House of Commons

Committee of Public Accounts

The Carbon Trust: Accelerating the move to a low carbon economy

Twenty–first Report of Session 2007–08

Report, together with formal minutes, oral and written evidence

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The Committee of Public Accounts

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Mr John Healey MP (*Labour, Wentworth*).

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Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/pac. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Emma Sawyer (Committee Assistant), Pam Morris (Committee Assistant) and Alex Paterson (Media Officer).

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Summary

The Carbon Trust was established in 2001 to help businesses and public sector organisations in the United Kingdom reduce their carbon dioxide emissions and to support the development of commercial low carbon technology. It is a private company limited by guarantee and received funding of £100.2 million in 2006–07, of which £77.1 million came from the Department of Environment, Food and Rural Affairs ("The Department"), and £23.1 million from the Department for Business, Enterprise and Regulatory Reform and the devolved administrations. A further £3 million of income came from investment returns and loan repayments.

In 2006–07, the Carbon Trust achieved a reduction in carbon dioxide emissions of between 1.2 million and 2.0 million tonnes. It appears to be on course to meet its target of an annual reduction in emissions of 4.4 million tonnes on 1990 levels by 2010. This target is a small contribution, however, in the context of increasing global energy costs and increased public awareness of climate change. The Carbon Trust could deliver more, but further progress depends upon contacting greater numbers of organisations without a corresponding increase in costs or a breach of the European State Aid rules. The Carbon Trust does not expect to use public money to fund advice to large businesses within five years, and is examining how to extend its reach into smaller businesses and deliver advice to this sector in a more efficient manner. Public funding of the Carbon Trust's advisory role should be based on the Carbon Trust clearly demonstrating that its role cannot be undertaken by private sector advisory services.

The Carbon Trust also needs to overcome the reluctance of some senior business executives to prioritise emissions reductions as a business issue, particularly in the face of competing commercial activities which may offer their shareholders better returns than those offered through investing in new more energy efficient equipment. The Carbon Trust should make greater use of its Energy Efficiency Accreditation Scheme to enable businesses to market initiatives taken to reduce carbon dioxide emissions, potentially shifting customer preferences and hence increasing the likely return on energy efficient investments.

The Carbon Trust's private sector status has allowed it to engage with commercial organisations on an equal footing, providing financial flexibility and the capacity to leverage funds from business in supporting innovation in low carbon technology.

On the basis of a report by the Comptroller and Auditor General,[1] we examined the effectiveness of the Carbon Trust in encouraging businesses and public sector organisations to reduce carbon dioxide emissions, and the merits of establishing a private sector company to deliver public services.

1 C&AG's Report, *The Carbon Trust, Accelerating the move to a low carbon economy*, HC (Session 2007–08) 7

Conclusions and Recommendations

1. **The Carbon Trust appears likely to meet its 2010 target of an annual reduction in carbon dioxide emissions of 4.4 million tonnes, but the target was not a particularly challenging one in the context of the Department's overall target to reduce emissions by 118 million tonnes a year by 2010.** As energy prices rise and public awareness of the need to tackle climate change increases, the Department should identify ways in which the Carbon Trust's contribution could be greater.

2. **By the end of 2006–07 businesses and public sector organisations had implemented less than 40% of carbon dioxide savings identified by the Carbon Trust over the period 2003 to 2006.** Cost was seen as a significant barrier, particularly for smaller businesses with limited access to capital, and many management boards had yet to be convinced of the commercial benefits of implementation. The Carbon Trust should:

- require its account managers to collate data on typical energy costs in each key business sector to strengthen the evidence base used to demonstrate to business leaders the commercial benefits of improved energy efficiency; and
- review its financial support incentive of 100% interest free loans for smaller businesses, to enable it to assist more eligible businesses within its funding constraint through partial as well as full support measures.

3. **Institutional investors and other shareholders would be more likely to support implementation of the Carbon Trust's recommendations to improve energy efficiency if they could be shown to enhance long term share values.** The Carbon Trust should raise the profile and impact of its Energy Efficiency Accreditation Scheme, which enables businesses to derive commercial benefit from marketing their actions to reduce carbon dioxide emissions, by:

- using future marketing campaigns to raise public awareness of the scheme;
- linking accreditation to implementation of the Carbon Trust's recommendations; and
- encouraging accredited organisations to display the logo in subsequent marketing campaigns.

4. **Increasing the uptake of energy consultancy services by businesses depends upon empowering private sector specialists to contact organisations and build closer working relations.** The Carbon Trust has to restrict the frequency of consultancy commissions to stay within the Department's funding. With a typical cost of £435 a day for a standard survey and £700 a day for more specialist advice, businesses already pay a proportion of the consultancy costs in some circumstances. The Carbon Trust should explore a franchising model that would enable accredited consultants to build closer working relations with businesses whilst retaining the credibility of the Carbon Trust's expertise.

5. **The need for public funding of energy efficiency advice should decrease as public awareness of climate change and energy prices increase.** The Carbon Trust should develop an exit plan to scale back its advice work over the next five to ten years, setting out:

- clear trigger points for the Carbon Trust and the Department to determine when it might be appropriate to reduce public funding, taking account of the stability and growth of the private sector energy consultancy market; and

- an objective review process to examine the need for ongoing funding involving representatives from the Carbon Trust, the Department for Environment, Food and Rural Affairs, other government sponsors, and the market.

6. **An approach targeted at those businesses or sectors responsible for large scale carbon dioxide emissions would bring benefits, but compliance with European Union rules on State Aid may restrict the Carbon Trust's ability to do so.** The Carbon Trust should record cases where State Aid rules may have hindered the efficiency of efforts to reduce carbon dioxide emissions and the Department should then engage with the European Commission to discuss whether the limitations can be overcome.

7. **In successfully leveraging private sector investment in emerging low carbon technologies, the Carbon Trust has adopted practices consistent with the venture capital market. However, a runaway success in one of the fund investments could leave the Carbon Trust open to criticism if its fund managers make considerable returns.** The Carbon Trust should regularly review such remuneration arrangements for fund managers with market rates in the private sector to confirm that the package helps the retention of experienced staff and the maintenance of investor confidence, whilst also protecting the public purse.

1 Encouraging businesses and public sector organisations to reduce carbon dioxide emissions

1. The Carbon Trust was established in 2001 to help businesses and public sector organisations in the United Kingdom to reduce their carbon dioxide emissions and to support the development of commercial low carbon technologies. It does this primarily by working with businesses and public sector organisations to identify carbon dioxide emissions, providing advice from its consultants on how emissions could be reduced, and supporting the development of commercially promising new technologies through partnerships, funding, expert advice and large scale demonstrations.

2. The Carbon Trust is a private company limited by guarantee and is a key part of the Government's Climate Change Programme to cut United Kingdom annual carbon dioxide emissions by 20% by 2010 from a baseline in 1990 of 592 million tonnes (equivalent to a reduction of 118 million tonnes). Some 27% of the 118 million tonne reduction (32 million tonnes) was expected to come from businesses, and the Department set the Carbon Trust a target to reduce carbon dioxide emissions in this sector by 4.4 million tonnes a year by 2010. In 2006–07, the Carbon Trust received public funding of £103.2 million, of which £77.1 million was provided by the Department for Environment, Food and Rural Affairs (the Department).[2]

3. Through its work with businesses and public sector organisations, the Carbon Trust achieved a reduction of between 1.2 million and 2.0 million tonnes of carbon dioxide emissions in 2006–07, and was on track to meet its target of an annual reduction of 4.4 million tonnes of carbon dioxide emissions on 1990 levels by 2010. With increased public recognition of the need to reduce carbon emissions and higher fuel prices, the Carbon Trust has an opportunity to deliver much higher reductions than it has already achieved.[3] Further reductions depend upon:

- encouraging businesses and public organisations to seek advice from the Carbon Trust; and
- persuading senior managers and staff in client organisations to implement recommendations on how to reduce carbon emissions.

4. Market penetration by the Carbon Trust has remained relatively small compared to the number of businesses and public sector organisations operating within the United Kingdom. The Carbon Trust estimated that it had worked with at least 12% of companies in the United Kingdom with energy bills of more than £50,000 a year and at least 24% of corporate groups. Only a small percentage of businesses with energy bills of £50,000 or less

2 C&AG's Report, para 1, 4, Figure 2

3 Qq 2, 47; C&AG's Report, para 2.3

had sought advice from the Carbon Trust. Just 30% of local authorities, 40% of universities and 12% of hospital trusts had made use of the Carbon Trust's services.[4]

5. The Carbon Trust is required to comply with European Union rules on State Aid, which prohibit Member States from giving state resources to organisations where such resources have the potential to distort competition. As a consequence, initiatives to encourage businesses to reduce their carbon emissions could not be targeted at specific organisations within a sector, such as the larger businesses likely to generate bigger volumes of carbon dioxide. The Carbon Trust was not therefore able to target the two-thirds of businesses with energy bills of greater than £500,000 a year with which it had not previously worked and which collectively caused around one third of all United Kingdom business carbon dioxide emissions.[5] The Department was unable to confirm whether it had made representations to the European Union on the potential merit of excluding this type of support from State Aid rules given the increasing challenges posed by climate change.

6. The attitude of United Kingdom businesses towards climate change appeared to be changing. In 2007, the Carbon Trust reported that 68% of FTSE 100 companies were either treating climate change as a key issue or actively addressing it, compared with 38% of companies at the end of 2004. Increasing numbers of businesses saw climate change as an opportunity to develop new products as well as a risk. 20% of businesses were looking to develop new products and services related to climate change. Institutional investors and other shareholders were unlikely to take climate change seriously, however, unless they believed that it would enhance long term share values. The Carbon Trust had taken over the Energy Efficiency Accreditation Scheme two years ago to enable businesses to derive commercial benefit from their climate change initiatives. The Scheme had made a small profit last year, but only around 200 organisations had been accredited. The Carbon Trust acknowledged that it was now appropriate to extend the scheme along the lines of the Investors in People model.[6]

7. The Carbon Trust had improved the quality and timing of advice offered to businesses. The introduction of 38 direct account managers and 14 contract account managers had enabled the Carbon Trust to time its interventions better, for example, by offering advice to retail chains when they were due to refurbish their stores. The Carbon Trust had also reduced from 95 days to 45 days the time between their visit and despatch of their report.

8. Less than 40% of the carbon savings identified by the Carbon Trust over the period 2003 to 2006 had been implemented by its customers by 31 March 2007. Simple, practical recommendations could be readily implemented to generate immediate financial benefits as set out in **Box 1**. In practice, some of the Carbon Trust's recommendations were more difficult to implement, such as recommendations to use biofuels. The longer term goal of carbon free industry partly depended, however, on the Carbon Trust's ability to convince

4 Qq 7, 13–14; C&AG's Report, para 2.13

5 Qq 96, 114; C&AG's Report, Appendix 4

6 Qq 10, 15, 16, 61; C&AG's Report, para. 2.11
The Investors in People Standard is a business improvement tool designed to advance an organisation's performance through its people. Over 30,000 organisations in the United Kingdom are recognised as Investors in People. Further information on the Investors in People Standard is available at www.investorsinpeople.co.uk.

senior management boards that there was a business advantage in taking forward all recommendations.[7]

Box 1: Simple and practical recommendations from the Carbon Trust can generate immediate financial savings to an organisation

Lighting systems at a large hangar for RAF Nimrod aircraft came on at four o'clock in the morning and did not switch off until midnight. Changing to a demand managed system instead by installing a red button in the hangar to enable staff to switch on the lighting for an hour at a time has generated a considerable reduction in energy usage.

The East stand of Manchester United's Old Trafford Stadium was performing better in terms of energy consumption than either the North and South stands because the substation and monitoring arrangements resulted in the lighting being left on for longer periods of time in the North and South. As a result of advice from the Carbon Trust the lighting system for the whole stadium was put on to a common basis, resulting in an 18% reduction in energy usage.

9. Approximately 22% of the Carbon Trust's recommendations were adopted in the first year, but further take up depended on working with businesses. The main barriers to implementing recommendations were cost or lack of funding, lack of time, and insufficient benefit to the business (**Figure 1**). For the vast majority of businesses, investing in energy efficiency measures was cost effective, but 65% of businesses still believed that the cost of mitigating climate change was too high. Energy efficiency measures were crowded out of the management agenda by investment opportunities perceived as more interesting or offering better returns. Businesses often lacked data on energy usage, finding it difficult to monitor their energy consumption accurately. They relied instead on estimated figures from suppliers, which did not show them how energy had been used within the business, and, therefore, how savings could be made.[8]

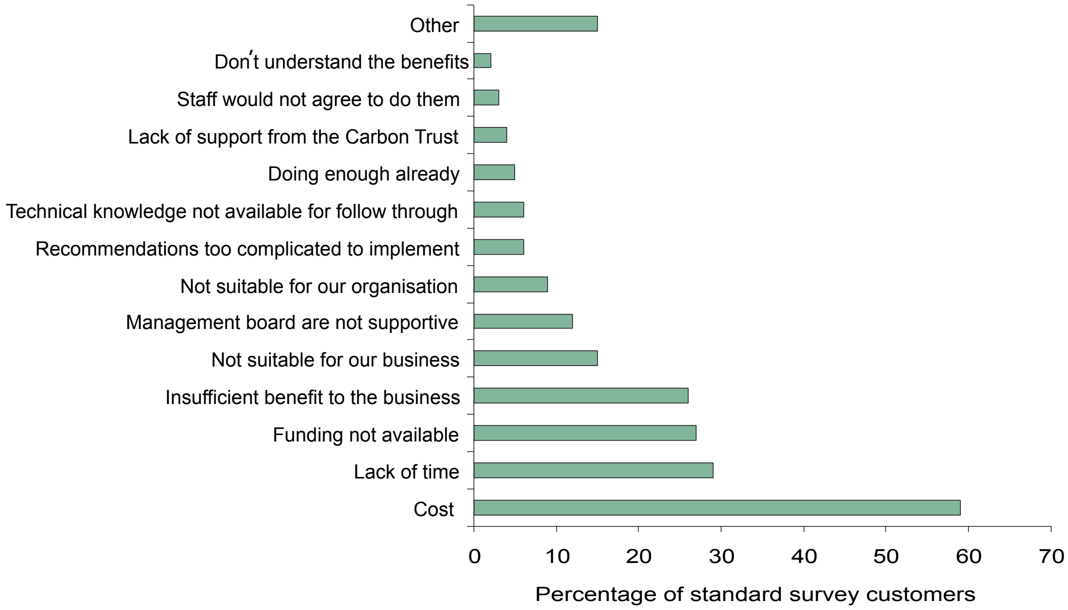
10. Encouraging greater take up of recommendations depends in part upon supporting energy consultants to work more effectively with businesses. The Carbon Trust had developed a consultant accreditation scheme to standardise and raise the quality of advice offered. The chargeable rates of £435 for a standard site survey and up to £700 a day for more specialist advice, however, restricted the time that could be spent with businesses due to the limits on public funding and the restrictions on the level of financial support to each organisation to meet European Union requirements on State Aid. Any step change in take up without a corresponding increase in government funding would be likely to depend on franchising specified services for accredited third parties to market competitively.[9]

7 Qq 6, 62, 89; C&AG's Report, para 2.7

8 Qq 9–11, 53–54, 66–68; C&AG's Report, para 2.8

9 Qq 66, 104; C&AG's Report, para 15

Figure 1: Cost was the main barrier to organisations implementing the Carbon Trust's recommendations



Source: National Audit Office

11. One of the difficulties faced by organisations was finding the financial resources to implement the Carbon Trust's recommendations, particularly to support investment by businesses in energy efficient equipment or other measures which required an up front cash injection. In 2006–07, the Carbon Trust offered 482 loans worth around £18 million to help businesses invest in new equipment to reduce energy costs. The provision of loans was restricted by the funding available and any significant expansion of the loan scheme would depend upon working more closely with the private finance sector to raise capital. The public monies available might be leveraged more effectively to achieve change in a greater number of businesses if the Carbon Trust moved away from providing 100% interest free funding in all eligible cases.[10]

10 Qq 17, 49; C&AG's Report, para 2.1

2 Delivering a public service through a private company

12. The Carbon Trust is a private sector company delivering a public service but has 'not for dividend' status and re-invests its profits back into the business. As at 31 March 2007 it had five subsidiary companies. Most of its administrative functions had been contracted out, together with the management of the accredited energy consultants used to provide energy advice.[11]

13. Establishing private companies to deliver public services remains relatively unusual. The Department had listened to feedback from businesses, which had suggested that potential clients would have greater trust in the independence and nature of the advice received if it were from a private sector company, rather than a non-departmental public body or other public sector organisation. The private sector model had also given the Carbon Trust greater financial flexibility and ability to leverage funds from business than would have been the case if it had operated in the public sector. The Department lacked clear evidence, however, to establish whether reductions in carbon dioxide were directly achieved as a result of the Carbon Trust's intervention or due to wider fiscal and customer pressures on organisations.[12]

14. By providing part-funded or wholly funded advice and interest free loans to organisations, the Carbon Trust had sought to raise business awareness of the benefits of improving energy efficiency and reducing carbon dioxide emissions. One measure of its success would be when it no longer had a role. Over the next five years, the Carbon Trust has planned a shift in the balance of its activities, away from providing publicly funded support to large businesses, towards innovation, new low carbon technologies and new ways of doing business. It estimated that the work already undertaken to support emerging technologies would reduce carbon dioxide emissions by between 13.7 million and 20.7 million tonnes by 2050.[13]

15. The Carbon Trust relied on 414 consultants to provide energy advice to organisations, rather than employing in-house staff for such work. Increased demand for specialist advice would require the continued use of consultants. It might be possible to provide standardised services such as advice to organisations with energy costs below £50,000 a year, more cheaply by staff based in the Regional Development Agencies. The Carbon Trust was exploring this option.[14]

16. The National Audit Office had found that energy consultants delivering energy advice services on behalf of the Carbon Trust were generally less satisfied with the Carbon Trust than customers receiving services. 47% of consultants were dissatisfied with the report templates and other materials provided by the Carbon Trust, 39% expressed dissatisfaction

11 C&AG's Report, paras 1.4, 1.8, 1.14

12 Qq 41, 46, 94; C&AG's Report, paras 1.10, 1.11

13 Qq 42, 50, 94; C&AG's Report, Figure 14

14 Qq 86, 88

with the Carbon Trust's willingness to listen to their ideas and 33% were dissatisfied with how efficiently the Carbon Trust operated. The Carbon Trust listened to ideas and advice from a wide range of stakeholders including its consultants but acknowledged that its recent process of re-accrediting consultants might have contributed to some consultant dissatisfaction. It needed rules in place to maintain the timeliness, quality and consistency of advice provided to its customers but had made some changes to increase flexibility, for example, around report presentation.[15]

17. The Carbon Trust had encouraged the private sector to spend around £2 on low carbon technology for every £1 it had committed to this work, and around £10 for every £1 it had spent through its venture capital investment programme. Achieving greater leverage from the private sector was both a challenge and an opportunity for the Carbon Trust. One example where the Department believed that the Carbon Trust was being successful was on the Partnership for Renewables project, which aimed to develop onsite renewable energy projects with local authorities, hospitals and other public sector bodies. Here the Carbon Trust was expecting to be able to leverage in from the private sector approximately 50 times the amount of money committed by the Government.[16]

18. The Carbon Trust was operating a "carried interest" scheme as part of the remuneration package for two of its investment managers.[17] The managers had contributed 25% of the capital of the fund advisory partnership, Carbon Trust Investment Partners, a total of £50,000 (**Figure 2**). In a hypothetical situation whereby the £10 million Clean Energy Fund, which was currently being managed by Carbon Trust Investment Partners, paid out 300% of the value of the fund over seven years, the Carbon Trust would earn £26 million and the two investment partners would earn a total of £2 million. This would represent an exceptional level of performance in this area compared to that of other venture capital technology funds. In this scenario the investment made by the two investment managers would increase by a factor of 40 over seven years. Assuming a more realistic scenario, whereby the Fund paid out 165% of the value of the amount invested over seven years, the Carbon Trust would make a return of £15 million and the two investment managers would make a total return of £195,000, 3.9 times the amount that they invested. The Department was focused on ensuring that sufficient "Chinese walls" existed between the investment managers and the people awarding grants to support early stage development of low carbon technology. The Carbon Trust would put in place further safeguards to address the potential risks of these arrangements but they reflected usual market practice for venture capital investment funds.[18]

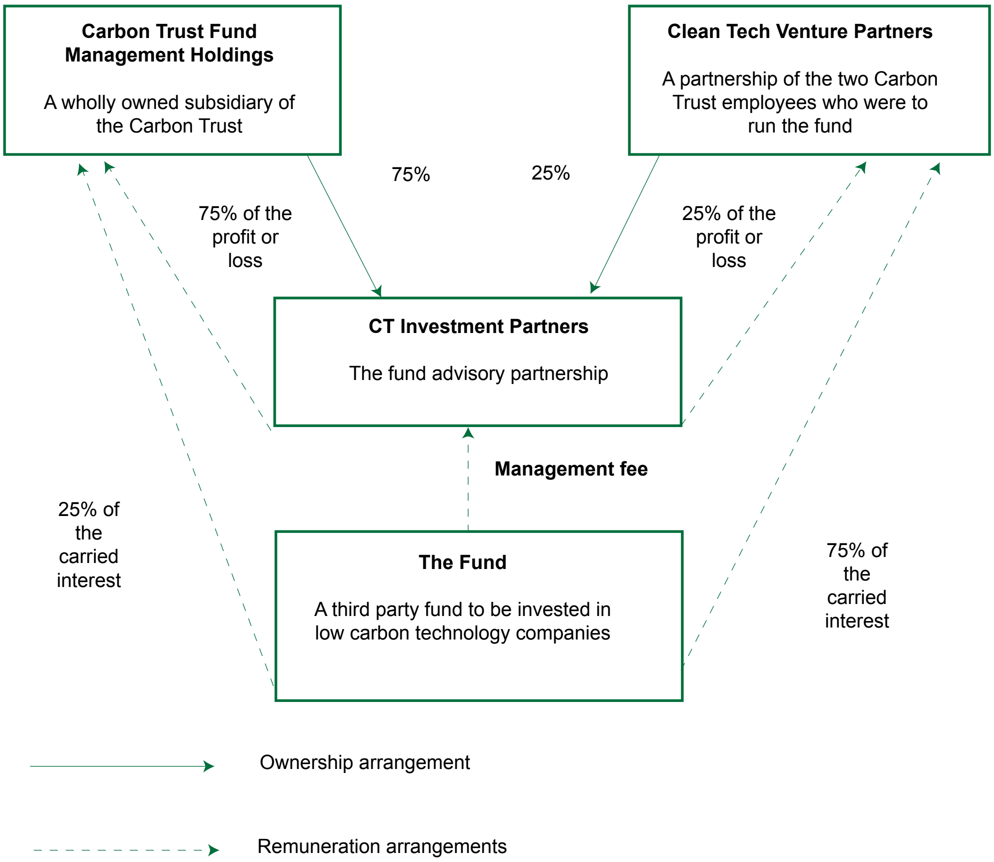
15 Qq 19, 125–126; C&AG's Report, para. 2.20

16 Qq 18, 28; C&AG's Report, para. 3.6

17 Carried interest is the portion of any gains above a hurdle rate to which the fund managers and the Carbon Trust are entitled. 20% of the profit above a hurdle rate of 6% is to be split between the Carbon Trust and the fund managers. Carried interest payments are customary in the venture capital industry, in order to create a significant economic incentive for venture capital fund managers to achieve capital gains.

18 Qq 31–38; C&AG's Report, paras 3.12, 3.13, Figure 17

Figure 2: Carried interest arising from any investment fund would be shared between Carbon Trust Fund Management Holdings and Clean Tech Venture Partners



Source: National Audit Office

Formal Minutes

Monday 28 April 2008

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon	Mr Keith Hill
Angela Browning	Geraldine Smith
Mr Ian Davidson	Mr Don Touhig
Mr Philip Dunne	Mr Alan Williams
Mr Nigel Griffiths	Phil Wilson

Draft Report (*The Carbon Trust: Accelerating the move to a low carbon economy*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 18 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Twenty-first Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Wednesday 30 April 2008 at 3.30 pm.

Witnesses

List of written evidence

List of Reports from the Committee of Public Accounts 2007–08

First Report	Department for International Development: Tackling rural poverty in developing countries	HC 172 (Cm 7323)
Second Report	Department of Health: Prescribing costs in primary care	HC 173 (Cm 7323)
Third Report	Building for the future: Sustainable construction and refurbishment on the government estate	HC 174 (Cm 7323)
Fourth Report	Environment Agency: Building and maintaining river and coastal flood defences in England	HC 175 (Cm 7323)
Fifth Report	Evasion of Vehicle Excise Duty	HC 227
Sixth Report	Department of Health: Improving Services and Support for People with Dementia	HC 228 (Cm 7323)
Seventh Report	Excess Votes 2006–07	HC 299
Eighth Report	Tax Credits and PAYE	HC 300
Ninth Report	Helping people from workless households into work	HC 301 (Cm 7364)
Tenth Report	Staying the course: the retention of students on higher education courses	HC 322 (Cm 7364)
Eleventh Report	The compensation scheme for former Icelandic water trawlermen	HC 71 (Cm 7364)
Twelfth Report	Coal Health Compensation Schemes	HC 305 (Cm 7364)
Thirteenth Report	Sustainable employment: supporting people to stay in work and advance	HC 131 (Cm 7364)
Fourteenth Report	The budget for the London 2012 Olympic and Paralympic Games	HC 85
Fifteenth Report	The Pensions Regulator: Progress in establishing its new regulatory arrangements	HC 122
Sixteenth Report	Government on the Internet: Progress in delivering information and services online	HC 143
Seventeenth Report	Foreign and Commonwealth Office: Managing Risk in the Overseas Territories	HC 176
Eighteenth Report	Improving corporate functions using shared services	HC 190
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Twentieth Report	HM Revenue & Customs: Helping individuals understand and complete their tax forms	HC 47
Twenty-first Report	The Carbon Trust: Accelerating the move to a low carbon economy	HC 157

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 5 December 2007

Members present:

In the absence of the Chairman, Mr Alan Williams was called to the Chair

Mr David Curry	Geraldine Smith
Mr Ian Davidson	Mr Don Touhig
Mr Philip Dunne	Phil Wilson
Dr John Pugh	

Sir John Bourn KCB, Comptroller and Auditor General, National Audit Office, was in attendance and gave oral evidence.

Mr Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, was in attendance and gave oral evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

The Carbon Trust: Accelerating the move to a low carbon economy

(HC 7, Session 2007-08)

Witnesses: **Mrs Helen Ghosh,** Permanent Secretary, Department for Environment, Food and Rural Affairs, and **Mr Tom Delay,** Chief Executive, The Carbon Trust, gave evidence.

Q1 Mr Williams: Today's Report from the C&AG is on the Carbon Trust; welcome back to Helen Ghosh, the Permanent Secretary from the Department for Environment, Food and Rural Affairs. I am not sure, Mr Delay, whether you have had the pleasure of being here before.
Mr Delay: Not in front of this Committee, it is the first time.

Q2 Mr Williams: Welcome to your visit and I hope for your sake you do not have a second. Mrs Ghosh is very used to appearing before this Committee and she knows how we work. The Carbon Trust target of 4.4 million tonnes sounds good in isolation, but when you put it in the context of 118 million tonnes, which is the Government target, it actually appears rather miniscule, does it not, it is less than 4%. Could you not have gone for a more ambitious target?
Mrs Ghosh: From a policy point of view of course, the support we give to the Carbon Trust and its activities is one of a range of measures that we have to achieve our climate change targets alongside fiscal, financial and behaviour change activities. What the Report demonstrates is that it does make a substantial contribution to the 2010 target overall for business of 32.3 million tonnes of carbon, it is about 14% of that, and therefore we do think it is very good—again as the Report demonstrates—value for money, but we need to see it alongside the other activities that the Government has got in hand.

Q3 Mr Williams: You said it is one of a range and page 10, figure 2, gives information on some of the other approaches that have been adopted, and it actually comes out at the wrong end, does it not, it is a fairly costly process?
Mrs Ghosh: It is cost-effectiveness. What that chart shows is that it is the most cost-effective measure that we have short of the Emissions Trading Scheme, that is the net present value of what the Carbon Trust does, so in a sense, Chairman, it supports your earlier point about the value of what the Carbon Trust does.

Q4 Mr Williams: In that case would it not make sense to put more money into it?
Mrs Ghosh: We will probably explore some of these issues in the course of the hearing. As the Report demonstrates, and Tom will be able to say more about this, the Carbon Trust is achieving a great deal, both in its solutions context and in its technological innovation context. There may be limits to how much further that can be pushed in terms of the existing barriers there are, for example, within business, but in terms of the Government thinking about a range of measures and the value for money of each of the measures and targeting activity in the various areas, whether it is with the citizen, whether it is with financial mechanisms, it seems to us that the balance of our spend is about right, although of course we will be keeping an eye on particularly, and thinking about our CSR spend, the appropriate balance of our spend.

Q5 Mr Williams: Are there alternative marginal activities you could add which again would be cost advantageous; have you analysed that?
Mrs Ghosh: Again, it is something the NAO Report talks about in terms of leverage of innovation, for example. Tom, would you like to say something about how you have been shifting activity?
Mr Delay: In essence the Carbon Trust has two timeframes in which it operates; the first is in providing support to businesses—it seeks to reduce carbon dioxide emissions in the immediate period up to 2010—the second is in the development of commercial low carbon technologies that will see market readiness as it were, typically from 2020 onwards. The Report suggests that we are on track to deliver 4.4 million tonnes of carbon dioxide benefit by 2010, which is the expectation that the Government has of us in its climate change programme, but it is also on track to deliver annual carbon dioxide savings of up to 21 million tonnes, which is much more significant, by 2050. So there is always a discussion within the Carbon Trust as to where the emphasis in terms of allocation of resource should be—should it be on carbon savings in the short term, should it be on the development of low carbon technologies and solutions for the future in the longer term. On the margin we are always looking around at that balance and, within a particular timeframe, we allocate our resources on the basis of pounds of public money per tonne of carbon saved, so we have a metric that we use very much around the effectiveness of our work.

Q6 Mr Williams: You identified carbon dioxide savings earlier between 2003 and 2006, of which only 40% so far have been delivered. Understandably there has to be a start-up process and so on, but that seems to be a relatively low figure in relation to your final target. Are you still optimistic that you will achieve your target?
Mrs Ghosh: The projection that we have for the contribution that the Carbon Trust will make of the 4.4 million tonnes is on the assumption of take-up, of implementation of the recommendations that the Carbon Trust makes, on a current trajectory and indeed a constantly further refined and improved projection, so it is not an assumption that, for example, the businesses that Tom and his team advise will take up 100% of the recommendations because, as experience shows, for all sorts of good reasons the Report gives a good analysis of why that is.

Q7 Mr Williams: To what extent are you realistically targeting the organisations you approach? I see that you only approached 12% of the companies with energy bills more than £50,000, yet I would have thought those with a higher level of absorption of energy would be the very companies you would be targeting. Why is that not the case?
Mr Delay: Very broadly we look at the map of carbon emissions from business in the UK, and about a quarter of those emissions are from businesses with an energy bill of less than £50,000 per annum. That means that three-quarters of the emissions are from larger businesses with an energy bill of above £50,000 per annum. That is about 90,000 businesses in absolute. As you go towards larger businesses, so the carbon footprint of those businesses increases and so the opportunity to achieve carbon savings also increases. As a result, in the last three years we have actually worked with 52 companies in the current FTSE100. Of the businesses with an energy bill of over £500,000 we have worked with about a third, and that represents half the total emissions from UK business as a total and we have worked with about a quarter of all corporate entities with energy bills above £50,000—the bigger the company, the higher the proportion of work that the Carbon Trust has done within that particular segment. We are, however, very conscious of the fact that we need to offer a wide range of support to all businesses across the UK and indeed all public sector organisations with significant energy bills, so we spend a great deal of our focus on the smaller businesses below the £50,000 level who nevertheless have very significant opportunities to reduce carbon over time, but our focus is on the larger figures. The 12% actually, I believe, when you relate it to a third of all businesses with an energy bill of over £500,000—those that have half of the total business emissions in the UK—that is not bad from a standing start.

Q8 Mr Touhig: Mrs Ghosh, I realise that it is not easy to convince companies to go green but missing your 2010 target by 25% is just not good enough, is it?
Mrs Ghosh: As you know, we have set out a range of measures alongside the policy activities that I described, a range of measures in the Energy White Paper that will help us achieve that target, but as my Secretary of State and others have said it will be a tough target to hit. In terms of the Kyoto target, clearly we are doing very well on greenhouse gases, much less well on carbon. What we need to do in the coming period, supported by the advice that we will get from the Climate Change Committee—assuming passage of the Climate Change Bill—they will be looking at the options for achieving the 2010 target, alongside looking at the issue of the longer term and the 2050 target. We are not, as you quite rightly say, complacent about hitting the 2010 target. We have got good policies in place but we are very conscious that we need to keep an absolute focus on them.

Q9 Mr Touhig: The Report suggests that there are some serious obstacles in your path—the high cost to business of meeting the emissions reduction targets, the length of time now to 2010 and very often one of the more difficult ones is the perception that it is not worthwhile. What are you doing about tackling those three issues?
Mrs Ghosh: The perception that it is not worthwhile from the key parts of the economy?

Q10 Mr Touhig: Yes.
Mrs Ghosh: One of the messages that comes across very clearly to us—Nick Stern's Report said it and whenever I and Government colleagues, and indeed

Tom was with us the other day in BERR talking to business representatives about this—is that what they need are three things from the Government: they need a clear long term view about the price of carbon, which is crucially set through things like the EU Emissions Trading Scheme and obviously the importance of the discussions that are coming up in Bali; they need support for appropriate technologies where the Carbon Trust as well as government support for more blue skies research plays a part; and they need citizen engagement, they need some sense that we are supporting the citizen. Back to this point, what we are trying to do is take action on all of those fronts, like the example of our *Act on the CO_2* campaign is a good one there. We have a wonderful opportunity in terms of the political impetus; there is pretty well all party support, the Prime Minister's speech the other day set out a very clear and ambitious vision and absolutely emphasised that, for example, on the renewables energy target set by Europe we would live up to our commitments. There is terrific political support for it, but clearly in terms of delivery those three areas are things that we as government need to focus on and this is where the Carbon Trust has a lot that it can do to help us.
Mr Delay: If I might just add to that, certainly our perception is that a great deal is changing in UK business, UK business is really on the move. We did quite a lot of market research back at the end of 2004—38% of FTSE100 companies were either treating climate change as a key issue or actively addressing it; today that is 68%. SMEs are a little behind but, again, there has been very significant progress—in 2004 18% were treating it as a key issue or actively addressing it, today that is 39%. Against that backdrop, you are absolutely right, there is a perception that this is very expensive and, on the day of the Queen's Speech, there was a report published suggesting that 65% of businesses believed that implementing the Stern recommendations and tackling climate change head-on was simply too expensive. One thing that we are delighted the Report has confirmed is the positive benefit to businesses of tackling climate change; associated with the two million tonnes of carbon dioxide saved in the period under review, 2006–07, was a benefit to business of between £410 and £655 million net over the period of those savings. We very much need to put forward the argument that climate change is indeed a risk but it is also a very significant business opportunity.

Q11 Mr Touhig: Dennis Healey when he was Chancellor of the Exchequer once said that British businessmen in his view were sceptical about two statements: first, "The cheque is in the post" and the second, "Hello, I am from the government, I am here to help". The perception thing is really very difficult for you.
Mrs Ghosh: Yes, it is, but another thing that has helped a great deal is not only the activity and the advocacy we are getting from the big companies—some of whom Tom is working with as we described—but the interest from, for example, the CBI and the Task Force led by Ben Verwaayen from BT. Again, it is very much supporting that these are the things that government can really do and, as I hope I have indicated, we are very much on the case.

Q12 Mr Touhig: The Government's approach is really carrot and stick and the Carbon Trust is the carrot, but you are not a terribly effective carrot in that respect, are you?
Mr Delay: I think we are a very effective carrot. I am delighted with the uptake of business, in terms of recognition of the Carbon Trust and its work but, more generally, the opportunity that climate change has presented over the last three years; I mean, it has seen really a sea change from a minority of businesses viewing it as a business opportunity to a majority, in the case of larger businesses, and a very significant minority in smaller businesses. The job is not done, I would agree.

Q13 Mr Touhig: The Chairman raised the point at the beginning that your market penetration is about 12% of companies which have energy use that is over £50,000 and it is smaller again amongst SMEs, so it is quite an effort that you have got to make if you are really going to be the carrot.
Mr Delay: It is, but in absolute figures—

Q14 Mr Touhig: It is not outrageously successful, is it?
Mr Delay: I would hope it is. What we have demonstrated are very significant carbon savings that have been assured, that is the first point. An awful lot of claims are being made around carbon savings; we have gone the extra mile to actually get some assurance over the carbon savings that we are delivering. We have provided that and the NAO review has indeed confirmed that. If we go to the bigger picture of is there mobilisation within UK business, I believe there is and it is going from larger businesses towards smaller. You only have to look at the level of uptake for the services that we do provide to smaller businesses with energy bills of lower than £50,000 to realise that it is very significant: 570,000 publications downloaded, 35,000 calls to our helpline, 9,000 businesses we have provided other on-line support to. In absolute numbers these are building up over time.

Q15 Mr Touhig: The Report says that the Energy Efficiency Accreditation Scheme is not being used perhaps as a means of rewarding organisations that have positively responded; what are you doing about that? You accept that is a failure.
Mrs Ghosh: Can I say that Defra is one of these organisations that has had the accreditation, so we are trying to set a really good example. Over to Tom.
Mr Delay: The Energy Efficiency Accreditation Scheme is a terrific scheme. It has been around for some time but had reached a point where it was stale in the market. We agreed to take over the scheme two years ago and in the first year as a commercial venture it was actually loss-making; we turned that around and in the last year it has actually turned a small profit. Essentially it has earned the right to grow and we are delighted with the

recommendations that have been put forward in the review; we believe that it is absolutely appropriate that now that we have seen that it is working in the right way we extend it on a much more open basis.

Q16 Mr Touhig: If you look at the Investors in People award scheme, that has a far higher take-up of support from business and industry because it appears to be giving a certain accreditation to companies that are actually doing well with their employees. Should you not be focusing a bit more on how they are operating to see if you can gain from that?
Mr Delay: Absolutely. As I say, we only took over the scheme two years ago and when we did it was loss-making. It is now profitable and it has now got the basis to grow very substantially into something that is at scale; your comment about the Investors in People scheme as being a parallel with it is appropriate. We are certainly going to be looking at ways of dramatically increasing the penetration of the scheme and developing it to be more relevant to the business of today.

Q17 Mr Touhig: I am short of time so if you could just moderate your responses a bit. One other point I would like to just quickly question you about; the Report does tell us about the resistance amongst business because of cost. Can you not do more in terms of your energy efficiency loans? Have you got enough money to give companies support?
Mr Delay: We are looking to expand the scheme very significantly, you are right, because it addresses head-on the biggest challenge for particularly small businesses in laying cash on the table to invest in energy efficient measures. What we are looking to do over the next period is expand the scheme very significantly; we would like to do that by using public funding to cover the costs of the scheme and then raise the private capital alongside that to significantly extend it.

Q18 Mr Touhig: You have not got enough money at the moment, you want more because you want to expand it.
Mr Delay: Certainly there is untapped demand in the market, that is recognised by both ourselves and our sponsoring Department, and we are working together on a practical way of significantly increasing it, not just on a marginal basis but by a factor of three or four over the period.
Mrs Ghosh: Again, as the Report brings out very well, one of the real challenges but opportunities for us is the kind of leverage that the Carbon Trust can get. For example, it is expecting absolutely wonderful leverage on its public sector partnership, Partnership for Renewables, on public land where you are expecting to get back fifty-fold what the Government puts in, or that kind of leverage. That is the kind of thing we must look for, is that right?
Mr Delay: Indeed.

Q19 Dr Pugh: Nobody doubts that you are doing something extraordinarily worthy and worthwhile but the question mark might be whether you are doing it as efficiently as you might. One of the figures I have come across in the Report is that there is 33% dissatisfaction with the consultants who market your products, and I really want to explore some of the reasons why that dissatisfaction might be, or why there might be some sort of questioning about your efficiency. The efficiency, I think, is the primary source of that dissatisfaction and they have made comments to the NAO saying that the product is delivered less than efficiently. Can I look first at your salary costs—they are listed on page 12—and between 2003 and 2006 they clearly more than doubled, going up from £2.8 million to £7.1 million. Has the number of staff doubled?
Mr Delay: I believe it has. In 2006–07 the figure would have been 127; if you look at the notes at the very bottom in 2003–04 it was 61 so, yes, it has more than doubled in that period.

Q20 Dr Pugh: Presumably included in that figure of £7.1 million are the performance bonuses that the staff get as well, is that right?
Mr Delay: I believe so, yes.

Q21 Dr Pugh: Does everybody get a performance bonus?
Mr Delay: Everybody is eligible for a performance bonus.

Q22 Dr Pugh: Does everybody get it every year?
Mr Delay: No.

Q23 Dr Pugh: You do discriminate, some people will get it and some people will not.
Mr Delay: Absolutely, we discriminate; there are some people who will get no performance bonus and some people will get a performance bonus and then we discriminate between those who do, quite significantly between high performers who contribute very significantly to the company's success over the period and those who do not.

Q24 Dr Pugh: So some will get a lot more and some will get a lot less.
Mr Delay: Yes.

Q25 Dr Pugh: The average wage of your staff though is in the region of £50,000 to £60,000, is that right?
Mr Delay: That is right; the overall salary cost is £50,000 as an average. If you strip out relatively junior staff and consider managerial staff and professional staff only that goes up to £56,000. The NAO review compared that to Defra staff of similar grades and indeed our own internal benchmarking that we carry out—

Q26 Dr Pugh: Do you have similar grades in the Carbon Trust to the civil service?
Mr Delay: We do not have comparable grades so it is a question of trying to assess the level of seniority.

Q27 Dr Pugh: Do you feel you can make a fair comparison between a private company for the Carbon Trust and the civil service?

Mr Delay: In comparison with Defra we appear to be very much in the same position. If you strip out junior staff from both Defra and the Carbon Trust the salary costs are virtually identical. The Carbon Trust has a performance-related bonus, Defra has a non-contributory pension scheme; that is a significant difference between the two. If you then look at the Carbon Trust our actual parameter against which our remuneration committee and indeed the company assesses and benchmarks our salaries is against the private sector, against private sector companies of a similar scale, energy companies. Again, on all the benchmarks that we have done we are within the ranges.

Q28 Dr Pugh: I understand. Now looking at the general financial picture of the organisation, I was quite impressed when I read in the key findings about how for every £1 committed £2 came from the private sector and on the innovation programme it was £1 and £10. Then I looked to page 11 and it looked to me then—and clearly the figures are not to do quite the same thing—as if actually all you are really doing in a sense is spending a lot of public money and bringing very little other money to the table apart from that because the figure is about £3 million in terms of income acquired from loans and other sources, compared with about £80 million odd from the public sector.
Mr Delay: There are two kinds of funding that we need to consider here. The £3 million essentially is the Carbon Trust's own funds that it can reinvest in the business. We are a public good company, we are a not for dividend company; therefore when we make a return we reinvest it in the business, and that is the £3 million figure that you see there. The leverage figures that you see are the private sector leverage that goes hand in hand with our public sector intervention in particular areas, so in an innovation area—

Q29 Dr Pugh: That is the amount of money you encourage the private sector to spend as well, but in terms of your own activities you only accrue about £3 million.
Mrs Ghosh: Yes.
Mr Delay: In terms of returns that can be reinvested, yes, that is correct.

Q30 Dr Pugh: Thank you for that. I wonder if you could perhaps explain to me diagram 17 which is on page 28. I spent a lot of time this morning over this, trying to figure out what it was about and what it told me. There appears to be in the right hand corner a very strange partnership that consists of two Carbon Trust employees—it is not very strange but it is essentially a venture capital partnership, is that right?
Mr Delay: It is a small FSA-regulated fund management company, yes.

Q31 Dr Pugh: Am I right in thinking the two Carbon Trust employees would be the chief executive and the finance officer?
Mr Delay: No, the chief investment officer of that group actually left the Carbon Trust a few months ago and is now actually employed in the civil service, so the two employees who are mentioned there are two investment partners of the company who have been there for about five years each.

Q32 Dr Pugh: What I am concerned about is if you follow the diagram through it looks like those two investment partners are going to get 75% of the carried interest, which of course is notional at the moment but could at some point be very, very substantial, yet looking at it from a general structure point of view they mostly seem to be administering public money—am I correct in my supposition?
Mr Delay: I do not think so because they are actually investing money, be it public or indeed private going forward.

Q33 Dr Pugh: They are going to put their own money in, are they?
Mr Delay: Firstly they have made their own investment into Carbon Trust Investment Partners as a business.

Q34 Dr Pugh: So when it says 25% there, they are going to put in 25% of the capital, are they?
Mr Delay: They have put in 25% in cash of the capital in Carbon Trust Investment Partners. The way in which the carry is structured is that essentially an investment portfolio has to deliver a return in excess of 6% IRR to get any carry whatsoever. Anything that is in excess of the 6% is then divided up, with 20% of that being available to Carbon Trust Investment Partners and a proportion of that is then fed back to these two partners as a part of their remuneration package.

Q35 Dr Pugh: So would you not say they have got rather a good deal if they put 25% of the capital in but they get 75% of the carried interest? That on paper looks a pretty irresistible deal to most of us.
Mr Delay: The carried interest is only the very top slice of the returns that we would make.

Q36 Dr Pugh: How much do you anticipate it being, how much could it go to?
Mr Delay: How much could it go to?

Q37 Dr Pugh: Yes.
Mr Delay: If we take £10 million as being an investment sum and we assume for one second that that investment is made over a three year period, with a return over seven years of three times its money—that would be an outstanding performance in venture capital terms, a three time return over a seven year period. The Carbon Trust would earn returns of £26 million, Clean Tech Venture Partners would earn returns of about £2 million, if that were the case.

Q38 Dr Pugh: So we do not have the scenario, as we seemed to have on Monday, of people making themselves inordinately rich by the clever use of public money.

Mrs Ghosh: No.
Mr Delay: It would be extraordinary if you were to have a scenario similar to that you discussed on Monday.
Mrs Ghosh: Indeed. Looking at the Carbon Trust as a whole, you certainly could not have that because it is a company limited by guarantee and could not turn itself into a plc. The other thing that is worth emphasising, and it is something of course that we as a department are extremely focused on, there are the right kinds of Chinese walls between the investors and the people who are taking the decisions about innovations to invest in, so we are very confident that there are Chinese walls.

Q39 Dr Pugh: Can we move on very quickly then to two final questions? How much do you spend on publicity for the Carbon Trust? I think I have received a few brochures from you in my time and others have as well.
Mr Delay: The overall budget in the period that was reviewed for marketing activity generally, including direct marketing, on-line and so on, below the line was I believe about £9 million. Of that about £3.9 million was awareness-raising of climate change as a business issue.

Q40 Dr Pugh: £9 million on marketing.
Mr Delay: In total over the period.

Q41 Dr Pugh: If a sceptic were to say some of the results you got were the result not of clever marketing or clever product production, but more due to the fact that industry has now the fiscal and maybe moral imperative to be inclined to save money, obviously the test of that, the test of your value, would be if you could point to some study that showed a range of companies which have nothing to do and you showed their energy savings, and then you showed us a company you had nothing to do with and you showed substantial energy savings. Has any piece of work been done that would convince a sceptic who would say a lot of things you are doing will happen anyway, whether or not you are there to encourage them?
Mr Delay: I think the answer is no, that work has not been done. You are quite right, it would be very interesting to see the degree to which the incentive that the Carbon Trust represents to business in the UK is actually a determinant in achieving those carbon savings and what is achieved by people who do not work with the Carbon Trust and might not even be aware of the Carbon Trust.

Q42 Dr Pugh: Because there are fiscal incentives to do the right thing.
Mr Delay: Indeed.
Mrs Ghosh: Of course, in a sense, success is where the Carbon Trust does not need to exist; this is the point about how one might shift from, for example, the solutions work into the innovation work. As all these carrots and sticks have an impact and the general political atmosphere has an impact on business, then in fact the Carbon Trust could do less of that and more of the other, so that is the kind of debate we are always having with them. In *n* years time the Carbon Trust need not exist would be success.

Q43 Mr Curry: My problem is whenever anybody mentions the word the Carbon Trust I immediately assume it is probably the pension fund of the National Union of Mineworkers; it is a crackpot name because it does not tell me what it does. It is a bit like Relate which used to be the Marriage Guidance Council; at least you knew what it did then, but it is now called Relate and you have not got the faintest idea of what it does.
Mr Delay: Yes.

Q44 Mr Curry: You are a management consultant, are you not?
Mr Delay: No, I spent 16 years in industry—

Q45 Mr Curry: No, not you, your business, the Carbon Trust business, you are a management consultant.
Mr Delay: I do not think we are a management consultant; one part of the Carbon Trust provides advisory services and we manage that through clear-cut management relationships and indeed there we send in consultants to provide advice to businesses directly, that is correct.

Q46 Mr Curry: My point is that if you are advising businesses on how to save energy, why on earth should that be in the public sector? I cannot think of a single good reason why that business should be a public sector business.
Mrs Ghosh: Clearly, this was an issue that was considered when the Trust was originally set up and ministers looked at the parallels, as the Report says, with the Energy Saving Trust, which I think you will also be looking at in due course. The conclusion reached and the kind of feedback that the Government then got from businesses was that they would have a greater trust—I suppose this is a sad reflection on government—in the independence and the nature of the advice that they were getting for business if it were from a private sector company rather than from, as it were, an NDPB or other wholly public sector organisation. The recognition and trust kind of figures that the Report shows support that, but again as the Report says it is indeed a private sector company, it is a very particular kind of private sector company and there are the kinds of influence that the Government, while absolutely supporting the arms length position of the Trust, has in terms of its significant input as a non-executive on the board, quarterly reports and the very, very significant performance targets and measurements that we get out of the Trust.

Q47 Mr Curry: Does not the way you are set up illustrate exactly what is wrong about the whole debate on climate change. You have been set up as a sort of philanthropic organisation, you do not make profits, and yet the whole thrust of the Stern Report was that is about economics, not about philanthropy. Would it help if the appeal was much more to self-interest and less to altruism? With oil at $100 a barrel, even with the dollar at $2.10 to the pound, is it not time to say to businesses if they have not got enough nous to want to pay solid brass to get their bills down and have somebody making money out of giving them the advice like a proper management consultancy does, that is the time to do it.

Mr Delay: The reality is that for the vast majority of businesses the most cost-effective measure they can take is through a programme of energy efficiency. The reality is that businesses do not prioritise energy efficiency and indeed energy cost reduction because it is a relatively small item, it is not seen as a high margin area that has great potential for growth in the business and therefore it is a little bit the unloved orphan in the family at this point. It has been that way for many, many years. I ran businesses for Shell in the course of quite a long career and I cannot remember what the energy bill was of any of those businesses, it simply did not register as being a significant enough cost to warrant –

Q48 Mr Curry: What was the price of oil when you worked for Shell?

Mr Delay: Way down in the thirties.

Q49 Mr Curry: And the price of oil now is nudging a hundred even though the dollar/pound relationship is different.

Mr Delay: Indeed, but wholesale energy prices have not gone up by a factor of three. The fact remains that energy efficiency measures are crowded out of the management agenda and of the investment priorities by many other more interesting investments and they also have the issue of being quite resource-intensive, they are quite difficult to make happen, so for many businesses not only is it not the most exciting in terms of financial returns but actually it can be seen to be a big drag on the business in terms of its own internal resource; hence, we do need to provide a lot of incentive to business to take up the actions that we are seeing. We believe that we are being effective now, but what I very much hope actually is that the momentum being built up within UK business at the moment will carry forward, the larger businesses will largely be able to do it on a paid-for basis—that is the way we are moving. Our carbon management offering two years ago was 100% funded by the public sector; today that is down to 30% and we went through last year a 50% minimum buyout.

Q50 Mr Curry: Where would you like to be in five years?

Mr Delay: In terms of that level of the market not using any public funding whatsoever, with a very strong focus on innovation, new low carbon technologies, new business models and ways of doing business.

Q51 Mr Curry: Would you like to be a plc, would you like to make profits to reinvest in your own business, get more people, give incentives?

Mr Delay: No, because as a public good company we believe we are uniquely placed. We cannot issue any returns that we make as a dividend, but we can reinvest them in the mission of the Carbon Trust. We have an extraordinarily talented group of staff who I believe are very incentivised by the mission that we are working towards, to accelerate the move to a low carbon economy; I do not believe that a move to a plc would be an advantage to the Carbon Trust for a number of reasons, not the least that I cannot see in the foreseeable future a time when there will not be a case for public funding supporting some of our activities that otherwise would never be paid for. Typically, the work with SMEs is going to need to be publicly funded for quite a long time.

Q52 Mr Curry: Yes, the fact that they are public funded does not necessarily mean you have got to have a vehicle, with your sort of slightly curious constitutional position in order to provide it, does it? Lots of people can have access to public funding and be entirely private sector funded.

Mr Delay: No, but I do believe there is some real merit in the public/private nature of the Carbon Trust and the way in which it is set up. Our funding is primarily from the public sector today, with an increasing and growing stream of private sector funding. The management of that resource and the allocation to task is down to a private sector controlled board and investment committee and that is proving to be effective, that is what the NAO review has said.

Q53 Mr Curry: You have said that when you were working for Shell one of the problems was to get senior management to think that this mattered enough, took enough management time.

Mr Delay: Yes.

Q54 Mr Curry: Because energy costs were somewhat less at the time. Is that still the problem now? In this table on page 19 cost is said to be the major element there, but does it not suggest that it is just too much of a fag, quite frankly, to do it?

Mr Delay: I would say lack of time is the second item, insufficient benefit to the business is the fourth, not suitable for our business is the fifth and management board are not supportive is the sixth.

Q55 Mr Curry: So the problem you had then is still there.

Mr Delay: It is; it is a problem that is changing quite quickly and that is why I say I believe UK business is on the move, larger businesses—and many more sophisticated smaller businesses, it is not just the domain of the large—are actually taking a more proactive stance because they see the business opportunity in tackling climate change head-on, but 65% of businesses on the day of the Queen's Speech said they believed that mitigating climate change as per the Stern recommendation was simply too expensive. We need to find a way of effectively addressing that 65% and turning it into a minority.

Q56 Mr Curry: When you use the phrase "business opportunity" what do you mean? They can cut their costs, is that what you mean by a business opportunity?
Mr Delay: Yes, you can invest to save energy, to save emissions and see a medium term return. The net present value of energy efficiency investment in business is almost always positive and almost always has a payback of less than three years. Our challenge is to actually get businesses to recognise that opportunity and prioritise it above other things that they would otherwise be focusing their investment on.

Q57 Mr Curry: One of the groups of people you should be approaching presumably are the major institutional shareholders of the big companies.
Mr Delay: Indeed.

Q58 Mr Curry: So that they put pressure on the management.
Mr Delay: We do, and we have an investor engagement programme that targets just that.

Q59 Mr Curry: Who are you finding to be responsive to that?
Mr Delay: It is actually quite difficult. On the whole analysts will take a very short term view of the business—

Q60 Mr Curry: They get quite excited about share options schemes of late, do they not?
Mr Delay: Yes.

Q61 Mr Curry: Some of the institutional investors are becoming quite interested in the incentive schemes and bonus schemes and that sort of thing. How can you make energy saving as sexy a subject as the chief executive's share option scheme?
Mr Delay: The first point is that the investor hiMrself has to recognise the business opportunity. He is not going to push the management of a company to take a more proactive stance unless he believes that it is in the long term shareholder value equation to his benefit, so an investor needs to believe that this is the right thing for a business. The interesting thing is that even two years ago most businesses would see climate change as a risk, a compliance risk, a physical risk to many of their assets and a business risk in terms of reputation. Today an increasing number of businesses are actually seeing the opportunity in handling those risks better and in developing new products and services; almost 20% of businesses are now looking at new products and services that are related to climate change and can work off that premise.

Q62 Mr Curry: In terms of payback for investments at your suggestion, have you got a broad bracket of what is a reasonable payback time for a business that they should be interested in?
Mr Delay: Yes, the recommendation we make on the basis of our advisory work is that investment should have a payback of three years or less. There are cases where you look at, for instance, investment in on-site renewables which will give quite a certain return today, but a return over a longer period. One of the companies which was actually quoted in the Report as a case study, Huntsman, actually did not implement a biofuels recommendation because they had issues with the supply chain; that is just typical of as it were the more stretching recommendations that we put in. We are not surprised that businesses will only ever uptake probably 40% to 50% of the recommendations that we put forward to them because we are deliberately putting forward stretching recommendations, either in terms of payback or in terms of actually going into new areas such as biofuels and renewables.

Q63 Mr Curry: At the design stage of a new business, a new enterprise, are you involved there to design a plant which is built with the maximum energy efficiency? Are you looking to do that or is somebody else doing that?
Mr Delay: We do in buildings, we actually have a design advice service that is specifically there to get involved at the very, very early stages of specifying new commercial buildings to ensure that that specification has all the elements of energy efficiency built into it from the start. We do not have at the moment that offering for industrial process, but we do have it for buildings.

Q64 Mr Curry: We will eventually see the carbon-free industrial estates go along with the Government's new carbon-free homes, will we?
Mrs Ghosh: Indeed.

Q65 Mr Curry: Or carbon zero homes.
Mrs Ghosh: Indeed, and some of those buildings have already been built of course in the Government estate, which was the subject of one of your previous hearings that I appeared in front of.

Q66 Mr Dunne: Can I follow up Mr Curry's line of questioning about whether your activity is sitting in the right place in terms of the Government and private sector. I note in paragraph 2.15, starting with the basic consultancy services that you provide, you are paying for consultants at the rate of between £435 for the most standard service to £700 a day to consultants to provide advice to clients. These are consultants, presumably, whom you are contracting in, they are not employed by you, you are employing them from other advisory firms.
Mr Delay: That is right. When we started off as the Carbon Trust we took over the Energy Efficiency Best Practice programme that had an element of consultancy provision built within it. We looked long and hard at the service that was offered and we had a number of concerns that we decided we would address. The first was the relatively long time taken for consultants to actually do the work and get a Report out to the clients—at that point it was 95 days on average which we felt was inappropriate for a customer-led organisation. The second was the quality of some of the advice that was not always consistent and third, which I think is crucial, is the fact that in terms of an investment cycle you need to

be there at the right point in time to be able to provide the right advice, so if a retail chain is going to refurbish all its stores on a five-yearly cycle, you need to be around at the right point in that cycle to be able to provide useful advice. On the basis of those three measures, we actually introduced a system of account management and we now have 38 direct account managers, 14 contract account managers, who basically deal with all of our customers—

Q67 Mr Dunne: These people are employees.

Mr Delay: They are, and these people are the interface between the customer and the Carbon Trust. They have the relationship with the customer and on the basis of their understanding of that customer's needs they will then find the right consultant, the right technical specialists and, increasingly, our customers are looking for technical specialists and not simply general advisers, and send them in to do the job at the rates that you have heard quoted. So we do have, as it were, a significant key account management team who provide the direct interface and of course provide the relationship over a period of years so that it is not just a case of what are you going to implement in year one—we know that is around 22%—but are you seriously going to implement this over the next three years, what can we do to make the business case to your board to get the investment cycle on so we follow the investment and recommendations through from year to year.

Q68 Mr Dunne: Do you add value to this process or are you merely a clearing-house for people to come to to get the best consultants available?

Mr Delay: We believe we add very significant value. The 95 days I quoted has come down to 45 days, the proportion of good work is still maintained, there is no issue in terms of quality. There is a lot of evidence suggesting that our advice is now more timely and the fact that we have a relationship that is ongoing over a number of years allows people to phase through their investments and their implementations in line with our recommendations in a more businesslike way, following the business cycle of investment.

Q69 Mr Dunne: I am interested in the sentence in the following paragraph where the NAO point out that although the energy advice market is growing at 20% a year there are very few new entrants to the market; could that be because you actually are acting as a block to new companies being established because of your presence in the market?

Mr Delay: I would not say that at all. One of the other issues that we found was that consultants were not always clearly following the recommendations that were set down in terms of 'this is the kind of offer that we are making to this company', so we have now got our own consultant accreditation scheme, we have increased the number of consultants on that scheme from about the 330 mentioned in the Report to over 400 today, and in terms of the high end, the carbon management advice, that started off with 11 consultants being accredited and that is up to 62. On the contrary, therefore, I think we are very much growing the market for professional consultancy in this sector, but we are adding value by having that independent interface that our customers tell us they value, and indeed there is a paragraph in the Report suggesting that both the CBI and the NAO confirm that the independence the Carbon Trust brings to that relationship is valued by the customer.

Q70 Mr Dunne: Following up that in relation to independence, I notice from page 11, table 4, that 10% of your expenditure goes on Salix which is described as an independent company, but the activities of Salix which are set out and briefly referred to in paragraph 1.15 show that that company exists to provide finance to public sector bodies, so you again are acting effectively as a clearing-house it seems to me, on this occasion to public sector bodies.

Mr Delay: This is a slightly different situation. Salix is a company that we created as the Carbon Trust as a result of work that we had done with the public sector. We identified that just as SMEs have need for interest-free loans to make investments in energy efficiency, so the public sector needs to have access to ring-fenced funds to invest in energy efficient measures. We designed a scheme of invest-to-save measures that we would roll out across local authorities and other public sector bodies; we then took the view that the best way of managing that investment was through an independent company that would do nothing but develop invest-to-save schemes in energy efficiency for the public sector. We created Salix as an independent company; we now simply take the funding, we look at how it is being deployed, we obviously assure ourselves that it is getting the kind of cost savings and returns that we are looking for in terms of outcomes and we pass the funding on. There is no management overhead *per se* in managing Salix.

Q71 Mr Dunne: Who owns Salix?

Mr Delay: Salix is another company limited by guarantee that is grant-funded by the Carbon Trust on the basis of funding provided to us by Defra, so again it is a similar company to the Carbon Trust itself.

Q72 Mr Dunne: Its shareholders are who?

Mr Delay: Its shareholders would be a number of members.

Mrs Ghosh: Presumably a microcosm of the shareholders in the Carbon Trust as a whole.

Mr Delay: No, they are independent.

Mrs Ghosh: We will give you a note on that.[1]

Mr Delay: Teresa Graham is the chairman of Salix as a company, John Edmonds of the Carbon Trust board is also on the board of Salix, along with two other directors.

Q73 Mr Dunne: Does it pay dividends or have the ability to pay its own bonuses to its own staff?

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Mr Delay: It would have the ability to pay bonuses to its staff as the Carbon Trust would, but it is a not for dividend company as we are, so it would have no ability to pay a dividend to a third party.

Q74 Mr Dunne: Do you have management oversight of Salix in any way—you describe it as totally independent so it sounds as though you do not.
Mr Delay: We treat Salix as indeed Defra would regard us in terms of we look at the outcomes that Salix delivers; we need to be assured that they are actually delivering the kind of outcomes that we believe they can as a company in providing invest-to-save schemes, yes, but they are an independent company and we provide them with a funding line against a business plan they propose to us.

Q75 Mr Dunne: Where is the accountability for the funding that Salix deploys, where does that lie? If Salix said: "We got £10 million out of the Carbon Trust last year, we would like £20 million next year" they would come to you for you to sign that off, would they, or would they have to go to anybody else as well?
Mr Delay: They would come to us and they would put to us a business plan for £20 million. At that point we would also be having discussions with Defra about the availability of funds for invest-to-save schemes in the public sector.

Q76 Mr Dunne: All of their funding comes from you or can they seek funding from other sources as well?
Mr Delay: I believe they are at the moment seeking funding, and are likely to get funding, from some other public sector funding sources as well.

Q77 Mr Dunne: Could I suggest, Sir John, that although they are receiving 10% of the funding here and £10 million is not an enormous sum, there are only two references to Salix in the entire document, which is something that perhaps we ought to return to for a mini investigation another time. Would you consider that?
Sir John Bourn: We will certainly do that, Mr Dunne, yes.

Q78 Mr Dunne: Thank you. Can I then go back to the investment side of the activities of the Trust? Dr Pugh was talking about the role of CT Investment Partners and I think this is the first occasion that I have been able to identify a public sector entity acting as a private equity firm in government. I note that you are setting up Chinese walls between that investment activity and the grant-making activity; can you describe how those work and explain the function of the investment management team, if they are not to piggyback off the grants that are being made.
Mr Delay: I am going to answer the last point first, if I may. The function of the investment management team is to make investments using our funding in an area where there is an acknowledged market failure at the very small, early stage end of the technology company market, so typically making investments in the £250,000 to £2 million range, that very early stage which is acknowledged as a market failure. Their purpose is not to piggyback off Carbon Trust innovations and the know-how within the Carbon Trust, it is to make investments in an area where there is a market failure. The Chinese walls in essence are that the Carbon Trust Investments team are in a completely separate part of the organisation. The employees of Carbon Trust Investments, the two people we have already mentioned, who would be part of that team are not party to any of the investment decisions that we make in terms of R&D grant funding to low carbon technology businesses generally, so there is a clear separation between the investment committee that considers R&D funding and the investment committee situations that consider investments as venture capital. The people are not the same.

Q79 Mr Dunne: Thank you. How does the incubators group, set out in chart 12, page 23, fit? I assume that the investments are announced within CT Investment Partners, but you might clarify that. Where does incubators sit and do you regard 33 out of 45 investments having come to an end as a fair return on the money invested in incubation?
Mr Delay: The incubator activity is a publicly funded activity, it is not part of the investment portfolio *per se*. It is an activity that is very much part of the continuum of innovation support that the Carbon Trust provides. We go right from R&D through applied research and directed research where we actually specify what we are seeking, into incubation services, helping spin-out companies become investor ready. The figures there suggest that a whole number of companies that have been through the incubator programme have indeed raised their part of funding, from VCs typically, and are off and on their way.

Q80 Mr Dunne: Coming to an end does not mean failure, it means that your involvement has come to an end.
Mr Delay: Not at all.

Q81 Mr Dunne: You mean correct.
Mr Delay: It means our involvement has reached the end. They actually go onto a programme, it is a defined programme with a range of activities that they can benefit from, at the end of which, as an investor readiness programme, we would very much hope that they would be in a position to raise third party funding.

Q82 Mr Dunne: In view of the cost being the largest barrier to the take-up of energy efficiency technology, do you believe that the abolition of capital allowance could have a significant deterrent effect on investment in energy efficiency going forward?
Mr Delay: Enhanced capital allowances will be around for some time, but the immediate impact of it is indeed blunted at the lower level. We find that many businesses refer to the Energy Technology List that underpins the enhanced capital allowances scheme as much as to the scheme itself, so there is the

financial benefit of an enhanced capital allowance, accelerated depreciation, but there is also though the assurance of looking at the Energy Technology List that provides over 14,000 different products that have energy efficiency verification built into their being part of the list. A lot of public sector bodies, who cannot benefit from enhanced capital allowances, nevertheless use the Energy Technology List that underpins it as a guide to good procurement of energy efficient equipment.

Q83 Mr Dunne: I am confused. Are you suggesting that enhanced capital allowances for energy efficiency will continue following the last Budget, or are they coming to an end?
Mrs Ghosh: I suspect, unless our Treasury colleague can comment on that, we will need to give you a note on that.
Mr Gallaher: We will provide a note.[2]

Q84 Geraldine Smith: Can I ask a few questions about the standard surveys that you carry out? How long does it take to do one of these standard surveys and how much work is involved?
Mr Delay: It is typically three to four days. Over time we have seen the need of the customer change quite significantly. Three or four years ago a general site survey or an opportunity assessment would be literally a general let us look at the business, let us see what the opportunities are, and would take three to four days. Increasingly, we find that customers are looking for a higher level of either sectoral expertise or technical expertise in a particular area, so for instance a business may say, "We have looked at our business, we understand where we think the opportunities lie, we are pretty convinced we have an opportunity here for a CHP plant; could you provide us with a survey that does not just look at the company in aggregate but looks specifically at the opportunities for CHP within the business?" That again is just an example of continually refining our offer to ensure that we are in line.

Q85 Geraldine Smith: But you will do some standard surveys where you go into a company and look at various ways to reduce emissions.
Mr Delay: Yes, we do.

Q86 Geraldine Smith: You must be able to train people up on that so that you can employ people just doing that constantly rather than using consultants; it must be an extremely expensive way to do that.
Mr Delay: Firstly, we did have some concerns over the consultants' ability to actually deliver exactly what we were looking for on a consistent basis. We now have an accreditation scheme in place that allows us to accredit consultants to work against a specified range of products and services that we have. That has increased the number of consultants from 330 to 414 at the moment, which is quite a significant increase, so we are training consultants, we are bringing them on board with what the customers are looking for,

Q87 Geraldine Smith: What is the advantage of using consultants rather than just having salaried staff?
Mr Delay: Firstly, having a wide range of consultants allows us to pick specialists in particular areas, either by geography—

Q88 Geraldine Smith: I understand in specialist areas, but I am saying for a general survey where you just go into a company. There must only be so many things you can tell a company they can do to become more energy-efficient; I am sure people could be trained up on that, it cannot be that complicated.
Mr Delay: I take your point and I think there are two things. For larger companies that are more sophisticated it does go beyond the: "Look, here are the ten things you can look for and you will find answer somewhere in this ten". Our focus has been very much on large carbon emitters and large energy users that are typically more complex companies where you do need a level of specialism and engineering skill that would not be easy to replicate in directly employed staff. When it comes down to smaller businesses, those with energy bills of less than £50,000, there are opportunities to train people to be able to do the basic site survey in a more effective way and we are actually looking at that very much in conjunction with the RDAs, we are looking at ways of extending our reach into smaller organisations, by using relationships that a variety of business advisers already have, training them in the specific areas of energy efficiency that they would need for smaller businesses. So, yes, we can do it, but typically at the smaller end rather than at the larger end.

Q89 Geraldine Smith: There must be a lot of easy hits as well within large companies, easy ways where they can become more energy efficient and it can be quite standardised. I accept all the differences in different companies, but they also have a lot in common I would think and there must be so many ways you can reduce energy.
Mr Delay: That is absolutely right. When it comes to the basic building fabric of commercial buildings you are right, you look at your heating and ventilation, you look at your lighting systems, your controls, there is a lot you can do. Having said that, you would be surprised how many examples we have of really quite sophisticated organisations that have not taken advantage of those opportunities. We worked with Manchester United Football Club, we looked at Old Trafford and the reality was that the east stand was performing well in terms of energy consumption but the north and south stands were not, simply because the substation arrangement and the metering arrangements meant that the lighting was on more in the north and south stands than it was in the east; we put the whole lot onto a common basis and we have actually seen an 18% reduction in the energy consumed by Old Trafford. It was as simple as that. Another example would be the RAF where we have a small case study looking at an enormous hangar where Nimrods are maintained. Basically the old method was that at four o'clock in

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the morning the lighting and the heating came on and it did not go off until midnight. We now have a big red button on the wall and whoever is actually operating within that hangar on an hourly basis goes down, hits the red button and that gives them another hour of heat and light, so enormous savings on really very basic things. You are right, there is nothing in terms of rocket science about this, but actually getting the implementation through into businesses is perhaps more challenging.

Q90 Geraldine Smith: Do you work with government departments as well?
Mr Delay: We do. We run carbon management programmes for the public sector generally; we have well over a hundred carbon management programmes for local authorities, 30% or 40% of higher education, 12% of the NHS as we speak, and we also work with central government departments.

Q91 Geraldine Smith: If you walk through Whitehall and Victoria Street, why do you find all those Government buildings lit up like Christmas trees every day? I am sure if you walk through you will find all sorts of computers left on.
Mrs Ghosh: I think this really picks up a number of the points made in the Report. Tom and his team can do as much as they can possibly do in terms of giving people advice on structures and construction and energy efficient equipment but very often it comes down to how you manage the building. An awful lot of energy efficiency and, indeed, sustainable development is actually about management decisions. So, in Defra, you are absolutely right one of the things we have had to focus on is, for example, the cleaning staff who come in in the evening. How do you instil the lights being turned off if they are not automatically activated by people moving about, doing an internal *Act on* CO_2 campaign to get people to turn off their screens at night? It is about managing the building and relating to staff and persuading staff to support the efforts you are trying to make. I think that will be true in any Government department in Whitehall or Victoria Street.

Q92 Geraldine Smith: The thing that concerns me a little bit is that you are employing a lot of consultants with chargeable head figures up to £700 a day, I wonder if you cannot do that in a more cost-effective way to deliver those services to your customers?
Mr Delay: I think we find it difficult to provide our customers with the specialised service they want—

Q93 Geraldine Smith: I accept the specialised but what about the standardised?
Mr Delay: Although I mentioned 414 consultants we do not employ 414 people every day. They are scattered around the UK. When we get an enquiry in, when our account manager talks to a customer, they will first establish what is the kind of service, what is the kind of need the customer wants and then obviously consider where geographically they are located. It is only a small subset of that 414 who can be effectively deployed to meet a particular customer need. The question is could we have an employed team of energy consultants going around, where would we locate them in the UK, how would we ensure they have the skills required to meet the customer needs. I think the challenge we have is that the customer needs as we perceive them are changing very fast. Three years ago, yes, you are absolutely right, a general energy service would probably have been sufficient. Increasingly, what we are finding in customers of all sizes is a need for sectoral experience or, indeed, the technical experience to a particular issue, so I think we would find it more difficult.

Q94 Geraldine Smith: You mentioned earlier one of the advantages of being a private company working for the public sector was there was more confidence with business. Is that the only advantage? There must be all sorts of disadvantages, less accountable even if it is done in-house.
Mrs Ghosh: Can I just challenge that one. I think what is so striking, and it comes out very strongly in the Report, is that if one looks at the outcomes to which we tie Tom and his team in terms of very precise, measurable, quantifiable carbon reductions with a price on their heads, it is very difficult to think of a way of performance management that is more accountable than that. If Tom were not providing cost-effective services we would not be giving him the money. I think the idea that just because an organisation is in the public sector or in the private sector there is a greater or lesser accountability, this is a very very transparent model, and, indeed, enables this Committee to look at, in this kind of precise detail, costs and benefit analysis of this kind. There is also the issue about the greater financial flexibility and leverage that the private sector model gives the Carbon Trust which would not be true to the same extent in the public sector. There again I think that is a real advantage of private sector activity. I just would like to come back to a point I made earlier, which is a theme which is emerging, this is very much an organisation set up to deal with a market failure. When the market is no longer failing, when the pension funds and the private sector energy efficiency advisory market is fully functioning, the Carbon Trust will not be needed. That is actually back to what will you be doing in five years' time. As Tom said, they may not be doing this bog standard—if it is bog standard in any cases—energy efficiency advice because they will have moved on to the next market failure area. The accountability point is one that is misconceived in terms of the performance management of the organisation.
Mr Delay: Yes, I have to say we feel very accountable as an organisation for the provision of public service. We very much see ourselves as a public good company, hence our not-for-dividend status and our commitment to reinvest any profits that we make as well as allocating resources to task as best we can. If I could just draw attention on page 13 to a couple of very quick comments which address your point. "The Confederation of British Industry confirmed to us that they welcomed the fact that the Carbon Trust did not have to pursue a specific

political agenda." In the sentence immediately following that: "The A quarter of the customers in our census of the Carbon Trust's customers who rated the Carbon Trust as providing better energy advice than others explained that this was because they were independent and did not have to promote particular services".

Q95 Geraldine Smith: Very quickly, you touched on it earlier, but you will give me an assurance that you will do more to reach some of those smaller companies?
Mr Delay: We are working on it very hard as we speak.
Geraldine Smith: Okay.

Q96 Mr Davidson: Given that your objective is partly to reduce the consumption of carbon in energy, to what extent are you focusing on those companies which you think have the largest hits rather than just spreading yourself widely across the board?
Mr Delay: To be compliant with state aid, our advisory services are treated as a general measure and, therefore, not subject to state aid. That means we need to provide advisory services to all business and public sector organisations in the UK, irrespective of size, irrespective of carbon footprint. In practice we do that by offering a very clearly segmented offer that is much heavier for large organisations, be they public or private sector, they have a significant carbon footprint, an opportunity to reduce carbon emissions, than we do with smaller businesses which, one, do not have the time, frankly, to want to commit to this agenda at the moment but, two, also need to be managed, supported in a much more focused and cost-effective way. What we provide is to all businesses from the very small to the very large but it is quite clearly segmented and what we offer to different businesses is very much down to the carbon opportunity that they present us with. We do operate on a reactive basis, we cannot operate on a proactive basis and highlight a particular sector, segment or, indeed, size of business that we would want to work with, the state aid rules prevent us from doing that.

Q97 Mr Davidson: Let us be clear, you are forbidden from identifying those areas of the economy where you could make the biggest gains most quickly by the European Union's state aid rules? Is that a yes or a no?
Mr Delay: It would prevent us from targeting them in an explicit manner. It does not prevent us from having an offer to large companies—

Q98 Mr Davidson: No, but when we speak to people here on a number of areas, we ask them, are you specifically focusing on that, being active, doing your best to achieve these objectives. I think you are telling me, no, you are not.
Mrs Ghosh: I will just quote the Report. As Tom says, it has to be a general measure, a measure conferring a benefit which is potentially available to all undertakings in a Member State. In that sense, in order to accord with those rules, the Trust has to make its offer to everybody, to all the undertakings.

Q99 Mr Davidson: That is right. So if people walk through your door then you have to deal with them equally, even though lots of them in comparative terms might be time wasters, whereas you are not allowed to go out and focus on those where you can achieve the most quickest?
Mr Delay: No, we are able to provide appropriate service to everybody. If there is somebody who is clearly time wasting, we can discriminate against clearly the time wasting nature of their inquiry. What we cannot do is go out and promote a very specific segment of the market. What we can do is make our services widely available through our participation in hundreds of events, through ongoing marketing—

Q100 Mr Davidson: This is a shotgun approach. You work on the basis that you fire your propaganda everywhere and then everybody will hear about it and hopefully some of those from whom you get the greatest hits will come and see you. That is gross inefficiency, is it not?
Mr Delay: I do not believe it is. If you look at the businesses with energy bills of over £500,000, the ones with, broadly speaking, half the carbon footprint of business in the UK, that is 2,300 businesses in the UK, we work with a third of those businesses.

Q101 Mr Davidson: Why do you not work with the other two-thirds then?
Mr Delay: I think you will find a significant proportion of the remaining two-thirds are not addressing climate change as an issue and we are very keen to work with everybody who is willing to work with us.

Q102 Mr Davidson: Why are you not chasing these 2,300? Because you are not allowed to.
Mr Delay: We can make our offer available to them. I think it is fair to say if you—

Q103 You cannot go and knock on their door. They have to knock on your door. This is absurd, is it not. We would not accept this from anybody else. You are telling us that because you are tied by EU state aid rules you have to behave in this absurd fashion. Does that sum it up fairly reasonably?
Mr Delay: It is a constraint on the way in which we operate.
Mrs Ghosh: There will be all sorts of other incentives on the other two-thirds. The idea that the other two-thirds have no incentives I think is false.

Q104 Mr Davidson: I understand that. The £20,000 maximum that you can spend, as I understand it, in the business, is that not also absurd? Your maximum for Fred's Bakery is £20,000 which is the same as presumably the maximum you can spend on BP and all its subsidiaries and everything else. Yes? Sorry,

the stenographer will not record nods unfortunately, so that is a yes then. Is that one of these rules that you have introduced?
Mrs Ghosh: It is the *de minimis* block exemption, again as Appendix 4 shows.

Q105 Mr Davidson: That is an EU state aid rule
Mrs Ghosh: It is another state aid rule. "The interest free loans scheme and the Carbon Trust's Incubator Services operate under the state aid de minimis block exemption which is application to 'aid of minor importance'".

Q106 Mr Davidson: It is the EU rules that force you to treat BP and Fred's Bakery exactly the same in terms of the maximum amount you can spend on it.
Mr Delay: Right.

Q107 Mr Davidson: Yes, thank you. Okay.
Mr Delay: No, I am sorry — that is not right.

Q108 Mr Davidson: The next point, we were mentioning Manchester United, if Manchester United played fewer evening games of course they would save. This tension between, on the one hand, people doing what they like, so to speak, maybe trying to make it more efficient, and trying to get them to change their practices, to what extent do you have involvement in explaining to people that fewer evening games or its equivalent would save electricity as well? What is the response that you usually get?
Mr Delay: Maybe I could draw attention to a case I just mentioned in the Report, our work with John Lewis. We were intrinsically involved in the refurbishment of the Oxford Street store for John Lewis. Originally the plans included losing a significant amount of retail floor space in Oxford Street to provide for significant power requirements for new air conditioning systems. By working harder on the energy efficiency attributes of the building as a whole, we found there was not a need for the new air conditioning systems, for the new power systems and, therefore, John Lewis were able not to sacrifice retail floor area in Oxford Street in pursuit of their refurbishment.

Q109 Mr Davidson: That completely evades the point I was trying to clarify with you. You have just shown them a better way of doing what they wanted to do anyway. You did not manage to persuade them to change their behaviour in a way which saves energy consumption or carbon usage.
Mr Delay: No, no, we were. They were quite prepared to sacrifice floor space and retail floor area in pursuit of a greater level of comfort across the building. They now appreciate, and indeed they have implemented a system whereby they get the level of comfort they want without sacrificing retail floor area.

Q110 Mr Davidson: Could I just be clear, paragraph 2.7 gives us some coverage of your recommendations and the extent to which they are accepted. A census said, " . . . on average, 11 recommendations on how to improve energy efficiency, but respondents noted that they had only implemented an average of 4.8 recommendations". Similarly, there was a potential reduction of between 4.6 and 5.4 million tonnes of carbon dioxide and only 1.2 and 2 million tonnes was achieved. I appreciate that some of these things will take long periods of time but when we look at case example 4, where you are recommending to a hospital that they could save heat and electricity and so on by measures which would require closing part of the hospital down, I wonder to what extent some of your recommendations are unrealistic. Presumably the hospital could save almost all its electricity consumption by shutting down altogether, now that is presumably like Manchester United not having any new games. Anybody can produce recommendations of that sort but how many of them are practically realisable given that so many of them, over half of them, appear not to be implemented by recipients?
Mr Delay: Commercial buildings are subject to quite regular refurbishment on a refurbishment cycle. Hospitals would be no different in that regard. I would take that recommendation as a recommendation that would be taken up by the hospital at the time of its next major refurbishment when the hospital would be shut down for that period. It is an example of why it is so important to hold on to that relationship with that customer for a long period of time so that recommendation which is impractical in the short term becomes viable at the point of refurbishment.

Q111 Mr Davidson: I understand some of that but, again in paragraph 2.7, there is a mention of people who have dealt with you. Roughly 60% said, " . . . that their energy use at site level had fallen since dealing with the Carbon Trust . . . ", they did not say how much; 20% did not know and presumably the other 20% had none. It just seems to me that the figures that have been put here do not tell us sufficiently adequately how many of the recommendations you make are implemented in the longer period in order to be able to measure exactly how successful or otherwise you are. I think you can see from our perspective some difficulty in working out to what extent it is value for money. Anybody can make recommendations, I have made lots myself to the Government, unfortunately they are not adopted and the same can be true of yourselves.
Mr Delay: The first point I would like to make is that the value for money of the recommendations are the recommendations implemented not the recommendations identified. We have stripped out all the recommendations we have identified as opportunities and we have only counted the recommendations implemented as part of that value for money calculation. I think the very positive value for money calculation which suggests we can deliver a tonne of carbon saved at a policy cost of between £4 and £7 with a net benefit to the business of £33 a tonne stands on the basis of the implemented carbon savings. The challenge, absolutely, is to find ways of increasing the uptake of the identified opportunities

and we need to be continually looking at ways of tackling the barriers of lack of senior management commitment, lack of resource within companies, lack of financial incentives in some cases to be able to take measures forward. The 21% quoted is an interesting figure. The reality is that many businesses, small, medium and large, find it very hard to tell you exactly what their energy consumption is as a baseline. We can work on recommendations and measures that will reduce the energy consumption and, indeed, the emissions from that business but an alarmingly large number of businesses simply do not know from the sub-metering they have what exactly is their current energy consumption. Many smaller businesses work on the basis of estimated figures from the suppliers.

Q112 Mr Davidson: They must be paying for it. That is an indication of how much energy they are consuming because they get bills, at least I do, and therefore you work on whether or not your bill has gone down. It is fairly related, I would have thought, to your reduction in consumption.
Mrs Ghosh: Indeed, but they do not necessarily know in refined enough ways where their major energy consumption is. I think this again links across to another—

Q113 Mr Davidson: Surely they have got bills though.
Mrs Ghosh: They get bills but it does not necessarily show the management impact of the cost. That is why things like the smart metering, advanced metering initiative, which the Carbon Trust was absolutely key to developing as part of its innovations programme, which the Government is now supporting through the Energy White Paper is crucial because it will get that kind of advanced metering, much better information into SMEs so they can make those sorts of judgments that Tom is describing. That is where the innovation and the advice go alongside.
Mr Delay: We find that many smaller businesses work on estimated figures and estimated bills. That is simply not the basis for measuring a starting point for an emissions reduction programme.

Q114 Mr Davidson: Two final points I want to seek your views on. The first is this: I am concerned about the inability you have to focus on those companies that give you the biggest bang, as it were, for the least under these absurd state aid rules. What have you done to raise this as a Department?
Mrs Ghosh: Clearly the state aid rules are there –

Q115 Mr Davidson: No, I do not want that, I am asking you what you have done about this particular difficulty.
Mrs Ghosh: Can I go back to my opening remarks?

Q116 Mr Davidson: No, can you just answer what you have done. The difficulty we have is people come here and talk about something they want to talk about and not answer the questions that we put.
Mrs Ghosh: Fine.

Q117 Mr Davidson: What have you done?
Mrs Ghosh: I will go back to the Department to discover if we have made any representations about this.[3] The reason I am linking it back to my earlier comments is—

Q118 Mr Davidson: I do not want to hear that.
Mrs Ghosh: It is not necessarily a problem, given the level of take-up, the extent of focus which Tom has already described in terms of hitting the highest energy users, and therefore targeting as they do on those areas, and therefore it is not necessarily the case that we would have perceived this as a problem. I will find out the information and let you have it.

Q119 Mr Davidson: You just sat there and told me that if you were allowed to you would focus more on businesses where you could make bigger gains more quickly.
Mrs Ghosh: As Tom has described, in practice they are able to do that by focusing on the largest energy consumers.

Q120 Mr Davidson: You do focus. You break state aid rules then.
Mrs Ghosh: No.

Q121 Mr Davidson: That is fine.
Mrs Ghosh: No.
Mr Delay: We market actively to sectors and we can market actively to sectors. We can go to events around the country, we can publicise, we can do the marketing activity that we do which makes our offer available to businesses. Those businesses are aware of what we have to offer and come to us. Your point around the £20,000 being an absolute cap set by the European Commission that applies to everybody from Tesco's to the corner shop, actually £20,000 is the most from a value for money point of view we would ever wish to put into a relationship because at that point we can normally make the case to the company they should be paying for anything above that. In practice, if you look at table 11 on page 20, you will see that the cost to the Carbon Trust of the vast majority of our services, be they standard surveys or loans, is of the order of £4,000 not £20,000. That is principally on the basis of value for money.

Q122 Mr Davidson: Dealing with Fred's Corner Shop and Tesco, you are perfectly happy that you do not want any relaxation of the upper limit under any circumstances for anybody?
Mr Delay: I think at the moment we are finding that we get very good value for money by working with the £20,000 limit that we have. In part it gives us a very clear basis to say to the company that is all we are going to do, now if you want to work with us, we will work on the basis of you funding it. Companies are willing to do that increasingly. I see no reason to try and increase that at this point if value for money

[3] Ev 18–19

is what we are concerned with. If we want to increase our market penetration, it is in how we can work effectively with smaller businesses and medium-sized businesses. We are looking at that very actively.

Q123 Mr Davidson: You cannot force it on them, of course.
Mr Delay: We can market ourselves, we can make ourselves available to them in a way that they understand.

Q124 Mr Davidson: You can focus on them but not focus on them, I think I understand that. The final point I want to ask is because you are considered to be a generally good thing, as it were, nice and cuddly and fluffy and so on, to what extent do you think you get away with perhaps less efficient practices than, say, somebody who was more critically viewed? It is the first time we have looked at yourselves. I am not particularly impressed by some of the things. I wonder whether or not you are allowed to spend some money on some general feel good stuff which is not really justified in commercial terms. Have you found that freedom to waste money quite helpful?
Mr Delay: I do not believe we have wasted any money at all. We have built a market position which allows us to be effective and deliver value for money which is exactly what the NAO review has concluded. We regard the offer that we have to all businesses and public sector organisations in the UK as being effective. I am not aware of anything that I would describe as waste.

Q125 Mr Williams: Before we finish, can I draw your attention to paragraph 2.20 on page 21. May I say that the overall message of this paragraph is favourable but there are things which need to be touched on. It starts very favourably pointing out that: "Overall consultants were satisfied with the Carbon Trust's ability to deliver . . . savings. 69% were satisfied or very satisfied . . . 79% believed the Carbon Trust's services were effective in helping their clients to reduce carbon dioxide emissions". So that is a very positive set, part of that paragraph. Can I ask you about two points contained in the second part, reflecting not as overwhelming a body of opinion. The first one is that: "47% of the consultants . . . were dissatisfied with the inflexibility of the report templates and other materials . . ." which is a comment then reflected lower down by the Energy Services and Technology Association which was concerned about the standardisation of reports which limits the usefulness of its content. What is your response to that particular comment, two different sources?
Mr Delay: Yes. I mentioned earlier we have worked very hard to improve the timeliness, the quality and the consistency of the advice that we give to businesses. As part of doing that we have introduced a new consultant accreditation scheme. We have gone through the process of reaccrediting all of our consultants. In a sense I am happy that if there are any concerns it is on the consultants' side not on our customers' side where the satisfaction ratings are higher still. The point though is well made and we do listen carefully to what consultants tell us and that is appropriate, of course, because we want to get the best relationship with them and, indeed, between them and our customers. We have relaxed some of the strictures that we put on formatting the reports because we have acknowledged that those were unnecessarily restrictive. We started with a very free hand, we pulled it across to being quite a clearly defined template and now we have relaxed that back to give consultants greater freedom to express what their opportunities are, what their advice would be to the customer directly, so we have made that change already.

Q126 Mr Williams: That leads in to the second part which is two-thirds of the way down where it says: "39% expressed dissatisfaction with the Carbon Trust's willingness to listen to their ideas . . .". Why are you unwilling to listen to their ideas or are you, would you dispute that?
Mr Delay: I would dispute that. We listen to the ideas, advice and counsel that we get from a very wide range of stakeholders, from our customers, from our partners, from the consultants that we work with directly. We spend a lot of time listening, it is the only way in which we can provide an appropriate service at lowest cost to our customers. There is a reality that we are a public good company and many of the people who will come to us as stakeholders also have commercial interests in the market. We need to recognise, therefore, that they are representing members often with commercial interests. We are a public good company. First and foremost we have our mission to deliver and we have to do it in a value for money way.
Mr Williams: Thank you very much. May I say in summing up that the most frightening part of the afternoon was to hear Mr Davidson describe you as "cuddly". It has been a very positive hearing and, if I may say so, it is very clear you are both committed to what you are trying to achieve. Thank you both for the clarity of the hearing.

Supplementary memorandum submitted by the Department for Environment, Food and Rural Affairs

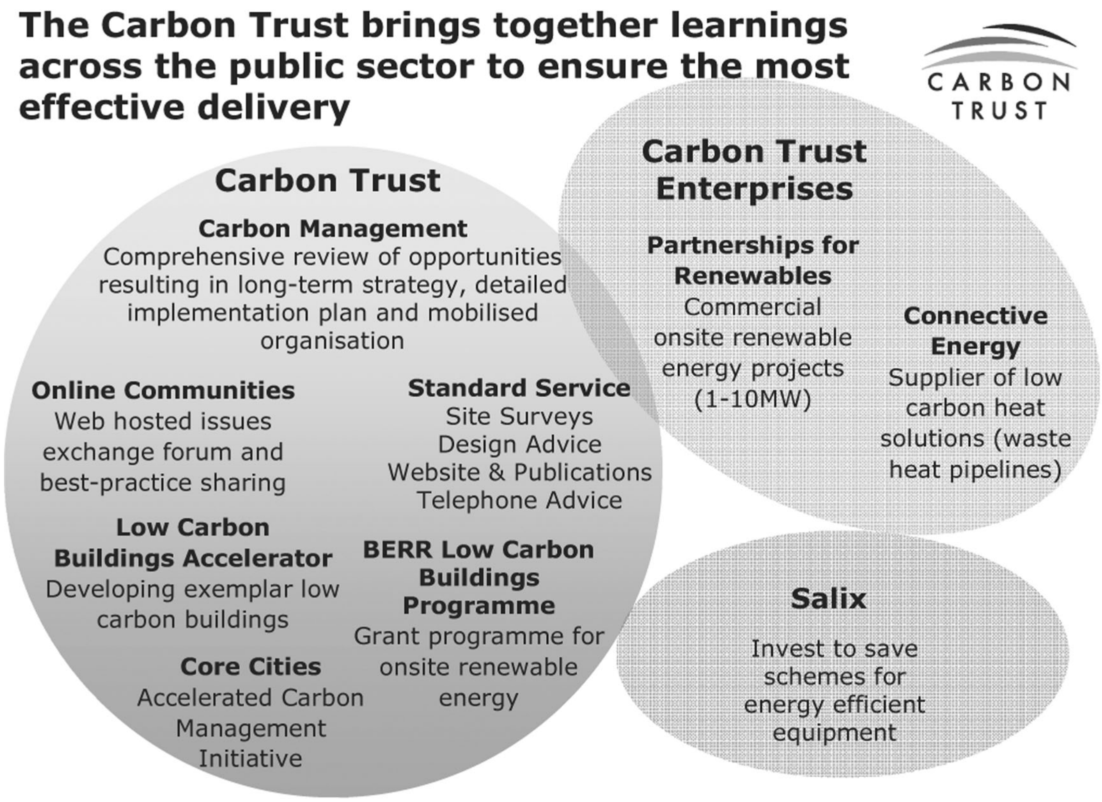
Questions 70–72 (Mr Philip Dunne): Salix Finance Limited

Salix Finance Limited ("Salix") is an independent company limited by guarantee. It has four members: John Edmonds, as representative of the Carbon Trust (Non-Executive Director of the Carbon Trust, Non-Executive member of the Board of the Environment Agency, Senior Research Fellow at King's College, University of London, formerly General Secretary of the GMB Trade Union and President of the TUC), Teresa Graham (formerly Deputy Chair of the Government's Better Regulation Commission, Chairman of the Administrative Burdens Advisory Board of HMRC, Chair of the Regulatory Board of the Royal Institution of Chartered Surveyors), Peter Derrick (recently retired as Chamberlain of London, previously Director of Finance and Corporate Services of Surrey County Council, Chief Executive at Hammersmith and Fulham and Director of Finance at Camden & Hounslow) and Mark Addison (Chief Operating Officer Defra and Acting Permanent Secretary for a short period in 2005, Non Executive Director of The National Archives).

The Carbon Trust Group has an overarching role in relation to helping public sector organisations deliver carbon savings both today and in the future. Salix designs and delivers co-funded invest to save schemes for the implementation of energy efficient capital projects in the public sector. The Carbon Trust grant funds Salix to provide these schemes as an additional element of the broader offer to the public sector (see diagram).

The Carbon Trust decided to set up Salix as an independent company to deliver these schemes rather than looking for a contractor to manage the schemes on its behalf because it was felt that there was a role for an efficient single purpose organisation which had the freedom to manage its schemes and that could seek public funding from other sources over time.

The Carbon Trust seeks to provide a joined up service to the public sector and in doing so monitors the work of Salix and has agreed parameters for the use of Carbon Trust funding by Salix that ensure cost effectiveness and programme effectiveness. We also gather and share learnings to inform the development of our respective offerings. The Carbon Trust has an important role to play in ensuring that funding from Defra to help the public sector reduce carbon emissions is used in a way that maximises its impact.



Questions 114—117 (Mr Ian Davidson): State Aid Rules

The Committee expressed concern that the Carbon Trust was unable to focus on companies which have the potential to deliver the highest savings because of State Aid rules and asked what Defra had done to raise the issue with the EU Commission.

Defra has not made any representations to the Commission as in practice the state aid rules do not unduly constrain Carbon Trust's support to individual companies, for the reasons stated below.

The Carbon Trust has agreed with Defra and BERR that its carbon management and energy efficiency advice activities operate as a "general measure" under state aid rules. This means that they do not constitute state aid.

A general measure is a measure conferring a benefit which is potentially available to all undertakings in an EU Member State and is not selective. To comply with this definition, the Carbon Trust's carbon management and energy efficiency advice must be:

— Open to all non-domestic energy users in the UK.

— Provided on the basis of need, assessed using objective criteria and applied on a non-discriminatory basis.

— Reactive not proactive, meaning that it is not targeted towards specific companies or particular sectors.

The Carbon Trust has consulted periodically with Defra and the State Aid Unit at BERR about any significant changes to its carbon management and energy efficiency advice services to ensure that both Departments were satisfied that the changes would not affect the general measure status of those activities.

The general measure status requires the Carbon Trust to make services available to all organisations in the UK but has not prevented it from developing a range of different services appropriate to the diverse needs of customers based on their energy consumption, thereby ensuring the cost effectiveness of its services. The main categories of service which the Carbon Trust has developed are:

— *General Advice* provided through publications, the website, and a telephone helpline, which is available to all business and public sector organisations (but is typically used by smaller organisations with energy costs of less than £50,000 per annum);

— *Standard Surveys* for organisations with energy bills of over £50,000 per annum, under which an accredited consultant undertakes one or more site surveys and prepares a report with costed recommendations for reducing carbon emissions and energy consumption. The work can also include a range of other services; and

— *Carbon Management* for larger energy use organisations where accredited energy experts work with an organisation to undertake a strategic review of its carbon emissions and energy consumption and to draw up a reduction action plan. The energy experts are generally selected on the basis of their specialist knowledge of the sector in which the organisation operates.

The Carbon Trust seeks to maximise its effectiveness by requiring co-funding for certain services and by larger organisations (with energy bills of more than £3million) where there is a much greater willingness and ability to pay part of the cost of such services.

Although the general measure requirements mean that the Carbon Trust's services must be reactive and open to all, this is considered to be appropriate given that public money is being used. The Carbon Trust is not prevented from giving support for the specific needs of an organisation provided that it offers equivalent support to other organisations. Through its marketing campaigns and other promotional activities it is also able to ensure that organisations, including those with the greatest potential to make carbon savings, are made aware of its services and encourage them to make contact.

In practice, therefore, the Carbon Trust does not consider that the general measure principles have acted as a significant constraint on its ability to work with those organisations with the greatest potential for making carbon savings.

It has therefore not been considered necessary for the Government to make any approaches to the EU Commission with a view to achieving greater flexibility for the Carbon Trust in carrying out activities in this area. However, the Carbon Trust keeps developments in state aid law under close review in conjunction with Defra and BERR.

Supplementary memorandum submitted by HM Treasury

Question 83 (Mr Philip Dunne): Enhanced capital allowances

In Budget 2007, the Government announced a major reform to the business tax system, including a reduction in the main rate of corporation tax from 30 to 28% and reforms to the capital allowances system to align more closely the rates of allowances with the economic depreciation of assets.

As part of this package, the Government also announced is was extending the enhanced capital allowances schemes by introducing a payable credit for companies making losses, whereby companies can surrender the losses attributable to expenditure qualifying for enhanced capital allowances in return for a cash payment.

Enhanced capital allowances, for environmentally beneficial and energy-saving technologies, currently provide 100% first year allowances for qualifying expenditure by companies and unincorporated business. This allows a business to write off all qualifying expenditure in the year in which it is made providing a cash flow boost to businesses investing in these technologies.

On 17 December 2007, the Government published *"Payable enhanced capital allowances: technical note",* which includes draft legislation for the new payable element of enhanced capital allowances.

"Business tax reform: capital allowance changes—technical note" was also published on 17 December and confirmed that enhanced capital allowances would be available in addition to the £50,000 annual investment allowance introduced as part of the Budget 2007 reforms, which provides 100% relief for the first £50,000 of expenditure by all businesses.

It also highlighted the additional benefits to the enhanced capital allowances scheme of the Government's approach to the new classification of features integral to a building, which will allow many businesses to claim enhanced capital allowances on energy-efficient lighting systems where previously they could not unless such systems were considered to be "trade specific"

These two documents in PDF format are available on the Treasury's website to download at:

http://www.hm-treasury.gov.uk/consultations—and—legislation/businesstaxreform/consult—businesstax—reform.cfm

and

http://www.hm-treasury.gov.uk/consultations—and—legislation/capitalallowances/consul—capitalallowances.cfm

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