

POLICY NOTE

CLIMATE CHANGE

The CRC Energy Efficiency Scheme (Revocation and Savings) Order 2018

SI 2018/841

1. This Order will be made in exercise of the powers conferred by sections 44, 46(3) and 48 of and Schedule 2 and paragraphs 9, 10, 12 of Schedule 3 to the Climate Change Act 2008.
2. The instrument is subject to negative procedure.

Policy Objectives

3. This Order makes provision for the early closure of the CRC Energy Efficiency Scheme (“the CRC Scheme”) at the end of the current phase on 1 April 2019. It revokes the CRC Energy Efficiency Scheme Order 2013 (“the 2013 Order”) with savings for the purpose of the scheme phases prior to closure.
4. The CRC scheme is a domestic climate change policy introduced in partnership by all four UK administrations in 2010. For more information on how the CRC scheme was introduced and how it operates, please see the Explanatory Memorandum accompanying this Order on the legislation.gov.uk website.
5. Whilst the creation/revocation of the CRC scheme is a devolved matter under the Climate Change Act 2008, in practice its operation depends on reserved powers under the Finance Act 2008 to introduce a carbon price in the CRC Energy Efficiency Scheme (Allocation of Allowances for Payment) Regulations 2013.
6. There are around 125 Scottish participants in the CRC scheme from across the public and private sector. Since the introduction of the CRC scheme in 2010, and despite simplification in 2013, it has been criticised by stakeholders for being overly complex and burdensome. In March 2016 the UK Government announced a package of reforms to rationalise the business energy efficiency tax environment, including the closure of the CRC scheme. To maintain the level of emissions abatement, the UK Government decided to increase the Climate Change Levy and introduce new emissions reporting for the private sector via reserved regulations.
7. The effect of the UK Government’s decision to close the CRC scheme, in particular removing the price element, meant it could not continue to operate in Scotland in the manner originally intended. Furthermore the UK Government’s introduction of new reporting for business would mean that there would be duplicate reporting if the CRC scheme continued to operate in Scotland.
8. The process to close the CRC scheme UK-wide mirrors that to create it, requiring all four administrations to recommend an Order to Her Majesty in Council. The UK Government had not involved the Devolved Administrations in the 2016 decision to close the CRC, but stated that it “will work with the devolved administrations on scheme closure

arrangements”. Subsequently officials have engaged to resolve concerns raised by Scottish Ministers on closure arrangements.

9. Following consultation the Scottish Government has decided to recommend this Order. This Order does not affect Scottish Ministers powers to make provision for emissions trading under the Climate Change Act 2008. However the closure of the CRC scheme, alongside the other measures in the UK Government’s package of reforms that replace it using reserved regulations, does reduce the accountability of the Scottish Parliament for emissions reduction. Scottish Ministers have written to the UK Government to express these concerns and to request that consideration is given to further devolution that might be needed to establish future emissions trading schemes in Scotland.

Consultation

10. To comply with the requirements of section 48(1) of the Climate Change Act 2008, before recommending this Order Scottish Ministers consulted with Scottish CRC participants (May 2018), and obtained and have taken into account the advice of the Committee on Climate Change (February 2018). This is in addition to the consultation carried out by the UK Government as explained in the Explanatory Memorandum.
11. Respondents to the consultation were overwhelmingly in favour of CRC closure in Scotland alongside England. They said it would remove administrative burdens and allow resources to be reallocated to energy efficiency improvements. The Committee on Climate Change advised that the net impact of the package of reforms announced by the UK Government in March 2016 would be a slight increase in emissions abatement in Scotland. On this basis the Scottish Ministers agreed to recommend this Order to Her Majesty in Council.

Impact Assessments

12. The UK Government has undertaken a full Impact Assessment on a package of reforms including the closure of the CRC scheme UK-wide, which is available on the legislation.gov.uk website. Therefore the Scottish Government has not undertaken separate impact assessment.

Financial Effects

13. The Minister for Energy, Connectivity and the Islands confirms that no BRIA is necessary as the instrument has no negative financial effects on the Scottish Government, local government or on business. Scottish participants in the CRC scheme will have reduced regulatory burden, and benefit from no longer needing to report on energy use and buy corresponding allowances. The UK Government has provided a combined Impact Assessment for their package of reforms which includes Scottish interest for CRC closure.

Scottish Government
Energy and Climate Change Directorate

05 July 2018