Summary
Many businesses were working around the CRC and had written it off as a tax MPs heard today.

Overview

During a meeting of the Energy and Climate Change Committee as part of its inquiry into the CRC Energy Efficiency Scheme, witnesses were supportive of the principles behind the scheme, but were more critical of the administrative burdens imposed by it, noting the “burdensome” nature of the scheme.

However, Ms Kelly, said many businesses were working around it and had written it off as a tax, and therefore had gone past the point of no return. She called for its replacement with a new mechanism.

Mr Johnston said there was so little useful data and so many variables it was difficult to know how much the CRC contributed. Ms Kelly agreed mandatory carbon reporting was a replacement for the league table, as it contained a reputational element, she suggested integrating the CRC into existing taxes.

Mr Murray said the atmosphere did not care about carbon emissions efficiency, he said a lot of businesses had efficiency targets and some had absolute emission reduction targets. On the league tables, he said it was failure from a media perspective. He said the 100 at the bottom were in alphabetical order. He said it needed reform if the league table was to stay.

The Energy and Climate Change Committee heard from:

- Rhian Kelly, Director, Business Environment, CBI
- James Murray, Editor, Business Green
- Bex McIntosh, Client Associate, Global Action Plan
- Trewin Restorick, CEO, Global Action Plan
- Andy Johnston, Director, Local Government Information Unit and Chief Executive, Local Energy

Summary

Support for CRC

Opening the session, Conservative Committee Chair Tim Yeo asked witnesses to explain whether or not they supported the scheme.

James Murray, Editor, Business Green said he was broadly supportive of the principles and a survey found 90 per cent of executives were aware of this, but readers and the publication was highly critical of the administrative burdens and tax changes. However, he said this had driven a price signal.

The scheme had forced companies to start measuring carbon better, said Trewin Restorick, CEO, Global Action Plan. He added that policy changes had caused problems and the league
table had lost their relevance as they did not become a trading scheme and about 80 per cent of respondents had not changed their attitude at all. He said business feedback found the scheme was burdensome.

Consistency was really important, said Bex McIntosh, Client Associate, Global Action Plan. She said if a decision was made, it was important it was stuck to so people could plan for the future.

The CRC was well intentioned, said Rhian Kelly, Director, Business Environment, CBI, agreeing that it needed to incentivise energy efficiency, but the design and implementation had made this much trickier, such as the withdrawal of revenue recycling. She said many businesses were working around it and had written it off as a tax, and therefore had gone past the point of no return. She called for its replacement it with a new mechanism.

The hard work around the CRC had been largely done, felt Andy Johnston, Director, Local Government Information Unit and Chief Executive, Local Energy. He added that organisations were planning for a steady future with how they managed the CRC. Mr Johnston said this should be a mechanism to help people respond flexibly, while building on progress instead of simply starting again. He said it took the CRC three years to reach this point, and a new scheme would take more time.

**CRC Effectiveness**

Labour MP John Robertson asked about the effectiveness of the CRC in reducing emission. He said asked about barriers to investment.

Research had shown that the first stage of the CRC was about getting businesses to measure carbon, said Restorick, and had been successful. He added that in terms of improving energy efficiency, it did this too, but in terms of carbon savings, the CRC had not driven many.

Businesses were waiting until next year because of uncertainty, said Mr Restorick, but said they were ready for it. He said they were seeing inconsistency from Government in terms of the feed-in tariff.

Mr Murray said there was not a connection towards any co-ordinated incentives, and no policy to get businesses over the up-front cost issue. He suggested that reforms needed to better integrate with incentives.

Ms Kelly said she agreed the initial outcome was very positive to businesses, who, as a result, were thinking more carefully about energy in business. However, she said it was difficult to argue for capital for energy efficiency projects due to a lack of revenue recycling. A challenge was the way the league table was designed for usage and not efficiency, said Ms Kelly. She said major retailers were critical as it did not incentivise them.

**Recycling and League Tables**

Mr Robertson asked about the original design where sale allowances revenues were redistributed based on league table performances. He asked about the impact of the mechanism on incentivising the uptake of energy efficiency.
It was true that taking away the recycling had removed some incentive for businesses to take action, said Ms Kelly. She agreed mandatory carbon reporting was a replacement for the league table, as it contained a reputational element, she suggested integrating the CRC into existing taxes.

In response to questions about emission reduction data, Mr Johnston said there was so little useful data and so many variables it was difficult to know how much the CRC contributed. He said even though local government was reporting on the NI186, the CRC made local government realise how inaccurate this was, but the CRC was not accurate enough. He said this was where his worry came in about measuring in a different way.

Labour MP Barry Gardiner said carbon productivity was what was important. He said this should be measured instead.

Ms Kelly agreed, she said water companies used a lot of energy so appeared to be coming lower down the league table and it was therefore important to make sure this was not penalised.

Mr Gardiner said the table was increasing awareness of emissions, but it was doing it in a way that risked companies becoming more carbon efficient and worse performers.

This was one of the problems, said Ms Kelly, but warned there was a “fairly muted” response to the first league table.

The big league table had no impact, agreed Mr Johnston, but felt that if it was useful for people they would use it.

Mr Gardiner asked if it was not addressing carbon productivity, whether it was useful as a picture.

Responding, Mr Restorick said the first league table was based on a random set of investments. He said the key about the league tables was that if it measured carbon savings, and it was good comparator, league tables would become interesting.

Mr Murray said the atmosphere did not care about carbon emissions efficiency, he said a lot of businesses had efficiency targets and some had absolute emission reduction targets. On the league tables, he said it was failure from a media perspective. He said the 100 at the bottom were in alphabetical order. He said it needed reform if the league table was to stay.

When the recycling element was present, Ms Kelly said this was discussed around board tables, and this had now dropped off.

**Emissions Reporting**

Mr Gardiner said there was a danger, according to the National Audit Office, that the CRC could conflict with mandatory greenhouse gas reporting, he asked for views on this.

This was a valid concern, said Mr Murray. He said the counterargument was that there had not been enough transparency on this.
Mr Restorick felt the CRC should be a launch-pad, and this should get rid of a lot of pain as it generally existed.

Mandatory carbon reporting designed by Defra would be supported, said Ms Kelly as this was internationally recognised. She said it was important to have one globally recognised scheme and was not complicated.

From a local government perspective, Mr Johnston said to switch to a scheme driven by international standards would drive extra work for no benefit.

Conservative MP Dr Phillip Lee asked if this was a consumption or territorial based measure of emissions.

Some examples had been discussed where data centres were outsourced in order to reduce costs, said Ms Kelly.

The anecdotal evidence was that this had not happened, said Mr Murray, and that they had thought about it but had not done it.

Labour MP Dr Alan Whitehead asked about the effect of the original design of the CRC. He asked about the difference between paying and receiving the money.

Recycling never happened, said Ms Kelly. She said it reached boardroom level. There was a general understanding that if companies went up the table they would get money back, she said.

Mr Johnston explained that there had been an internal agreement that if the organisation made money out of CRC participation, the Energy Efficiency Unit would get this to make further investments, he said this were in place.

Dr Whitehead said the DECC impact assessment on the scheme after the recycling was removed, suggested that this was not a cost to business as costs were by balanced by benefit for Government.

In terms of a drag on GDP, energy and carbon taxation was much lower than VAT and others, said Mr Murray. He said no business liked paying a billion pound tax bill.

The majority of costs had been spent, said Mr Johnston and all organisations in the CRC should see the benefits, he said. The shame was that by transforming it to a straight tax, perfectly good invest-to-save schemes within local government were not getting support because of the stepping down of the CRC from a strategic to an operational level.

The CBI had found that it was now treated as a tax, said Ms Kelly, so it was now separate from those thinking about energy efficiency. She suggested it could balance out over the cost of a company, but this was not easy.

Conservative MP Christopher Pincher said the National Audit Office report found that the cost to participants was around £7-£29,000, but based on the scheme’s first year, the average cost has been between £30,000 and £36,000. He said DECC had promised to simplify the scheme, but asked if their cut estimate was reasonable.
When the scheme was introduced, businesses went through a “laborious process” of working out who owned their carbon emissions, said Mr Restorick. He said the administrative complexity of getting hold of this baseline data was huge and this was why the DECC got the measures wrong.

Mr Johnston said no-one was prepared for the poor quality of data held by organisations within the Carbon Reduction Commitment. He said power company data was in an awful state.

This reinforced the point regarding the credibility of the scheme, said Ms Kelly. She said there were instances in which what had been put on the table would cost more.

Mr Pincher said this also called Department for Energy and Climate Change’s (DECC) numbers into question. He asked about the scale of the savings.

This was “immensely difficult” modelling, said Mr Murray. He said carbon accounting was a very immature field, but as systems became more automated the data should become more accurate and costs should decline. He said any figures had to be taken with a pinch of salt.

Mr Pincher said DECC was going to scrap requirements for a footprint report and asked if this was the area where the greatest administrative cost reduction could be found.

It was increasingly easy for businesses to capture this data, said Mr Restorick. He said what irritated businesses was the administration. He felt there was “too great” an elaboration of administrations and savings were impossible to quantify.

These organisations had a finite budget and changes meant they could not spend their money in other cases, in favour of admin, said Ms McIntosh.

From a local authority perspective, the big simplification was the number of fuels allowed for in the scheme, said Mr Johnston. Bringing this to four basic fuels simplified the job a great deal, he explained. He said he felt the 2015 start made sense in terms of the way the CRC cycle worked.

If major savings in administrative cost could not be found, alternatives would be brought forward, and if this meant that the CRC would not go forward.

Simplification plus the age of the CRC would result in reduced administration costs, said Mr Johnston.

The CRC was in place, businesses understood it, said Mr Restorick and it could improved and made cheaper, but he felt it would eventually work. He said replacing it with a tax would raise questions, given the CRC hit a limited number of businesses.

There had to be crystal clarity and stability hereafter, said Mr Murray. He said whichever decision was made, there had to be a clear message to business around the level of the levy and a timeline. He said the fear was that if this was given up without clarity on its replacement, it would open up lobbying from organisations and companies opposed to carbon taxes and reduction measures.
In a sense, the conversation should be “what would something else look like, and how might it be managed?” Suggested Ms Kelly, instead of the one about simplification. She said there was an issue of “consultation fatigue”.

**Future**

Conservative MP Dr Phillip Lee asked if the witnesses supported the continued operation of the scheme.

There was a sense that the public sector had “got the hang” of this one, said Mr Johnston. He said the question as to whether the CRC scheme worked was not possible to define until two years of emissions data was achieved.

There was a strong case for further research into a “robust analysis of levels of efficacy” said Mr Murray. He explained that there was a consensus that the CRC did not work, but others dismissed this. He said research was needed to establish whether it was a burden or a push for business.

Dr Lee said there was a dispute about whether it worked, whether it was required and how well it worked, he asked what witnesses would want to see changed.

Trewin Restorick, CEO, Global Action Plan said a lot of peripheral administration could be removed, the league table could be refined and should be the basis for mandatory carbon reporting.

Giving his personal view, Mr Johnston called for a harder look at lost cap and trade elements, arguing there was a “strong logic” behind a reducing cap of emissions, and this had been lost from the way people thought about the scheme.

It was critical this was integrated with a mechanism for driving investment, said Mr Murray. He said it had never got over the barrier of up-front cost, such as tax breaks and the Green Deal for business. He called for an incentive element alongside the scheme.

Dr Lee asked why making energy more expensive was not a better way of doing this.

This would miss mandatory carbon reporting without the CRC, said Ms McIntosh,

The issue was one of elasticity, said Mr Johnston. He said this was the problem with “straight tax” – it was so expensive it did not trigger behaviour change, and this was why incentives were needed to incentivise people beyond hard economics.

People were complying but not changing, said Ms Kelly. She said there needed to be a case made for energy efficiency with better policy, but warned it could have unintended consequences and this was a reason against rising energy costs.

By Philip Reynolds Parliamentary Analyst.
Witnesses: Trewin Restorick, CEO Global Action Plan, Bex McIntosh, Client Associate, Global Action Plan, James Murray, BusinessGreen, Rhian Kelly, Director, Business Environment, CBI, and Dr Andy Johnston, LGIU/Local Energy, gave evidence.

Q1 Chair: Good morning, and welcome to this session of the Committee. As it is the first time some of you have been before us, or certainly for a while, first of all would you introduce yourselves and say what your interest in the CRC Energy Efficiency Scheme is?

James Murray: My name is James Murray. I am the Editor of BusinessGreen. We are a website that covers the low carbon economy and large numbers of our readers are covered by and engaged with the CRC.

Trewin Restorick: I am Trewin Restorick. I am the CEO of a charity called Global Action Plan. We work with a large number of companies who are affected by the CRC. As part of this consultation, we undertook some research to try to get the views of businesses and organisations impacted by the CRC, and I think that is why we are here.

Bex McIntosh: Hi, my name is Bex McIntosh. I am with Global Action Plan as well. I work directly with partners in the business sector and also the NHS. I am co-writer of the report we are launching today and, as Trewin said, really interested in the CRC.

Rhian Kelly: I am Rhian Kelly, Director of Business Environment at the CBI, so I represent businesses that are directly affected by the CRC.

Dr Andy Johnston: I am Andy Johnston. I work for the Local Government Information Unit. We have been working on carbon trading in the public sector for about four years now, even before the CRC. We work with about 100 public sector organisations on reducing carbon emissions from their estate and so on. The reason we are here is we have been canvassing their opinion about what they think about the CRC simplification and its future.

Q2 Chair: Thank you. Perhaps you could each now say whether you are broadly a supporter of the CRC, or a critic of it, and whether your views have been affected by the changes that have been made to it in the last two years.

James Murray: It is a tricky question. We are broadly supportive of the principles of the CRC. There is no doubt that it has had many of its desired effects. We also undertook a survey of our readers that shows that over 90% of senior executives are aware of it. One of the goals was to drive awareness; that has worked: 60% to 70% have taken concrete actions to try to improve energy efficiency, so there is evidence to suggest that has worked. We are broadly in favour of the principles and accept that it has had some benefits. Our position editorially is that we are highly critical of certain elements of it, in particular the administrative burden that has been placed on businesses, the complexity around the league table and certain other elements that seem not to have had the scale of impact that was expected. The tax change is also a fairly sizeable issue for our readers. We take a slightly more nuanced approach in that there is some evidence, again, that that has worked, in that it has driven a price signal into the market to invest in energy efficiency. But nobody likes paying £1 billion of extra tax that they were not aware of, so there is certainly a lot of opposition to it.
Trewin Restorick: We are broadly in favour of the carbon reduction commitment. I think what we have seen is that it has certainly forced companies to start measuring carbon either for the first time-40% for the first time-or around 67% better. We think that is the essential first step in carbon reduction. We think that the changes in policy have caused problems. The performance league table was set up on the basis that it would become a trading scheme. As it isn’t a trading scheme, the performance league tables have lost their relevance in that context. We think they need to be revised and used differently to drive reputational impact. What we have seen is that about 80% of respondents have not changed their attitude at all because of the performance league table, so we think that needs to change.

All the feedback we get from businesses is that it is incredibly burdensome. What the businesses accept is that they have actually made a lot of the changes now and it has been embedded into people’s job descriptions, so that administrative cost will decrease over time, but there are certain things that are really minor irritants to business that need to be simplified at the moment.

Bex McIntosh: I would add to Trewin’s comments to say that consistency is really important. Definitely with the people that I tend to work with, the uncertainty around the CRC means that they can’t plan for the future and that is incredibly important moving forward. If a decision was made that is stuck to, and it is consistent, then essentially people can plan for the future.

Rhian Kelly: I would say, from the CBI’s point of view, that we think the CRC was originally well intended, that we had agreed that there needed to be some policy to incentivise action on energy efficiency, that it needed to pick up on raising awareness on energy efficiency and also making it easier to make the case for capital to invest in energy efficiency measures. But the design and implementation has made it much trickier, particularly in light of the changes in the 2010 emergency Budget where, without any warning, we took away the revenue recycling. That was pretty damaging to the credibility of the scheme for many businesses and it felt a little bit like the rug had been pulled out from underneath them.

Many of the businesses that we are talking to would now say that they are simply working around it, it doesn’t really make any impact on the decisions that they take and in many cases they are just writing it off as a tax and a cost of doing business in the UK. We think that in a sense the CRC has gone past the point of no return and we ought to scrap it-not scrap it for nothing but we ought to be thinking about what other mechanisms we can put in place that would enable reporting and the reputation elements to remain intact. Also we need to think carefully around the financial driver. We obviously have a scheme now that is revenue raising and we don’t have a scheme that incentivises businesses to change their behaviour and take action on energy efficiency.

Dr Johnston: Our position is that the hard work around the CRC has largely been done. The legal opinions that are required, the installation of AMR, getting to grips with information about your energy consumption, putting in software things, all of that has been done. Most of the organisations that we are dealing with now are themselves finding that they are planning for a steady future with how they manage the CRC. They are broadly welcoming the Government’s suggestions for simplification of the scheme-there is some good stuff in there-but also recognising that those simplifications will add to the cost burden. So the administrative burden will go down but the cost of the CRC will go up, as a result of the simplification, but that is a trade-off that they are willing to examine, the view being that
whatever comes out at the end of this should still incentivise emissions reduction. That is absolutely key.

We would like it to be a mechanism that provides organisations with the opportunity to respond flexibly, which arguably straight taxes don’t do. As originally envisaged, CRC was a cap and trade scheme and that trading element allowed organisations to strategically manage their carbon emissions. The simplification suggestions include limited trading, and we wouldn’t want to lose that flexibility for organisations. I suppose primarily we want to build on where we are, rather than simply start again with a whole new regime about how emissions are managed within organisations. It has taken the CRC three years to get to this point where we have reliable data; we are just about to make the first payments into the Treasury. Any new scheme will take at least another three years to get up and running, and those years are lost in terms of emissions reduction. They are all going to be spent on the bureaucracy of setting up the scheme.

Chair: General agreement with that—okay.

Q3 John Robertson: That was quite interesting and it leads nicely into my first question. We have about four of you in favour, although you want some updating, simplification and changes, and one that isn’t in favour who really wants it rewritten. The question will be—and I think I know how one will answer—how effective do you think the scheme has been to date in reducing carbon emissions?

Trewin Restorick: Shall I kick off on our research?

John Robertson: Yes.

Trewin Restorick: We sent out surveys through a whole variety of routes, and we got 108 responses from people who are affected by the CRC. So my answers are based on that 108. You could say that might be a slightly distorted view because they are the ones who might be more interested and more engaged in the whole debate. What our research has shown is that the first stage of the CRC was really about getting businesses to start measuring their carbon. I would say that the research shows it has been successful in that, and that has been an incredibly laborious process because who owns what carbon emissions was quite difficult to work out. But that has been done. It has been successful in that.

In terms of carbon savings, our research suggests it hasn’t driven many at the moment. I think you would understand that would be the case, because actually for businesses, their real interest is where they were going to be on the league table, and that wasn’t about carbon savings. The next few years will be really important in that.

Q4 John Robertson: Then my second question should perhaps be part of the first question. DECC’s own survey of participants revealed that only 22% of participants have made more investments in energy efficiency, which I think is what you are saying. Of course, that means there are 78% who think something is preventing them from making the investment. What do you think it is?
Trewin Restorick: I think they are looking ahead to next year, because they know they will go further up the league table if they make carbon savings next year. That is, I think, where they are going to make the investment. What we have seen from the research is that they are putting in place all the things to do that, right down to the fact that the CRC is now embedded into job descriptions of facilities managers, energy managers and CRC managers. Businesses are ready for it and are ready to go. What is holding them back at the moment is the uncertainty that Bex mentioned; the message that we get from businesses, time and time and time again, is they want to know and they want consistency. What they are seeing at the moment from Government is inconsistency. Things like the Feed-In Tariff have built a worry that there is a flip-flopping of policy. So if we can stick to the CRC, make the improvements that we all know are necessary, make the league table more reputational, you will see the carbon savings, and if this Committee was to meet in a year’s or 18 months’ time, you would see that.

James Murray: There is also an inherent challenge with energy efficiency over and above the carbon reduction commitment. I was interviewing somebody recently who is trying to sell energy-efficient products, and his quote was, "We thought we had a no-brainer because it saves you money over time, and we don’t". The reason they don’t is partly to do with the organisational structure of a lot of businesses, where the people making the capital investments on how to improve energy efficiency are not the ones necessarily responsible for the energy bills. They see it as a cost rather than the long-term saving that you realise.

Where that relates to the carbon reduction commitment is one of the common criticisms from our readers-and I think the CBI has made the point as well-that there isn’t the connection to any kind of co-ordinated incentives, so that, yes, there is a cost penalty for using too much energy and that is an effective price signal, but there isn’t much in the way of policy to get you over this upfront cost issue. Obviously, the Green Deal is coming for businesses, but we have heard recently that is going to be delayed. One of the recommendations from our White Paper was that if there are to be reforms or a replacement of the CRC, it needs to integrate a bit tighter with something that can incentivise and get people over that initial cost barrier.

Q5 John Robertson: Ms Kelly, what do you think? You were the one that really spoke most against it.

Rhian Kelly: I definitely agree that the announcement effect in the early days did make a difference to businesses understanding and measuring their emissions. We talked to businesses that, as a result of having to comply with the scheme, are having to think much more carefully about how they managed and understood the energy in the business.

I would also agree with what James has just said. One of the challenges we now find is that because there is no revenue recycling, it is really quite difficult to internally argue for the capital to be made available for an energy efficiency project. One of the risks is those projects are not done, and if people had projects lined up with the revenue recycling aspects of the scheme in mind, the moment that was taken away those projects were taken off the table.

One of the challenges we have inside the scheme at the moment is that the way the league table is designed it is about energy usage, not energy efficiency. If you are a business and you open up a new facility, or you open up a shop or you employ some more people, you will actually go down the league table not up it. We are not measuring the energy efficiency, we are measuring the energy usage and you will get penalised on that basis. Some of the
examples of companies we have been talking to are major retailers who say this does not incentivise them to do anything differently. They will work round the scheme. They are still going to do energy efficiency, but it isn’t any thanks to the CRC that they are taking action on energy efficiency. One company is saying that, as a result of what they do across the businesses, each individual facility has its own energy efficiency action plan, but because of the CRC they have to go the extra step and aggregate that up just to comply with the scheme. It isn’t actually changing what they are doing; it is just making the burden of collecting the information harder.

Q6 John Robertson: Then would you like to go back to how it was originally designed, where the revenues from the sale allowances were to be redistributed to participants based on their league table performance? How much of an impact do you think this mechanism would have had on incentivising the uptake of energy efficiency?

Rhian Kelly: It is true that taking away the recycling has taken away some of the incentive for businesses to take action. I guess we are working in a slightly different environment, so while we think that there are opportunities to use mandatory carbon reporting as a form of reporting and reputational drivers that exist in the league table-so take away the league table, implement mandatory carbon reporting-clearly one of the outcomes of the scheme has to be revenue raising. While that remains an outcome of the scheme-and we are not suggesting, given the context, that the Treasury is going to change that any time soon-then we need to work within that. There are a number of ideas floating around, one of which is how you might integrate the CRC into existing taxes, something like the Climate Change Levy, and that is the sort of thinking that we are doing.

Q7 John Robertson: Mr Johnston, local government is probably the biggest employer in the country. How do you see investment there?

Dr Johnston: In answer to your first question about actual emissions reduction data, my answer to that would be it is almost impossible to tell what impact the CRC has had upon that. There are so many variables and there is so little useful data out there that it is very hard to say whether or not investment decisions were driven by CRC or not. Local government and other public sector organisations have all sorts of other targets around carbon emissions and schemes that they are involved in and so on, and whether they were the actual driver for those investment decisions or not I think becomes a bit of a value judgment. We end up going back to the point about the league table and the current state of the data that we have. Even though local government was reporting for many years on the old NI 186, what became clear when the CRC came into effect was that a lot of those data were not-

Q8 John Robertson: Could you tell us what the NI 186 is?

Dr Johnston: It was about energy consumption in local authorities and it was reported back to Government. But the CRC actually made local government realise how inaccurate the data were that they were presenting back. The CRC upped the game around the data, but we are still not at the point where we have really useful data out of the CRC. It will only be after we have the league table running one more or two more cycles that we will know what the real energy consumption is, and so we will know whether or not there has been emissions reduction as a result of the CRC scheme. This is my worry about starting again with a different way of measuring: that we will be back at zero not really knowing what emissions are being-
Q9 John Robertson: Yes, but if we change it constantly do we not have the same problem then? Is there not a time when you have to let something bed in and see whether it works? When you were asked if you were in favour, you all wanted something different, and if we did all that, then that means all of the figures and all the facts that we had before are basically useless.

Trewin Restorick: I don’t think it is about the data collected. The data collected are actually incredibly robust. It is the really stupid things. For instance, one of the businesses we work with wanted to go in and do some work on the database. The person who was to do it had to give their personal date of birth, their personal address and the amount of time—and the fury of this woman when she realised how much time she had to spend doing stuff that, frankly, was pointless. There is a lot of fluff around the administration that could be taken out, but we think the actual data being collected should not change for the reason that you will get the measurements.

Q10 Barry Gardiner: Ms Kelly, carbon productivity is what is really important, isn’t it?

Rhian Kelly: By that do you mean-

Barry Gardiner: You made the point that what we are seeing is the actual carbon emissions, but if you expand your company, if you produce more goods, even if you do that more efficiently, you are going to go down the table instead of up. What we really should be measuring is carbon productivity, isn’t it?

Rhian Kelly: Yes. I have given you one example already, but there are other examples in the, say, water sector where generally I guess they are using a lot of energy and so are tending to come lower down in the league table. That is in spite of any energy efficiency actions that they might be taking. They are not being seen to be credited for it. I think we need to find a way to make sure that you are not penalised in those circumstances, so, yes.

Q11 Barry Gardiner: The table is increasing awareness of emissions, and I think we all welcome that. But actually in the way it is doing it, is it not actually—as is often the case with league tables—at risk of showing companies that are becoming much more carbon efficient as worse performers? Because they have expanded their business, they have used that as an opportunity to increase their productivity per tonne of carbon emitted. Yet, because they have expanded their carbon, they look as if they are worse.

Rhian Kelly: That is absolutely one of the problems. In a certain sense it is increasing awareness, but there was a fairly muted response to the publication of the first league table last year so I am not sure whether you would say, absolutely, it increased awareness. In comparison to existing schemes out there like the Carbon Disclosure Project, which I think has significantly increased people’s awareness and is really a part of-

Q12 Barry Gardiner: On a show of hands, who on the panel thinks that anyone is really taking any notice of the CRC league table? A show of hands?

James Murray: Sorry, the question is whether they are taking notice of the CRC or of the league table?

Barry Gardiner: Is anyone taking-
Dr Johnston: Can I give a qualified response to that? When we got the league table data we did an analysis of them for public sector organisations. We broke them down by sector and by geographical region. At that level, yes, we got a lot of interest. We received 3,000 hits on our website the day that we published those spreadsheets. The big league table, no, I don’t think that had any impact on anyone. But if you make it useful for people then they will begin to use it.

Trewin Restorick: A third of respondents to our survey said that it would drive reputation, but I think what the league table was in the first instance-

Q13 Barry Gardiner: But let us explore that. I am happy to go where you want to go, but let us explore that. Is it giving an accurate picture of what their reputation should be if it is not addressing carbon productivity? That is my point.

Trewin Restorick: What I was going to say was, the first league table was a list of companies based on a random set of investments that they were asked to make. The automated metering, if you had that you went further up the league table. What we saw was businesses saying, "What do we need to do to get up the league table?" The real key about the league tables is that in subsequent years if they measure-and it can be done in a number of ways-the actual carbon savings, based on turnover or whatever, and it is a good comparator, then the league tables will start to get interesting. Then you will be able to see businesses being compared reputationally with others in their sector-but the first league table, no, because it was a baseline measurement. It didn’t really measure any improvements.

James Murray: If I could just add to that, there is a hugely interesting debate going on about measurements of absolute carbon emissions and carbon efficiency. It is entirely valid and it is important that we measure both in some respects. There is also the environmentally scientific point that the atmosphere doesn’t care how efficient our carbon emissions are, it only cares about the total amount. A lot of businesses will have efficiency targets, but other businesses have also chosen to go down the route of having absolute emission reduction targets because they know if they double in size and emissions only increase by 25%, emissions have still increased by 25%, so there is a problem there.

On the league table point, from a media perspective the initial league table was a failure. It is such a long list and the focus was only ever going to be on the top five at the top and the top five at the bottom. We were ticked off by one company because we mentioned some of the ones at the bottom. Of course, the 100 or so at the bottom were just in alphabetical order, so it was just their bad luck that they ended up at the bottom. I agree with Trewin’s point that-

Q14 Barry Gardiner: In other words, don’t manufacture xylophones?

James Murray: Indeed, yes. Over time it should become more credible, as we get rid of that anomaly and people are really shown on their performance. If the league table stays it does have to be reformed so that that work is done to break it down into sectors, so that we are comparing like with like a little better. There is an argument for saying the league table is one element that really is not having the impact it should.

Rhian Kelly: The other thing to think about the reputational driver is that, when we had the recycling element in, certainly the CRC was something that was discussed around board tables, because they wanted to know both what the cost would be but also what they would
get back. With that taken away, the league table doesn’t mean that the conversation happens around the board table and, in fact, we have found it has dropped off boardroom conversations. The CRC might be recognised, they might know the acronym, but I don’t think it is a serious conversation happening around boardroom tables.

Q15 Barry Gardiner: The NAO’s assessment was that if mandatory greenhouse gas reporting is introduced, there could be some duplication with emissions reporting under the CRC scheme. Do you share that feeling?

James Murray: It is a valid concern. It is obvious that if we have both, a lot of companies will be required to report under both and there will be an administrative burden. The counter-argument would be that for years there hasn’t been enough transparency on this. You don’t manage what you don’t measure, so maybe that administrative burden is worth paying. But it is a valid concern that I think Ministers will have to think very carefully about.

Trewin Restorick: But the CRC should be the launch pad. All this effort has gone into what are actually quite robust sets of carbon reporting. So, rather than creating something new and different, the CRC should be the bedrock on which it is built so that the companies have it in place—which we think is one of the strengths—and then that should be extended to whoever mandatory carbon reporting should go to. This should get rid of a lot of the pain of introducing mandatory reporting because you basically already have it.

Q16 Barry Gardiner: Is that generally agreed? No?

Rhian Kelly: No. We would support mandatory carbon reporting, as designed by Defra, because it is actually an internationally recognised way of reporting your emissions. Some of the way in which you report it, under the voluntary guidelines that Defra currently has, is not the same as you are doing under the CRC. So from a business perspective, at this point in time, you are probably going to have to get your data and cut them two different ways. It doesn’t really make sense to be doing that. What we really need is one scheme that is recognised globally, so that we are all measuring carbon in the same way globally, and isn’t complicated. We have said, right from the beginning, we already have in place mechanisms that are recognised so we ought to be using those and not reinventing the wheel for CRC. But also CRC is only one bit of your emissions. The mandatory carbon reporting would actually have a much broader coverage than just what is included in the CRC.

Q17 Barry Gardiner: Has your organisation made those representations to the Minister responsible for cutting business regulation and red tape?

Rhian Kelly: For the last couple of years we have advocated mandatory carbon reporting to Ministers across Government.

Q18 Barry Gardiner: But specifically, given the Government’s drive on cutting duplication of regulation and so on, is this a point that you have made to that Minister?

Rhian Kelly: Yes, and I understand it is being considered.

Barry Gardiner: Considered? Very good; thank you for that.
Dr Johnston: From a local government perspective, I have to say that obviously the arguments about international comparability are not particularly relevant. For local government, or UK public sector organisations, to switch over to a system that is largely driven by international standards would be entirely extra work for no benefit whatsoever.

Q19 Dr Lee: Building on the international dimension, can I just clarify: are these companies and public sector institutions that have signed up offshoring their emissions? Is that their intention? Are you basing it upon a territorial measure of emissions or a consumption-based measure of emissions?

Rhian Kelly: There are some examples I think that have been talked about where to manage your energy usage you might outsource, for example, your data centres. Then if you are a company that provides data centres, you might be thinking about where you want to put them. Intellect has been raising this about how do you manage data centres inside the CRC, because it is clearly high energy usage. There are examples of individual companies who are wondering whether they might want their data centres based here in the UK, or whether they might want to put them in continental Europe because it would actually avoid some of the increased costs.

Trewin Restorick: I can’t say statistically, as we didn’t ask that particular question. The anecdotal evidence that we have is that the first bit that businesses thought about was potentially moving their data centres, as Rhian has just said. That is totally true. We actually haven’t seen that happen because when you talk to the businesses, in terms of their data centres, there are a lot of other important elements that they need to maintain the integrity of their data. In most cases, that has overridden what is still a relatively small financial benefit of moving it out of the country. I can only say that anecdotal evidence, from the businesses we have spoken to, is that they have thought about it. I don’t know of any who have actually done it because of a host of other reasons in their decision making.

Q20 Dr Whitehead: Just in terms of the effect of the original design of CRC, Ms Kelly, you mentioned the question of the difference between those who might be receiving the recycled money and those within a company who were responsible for paying the money in the first instance. How did that work out? Also, from Mr Johnston’s point of view, local government: how did that work out in terms of what was done at the time to make that recycling happen within companies effectively?

Rhian Kelly: Of course the recycling never actually happened, but people were putting forward-

Q21 Dr Whitehead: Yes. Presumably a lot of preparations were undertaken?

Rhian Kelly: Yes. People were putting forward-I know it got to boardroom tables-and discussing what the overall bill would be, how recycling would work, the sorts of projects that could be put in place that would enable the recycling, but also obviously enable energy efficiency projects. I know that when the recycling element was taken away the investment case was a lot weaker on those projects, so quite frequently they were taken away and actually not done.

Q22 Dr Whitehead: In terms of discussion around the board table, they could have been specifically allocated for funding further efficiency projects, for example?
Rhian Kelly: Insofar as at that point in time they could understand what they would get back from the recycling mechanism, yes. But it hadn’t been done before, so I don’t think it was as simple as plugging in some calculations and working out what you would get back. There was a general understanding that if you took action and you went up the table, you would get some money back. Therefore, it was worth taking action to go up the table and to get money back.

Dr Johnston: Yes—a similar point. Particularly with the local authorities in our network, there had already been an internal agreement that if we make money out of participation in the CRC then the energy efficiency unit would get either all or a proportion of that money to invest in further reductions. You would get an invest-to-save cycle going on within the organisation. Those mechanisms were pretty much in place before the Comprehensive Spending Review.

The other side to this was the strategic engagement that that also brought to the party. The last round of events that we had was in July, just before the September announcement. We had a room full of finance directors who were talking about a local authority carbon exchange mechanism, a way of local authorities collaborating together to share more learning and possibly sharing projects and things like that. Immediately after the Comprehensive Spending Review, that just melted away, and, given what else was in the Comprehensive Spending Review, finance directors were far more exercised with other, bigger budgets than the energy one.

James Murray: From our readers’ perspective, there was a lot of focus on it. I can absolutely second that. What was interesting, though, was that it was actually quite longer term because in the initial few years of the CRC as it was structured, those penalties and incentive repayments were actually very small. There was talk that it would only be around 10% of what you paid, and we did some modelling. On a £0.5 million energy bill you were just talking about tens of thousands of pounds, which to a large organisation was not going to make a huge difference. But what they were aware of was that that figure, that percentage, was intended to go up over time, so as you moved into the second half of the decade—I think there was risk modelling done—this could end up being a very, very sizeable penalty and/or a very, very sizeable revenue stream. Rhian and Andy, you are absolutely right: that modelling was going on, and there was a stronger investment case for the large numbers of projects.

Q23 Dr Whitehead: The impact assessment that was done by DECC on the scheme, after the recycling was removed, suggested that the scheme was not a cost to business because costs are balanced out by benefit for Government. Do you agree with that analysis?

James Murray: There was a very interesting report yesterday, which we wrote on, from an organisation called Vivid Economics and Green Budget Europe. It made a slightly parallel point that energy and carbon taxation has a much lower drag on GDP than income, VAT and other forms of taxation. I would recommend it; it is a really, really interesting premise. But it kind of makes exactly that point: that if we do have to tackle the deficit the money has to come from somewhere; you get less of a drag because of the way we import energy, because a higher energy bill doesn’t impact on economic activity in the same way that an income tax or—in the case of businesses—a higher capital gains tax might impact. It actually has much less of this impact on GDP, and the benefit for the overall economy will be stronger.
This group of former Chancellors and people from across Europe have written to Finance Ministers this week to make precisely the point that, as we attempt to tackle deficits, there is a strong case for energy and carbon taxes playing a larger role and maybe income and VAT taxes playing a lower role. Yes, maybe there is some truth in that from DECC, but then no business likes paying a £1 billion tax bill. I think the thing that most angered readers and CBI members was the shock nature of it—the fact that it did come without any signal and that all that planning work was for naught.

Dr Johnston: I would just add to that that, in terms of the cost benefit—returning to my first point—the majority of the costs have now gone. They have been spent. Now is the stage when all organisations in the CRC should begin to see the benefits coming in, of better understanding their emissions and putting in place plans to reduce those emissions and thereby saving on the tax. The shame of it is, by transforming it from the scheme as it was to a straight tax, perfectly good invest-to-save type schemes within local government are not getting the support that they should do— even though they would save local government money—simply because of the stepping down of CRC from a strategic level to a much more operational one that turning it into a straight tax actually did.

That is why we feel, whatever comes out of this process, there needs to be a lot of thought given to how we get the senior management within all of the organisations really engaged in whatever new process comes out.

Rhian Kelly: What we have found is that it is now treated as a tax and so is dealt with in different teams. It just goes into the tax team and the tax team just comply with it as a cost of doing business. It is completely separate then from the people who are even thinking about energy efficiency and whether it balances out the actual organisation of the business. That is the case for some, but we also have examples of where budgets that are being used by, say, the energy and climate change teams in companies are having to take out the CRC before they can even put forward some of that money for investment in energy efficiency. It may be the case that it balances out over the cost of a company, but I think the way companies work, it is not as easy to say that because different pots of money are used in different ways.

Q24 Christopher Pincher: The National Audit Office report into the scheme tells us that, when it launched the scheme, the Department estimated that the cost to participants was going to be somewhere between £7,000 and £29,000, so quite a spread in terms of administrative cost. Based upon the first year of the scheme, the average cost to participants has been between £30,000 and £36,000, so a significant degree above the top level that DECC anticipated. That works out to some £534 million of costs over the next few decades. DECC have said they are going to significantly simplify the scheme and reduce the administrative burden by up to £337 million over the next two decades. Given that they got figures so very wrong in the first place, do you think their cut estimate is reasonable or is it just a "slash and hope" value?

Trewin Restorick: The evidence that we sought of businesses—also, I am sure you have seen the KPMG report that DECC commissioned as well, which suggests that that £35,000 to £36,000 would go down to £15,500 over the four stages. What we saw businesses do when the scheme was introduced was go through an incredibly laborious process of trying to work out where their carbon emissions were, who owned them. Local authorities were looking at schools and whether they were in the remit; people, like Land Securities, were looking at all
their retail outlets and trying to work out where their responsibility lay. There was a huge amount of time and effort spent actually trying to work out how big the size of the problem was. Once they did that and then they saw the penalty part—the penalty regime if they got measurements wrong—they then realised that they had to introduce really rigorous carbon reporting, far more rigorous than they had ever done before, and sometimes to introduce that rigour in places where they had very little control. Local authorities then had to get schools to start reporting on their emissions, which gave them a major, major headache because they knew if they got that wrong then they would be penalised and the penalties were large. I think that is why DECC got the number so wrong—the pure administrative complexity of getting hold of that baseline data was huge.

The evidence that we have from the companies we work with is that has been done, and now it is in people’s job descriptions; they have the automated meter readings; the majority of them are fairly comfortable with the measurements they have provided. That is why we think that that administrative burden will come down, because it is now part of the mechanisms of how businesses operate.

Q25 Christopher Pincher: In your view, there is no need to simplify the scheme because you think the cost reductions are priced in already?

Trewin Restorick: There is some there but, like I said, there is a lot of irritating added administrative burdens within the scheme that I think—and I am sure even DECC would acknowledge this—could be taken out without damaging the core data, which is crucial.

Q26 Christopher Pincher: Is that the view shared by everybody?

Dr Johnston: The only thing I would add is, in terms of the additional complexity at the beginning of the scheme, I don’t think anybody was prepared for the poor quality of data that the energy companies held about usage by organisations captured within the CRC. One of the big learning points that came out of the CRC was the frankly awful state of data that power companies held. Sometimes they really did not know what the energy bill was for a particular organisation or a particular set of buildings. There have been estimates for years. Catching up on that—and making sure of the power company’s view on what your energy use was, and the organisation’s view—took a lot of time, and I don’t think people really anticipated that would be such a huge problem.

Rhian Kelly: It just reinforces the points around the credibility of the scheme, but we are beginning to have very intense conversations with members about the simplification measures that have been put forward. But there are already instances emerging where actually, what has been put on the table going forward is going to end up costing businesses more.

Q27 Christopher Pincher: Surely it also raises questions about the credibility of DECC’s numbers because, as I understand it, they are saying that by simplifying the scheme £337 million can be saved. What you seem to be saying is that a lot of that saving is being priced in already. I guess my question is, what is the real saving as a result of the simplifications that DECC is proposing? Is it £337 million, or is it another number? Do we know? Do you have any idea? Do you have a view?
James Murray: It is immensely difficult modelling to do. It is not easy to predict the way reporting will change. More generally, if you look at carbon accounting, we are at the start of a very, very long journey. It is still quite an immature field as a concept. It has really only been going 10 or 15 years. We are where financial accounting was 150 years ago in many ways. But the history tells us that, as the systems become more automated, as people become more experienced at it, the data should get more accurate and the costs should start to come down. At the moment, a lot of people aren’t doing it on bespoke systems. They don’t have IT reporting systems in place the same way you would for financial reporting. A lot of the big software companies are starting to provide those systems and over time the process should become more automated, more accurate and more robust, and in theory costs should come down. But there is an element whereby this modelling is very, very difficult, and I think whatever figures are put out have to be taken with a degree of caution.

Q28 Christopher Pincher: So costs will come down, they are probably going to come down anyway without further simplification, and we don’t really know whether DECC’s figures are right because of the complexity of the modelling. Given that DECC says that simplification can be undertaken, and one of the activities that they say will remove 21% of the total administrative cost is to remove the requirement for participants to submit a footprint report showing those energy supplies that are covered in the scheme, do you think that is the area where the greatest administrative cost reduction can be seen, or are there other things that can be done to reduce the burden on participants?

Trewin Restorick: What we are seeing is there are lots of people entering this market now to make it easier for businesses to capture this data. In the space of the last year we have seen three major software companies entering this space to help businesses collect data. I think that competition, and as James alluded to as it becomes more professionalised and mainstream, will drive down costs. The thing that irritates the businesses we work with is the administrative bit around the side. It is like going on to the Environment Agency website and trying to register and it taking them half a day to register on that. It seems there is an elaboration of the administration that is far too great for the scheme’s requirements. We think that is where the savings will be had, but they are impossible to quantify. I think what DECC says will have to be a guesstimate.

Bex McIntosh: What we have to remember is that all these organisations, the CSR teams, the energy teams, have a finite budget for the year and an increased number of changes means that they can’t spend the money on energy reduction in other places or engagement with employees. They have to allocate that budget more on the admin side, so the more and more changes each year that happen, they can’t use that in actually making concrete carbon reduction. I think we have to be really mindful about that with any further proposals.

Dr Johnston: Again, from a local authority perspective, the big simplification was the reduction in the number of fuels that you would have to allow for within the scheme. Again, one of the interesting consequences of the CRC was local authorities finding out that they had jet fuel in various places and all sorts of weird and wonderful fuels, which they had to find and account for. Bringing that down to four basic fuels really simplifies their job a great deal.

The other big complication was for something like a huge unitary authority that can have some 3,000 different buildings. They quite liked the fact that they could rule out 10% of those under the old 90% rule. Having one single footprint report will present local authorities like
that with a little bit of extra work, but again most of it has already been done. The simplification of the fuels is the thing that has been really welcomed.

Q29 Christopher Pincher: Do you think that the simplifications, which the Department is consulting on and proposing to bring in, can be brought in more quickly than it is proposing to do? I think 2015 is the date when it is proposing to make these simplifications. Is that something that can be done more quickly, do you think?

Dr Johnston: The cycles of the CRC do have a logic inherent in them in terms of the way that you measure and then you pay. It is actually quite hard to accelerate that process much quicker without causing what we have been talking about here—a need to do things quickly and in an area of uncertainty. The 2015 start makes sense given the cycles of the way the CRC works.

Rhian Kelly: Just to reiterate the point I made a few minutes ago, we just need to be careful that we are not adding costs. We might be reducing admin costs but adding overall costs.

Q30 Christopher Pincher: Any other comments on the dateline? Well, can I ask one last question then, and that is one around what the Chancellor has said, which is that if major savings in the administrative costs cannot be found then proposals to replace the CRC will be brought forward. Do you think that the necessary cost reductions can be found, whether it is £337 million over two decades or more? Do you think that is a reasonable assumption?

Dr Johnston: I think it is slightly the wrong question, with apologies to George Osborne for that.

Christopher Pincher: He did not ask me to ask you; it is a statement he made.

Dr Johnston: His starting point is that the Treasury would still want £1 billion a year out of this scheme or something similar, so the correct comparison is the administrative burden as opposed to any alternative that might come forward. We have made the case that the simplification plus the age at which the CRC has reached will result in reductions in the cost of administration but—as you correctly pointed out—it is difficult to quantify at this particular moment in time. Then the question becomes, if you are going to scrap the CRC simply because it can’t demonstrate those cost savings, have we compared that with whatever will come along to replace it, given that we will have to start again with whatever comes along to replace it?

Trewin Restorick: Our view on this is that you wouldn’t really start from here in terms of the CRC, but actually it is now in place. Businesses understand it. It is one of the few policy drivers that is persuading large businesses to do more on energy efficiency. It can be improved, it can be made cheaper, but it will eventually work. That is the point we got to, which is: it is not great but it is good enough.

If you replaced it with a tax, you immediately start asking lots of really difficult questions because the CRC hits a certain number of businesses. Would a tax still just be on those businesses or would you have to broaden it? If you broaden it, what would be the impact on all the small businesses at a time when we are looking for growth and expansion there? How would the small business members of the CBI feel about a sudden tax being introduced, and then how does it fit with the Climate Change Levy and all those other things? It is quite easy
to say, "Well, we will replace it with this", but actually that replacement process is going to be fraught with all the same discussions that we are probably having now. You are actually then taking the foot off the accelerator of carbon savings when all the science, and all the imperatives to save carbon, is really quite clear. I think you will make savings-number to be decided—but it is the best show in town at the moment.

James Murray: The main issue with the question of possible replacement—and I think virtually all businesses would agree with this—is that, whatever happens, there has to be absolute crystal clarity and stability hereafter. You can make a case either way: whether you look at the merits of a flawed system but a flawed system that is working so we stick with it and try to improve it slightly; or we go for a simpler carbon tax approach with mandatory carbon reporting. Whichever decision is made, for the first time in several years there really does have to be an absolutely clear message to business that this is what is going to happen, this is the timeline for what is going to happen, and this is the level at which the new levy or the reformed levy is set—a level that, because of our emission reduction targets, will need almost certainly to climb over time.

You talk to a lot of businesses that are committed to the green agenda and green NGOs, and their fear is that if we give the signal that we get rid of this without absolute clarity on what we replace it with, you open the door to another big round of lobbying with people saying, "We don’t need a carbon tax" or, "A carbon tax would be counterproductive". You get into all the debates that we had five or six years ago with the formation of the CRC. It is very, very complex to come down one side or the other but, whatever it is, it does need to be communicated far, far better than it has been in the past.

Rhian Kelly: I should also add some words to this. I am not clear that the CRC is having the impact that we want it to have because I don’t think it is working. I think in a sense we are not having the right conversation. The conversation we ought to be having is: what would something different look like? How would we manage it? How would we integrate it into something like the Climate Change Levy? We need to be looking in much more detail at some of the figures that I am sure Treasury has to understand that. That is the conversation I think we ought to be having, not the conversation about further simplification. From the sense of the initial conversations we are starting to have with businesses, I guess there is consultation fatigue on this issue, and a real desire to get something that works in place and not to keep tweaking the existing system, which they don’t believe is working very well.

Q31 Dr Lee: That leads neatly on to my couple of questions. The future of the scheme—are you saying that you support the continued operation of the scheme? Is that your current position?

Dr Johnston: It is certainly our position. In the public sector the feeling is that we have the hang of this one now. We know how it works and we can get on with working with it. We don’t really want to have to spend the time and the money learning a new system.

Q32 Dr Lee: Even if it is not working?

Dr Johnston: The question about whether it is working or not I think is something that we won’t know until we have had two years’ worth of emissions data, so we can see whether or not emissions are going down within organisations, and the research can be done to see
whether the CRC was the driver for that. My earlier point was, we simply do not know what is driving emissions reduction or lack of it at the moment.

Q33 Dr Lee: In view of the fact that it is costing business money, how long do we give it to find out whether it works or not?

Trewin Restorick: You say it is not working, but I would-

Dr Lee: I am just quoting Ms Kelly. Forgive me, I am not claiming to be an expert but I have just heard that it is not working according to business.

Trewin Restorick: According to our research-

Dr Lee: How long do we give it?

Trewin Restorick: -the first league table has forced more companies to measure carbon and measure effectively, which was definitely what it was set up to do. It made them introduce the things that they were asked to do in the league table, such as the automated meter reading. Basically, I think the first league table achieved what it set out to do. How much longer do we give it? Next year and the year after you will see whether it actually drives the thing that those league tables will do, which is measure carbon savings.

Q34 Dr Lee: You are saying 2014?

Trewin Restorick: Yes.

James Murray: There is a very strong case-and I think almost everyone would agree-for further research into this, a really robust analysis of the levels of efficacy. There is a lot of anecdotal evidence that says, "It hasn’t been effective; it’s been too much of a burden; we were doing this anyway". But then I was speaking to a consultant at one of the Big 4 accounting firms and put that point to him, and he said a lot of businesses who say, "We would do this anyway"- well, he dismissed that in a rather agricultural manner. It was, "This is not the case. That is what you would say, but for years previous to this energy efficiency made sense and people still didn’t do it so they did need a push". It is a case of, we do need further research to establish the truth of whether the CRC has given them a push or whether the CRC is just an additional burden encouraging them to report, when they were starting to report voluntarily anyway.

Q35 Dr Lee: How do you tease out whether it is the scheme or whether it is the price of energy that is driving these savings?

James Murray: That is the $64 million question.

Q36 Dr Lee: It is the only question, isn’t it?

James Murray: It is the only question, and it would need modelling that is well beyond my capabilities to understand it. The problem is that everyone-
Q37 Dr Lee: Forgive me; basically, we have a dispute over whether it is working or not, we
have a dispute over how we can measure it, and we have a dispute about whether it is actually
required or not?

Trewin Restorick: There are two things that you can measure it on in the next year: one is, is
the additional cost making it worth while to invest in more things? I think that is a very
simple question that you can ask businesses; and the second thing is-that the CRC brings in
that nothing else does-has the reputational element, the performance league tables, made any
difference to investment levels? If you ask businesses and organisations those two questions,
you will quite quickly find out whether it is worth while.

Q38 Dr Lee: So we keep the scheme. What would you
want to see changed beyond what is in
the current consultation?

Trewin Restorick: We think that a lot of the peripheral admin can be removed without
harming the core data. We think the league table should be refined, so that they become more
reputationally based. The data are all there, so we think that if, for example, you had a sector-
based league table that said, of the supermarkets, of the banks, of the accountancy firms,
"This is the league table", then the boards will really start to take notice, because there will be
a direct competitive comparison with other businesses. We think it should be the basis, but I
do totally take on board Rhian’s point about the international element, for mandatory carbon
reporting-and somehow to ease that level of burden by somehow bringing those two things
together if that is possible.

Dr Johnston: Speaking not with the local government hat on at the moment but a personal
view about the CRC, I would be in favour of a harder look at the cap and trade elements that
were lost in the Comprehensive Spending Review. There is a strong logic behind having a
reducing cap of emissions on organisations that are in the CRC. What that then means is you
have to allow those organisations to trade to find the most efficient way of reducing those
emissions. All of that is currently being lost from the way that people think about the scheme,
but in terms of a market mechanism it is the most efficient and effective way of reducing
emissions.

James Murray: If it is to be kept it is absolutely critical that it be integrated, either formally or
informally, with some mechanism for really driving investment. The sole purpose of the
scheme is to drive investment in energy efficiency measures and bring down the amount of
energy that businesses are using. While it has provided a price signal to do that, it really
hasn’t yet got over the barrier of upfront cost associated with a lot of energy efficiency
measures. Whether it is tax breaks, whether it is the Green Deal for business-whatever it is
there has to be some kind of incentive element either alongside or within the scheme.

Q39 Dr Lee: One final question. Explain to me why not making energy more expensive is not
a better way of driving this, instead of a complicated administrative procedure like all of this.
Why not just make energy more expensive? Because as soon as you make it more expensive
businesses go, "Ah, yeah, don’t want to be spending that".

James Murray: It is a strong economic argument for doing it. It is politically very, very
difficult for a Government to-
Q40 Dr Lee: Yes. But the evidence is this is costing businesses in another way. We are just fuelling a bureaucracy; we are not actually fuelling the cars or heating the rooms.

Bex McIntosh: What you are missing out on is the mandatory carbon reporting, and that is the important element that we have seen—that lots of people wouldn’t report unless you had this mechanism. If you just taxed more through the energy pricing thing-

Q41 Dr Lee: Sure. But the point I made earlier is: if I get a bunch of Indians to do my data processing, is that on my carbon return? If I get somebody to answer phones who is sitting in Vietnam, is that on my carbon return? No, it is not, which makes it all rather pointless. If I am sitting up in the atmosphere, it makes no difference whether it is being emitted from Hanoi or from Parliament. What I cannot get from this is that-this is a really complicated scheme, and, don’t get me wrong, I share the desire to reduce carbon; but business is going to have an increased cost, be it from fuel costs or from the bureaucratic cost. Is not the fuel cost a simpler and more efficient way of doing it than this, is my point?

Dr Johnston: It is simpler and more efficient from Government’s point of view. The issue comes up with a sort of elasticity around this. How expensive does energy have to get before it triggers the behaviour changes that we are looking at? We have had experience here with the fuel duty escalator, for example. The economy said, "The price has to be up here in order to change behaviour", and basically Government bailed out somewhere down there because it became politically difficult. This is the problem with just straight tax with nothing else around it. It is very hard for politicians-forgive me. It is so expensive that it triggers the behaviour change that you want, which is why you need other mechanisms within the policy to incentivise people to do things, as well as just punish them through hard economics.

Trewin Restorick: You are right; of course, you are right. All the research said the ultimate driver is price. So if energy prices go up substantially above the rate of inflation, businesses will act. You just have to look at it in a broader tax situation, which is that we should tax the things we don’t want, which is wasted resources, and put less tax on things that we want, which is employment. If you were to do a shift away from things like National Insurance on to energy prices and resource prices, then that is completely the macro picture and that is what you should try to do.

James Murray: Although of course that does then need intelligent and workable mechanisms to deal with fuel poverty issues and to deal with carbon leakage issues that come alongside it, because there is that tangible risk that-on a pure economics level, an academic level-it is an absolutely valid point.

Rhian Kelly: I guess what we would all agree on is that where we are at the moment, people are complying, but I don’t think people are changing as a result of the scheme. What we all agree on is we need policy that works and encourages people to change behaviour, which actually makes the case for energy efficiency. We agree that we need a policy that does that, but I don’t think what we have in front of us today actually does that. We do need to be careful about increasing energy costs across the board, because it could have quite significant unintended consequences. So I don’t think the answer is simply to say, "Well, let’s just ratchet up energy costs for everybody", and everybody will react appropriately.

Chair: Thank you very much for that. We are grateful for your time. We have another set of witnesses to interview, so we have to move on.