



## **Treasury Minutes on the Second, Fifth and Sixth Reports from the Committee of Public Accounts 2005-2006**

- 2nd Report: The regeneration of the Millennium  
Dome and associated land
- 5th Report: Inland Revenue: Tax Credits and deleted  
tax cases
- 6th Report: Department of Trade and Industry:  
Renewable Energy

**Presented to Parliament by the Financial Secretary  
to the Treasury by Command of Her Majesty  
November 2005**

TREASURY MINUTES DATED 16 NOVEMBER 2005 ON  
THE SECOND, FIFTH AND SIXTH REPORTS FROM  
THE COMMITTEE OF PUBLIC ACCOUNTS, SESSION  
2005-2006

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# Second Report

## Office of the Deputy Prime Minister

### The Regeneration of the Millennium Dome and Associated Land

**PAC conclusion (i): There was confusion among potential bidders about how much land was on offer in the second competition for the sale of the Dome.... In running competitions Departments should maintain openness and equality of information, which will avoid unnecessary risks to the bidders, maximise competitive tension, and optimise the likely outcome for the Exchequer.**

1. The Office accepts that the second competition for the sale of the Dome and associated land was run under unusual and complex circumstances. However, the sale process was conducted in a manner acceptable to the private and public sectors, learning and applying lessons from the first competition and the subsequent market testing. The aim was always to secure a deliverable outcome which provided value for money and secured a sustainable use for the Dome and continued regeneration of the Greenwich Peninsula.

2. Ministers agreed early on that clarity should be provided to the market that the Dome should stay. Ministers also decided early on in the market testing process that there should be no operating subsidy on the Dome and land values should be maximised, but that otherwise in talking to potential bidders English Partnerships (EP) should not put any restrictions on the proposals it was prepared to consider.

3. Ministers and EP took clear ongoing professional advice on how to conduct the second sale process and that advice was that a market testing approach would be more advantageous than another open competition. This was because:

- Substantial market knowledge had already been built up through the first sale process;
- There was little market enthusiasm for a rerun of an open competition, with widespread cynicism about the risks and costs of participating;
- Having a completely open competition would therefore dissuade key players from putting forward proposals.

4. The advice was reviewed at several different stages during 2001. At every stage, the advice was to maintain competitive tension through negotiations with individual interested parties, whilst maintaining the advantage of not having a fully open competition – which would have been counterproductive by deterring those parties who had already expressed an interest.

5. This informed the negotiating brief for EP and its advisors, dictating that:

- some land was openly offered, for consistency of approach
- but this was not proactively extended to a wider area of land so as to focus bidders' attention on providing a viable use for the Dome
- thus retaining the ability to respond to bids for more land to be included if they were made, depending on the details of the proposals and how they met Government objectives.

6. This was a commercially prudent approach and was based on ongoing professional advice, to EP and Ministers, on the contents of the bids as they evolved and how/whether there was a need to alter the approach. This allowed negotiations with bidders to progress on a flexible basis, as bidders clarified their objectives and the terms of their offers and as it became clearer how well the proposals met the Government's objectives.

7. The Office accepts the Committee's conclusion that sale processes should avoid unnecessary risks to the bidders, maximise competitive tension, and optimise the likely outcome for the Exchequer: the process that was followed in this case was designed to maintain the delicate balance between all of these criteria, in difficult circumstances, in order to secure a successful outcome overall.

**PAC conclusion (ii): This Committee and its predecessors have consistently stressed the benefits of competitive tension when negotiating commercial deals with the private sector... it is difficult to be confident that the deal which was finally secured offered the best value for money that could have been achieved.**

8. The Office is confident that excellent value for money has been secured. This is because the deal combines:

- a. value for money on EP's land, delivered over time to reflect market value when land is drawn down for development;
- b. marriage value created by the inclusion of Quintain's land and also the incorporation of land owned by Transport for London;
- c. a leisure use for the Dome that makes best use of the transport links but does not overwhelm them; and
- d. the strength of a major international consortium combining expertise in development and leisure operations.

9. The Office accepts the importance of competitive tension, and accepts that the absence of a successful outcome to the first competition meant that interest in the second sale process would be reduced and that it therefore needed to be very carefully managed.

10. The market testing conducted between February and July 2001 confirmed that there was very little market enthusiasm for a rerun of the previous competition. The professional advisory team recommended that serious bidders were unlikely to participate in a high profile competition process, and that any new structured open competition to find a use for the Dome would be unlikely to achieve a successful outcome. Among previous bidders there was a high degree of caution as to the basis on which they would participate; and consistent feedback themes were the desire for absolute clarity as to Government objectives and a compressed bidding process that would not place an undue burden on bidders.

11. Hence, the second sale process included a clear indication of the Government's objectives, while retaining competitive tension through continued market testing and individual negotiations, making it clear to bidders that EP and its advisory team were in continuous discussion with others.

12. The Office and EP assessed the successful bid against clear value for money criteria and are confident that value for money will be delivered and that the successful bid offers a comprehensive and deliverable solution for the Dome and land on the Greenwich Peninsula.

13. That solution includes, in addition to the forecast return to EP of at least £550 million: over £4 billion of private sector investment, over 10,000 new homes, 24,000 jobs, schools, health services, shops and public space, transport improvements, and a world class entertainment destination in and around the Dome. Construction is well underway on the new arena inside the Dome, and the first homes will start to be built in mid-2006. The arena will open in 2007 and, together with other temporary facilities on land nearby on the Peninsula, will be one of the key venues in London's staging of the Olympics in 2012.

**PAC conclusion (iii): English Partnerships and the Department were working within the policy set by Ministers and the local Planning Authority to retain the Dome if a suitable use could be found. Recognising this constraint, English Partnerships might usefully have sought bids that showed how much bidders were willing to pay for the Dome itself, as opposed to the valuable land around and under it. The financial case for its retention would then have been better presented with all credible options transparently assessed.**

14. Ministers agreed early on that clarity should be provided to the market that the Dome should stay: this was Ministers' policy and that of the local planning authority, and this policy shaped the nature of the sale process.

15. The market testing conducted during 2001 confirmed that there was substantial interest in the land, but only a limited level of demand from leisure operators for the Dome alone that would be translated into proposals within the framework of an open competition. The advisory team was of the view that serious bidders were unlikely to participate in a high profile competition process, and that any new structured open competition to find a use for the Dome would be unlikely to achieve a successful outcome.

16. This information was considered alongside the need for there to be significant regeneration benefits from both the development of the land and the future use of the Dome: a comprehensive solution involving the Dome and the land was most likely to achieve this, by securing complementary uses that would ensure retention of the Dome while facilitating development of the other land.

17. Proposals were received during 2001 which appeared to offer either a future use for the Dome only or development of the land only, but these ultimately did not satisfy all the assessment criteria, including in some instances on deliverability. Nevertheless, all options were considered against the assessment criteria. The successful bid, from Meridian Delta Limited and Anschutz Entertainment Group, scored highly against all the assessment criteria: it combines major international expertise and track records in development and leisure operations, and is set to deliver substantial regeneration benefits and value for money, as well as a world class future use for the Dome.

**PAC conclusion (iv): In their evaluations of the value for money of the Meridian Delta offer, the Department and English Partnerships focused much attention on the potential risks to the deal. They were less specific about the various potential additional revenues that they had identified, such as from a possible casino in the Dome. Whilst Departments should be prudent by not overstating uncertain benefits in their investment appraisals, they should still attempt to quantify the likelihood and nature of such "upsides" so as to understand and manage the project and maximise potential additional benefits to the taxpayer.**

18. The Office and EP necessarily adopted a prudent approach to the value for money assessments, in order to limit the possibility of overstating potential benefits when looked at in the context of delivery risks – in the sense of both physical developments and forecast income streams.

19. The bid from Meridian Delta Limited and Anschutz Entertainment Group scored highly in value for money terms because of the mix and scale of development and the relatively low risk to delivery compared with other proposals. Potential additional revenues from a possible casino in the Dome were subject to known delivery risks, and therefore it would have been inconsistent with the overall approach to artificially inflate the value for money figures by putting a figure on such potential additional revenues.

20. Nevertheless, the contracts contain rights for EP to receive a payment for the hotel site and a share of profits from the arena, the entertainment area and potential casino above a priority return for the operator – an incentive designed to allow profitability and commercial success, which will in turn produce economic and public benefits.

21. The contracts also give EP the right to receive 50 per cent of development profits in the event that the Dome is demolished at or after 2018, until which time it must be retained as a condition of the contracts.

**PAC conclusion (v): In deals as complex as that agreed for the Dome, estimating possible future profits will never be an exact science. So profit sharing mechanisms, with their inherent scope for returns to be undervalued, are not the best way of achieving a fair return for the taxpayer... public bodies... should think in terms of taking a royalty, or a percentage of gross takings, instead of a profit figure. This approach would also be consistent with the principle of allocating business risks to the party best able to manage them.**

22. The Office agrees that estimating possible future operating profits in complex deals can be uncertain. This is why potential profit figures were not included in the value for money assessments of the successful bid.

23. The forecast return in 2002 of £550million from the Meridian Delta consortium over the period of the deal is derived from a minimum land value payment to EP on each transfer of land, and additional development profit over 25 years. This is likely to be exceeded as the scheme unfolds. The structure of the deal was negotiated by EP, taking expert professional advice throughout, and the Office is satisfied that the contracts provide for the appropriate transfer of risks to the private sector whilst retaining a measure of continued EP engagement in order to monitor and manage implementation of the deal. The payment for the hotel site and any potential profits from the operation of the arena, the entertainment area and/or potential casino proposals, or from development following demolition of the Dome, will be in addition to the forecast minimum £550million return.

24. The structure of the contracts arose from a series of negotiating judgements, fully informed by due diligence, ongoing discussions between the parties and professional advice, and reflecting a balance of risk and reward to ensure a successful development. The minimum land value payment on land drawdown guarantees a set return across the bulk of the development, with development profits built in above those minimum payments, to reflect market movements, value created by planning permissions, and the suchlike. The hotel site payment and the profit structure on the arena, entertainment area and potential casino elements reflect the

commercial risks which the owners and operators of the facilities described are taking on, and the need to support their ability to generate a sufficient profit margin while ensuring that the public purse will benefit from a share of any greater profits that are made.

**PAC conclusion (vi): Monitoring the successful delivery of this regeneration programme will require a long term commitment from English Partnerships to ensure it has a sufficiently detailed understanding of the various constituent businesses.... English Partnerships should benchmark the various business activities being undertaken by its profit share partners and watch that value does not leak away from the taxpayer....**

25. The Office accepts that, as is the norm in projects of this nature, there is a need for a long term public sector commitment. EP and its staff are very experienced in participating in long term regeneration and development joint ventures, and delivery of this deal – though large – is no different from many others in that respect. A dedicated team as part of EP’s London and Thames Gateway Region is working and will continue to work with Meridian Delta Ltd and the Anschutz Entertainment Group to bring forward the various individual development proposals which will deliver both the Government’s objectives for a sustainable community and market value – ensuring that the Government and the taxpayer receive the financial returns set out in the complex legal documentation. The key individuals involved in negotiating the contracts, including the original consultants, will continue to be available to EP, and EP will continue to report against delivery as part of its normal corporate responsibilities.

26. The contractual arrangement between EP and its private sector partners provide for open book accounting such that EP can verify all items of expenditure and income. This will enable EP and/or its consultants to benchmark performance with similar business enterprises.

# Fifth Report

## HM Revenue and Customs

### Tax credits and deleted tax cases

*The Commissioners for Revenue and Customs Act 2005, which received Royal Assent on 7 April 2005, provided the legal basis for the new integrated Department, HM Revenue and Customs, which was launched on 18 April 2005. HM Revenue and Customs exercises the functions previously vested in the Inland Revenue and HM Customs and Excise. References below to “the Department” cover both the functions of the Inland Revenue up to 18 April 2005 and the new HM Revenue and Customs (HMRC).*

**PAC conclusion (i): The operation of Tax Credits has proved unsatisfactory for a significant minority of claimants who were disadvantaged and who cannot understand how much they are due or why in so many cases such large overpayments have been made. The Department does not have sufficient information about the claimant population to enable it to provide good service to the public and avoid disruption to its own main business of tax administration. The Department should review the information provided to claimants to enable them to understand their Tax Credit awards, and should develop as a matter of urgency the operational information needed to manage the Department’s relationship with claimants and the effects upon them.**

1. The Department accepts this conclusion and is reviewing the information provided to Tax Credit claimants, as outlined in the Paymaster General’s statement of 26 May 2005. A new award notice which explains more clearly how the award has been calculated will be issued from April 2006. The new notice has been tested with customers to seek their views and revisions have been made as a result.

2. The Department is also looking at other forms and guidance, with a view to simplifying and making important messages around hardship more prominent. Revised single sheet guidance notes are also being prepared with a view to replacing the longer notes which are currently sent out with award notices and renewal forms by April 2006. The Department is conducting a review of all tax credits communications, so that communications throughout the process can be improved to assist claimants. This will include research to improve understanding of customers’ needs.

**PAC conclusion (ii): Members of Parliament have been inundated with distressing complaints from constituents whose lives have been affected by the Department’s management of Tax Credits. The Department has also received a large volume of complaints about Tax Credits, as have the Citizens Advice Bureaux. The current appeals and complaints procedures do not include any independent process, however, and the Department remains the final arbiter.**

3. The Department notes this conclusion. Claimants who are unhappy with the way in which the Department has determined their entitlement to tax credits have a statutory right of appeal. Whilst the Department aims to settle Tax Credit appeals by agreement with the claimant, claimants can and do take their appeals to the Appeals Service, where they are heard by an independent tribunal. Customers who disagree with the Department’s handling of their complaint on other aspects of their claims, such as disputed overpayments, can complain to either the Adjudicator or the Ombudsman, both of whom are independent from the Department. The



Department's Code of Practice on Tax Credits overpayments is currently being reviewed as part of the six measures that the Paymaster General has asked the Department to develop, and which she set out in her statement of 26 May.

**PAC conclusion (iii): The scale of overpayments being recovered from claimants is much higher than envisaged when the Tax Credit scheme was designed. Tax Credit initial awards are provisional and the final award for the year in question is often significantly reduced because the claimant's pay has increased by more than £2,500, which is disregarded. This leads to recovery of the overpayment. The Department published figures in June 2005 showing that some 1.8 million (33%) of claimants had been overpaid in respect of 2003-04. The Department should review and report each year on the effect on claimants of the inbuilt overpayment and recovery of substantial sums of money so that Parliament can judge whether the consequences for claimants are compatible with its intentions in passing the legislation.**

4. The Department notes this conclusion and has published, as part of its National Statistics publication "*Child and Working Tax Credits Statistics. Finalised Annual Awards 2003-04. Supplement on Payments in 2003-04*", details of the amounts and levels of overpayments to tax credit claimants in 2003-04 as at 5 April 2004. The same figures for the year 2004-05 will be available after family circumstances and incomes for 2004-05 have been finalised.

5. The Government set out its reasoning for a £2,500 disregard in "*Child and Working Tax Credits, The Modernisation of Britain's Tax and Benefit System, Number 10*" published alongside Budget 2002. The £2,500 figure balanced trying to reduce the number and value of overpayments on one hand and the cost to the Exchequer and the need for effective targeting on the other. That decision was based on the information available at the time and in the Budget 2003, the Government pledged to carefully monitor operation of the new system and the effect of the responsiveness of tax credits to income changes.

**PAC conclusion (iv): The Department cannot show whether error rates attributable to claimant error and fraud have halved as it predicted in December 2003. The Department undertook to report on this issue by July 2005, by which time over £30 billion would have been spent on New Tax Credits. That report should quantify and analyse in detail the estimated overpayments due to fraud and error; set out targets for reducing overpayments and plans for achieving them; and show the performance indicators used by the Department to manage Tax Credits.**

6. The Department notes this conclusion and is carrying out a programme of random enquiries on a statistically representative sample of finalised claims across the Tax Credit population to measure the level of fraud and error in Tax Credits. The Department did produce some indicative findings in early July 2005 from the data available from completed reviews at that point, which were subsequently issued to the Chairman of the Public Accounts Committee.

7. Whilst the Department can identify some non-compliant behaviour before finalisation, because of delays in some claimants finalising their 2003-04 incomes and circumstances it has not yet been possible to produce a final estimate of claimant fraud and error for New Tax Credits. The Department expects to complete this review work and provide a final estimate of the level of fraud and error for the first year of tax credits (2003-04) in Spring 2006. Once we have established a baseline figure for the level of fraud and error in tax credits, it is the Department's intention to target a year-on-year a reduction in this figure beginning in 2006-07.

**PAC conclusion (v): Schemes that are intrinsically complex carry the risk of being too difficult for the intended beneficiaries to understand and for departments to handle. The Accounting Officer's ability to guard against fraud and error, and to secure economy, efficiency and effectiveness, may also be impaired by undue complexity. Accounting Officers should see that Ministers are made aware of the risks presented by unduly complex schemes, and if necessary be ready to seek a Ministerial direction where such schemes would be hard to implement to an acceptable standard.**

8. The Department does not believe that the tax credits scheme was unduly complex. However, if a department were considering a scheme which was unduly complex, the Government agrees that the department should make Ministers aware of the risks. This is in line with guidance in a Dear Accounting Officer letter issued in October 2003 implementing a PAC recommendation of November 2002 on 'Managing risk in Government Departments' which stated that "the Treasury should amend the Accounting Officer Memorandum to make explicit the consideration of risk in relation to assessing value for money". The letter clarified that the risks associated with a proposed course of action are among the factors that Accounting Officers may draw to the attention of Ministers. If a Minister still wishes to proceed, and the Accounting Officer believes that the risks are unacceptable, he should seek written instructions from the Minister to take the action in question in line with the published guidance. In giving advice to Ministers, the Accounting Officer would need to consider any relevant statutory and policy context.

**PAC conclusion (vi): The Department estimates that routine housekeeping software incorrectly deleted almost one million taxpayer records in the period 1997 to 2000, resulting in over 360,000 unidentifiable taxpayers not receiving repayments due and 22,000 others not paying tax that was due. The Department needs to maintain reliable and comprehensive management information to monitor the operation of IT systems, including data that would enable unintentional record deletion or loss to be detected promptly.**

9. The Department notes this conclusion and has undertaken a review to examine the business and legal requirements of data retention from National IT systems with the purpose of making recommendations for the implementation of a new data retention policy. The working party has now completed its research and a report is due to be produced shortly where the recommendations will be considered for implementation.

**PAC conclusion (vii): The problems in administering Tax Credits have entailed some impairment of the Inland Revenue's reputation for accuracy, fairness and proper handling of taxpayer affairs. The Department's effectiveness in managing the tax system depends on maintaining public confidence in its administrative competence. It needs to demonstrate and convince taxpayers that it has resolved the problems caused by Tax Credits; caught up on the backlog of other work; and maintained its capacity for timely, fair and accurate processing of taxpayers' affairs.**

10. The Department accepts this conclusion and is determined to do better for Tax Credits claimants. It is currently undertaking a programme of activity to improve the administration of Tax Credits and restore confidence. The action areas include: reviewing the effectiveness of the information provided to claimants; supporting claimants in understanding the responsive nature of the Tax Credits system; testing new ways of reminding claimants to report changes of circumstances; developing options to improve the quality of the helpline; improving the speed with which IT

system problems are identified so that they can be resolved more quickly; and developing innovative ways of working with the voluntary sector to provide more support to the most vulnerable claimants.

# Sixth Report

## Department of Trade & Industry

### Renewable energy

**PAC conclusion (i): Even if support for renewable energy achieves its planned contribution to reducing carbon dioxide emissions, the Department will need to encourage investment in other zero or low carbon generating capacity, or energy efficiency measures, if it is to meet its overall emissions target... The long lead times for commissioning new generating capacity mean that the Department now needs to decide urgently which forms of generation to support....**

1. The Government accepts that renewable energy generation will not by itself be enough to meet the targets for reducing carbon dioxide emissions. The 2003 Energy White Paper set out a range of areas that require action to move the UK to a low-carbon economy. Since then, the Climate Change Programme Review (CCPR) has been assessing additional options for reducing emissions within the framework of the Energy White Paper.

2. As part of the Government's general policy to focus on the climate, reliability of energy supplies, and affordability for the customer, as set out in the Energy White Paper, the Prime Minister has said that the Government will be publishing proposals on energy policy next year. These proposals will need to consider all options – obviously, the Department cannot pre-empt the results of that consideration now.

**PAC conclusion (ii): The renewables programme will provide value for money only if it helps industry to lower the cost of renewable energy to levels which approach the combined financial and carbon dioxide costs of other forms of generation.... The Department needs to set out the expected rate of reduction in the cost of generating energy from each of the main renewable sources and actively monitor progress.**

3. The Department accepts the principle that the costs of renewable energy generation should reduce over time, though when considering the case for Government support it is also necessary to factor in the benefits of renewables in improving the security and diversity of electricity supply. Cost reductions have been demonstrated by onshore wind generation, which has dropped very substantially since the early 1990s.

4. The Government has conducted a number of reviews of the costs of renewable energy generation. These include: the Performance and Innovation Unit's Energy Review (2002), supporting work for the Energy White Paper (2003), and the Renewables Innovation Review (2004). All of these reviews set out potential rates of reduction of the costs of renewable generation over time. All such estimates, however, are subject to a great deal of uncertainty, and the Department will continue to monitor progress actively.

**PAC conclusion (iii): The Renewables Obligation is currently at least four times more expensive than the other means of reducing carbon dioxide currently used in the United Kingdom, which include levying a charge on non-household users of energy and controlling the carbon dioxide emitted by key industries.... The Department and the Department for Environment, Food and Rural Affairs should manage the range of policy instruments operating under the Climate Change Programme so that public resources are applied cost-effectively.**

5. The main effect of the instruments referred to by the Committee is to incentivise energy efficiency measures, which are widely recognised to be the cheapest means of reducing carbon dioxide emissions. However, there are practical limits to the reductions of carbon dioxide emissions that can be obtained through energy efficiency alone, and additional low or zero carbon forms of energy generation will be needed in the long-term to meet the Government's long-term emissions reduction targets. Through the Renewables Obligation, the Government aims to support the development of a range of new ways of generating low-carbon electricity. It is also expected that the costs of renewable generation will reduce over time with support.

6. The benefits of promoting investment in renewables also go beyond reducing emissions: there is additional benefit in terms of an increased security of energy supply. As part of the national energy generation portfolio, renewables can also help to reduce the overall cost and risk to that portfolio by providing a hedge against future rises or spikes in fossil fuel prices and the costs associated with conventional generation.

7. The CCPR will factor in cost-effectiveness of the various options it is considering as part of its recommendations.

**PAC conclusion (iv): The 2010 target requires the costs of the Renewables Obligation to be acceptable to consumers. But the Department has no means of informing its judgement on this issue. It should consider surveying consumers or consulting consumer bodies, such as energywatch.**

8. The Government considers that the costs of the Renewables Obligation (RO – which the NAO predict will add 5.7 per cent to electricity bills by 2010) to be acceptable in the light of the benefits it will bring in stimulating the renewable generation market. Before the introduction of the RO, the Department undertook a detailed Regulatory Impact Assessment and conducted a wide consultation on options for supporting renewable energy, including energy consumer bodies. We continue to routinely involve them in consultations on the operation of the RO.

**PAC conclusion (v): Around a third of the support provided by the Renewables Obligation exceeds the extra cost of renewable generation. The Obligation provides the same level of support to all eligible technologies and sites regardless of their costs and long term potential to deliver reductions in carbon dioxide. As part of its 2005 review of the Renewables Obligation, the Department should reduce the excess support in the scheme. It could, for example, taper or phase out support for lower cost renewable technologies....**

9. The Department accepts the point that, in some cases, the support provided by the RO exceeds the extra cost of renewable generation. This is an inevitable feature of the market-based scheme that was introduced to incentivise the cheapest projects. However, the one third figure quoted assumes that there will be no change to the RO up to 2027. In fact, the Department is already consulting on proposals to reduce support for the lowest cost technologies as part of the 2005 Review of the RO. These included a specific proposal to reduce support for landfill gas (the cheapest of current ROC-eligible technologies) from 1 April 2009. The Department has also said that a similar approach for onshore wind would be a policy option for the future.

**PAC conclusion (vi): By including sites within the Renewables Obligation from the previous support scheme the Department has raised unexpected revenue for the Exchequer from electricity consumers, worth between £550 million and**

**£1 billion by 2010.... and the resulting surpluses accrue to the agency which runs the scheme and are transferred to the Exchequer.**

10. The Government accepts that these arrangements have given rise to additional revenue to the Exchequer. These arrangements were put in place to kick-start the Renewables Obligation by creating a market for Renewables Obligation Certificates (ROCs) in the early years of the scheme. The level of the surplus was unexpected and is a result of recent rises in electricity prices and early delays in the build up of renewable energy projects.

11. Of the Non-Fossil Fuel Obligation (NFFO) surplus accumulated to date, the Government has allocated £60 million to schemes to support renewable demonstration projects, including offshore wind and biomass.

**PAC conclusion (vii): Predictions commissioned by the National Audit Office suggest that output from onshore wind sites should grow from 0.4% of the UK's total electricity supply in 2003-04 to nearly 3% by 2010-11. These sites are often unpopular with local communities and the likely rapid expansion of onshore wind power in the next five years could create a public reaction against renewable energy.**

12. Surveys undertaken by the Department and other organisations show broad general support for the expansion of renewable energy. A public attitude survey in 2003 showed that over 90 per cent were in favour of encouraging further development. Surveys conducted over the last decade have consistently shown that most people are in favour of wind energy, with levels of support increasing among those living near existing wind farms.

13. The Government has issued detailed guidance on planning issues for renewable energy development (PPS22). Local communities are involved in a number of stages of the planning process and no proposal for onshore wind development is automatically accepted. The fact that local concerns are seriously considered is suggested by the significant proportion of onshore wind applications that are rejected (38 per cent between January and September 2005).

**PAC conclusion (viii): In the first three years of the Renewables Obligation scheme, the capacity of accredited sites generating electricity from landfill gas has increased by over a third. Public financial support for landfill gas sites is, however, at odds with the objectives of environmental legislation which promotes recycling of waste, rather than its disposal in landfill, and thus limits the potential for this form of renewable energy.**

14. The Department accepts that the potential for landfill gas is limited. There are a number of measures in place to reduce the amount of waste sent to landfills: the EU Landfill Directive, the landfill tax, the Landfill Allowance Trading Scheme, and the promotion of recycling. However, the amount of waste that goes to landfill will not be reduced to zero, and where landfill sites already exist, the creation of landfill gas represents a renewable energy source that would be wasted if it was not collected and burned. For these reasons, it is supported through the RO.

**PAC conclusion (ix): Wind power generation is much less environmentally intrusive when sited offshore. The Department should factor in this environmental advantage when considering the relative costs and benefits of onshore and offshore wind power, and the level of financial support provided to each.**

15. The Department accepts that there are benefits to offshore wind generation, though onshore wind also has its benefits. All environmental factors are included in the consideration of planning applications, on a case-by-case basis.

16. The RO is technology-neutral as regards wind development. However, in recognition of the significant potential of offshore wind, the Government has allocated £117 million in grants to Round 1 offshore schemes.

**PAC conclusion (x): Biomass can provide a secure, stable and sustainable energy source, but levels of generation remain low.... the Department needs to decide whether to continue to support biomass and, if so, how to make its support programmes more effective.**

17. The Department agrees that biomass is a valuable source of renewable energy generation. In the period 2004-05, 27 per cent of ROCs issued were to biomass technologies, so it is clear that current levels of generation are significant, though the Department is keen to further encourage this. The Government has set up a Biomass Task Force under Sir Ben Gill to investigate options for optimising the contribution of biomass. This reported on 25 October and the Government is considering the recommendations of the task force carefully.

**PAC conclusion (xi): The Renewables Obligation has the effect of transferring substantial sums from consumers to the renewables industry – over £400 million in 2004-05, rising to £1 billion by 2010 – amounting to some £5 billion over the whole period. But this subsidy to renewables is not authorised under the annual supply procedure and so... is not subject to regular Parliamentary scrutiny.... The government should make arrangements for annual Parliamentary scrutiny, and the amounts involved should be reported annually to this Committee.**

18. The RO was designed to give long-term confidence to investors in renewable energy generation. It was debated extensively in Parliament at the time it was passed and has been amended a number of times, with those amendments also debated in Parliament. The costs to consumers of the scheme were made clear in the Regulatory Impact Assessment that was issued at the time the policy and associated legislation were brought forward. These costs are fixed and were considered acceptable by Parliament when the relevant legislation was passed.

19. The Department will ensure Parliamentary scrutiny of the cost of the RO by including information on the cost to consumers of renewables support in future annual Departmental reports. Full details on the operation of the RO, including information on costs, are also published annually by Ofgem, as required by the Renewables Obligation Order.



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