

Review of Academies' participation in the CRC Energy Efficiency Scheme

Introductory Notes

- In the light of feedback about the operation of the CRC scheme, the Government is considering simplification of the CRC. In doing so, Government will take into account feedback from stakeholders including:
 1. The effectiveness of the framework for driving energy efficiency in large private and public sector organisations, in the light of wider policy developments in other areas such as the implementation of a carbon price floor¹, electricity market reform², implementation of a Green Deal for business³ and the review of Climate Change Agreements⁴, and company reporting of greenhouse gas emissions⁵.
 2. The perceived complexity of the CRC scheme and hence the need to reduce the administrative burden on:
 - those organisations which are subject to the scheme
 - the administrators of the scheme (Environment Agency, Scottish Environment Protection Agency, Northern Ireland Environment Agency).
 3. Optimising the projected emissions savings attributable to the CRC scheme⁶ due to an increased focus on energy efficiency by the target sectors.
- This is one of a series of discussion papers which aim to stimulate an informal dialogue between Government and participants about the simplification of the CRC Energy Efficiency Scheme. As such, this paper is not a statement of Government policy.
- These papers have been developed on the basis of feedback from participants about the operation of the scheme since April 2010. Ideas for simplification arising from this dialogue process will help inform consideration for amendment to the current legislation underpinning the scheme. Any formal legislative proposals would be subject to public consultation with the intention that they would come into force through affirmative Orders in Council before registration for the second phase of the scheme begins in

¹ http://www.hm-treasury.gov.uk/consult_carbon_price_support.htm

² <http://www.decc.gov.uk/en/content/cms/consultations/emr/emr.aspx>

³ http://www.decc.gov.uk/en/content/cms/legislation/energy_bill/energy_bill.aspx

⁴ http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/ccas/ccas_policy/ccas_policy.aspx

⁵ <http://ww2.defra.gov.uk/environment/economy/business-efficiency/reporting/>

⁶ Projected savings attributable to the CRC are outlined in Annex G of the June 2010 DECC energy and emissions projections

April 2013.

- It is essential that all participants continue to comply with the existing scheme, in full, as set out in the current legislation. The CRC remains a mandatory scheme, and the Environment Agency and other administrators continue to provide support to participants with their CRC compliance. Organisations who fail to comply will be subject to enforcement action. Participants should continue to fully comply with the scheme and use the introductory phase to gain experience on reporting, complying and surrendering allowances in CRC. For advice and support on compliance with the first phase of the CRC scheme participants should refer to the CRC Energy Efficiency Scheme Order 2010⁷ and Environment Agency guidance.⁸
- This paper relates to the treatment of English schools only, although feedback is welcomed from all stakeholders irrespective of their geographic location.

Issue

1. Stakeholder feedback has indicated that the current policy of grouping Academies with local authorities for the purposes of CRC participation is increasingly untenable given the local authorities' limited influence over Academies' behaviour and the Government's localism agenda.

Background

2. Under existing CRC legislation⁹ maintained schools in England are grouped with their funding local authority for the purposes of CRC participation. Similarly, Academies are grouped with the local authority in whose area they reside. The liability for compliance with the CRC's obligations resides with the local authority, although schools are required to provide energy data to their local authority to facilitate the latter's compliance.
3. Schools emissions are predicted to typically account for c. 50% (£150,000 to £200,000 pa) of the cost of CRC allowances for participating local authorities. The School Finance (England) Regulations 2011 provides the facility for local authorities to recharge the cost of CRC allowances from both maintained schools and Academies emissions to the central part of the dedicated schools grant.
4. As part of Government's CRC simplification process local authorities have raised concerns at this recharging process on the grounds that local budgets

⁷ http://www.opsi.gov.uk/si/si2010/draft/ukdsi_9780111491232_en_1

⁸ <http://www.environment-agency.gov.uk/business/topics/pollution/98263.aspx>

⁹ CRC Energy Efficiency Scheme Order 2010 S.I. 2010/768

for maintained schools are effectively subsidising Academy-related CRC allowances. Local authorities have also stated that they are less able to influence the level of energy use by Academies due to the arms length nature of their relationship.

5. Government welcomes stakeholder feedback on the discussion options presented in this paper, as well as alternative options which maintain the scheme's emissions coverage.

Options for simplification

Option 1 – status quo

6. Under this proposal state-funded schools would continue to participate in the CRC with their relevant local authority. Local authorities would continue to recharge the dedicated schools grant for both maintained schools and Academies' CRC allowances. This option would maintain a high level of CRC coverage and emission reduction potential across the English schools estate. There would be no loss in emissions coverage where maintained schools convert to Academy status and no requirement for emission transfer or baseline re-adjustments.
7. The Department for Education is currently consulting on school funding reforms. If this option was adopted then it is proposed that the costs of CRC allowances could be retained centrally before calculating budgets for maintained schools and academies.

Option 2 – individual participation of schools

8. An alternative approach is to sever the scheme's links between schools and local authorities and require all state-funded schools who individually meet the qualifying criteria to participate independently in the scheme. Individual schools would be liable for assessing their qualification status, and if they qualify, compliance with the scheme's (simplified) requirements and the associated costs of participation – potentially an increase in the sector's administrative burden.
9. Only the largest secondary schools and Academies are likely to qualify under this proposal, thereby significantly reducing the number of schools participating and the associated emissions coverage. There is also the possibility that some local authorities may no longer qualify due to the loss of energy contributions from their schools' estate.

Option 3 – individual participation of Academies

10. Another option would be to apply the individual participation approach to Academies only, primarily in recognition of their arms length relationship with local authorities. Individual Academies would therefore assess their qualification status and participate individually where they meet the qualifying criteria. As with option 2 Academies would be legally responsible for complying with the scheme's (simplified) obligations and directly funding the associated costs of participation.
11. There would be no change to the treatment of maintained schools, who would continue to be grouped with their funding local authority.
12. This proposal has the potential to reduce the scheme's emissions coverage where Academies fail to qualify for individual participation. The conversion of maintained schools to Academies would also artificially inflate the emission reduction performance of local authorities in a similar way to asset transfers.

Option 4 – Academies grouped with local authorities for qualification, with the option for disaggregation and individual participation of the Academies post qualification.

13. For this option Academies would be considered part of a local authority's estate for the purposes of assessing CRC qualification. Once qualified a participating local authority could decide to disaggregate any of their Academies from their CRC estate. Individual Academies would also have the ability to disaggregate from the local authority. Such disaggregated Academies would be required to register as participants and would be directly responsible for their own compliance with the requirements of the CRC, including relevant costs. In the absence of such a decision to disaggregate, Academies would be treated as per the status quo described under option 1 and participate as part of the local authority's estate. The disaggregation option would only apply to Academies and not maintained schools.
14. This option would maintain emissions coverage whilst providing additional flexibility for both local authorities and Academies. This option provides a similar degree of flexibility to that provided under the disaggregation proposal for private sector groups.

Contributing to the dialogue

15. If you would like to submit written views on simplifying this aspect of the CRC scheme please send your comments to crc@decc.gsi.gov.uk or CRC Team,

National Carbon Markets, Department of Energy and Climate Change, 3 Whitehall Place, London, SW1A 2AW, **by 23 September 2011.**