league tables. The first reporting deadline was July 2011 when participants were required to submit a footprint report, for the purpose of demonstrating that at least 90 per cent of their emissions were covered by the EU Emissions Trading System, Climate Change Agreements or the CRC Energy

Efficiency Scheme. Participants were also required to submit an Annual Report showing their emissions for 2010-11. Of the 2,767 registered organisations, 647 are exempt from annual reporting requirement because at least 25 per cent of the emissions of the group are covered by Climate Change Agreements.

3.11 In total, 127 organisations (6 per cent of the organisations that were required to submit an annual report or footprint report) did not do so by the 29th July deadline. The Agency contacted these participants with the aim of bringing them into compliance and a further 90 participants submitted reports within a month of the deadline. The Agency issued notices of its intention to impose civil penalties to the remaining 37 participants and as a result, 33 organisations submitted their reports. The Agency used its powers to determine participants' emissions for the remaining four organisations. The Agency's checks at the reporting phase identified a further seven organisations that it believes may have incorrectly claimed an exemption from annual reporting, and it has requested additional evidence from these organisations to identify whether they were non-compliant (figure 11).

Figure 11

Enforcement action taken against participants that did not report by the deadline



Source: Agency data

3.12 It is too early to determine compliance with reporting requirements or the effectiveness of the Agency's approach. The Agency is using third party contractors to support compliance audits. As at February 2012, the Agency and its contractors had started compliance audits on 42 of the 2,174 participants that submitted a 2010-11 report by the deadline, but had not finalised the results. The Agency is adopting a risk based approach to selecting organisations for audit, and intends to carry out a full compliance audit on every participant by the end of phase one of the Scheme.

Energy Efficiency and carbon savings

3.13 The Scheme is designed to support the Government's legally-binding targets to reduce greenhouse gas emissions to 80 per cent of 1990 levels by 2050. If carbon savings achieved by participants fall short of this estimate, it could impact on the achievement of target. It will therefore be important for the Department to measure whether the Scheme is achieving its intended impacts.

3.14 Before launching the Scheme in 2010, the Department estimated that during its first year, the Scheme would save 46,335 tonnes of carbon dioxide and would save 291,886 tonnes in the second year. The Department has baseline data for 2010-11 which will allow it to measure changes in carbon emissions among participants. Data for 2011-12 should be available by October 2012.

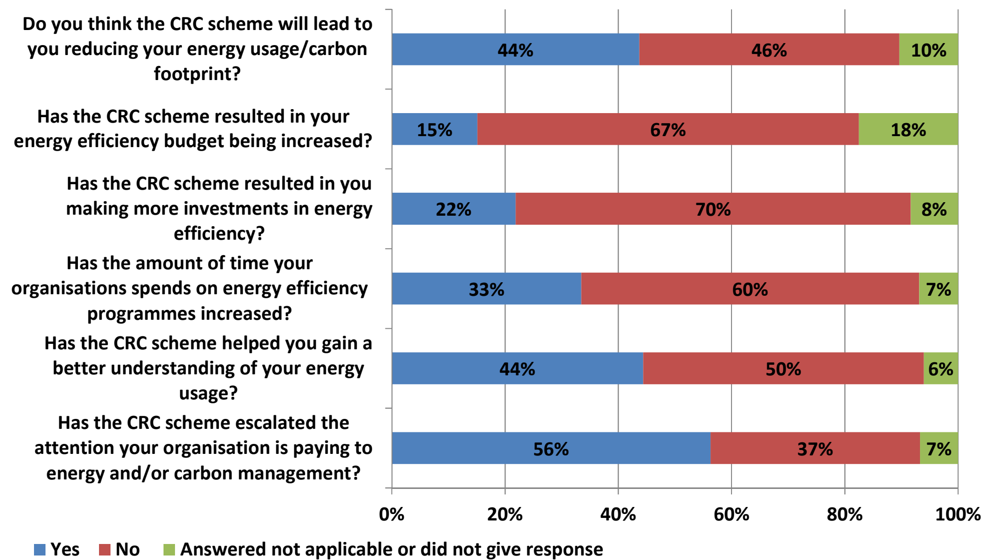
3.15 The Department has some qualitative evidence that the Scheme has raised the profile of energy and carbon management. The Department's survey of participants, carried out in Autumn 2011 found that 56 per cent of respondents agreed that the Scheme had increased the attention given to energy use and carbon management, 15 per cent agreed that it had resulted in an increase in the budget for energy efficiency measures, and 22 per cent that the Scheme has resulted in an increased investment in energy efficiency (**Figure 12**).

3.16 The first edition of the league table, published in November 2011, ranked participants according to their early action metric (see Appendix One). The metric measured the proportion of participants' half hourly metered electricity and gas supplies that were measured through voluntarily installed automatic metering by 31 March 2011, and the proportion of Scheme emissions that were certified under the Carbon Trust Standard[10] or an equivalent, by the same date. In future years, organisations' rankings will also take account of their performance in reducing carbon emissions.

[10] The Carbon Trust certifies that an organisation has reduced its carbon footprint and is committed to making further reductions.

Figure 12

The Results of the Department's survey of participants



Source: Department's survey of participant administration costs

3.17 The League table showed that of the 61 million tonnes of emissions that were emitted by participants in 2010-11, 31 per cent were attributable to the public sector and 69 per cent to the private sector. It showed that participants scored an average of 24 per cent under the early action metric, with 62 per cent of organisations having taken at least some early action, and therefore scoring more than zero. The public sector scored an average early action score of 29 per cent which was higher than the average of 22 per cent in the private sector.

3.18 The Department is currently developing an evaluative framework to measure the impact of financial, reputation and measurement and reporting requirements separately. The Department has not determined when it will complete its first evaluation of the Scheme using this framework. Assessing the impact of the Scheme will be challenging because of the complexity of the drivers affecting commercial decisions made by participants, and the difficulty of separating the impacts of the Scheme from other factors such as wider economic conditions or the impact of other policies.

Cost to business

3.19 The Department's survey of participants suggests that the first year of the Scheme cost each participant on average between £30,000 and £36,000 to administer. This compares to the assumption the Department made in its 2010 Impact Assessment that it would cost between £7,000 and £29, 000. The Department is aiming to achieve a significant reduction in compliance costs through the simplifications it has proposed in its March 2012 consultation.

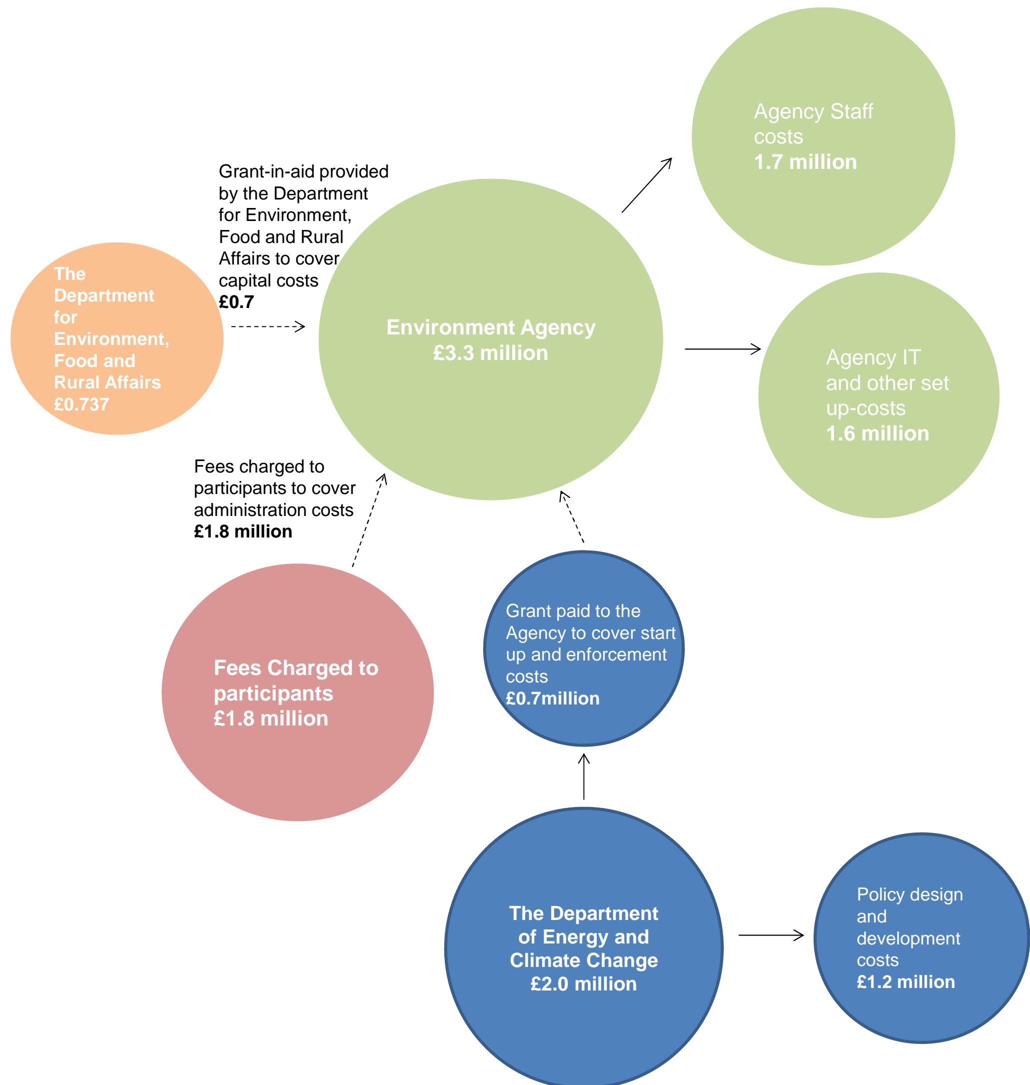
Cost to the Department

3.20 Since it became responsible for Scheme policy in October 2008, the Department has spent around £10.3 million on the Scheme (including forecast expenditure in respect to 2011-12), of which £7.4 million was paid as grant to the Agency to cover the cost of establishing the Scheme and enforcement activity (Figure 15). In 2010-11, the Department spent £1.3 million (see **Figure 13**). The Department did not agree the Agency's grant budget for 2011-12 until November 2011, seven months after the start of the financial year, and did not therefore have a baseline against which to monitor the Agency's spending on activities funded by the Department. The Agency did, however, provide the Department with monthly progress reports. The Department is required to include income from general administration charges to participants in its Resource Account and it will also need to include income from the sale of allowances in its Trust Statement.

3.21 Since 2008, the Agency has spent £12.3 million on setting up, administering and enforcing the Scheme, of which £3.5 million has been funded by fees collected from participants. The Treasury's guidance on Managing Public Money prohibits the public sector from charging participants for enforcement activities and start-up costs that can be capitalised, and these are therefore funded by the Department. The Agency collected £5.4 from participants but spent only £3.6 on administration during 2010-11, giving it a surplus of £1.8 million. It retained the difference to support on-going operating costs, which in 2011-12 included the cost of the Agency's registration audit activities. The Agency plans to review its future charging levels and the most appropriate use of the remaining surplus once it is clearer what the impacts of simplification will be on chargeable activities within the Scheme.

Figure 13

Department and Agency income and expenditure on the Scheme in 2010-11



NOTES

1. The Department of Energy and Climate Change's total spend (£2.0 million) does not reconcile to the sum of grant paid to the Agency (£0.7 million) and policy design and development costs (£1.2 million) due to rounding differences.
2. The capital cost of IT systems and other capital items are first funded by Department grant, and then covered by grant-in-aid from the Department for Environment, Food and Rural Affairs. The Grant-in-aid provided by the Department for Environment, Food and Rural Affairs will be recovered from participants in future years in line with depreciation charges (an annual accounting charge to recognise the depreciation of assets) on capital assets.

Source: Department of Energy and Climate Change and Agency data.

3.22 The largest single cost incurred by the Agency to date is spending on the Information Technology System for the Scheme through a £4 million[11] contract. This system has a number of functions to support the administration of the Scheme by the Agency and is used for registration, reporting and trading. The development of the system started before the design of the Scheme had been finalised to ensure it was available for the launch in April 2010. The changes that the Department made to the design and scope of the Scheme leading up to its launch increased the cost of the information technology contract from £3.3 million to £4 million. Changes made by the Department after the launch of the scheme mean that the functionality developed to support revenue recycling has been rendered obsolete. The Agency is currently aiming to implement additional security features by March 2012 to support the first sale of allowances, which is provisionally scheduled to take place in June and July 2012.

[11] The original price of the contract was £3.3 million, but it increased to £4 million following contract changes that were required following changes to the design and scope of the Scheme.

Appendix One

The first edition of the league table, published in November 2011, ranked participants according to an "early action metric". This was based on the proportion of participants' electricity and gas supplies during the year ending 31 March 2011 that were supplied through voluntarily installed half-hourly automatic metering and the proportion of their emissions covered by the Scheme that were certified under the Carbon Trust Standard[12] or an equivalent. In future years, organisations' rankings will also take account of their performance in reducing carbon emissions.

Extract from 2010-11 performance league table showing participants that scored 100 per cent in the early action metric

Rank	Registration number	Organisations name	Emissions (tonnes of carbon dioxide)	Early Action Metric (percent)
1	CRC8861468	99 BISHOPSGATE MANAGEMENT LIMITED	12,145	100%
1	CRC1641926	ARENA COVENTRY LIMITED	6,814	100%
1	CRC5714114	Barnsley Hospital NHS Foundation Trust	9,085	100%
1	CRC6677003	BRITISH AMERICAN TOBACCO P.L.C.	18,439	100%
1	CRC2977869	CB RICHARD ELLIS LIMITED	4,004	100%
1	CRC2788597	Center Parcs (Operating Company) Limited	63,117	100%
1	CRC9480149	Colchester Hospital University NHS Foundation Trust	12,406	100%
1	CRC1426712	Department for International Development	3,695	100%
1	CRC4628120	Department of Energy & Climate Change	897	100%
1	CRC2681146	FILTRONA PLC	2,670	100%
1	CRC7596297	Invesco	5,397	100%

[12] The Carbon Trust and equivalent standards certifies that an organisation has reduced its carbon footprint and is committed to making further reductions.

1	CRC3949391	JOHNSON WAX LTD	5,174	100%
1	CRC4293589	Keele University	12,663	100%
1	CRC1177687	MIDLAND QUARRY PRODUCTS LIMITED	38,006	100%
1	CRC6582231	National Museums Liverpool	9,207	100%
1	CRC0130228	North West London Hospitals NHS Trust	16,965	100%
1	CRC6360223	OFGEM	1,424	100%
1	CRC4586734	RED FOOTBALL LIMITED	8,809	100%
1	CRC2693134	Slaughter and May	6,443	100%
1	CRC7943383	SYNERGY HEALTH PLC	4,511	100%
1	CRC4648330	The Queen Elizabeth Hospital	7,334	100%
1	CRC0691771	UBS UK PROPERTIES LIMITED	65,421	100%

NOTE

1. An extract from the Performance League Table published by the Agency. The information contained within the league table is based on unaudited information provided by participants. A complete Performance League Table can be found on the Agency website: http://crc.environment-agency.gov.uk/pplt/web/plt/public/2010-11/CRCPerformanceLeagueTable20102011

Source: Agency data

NAO National Audit Office