

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT  
GENERAL COMMITTEES

Public Bill Committee

## FINANCE BILL

**(Except clauses 1, 4, 8, 189 and 209, schedules 1, 23, and 33 and certain  
new clauses and new schedules)**

*Sixteenth Sitting*

*Thursday 21 June 2012*

*(Afternoon)*

---

### CONTENTS

CLAUSE 202 agreed to.  
SCHEDULE 28 agreed to.  
CLAUSES 203 to 205 agreed to.  
SCHEDULES 29 to 31 agreed to.  
Adjourned till Tuesday 26 June at half-past Ten o'clock.

---

PUBLISHED BY AUTHORITY OF THE HOUSE OF COMMONS  
LONDON – THE STATIONERY OFFICE LIMITED

£4.00

Members who wish to have copies of the Official Report of Proceedings in General Committees sent to them are requested to give notice to that effect at the Vote Office.

No proofs can be supplied. Corrigenda slips may be published with Bound Volume editions. Corrigenda that Members suggest should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

**not later than**

**Monday 25 June 2012**

STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY  
FACILITATE THE PROMPT PUBLICATION OF  
THE BOUND VOLUMES OF PROCEEDINGS  
IN GENERAL COMMITTEES

© Parliamentary Copyright House of Commons 2012

*This publication may be reproduced under the terms of the Parliamentary Click-Use Licence,  
available online through The National Archives website at*

*[www.nationalarchives.gov.uk/information-management/our-services/parliamentary-licence-information.htm](http://www.nationalarchives.gov.uk/information-management/our-services/parliamentary-licence-information.htm)*

*Enquiries to The National Archives, Kew, Richmond, Surrey TW9 4DU;*

*e-mail: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk)*

**The Committee consisted of the following Members:**

*Chairs:* †MR DAVID AMESS, MR PETER BONE, MR JIM HOOD, JIM SHERIDAN

- |   |   |
|---|---|
| † Baldwin, Harriett ( <i>West Worcestershire</i> ) (Con)                  | McKinnell, Catherine ( <i>Newcastle upon Tyne North</i> ) (Lab) |
| † Barclay, Stephen ( <i>North East Cambridgeshire</i> ) (Con)             | † Malhotra, Seema ( <i>Feltham and Heston</i> ) (Lab/Co-op)     |
| † Blenkinsop, Tom ( <i>Middlesbrough South and East Cleveland</i> ) (Lab) | Mann, John ( <i>Bassetlaw</i> ) (Lab)                           |
| † Burley, Mr Aidan ( <i>Cannock Chase</i> ) (Con)                         | † Mearns, Ian ( <i>Gateshead</i> ) (Lab)                        |
| † Elphicke, Charlie ( <i>Dover</i> ) (Con)                                | † Mills, Nigel ( <i>Amber Valley</i> ) (Con)                    |
| † Garnier, Mark ( <i>Wyre Forest</i> ) (Con)                              | † Morrice, Graeme ( <i>Livingston</i> ) (Lab)                   |
| † Gauke, Mr David ( <i>Exchequer Secretary to the Treasury</i> )          | † Morris, Grahame M. ( <i>Easington</i> ) (Lab)                 |
| † Gilmore, Sheila ( <i>Edinburgh East</i> ) (Lab)                         | † Pugh, John ( <i>Southport</i> ) (LD)                          |
| Gyimah, Mr Sam ( <i>East Surrey</i> ) (Con)                               | † Rees-Mogg, Jacob ( <i>North East Somerset</i> ) (Con)         |
| † Hamilton, Fabian ( <i>Leeds North East</i> ) (Lab)                      | Reeves, Rachel ( <i>Leeds West</i> ) (Lab)                      |
| † Hands, Greg ( <i>Chelsea and Fulham</i> ) (Con)                         | Smith, Miss Chloe ( <i>Economic Secretary to the Treasury</i> ) |
| † Harrington, Richard ( <i>Watford</i> ) (Con)                            | Swales, Ian ( <i>Redcar</i> ) (LD)                              |
| † Hilling, Julie ( <i>Bolton West</i> ) (Lab)                             | † Syms, Mr Robert ( <i>Poole</i> ) (Con)                        |
| Hoban, Mr Mark ( <i>Financial Secretary to the Treasury</i> )             | † Williams, Stephen ( <i>Bristol West</i> ) (LD)                |
| † Jamieson, Cathy ( <i>Kilmarnock and Loudoun</i> ) (Lab/Co-op)           | † Williamson, Gavin ( <i>South Staffordshire</i> ) (Con)        |
| † Kirby, Simon ( <i>Brighton, Kemptown</i> ) (Con)                        | Wilson, Sammy ( <i>East Antrim</i> ) (DUP)                      |
| Lavery, Ian ( <i>Wansbeck</i> ) (Lab)                                     |   |
| † McKenzie, Mr Iain ( <i>Inverclyde</i> ) (Lab)                           | Simon Patrick, James Rhys, <i>Committee Clerks</i>              |
|   | † <b>attended the Committee</b>                                 |

## Public Bill Committee

Thursday 21 June 2012

(Afternoon)

[MR DAVID AMESS *in the Chair*]

### Finance Bill

(Except clauses 1, 4, 8, 189 and 209, schedules 1, 23 and 33 and certain new clauses and new schedules)

#### Clause 202

##### ADMINISTRATION OF VAT

1 pm

*Question proposed*, That the clause stand part of the Bill.

**The Chair:** With this it will be convenient to consider that schedule 28 be the Twenty-eighth schedule to the Bill.

**Cathy Jamieson** (Kilmarnock and Loudoun) (Lab/Co-op): It is good to see you back in the Chair this afternoon, Mr Amess, continuing the ray of sunshine approach that Mr Sheridan took us this morning.

The clause and associated schedules are fairly straightforward. As I said this morning, it is important to put something on the clauses on the record, as people will be aware from the explanatory notes that

“Clause 202 and Schedule 28 amend the Value Added Tax Act 1994”,

which we all lovingly describe as VATA,

“from 31 October 2012 so that the form and manner in which persons are required to make certain communications to the Commissioners for HM Revenue and Customs (“the Commissioners”) (and, in some cases, the particulars or information and documents to be provided) can be specified in regulations or in accordance with regulations. The communications are applications to register for VAT, make returns or statements, submit claims or request refunds, keep accounts, notify certain transactions and events and request certification. The clause also makes consequential amendments to the Finance Acts 1996 and 2009 and updates a reference to EU law.”

You will be pleased to know, Mr Amess, that I will not go through every single point in schedule 28, in which a number of issues are raised. Again, as I said, most of it relates to updating EU law or provides clarification on particular points. I think I have said enough at this point, so I will allow the Minister to make any comments that he wishes to make.

**The Exchequer Secretary to the Treasury (Mr David Gauke):** It is a great pleasure to serve under your chairmanship, Mr Amess. I will briefly add a few words on the clause and schedule 28.

Schedule 28 makes the detailed legislative changes that need to be made to allow the commissioners for Her Majesty’s Revenue and Customs to prescribe certain

VAT forms in tertiary legislation, rather than secondary legislation. Clause 202 and schedule 28 will make it easier to keep the VAT forms up to date. Taking the forms out of secondary legislation will simplify the process of amending and publishing them. It will allow HMRC to respond more quickly to changing business needs and to make changes in line with customer feedback and the needs of specific customer groups.

HMRC consulted on the changes last summer, and published a draft law for technical comment in December 2011. The majority of respondents were in favour of allowing HMRC to determine the form in which information is provided in tertiary law, as long as there are appropriate safeguards, such as consultation on changes. HMRC has given assurances that it will consult business through the Joint VAT Consultative Committee before making any major changes to the VAT forms. To give effect to the changes, secondary legislation will be made in the summer, which will remove the image of the forms from secondary legislation and enable them to be prescribed in tertiary legislation in the form of published notices.

In conclusion, the clause and schedule 28 simplify the administration of VAT while continuing to provide certainty for businesses that are required to, or wish to, interact with HMRC using the affected forms.

*Question put and agreed to.*

*Clause 202 accordingly ordered to stand part of the Bill.*

*Schedule 28 agreed to.*

#### Clause 203

##### STANDARD RATE OF LANDFILL TAX

*Question proposed*, That the clause stand part of the Bill.

**Cathy Jamieson:** The clause is straightforward and is designed to increase the standard rate of landfill tax from £64 per tonne to £72 per tonne for disposals at authorised landfill sites of relevant waste material “made (or treated as made) on or after 1 April 2013.”

The landfill tax was introduced in October 1996 to increase the cost of disposing of waste, thereby encouraging waste producers and the waste management industry to switch to more sustainable alternatives when it comes to disposing of waste. We all welcome the work done since then to ensure that we reduce waste and recycle it where possible, both for environmental reasons and as that is good, sound economic sense. As the background note to the clause points out,

“There is a lower rate of tax, which applies to less polluting qualifying wastes listed in a Treasury Order, and a standard rate which applies to all other taxable waste disposed of at authorised landfill sites...In the June 2010 Budget, the Government confirmed that the standard rate of landfill tax would rise by £8 per tonne on 1 April each year up to and including 2014. The Government also announced a floor under the standard rate of landfill tax so that the rate will not fall below £80 per tonne from 2014-15 to 2019-20...The Government announced in Budget 2012 that the lower rate of landfill tax, currently £2.50 per tonne, will remain frozen in 2013-14.”

The clause gives me the opportunity to make a couple of points about the recent controversy over the landfill tax rules. The Minister must be aware of the concerns

expressed by people in the skip hire industry, who felt that the rules under which they operated were being changed without any consultation with them, and that some small companies would be particularly disadvantaged, because they might have let or rented out skips at a particular cost, expecting to pay a certain rate on waste going to landfill, and would subsequently have feared that they might be charged a much heavier rate.

Some of the small businesses came along to Parliament; I understand that officials from the Treasury were available, and it must have been helpful for them to meet people from the industry. None the less, the way in which things came about shows either that there was lack of clarity in the existing rules, which could have been the case, or that the way that information on rules was communicated might have meant that it did not reach all the organisations in the industry, as required. We therefore had what I must call the unseemly spectacle of people believing that there was yet another hidden tax in the Budget—some sort of skip tax that would adversely affect many in the industry. The Economic Secretary to the Treasury quickly issued a letter that attempted to explain to and reassure the industry that there had not been such a change in the rules and that people were mistaken. However, unfortunately, that added to the confusion.

People were more likely to believe that there was to be an increase in tax, perhaps because of the omnishambles around other aspects of the Budget, given the U-turns, changes, differences in approach—[*Interruption.*] I hear Government Members sighing, but the issue affected people in the industry, and I hope that Government Members take that seriously. My view is that they are small businesses and people who got in touch with MPs to make representations on the subject. They simply want to get on with their business and do their job, and contacting MPs and coming to Parliament to raise problems is not on their day-to-day radar. When hon. Members sigh, I hope that they pause for a moment and reflect that we are talking about genuine representations made by business people who are doing their best to keep people in employment and to comply with environmental legislation and the taxation system.

**Mr Robert Syms (Poole) (Con):** I am sure that the hon. Lady would have been a little more tolerant had she been in Parliament under the previous Government, when we had the shambles of the 10p tax rate. That went through a whole range of changes, but we got there in the end.

**Fabian Hamilton (Leeds North East) (Lab):** Why is that relevant?

**Mr Syms:** It was in a Budget and the then Government got it wrong.

**Cathy Jamieson:** It would probably be best if we focused on the issue under discussion.

**Julie Hilling (Bolton West) (Lab):** I am sure that my hon. Friend would agree that there is a good reason why people are calling the Budget an omnishambles. There has been a U-turn not on one tax, but on as many taxes as it is possible to imagine.

**Cathy Jamieson:** My hon. Friend makes a good point. That might be why people were inclined to believe that they had not seen or immediately understood something in the paperwork, and felt that they faced an additional tax. Will the Minister give an assurance that the fears, concerns and points raised by the industry have all been dealt with, and that any future changes will be subject to the appropriate consultation?

**Nigel Mills (Amber Valley) (Con):** A business in my constituency was caught up in the problem. Derwent Waste is a relatively small waste transfer station that does not have the resources for hugely expensive bits of machinery for the landfill process. It has to sort out and process the waste from skips manually before it can work out how much landfill tax is owed. It is concerned because it cannot work out to the nth degree what bit came from where and exactly what it used to be, especially when a trommel machine, which produces fine dust, is used. It will be impossible for it to know which site a skip has come from, and for it to track things, to the final gram, all the way back through the process. The company is willing and able to use best endeavours to track materials and make sure that any waste that should not go into the lower rate does not get caught there. Could the Minister confirm that, when we do get to what is hopefully the final version of the guidance on the issue, the regime will be flexible and commercial? Small businesses that try to do the right thing and take reasonable methods to control waste and its source should be confident that they can apply the lower rate where appropriate, and that they will not be forced to apply the higher rate to all the waste that they extract.

**Mr Gauke:** I will respond to the points that have been raised and say a word or two about the clause, which increases the standard rate of landfill tax from £64 per tonne to £72 per tonne, with effect from 1 April 2013.

The landfill tax has been successful in reducing the amount of waste sent to landfill. Since 1996, when landfill tax was introduced, the amount of waste sent to landfill has nearly halved, from 87.43 million tonnes to 44.99 million tonnes. The benefits of that reduction are twofold. First, the economy benefits from our making better use of valuable resources, rather than simply tipping them into a hole in the ground. Secondly, greenhouse gas emissions from decomposing waste are reduced.

The landfill tax also plays a significant role in reducing the volume of waste to landfill, which helps us to meet the target set out in the landfill directive, thus minimising the risk of incurring the substantial penalties that falling short of those targets would trigger.

**Jacob Rees-Mogg (North East Somerset) (Con):** It is a singular pleasure to serve under your chairmanship, Mr Amess. Is the European Union the main driving force behind this tax, and is it once again getting its claws into our taxation system?

**Mr Gauke:** Let me put it this way: there is a directive that places requirements on the UK to reduce the amount of waste put into landfill, and the landfill tax is a response to that requirement. That is probably the best explanation. The terms of the landfill tax are not necessarily dictated at a European level. I hope that that helps my hon. Friend.

1.15 pm

If waste is not sent to landfill, it must go somewhere else. The June 2010 Budget confirmed that the standard rate of landfill tax would increase by £8 per tonne each year until 2014. The Government also confirmed that the standard rate of landfill tax would not fall below £80 per tonne between 2014 and 2020. In confirming the £8 per tonne increase in 2013-14 this year, we continue to provide certainty for the waste management industry to invest in infrastructure for alternative means of waste disposal. That means that businesses can have the confidence to invest in new waste treatment facilities, safe in the knowledge that it will not suddenly become cheaper in the near future for waste to be sent to landfill again. This landfill tax escalator will help the Government in our goal to reduce the amount of waste sent to landfill and in working towards a zero waste economy, where all resources are fully valued, both financially and environmentally.

**Stephen Barclay** (North East Cambridgeshire) (Con): I know that my hon. Friend the Minister shares my commitment to cross-Government working and to Departments being aligned in the outcomes that they are trying to achieve. I just want to flag once again, as I did in the discussion of the Finance Bill last year, the fact that the landfill tax comes centrally, but much of the impact is felt locally, particularly in terms of increased haulage through village communities. For example, areas such as Sutton in my constituency are affected by increased haulage from the Mepal pits. So I urge him to look again at how—through working with the Department for Communities and Local Government—local communities might be helped, along with the Department for Transport, to reduce the local impact of the consequences of the increased landfill tax.

**Mr Gauke:** As always, my hon. Friend is a doughty defender of the interests of his constituents, and it is helpful to him and indeed the Committee that he has made those remarks on the record. Of course Government Departments work together on these matters. The consequences of the landfill tax have implications for local authorities in a number of ways, not least the fact that local authorities often bear the burden of the tax. However, the funding of local authorities takes that into account. We also have a landfill communities fund, which addresses the specific concerns that he has raised.

The environmental impact of lower-rated waste is significantly less than that of standard-rated waste, and the current rate adequately reflects that. The lower rate of landfill tax that applies to less polluting waste, such as rocks and sub-soils, will remain frozen at £2.50 per tonne in 2013-14. The increase in the standard rate of landfill tax will affect businesses and local authorities, as I have just said, but by managing waste more sustainably and reducing the amount of waste that they send to landfill, they will be able to reduce their landfill tax liability. In addition, the local government settlement in the spending review includes an allocation reflecting the costs of waste disposal for local authorities.

Let me turn to the issue raised by the hon. Member for Kilmarnock and Loudoun, in respect of the recent controversy involving skips. By and large, she made a fairly measured contribution. She recognised in her remarks that this is essentially an operational matter as

opposed to a policy matter. However, as she has raised this issue, it may be helpful to the Committee if I just say a word or two about it.

Of course, there has been no change to the landfill tax legislation in relation to skip operators. Skip operators do not pay landfill tax directly; paying that tax is, of course, the responsibility of landfill site operators. HMRC issued guidance that clarified the existing law around disposal of specific types of waste. That was at the request of some in the landfill industry who were being undercut by others who were not applying the correct rate of tax. Some operators increased their prices substantially as a result, with knock-on impacts on their customers.

Once that issue was drawn to the attention of HMRC, it acted immediately to clarify the situation and it continues to work closely with the industry to ensure that requirements are understood throughout the waste sector. In the meantime, HMRC has set up a dedicated hotline that affected businesses, including skip operators, can ring. It may help the Committee if I provide more detail about HMRC's current engagement. HMRC met a cross-section of industry stakeholders on 15 June and met landfill site operators again on 19 June. The industry confirmed that the follow-up guidance issued on 1 June had largely removed uncertainty about the tax liability of certain materials disposed of at landfill sites, although there are some outstanding queries on evidential requirements, which HMRC is working through. Overall, I am advised that there was widespread support at the meetings from interested parties across the sectors, and HMRC was seeking to provide clarification in order to level the playing field across the industry.

My hon. Friend the Member for Amber Valley asked where the clarification came from. The HMRC guidance was issued in direct response to businesses that were being unfairly disadvantaged by those who were charging prices based on the incorrect tax rate. I reassure the Committee that HMRC continues to engage with the industry.

**Ian Mearns** (Gateshead) (Lab): I was talking recently to some people from the industry who are working on a piece of equipment that they saw as capable of generating electricity from waste. They wondered, if the waste came from landfill, whether they would be able to reclaim the landfill tax for waste that had already gone into landfill as part of the operation.

**Mr Gauke:** The hon. Gentleman raises an interesting point. Rather than hazard a guess at the answer, it might be best if I write to him. I suspect that the correct answer to his question is “it depends”; that usually is the correct answer. I would be delighted to be of assistance to his friend in what sounds a fascinating project.

Clause 203—[*Interruption.*] If I said 2003, it is only because it feels like it. Clause 203 increases the standard rate of landfill tax as announced at Budget 2010. As I have set out, clause 203 not only helps Government towards their goal of creating a zero waste economy but provides certainty so that businesses and local authorities can plan their future waste disposal.

*Question put and agreed to.*

*Clause 203 accordingly ordered to stand part of the Bill.*

**Clause 204**

## LANDFILL SITES IN SCOTLAND

*Question proposed,* That the clause stand part of the Bill.

**Cathy Jamieson:** I am sure that, like the Minister, many people feel as though we are discussing clause 204 rather than clause 204, given that we have had quite a number of sittings. I want to say a couple of words about the clause, which deals with landfill sites in Scotland. I acknowledge that occasionally Governments of any shape, colour or form get things wrong or omit things from legislation, which is why scrutiny by Committees such as ours is important.

I confess that when it was brought to my attention that clause 204 introduces retrospective legislation, which will have retrospective effect from 21 March 2000, to bring Scottish legislation into line with the rest of the UK by correcting an omission in landfill tax legislation concerning the definition of a landfill site in Scotland, I had to conclude that not only had I missed that omission when I was a member of the Scottish Parliament Transport and the Environment Committee during 1999-2000, but that I had probably missed it somewhere along the line when I was a member of the then Scottish Executive. However, we now have the opportunity to put right the omission made in section 66(ba) of the Finance Act 1996, which has been in force in Scotland since 21 March 2000. I will not go into why the UK had to adopt the integrated pollution prevention and control directive, lest I tempt fate and Committee members wish to discuss more EU legislation. At this stage of the proceedings, that is probably best avoided.

Given that the amendments in relation to England and Wales came into force on 21 March 2000 and those relating to Northern Ireland came into force on 17 January 2003, what is the practical impact, if any, on the adoption of the clause? Is anything in Scotland going to change as a result of that?

**Mr Gauke:** As we have heard, clause 204 introduces changes to correct landfill tax legislation in relation to the definition of a landfill site in Scotland. The legislation will align the position in Scotland with the rest of the UK, with full retrospective effect from 21 March 2000. Following the UK's adoption of the integrated pollution prevention and control directive, there was, as we have heard, a phased transition as UK landfill sites moved from a regime of licences and resolutions to a system of permits introduced in the Pollution Prevention and Control Act 1999. The definition of a landfill site in landfill tax legislation cross-refers to that environmental legislation. It was recognised that the site-by-site transition to permits would have a consequential impact on landfill tax provisions and, to deal with that situation, the 1999 Act amended landfill tax legislation.

The amendments were brought into force in England and Wales on 21 March 2000 and in Northern Ireland on 17 January 2003. However, the necessary commencement order was not made in Scotland, which unintentionally took all Scottish landfill sites outside the scope of landfill tax from the date their permits took effect.

**Fabian Hamilton:** I accept what the Minister says about correcting an oversight with regard to landfill tax in Scotland, but does he agree that, generally, retrospective taxation—retrospective legislation of any sort—is not a good idea?

**Mr Gauke:** The hon. Gentleman takes me into a much wider issue with regard to retrospective taxation. We expect the measure to have no Exchequer or industry impacts as it restores the position that those affected thought they were already in. The measure provides a degree of clarification. Indeed, if I wanted to be partisan, I would say that this is another example of the Government clearing up the mess that we inherited, albeit a fairly small mess.

**Fabian Hamilton:** I understood that the relevant legislation was introduced in 1996. Surely, the Conservatives were in power then.

**Mr Gauke:** No. It is always a pleasure to see the expression on the hon. Gentleman's face when he thinks that he has the Minister on the ropes, but I am sorry to disabuse him. The situation arose as a consequence of subsequent changes made following the 1999 Act, which he will recall was introduced under the previous Government.

I am not sure whether this issue will sway many voters one way or the other. However, that bit of knockabout debate enlivens an otherwise quiet Thursday afternoon.

The changes made by the clause will bring section 66 of the Finance Act 1996 into force in Scotland from the same date it was brought into force in England and Wales. The measure will have full retrospective effect from 21 March 2000 and will bring landfill tax legislation for Scottish sites into line with the rest of the UK. In conclusion, the clause makes the necessary changes to correct landfill tax legislation in relation to the definition of a landfill site in Scotland. I hope that it can stand part of the Bill.

*Question put and agreed to.*

*Clause 204 accordingly ordered to stand part of the Bill.*

**Clause 205**

## CLIMATE CHANGE LEVY

*Question proposed,* That the clause stand part of the Bill.

1.30 pm

**The Chair:** With this it will be convenient to discuss the following:

That schedule 29 be the Twenty-ninth schedule to the Bill.

That schedule 30 be the Thirtieth schedule to the Bill.

Amendment 197, in schedule 31, page 605, line 2, after 'April', leave out '2013' and insert '2017'.

Amendment 198, in schedule 31, page 605, line 4, after 'April', leave out '2013' and insert '2017'.

[The Chair]

Amendment 199, in schedule 31, page 605, line 4, at end add—

‘(4) The Chancellor of the Exchequer shall conduct a review of the expected impact on carbon emissions, security of supply and industrial competitiveness of the removal, in 2017, from combined heat and power plants of the Climate Change Levy exemption for indirect supplies of electricity and shall, by 31 December 2012, lay a report of his review in the House of Commons Library.’

That schedule 31 be the Thirty-first schedule to the Bill.

**Seema Malhotra** (Feltham and Heston) (Lab/Co-op): Mr Amess, it is a pleasure to serve under your sunny chairmanship today—that is a theme continued from this morning as the weather has got better. I beg to move amendments 197 to 199.

**The Chair:** Order. I advise the hon. Lady that she can speak to the amendments but not move them now.

**Seema Malhotra:** Thank you, Mr Amess. I am speaking to amendments 197 to 199 to schedule 31—clause 205—relating to the removal of the climate change levy exemption, which is due to take effect in April 2013.

Part 3 of the schedule provides for the ending of the exemption from the climate change levy for electricity produced in either a fully-exempt or a partly-exempt combined heat and power station that is supplied by an electricity utility to an energy consumer. As a result of the schedule, any electricity acquired by an electricity utility from a generator after that date will not be eligible for the exemption.

Combined heat and power generation is a process whereby the heat that is invariably produced during electricity production is captured and reused. CHP helps to avoid significant energy losses and to reduce CO<sub>2</sub> emissions. As heat is not wasted in cooling towers, CHP is a much more efficient process than generating heat and electricity separately. As a result, CHP units, which use renewable fuels such as wood burning biomass, solar and wind, can be up to 95% efficient. By using less fuel, CHP also reduces imports of gas, helping security of supply. CHP typically reduces energy use by 30% compared to separate heat and electricity generation.

CHP is recognised as one of the key technologies to offer a realistic alternative to centrally generated electricity. It is estimated that CHP accounts for 7% of UK electricity generation capacity, that it saves 13 million tonnes of CO<sub>2</sub> annually and that industrial sites using CHP support 130,000 jobs. CHP capacity is predominantly located in industry, chemicals, paper, refining and food manufacture. The highly efficient nature of CHP supports the competitiveness of British industry by reducing energy costs. CHP users include a range of organisations, such as universities, local authorities and businesses.

I think that it would be helpful to cover a small amount of the history of the levy exemption. In 2003, the Labour Government recognised the value of CHP by providing an exemption from the climate change levy on electricity sold to the grid. That support was known as the CHP levy exemption certificate. In effect, it was tax relief for each unit of electricity generated.

Hon. Members will be aware that the climate change levy is a tax on the taxable supply of specified energy products for use as fuels—for lighting, heating and power—by business consumers in industry, commerce, agriculture, public administration and other services. The wider significance beyond a tax-revenue-generating measure is the incentive for changed behaviour and reduced carbon output—a crucial part of greening our economy and incentivising the change that we need to see, and something on which there is general cross-party agreement.

The CHP levy exemption certificate is a very low-cost support mechanism, costing £5 per megawatt-hour of electricity, whereas renewable electricity support starts at about £45 per megawatt-hour. The CHP levy exemption certificate system is designed to ensure that a CHP plant exports electricity to the national grid. By exporting its electricity, CHP plants are helping to change the way in which we produce electricity by displacing less efficient gas or coal power stations and reducing CO<sub>2</sub> emissions from the power sector, as well as on the site on which such units are installed.

In 2009, the previous Government extended the CHP levy exemption certificates until 2023. In 2012, the Chancellor of the Exchequer confirmed his intention to remove the CHP levy exemption certificates 10 years early, ending in April 2013.

Our amendment calls on the Chancellor to amend his proposals to bring forward the ending of the CHP exemption certificates to 2013 by extending that end date from April 2013 to April 2017. In addition, it says:

“The Chancellor of the Exchequer shall conduct a review of the expected impact on carbon emissions, security of supply and industrial competitiveness of the removal, in 2017, from combined heat and power plants of the Climate Change Levy exemption for indirect supplies of electricity and shall, by 31 December 2012, lay a report of his review in the House of Commons Library.”

We need to ensure that the effects of this change on industry are reduced and made more manageable. CHP requires significant capital investment, and business plans will be based on more than one or two years of forecasts of usage and return on investment. Working with industry on any changes is an important factor in helping to ensure that a phased change can occur over a manageable business investment cycle, and that any recent investments during these difficult economic times are not seriously adversely affected.

Will the Minister provide the Committee with an update on the following areas of inquiry? What estimate does he make of the costs of owning and operating a CHP plant if the support is removed? What emissions savings will be made by CHP plants if the support is removed? If the UK energy use is less efficient and more gas and coal are needed to meet energy demands, what estimate does he make of the cost of fuel imports?

The Combined Heat and Power Association has made its own assessment with input from its members. It says that extending the levy to 2017, rather than ending it in 2013, will have the benefit of providing the Government with time to develop a replacement support mechanism within the electricity market reform programme.

The Treasury’s impact assessment of the effect of the removal of the CHP levy exemption certificates did not include an assessment of how the costs would impact on industry, on carbon emissions or on security of energy supply. Given that industry had been guaranteed

support until 2023, such an assessment of the early termination of support would be of value, as would a welcome message of partnership working between Government and industry, which would have national implications.

I know that the Chancellor has stated that the CHP LEC was not an ideal system for supporting CHP, and some may agree with him. However, let me summarise our concerns that the removal of this support 10 years early, with one or two years' notice and without clarity on what will replace it runs the risk of creating confusion in the marketplace, a slowdown in the momentum of the development of such new technologies and of carbon reduction and could undermine investor confidence in general. One of the most important enablers of business investment is the predictability of the tax regime, and the avoidance of sudden cliff-edge changes. Finally, I would be grateful if the Minister also updated hon. Members on the consultation that has been undertaken with the industry.

**Cathy Jamieson:** I thank my hon. Friend the Member for Feltham and Heston for laying out so clearly and succinctly the concerns of the industry. I look forward to hearing what the Minister has to say. I may return to one or two of those points.

As we are aware, clause 205 and schedules 29 to 31 amend the climate change levy provisions. In particular, schedule 29 deals with the climate change levy in three parts. Part 1 retrospectively amends schedule 6 to the Finance Act 2000 to provide that the amount of CCL payable on a supply that has been treated as a reduced rate supply, but that it is later determined should not have been, is 65% with effect from April 2011.

Part 2 amends schedule 6 by replacing the suspended exemption from the CCL for taxable commodities used in metal recycling processes with a 20% lower rate from April 2012. Part 3 amends the rates of levy set out in schedule 6, including the reduced rate on supplies of electricity and the lower rate for Northern Ireland gas supplies, with effect from April next year.

Schedule 30 deals with climate change agreements and amends schedule 6 to make changes to the administration of the climate change agreement scheme from 1 April next year. Participants in the scheme are entitled to a discount from the CCL in return for meeting energy efficiency or emission reduction targets. Schedule 31 deals with a number of issues relating to the carbon price support rates and combined heat and power stations.

As my hon. Friend the Member for Feltham and Heston has already indicated, some concerns have been outlined by the industry in relation to combined heat and power. As she has said, it is important to understand what combined heat and power does in terms of the generation both of electricity and usable heat in a single process. CHP is believed to be a more efficient process than generating heat and electricity separately. As she has said, by using less fuel, CHP reduces imports of gas, potentially helps security of supply and, it has been estimated, can also assist in reducing energy use by 30% compared with separate heat and electricity generation.

CHP accounts for some 7% of UK electricity generation capacity and saves 13 million tonnes of CO<sub>2</sub> annually. CHP capacity is predominantly located in industry,

particularly affecting the chemicals, paper, refining and food manufacturing sectors. Although, of course, we are also seeing opportunities for the development of micro-CHP, which is not something I want to focus on today because I want to make some further points in relation to industrial settings.

As my hon. Friend has outlined, back in 2003, the then Government recognised the value of CHP by providing an exemption from the climate change levy on electricity sold to the grid. Electricity used on site was already exempted and, as she correctly identified, that was known as the CHP levy exemption certificate. In 2009, as has been said, the then Chancellor extended the CHP levy exemption certificates until 2023. At that time, the industry believed that that was going to be the position and therefore was planning accordingly—looking at investment and at how it would take things forward. Of course, as we have heard, in 2012 the current Chancellor confirmed his intention to remove CHP levy exemption certificates 10 years early as of next year.

The arguments that have come from the industry are that the CHP levy exemption certificate is a very low-cost support mechanism, estimated to be around £5 per megawatt-hour of electricity, whereas it is estimated that renewable electricity support starts at about £45 per megawatt-hour. Therefore, it believes there is an argument for the CHP levy exemption certificate system to continue. As my hon. Friend has outlined, her amendments suggest that the Government should consider doing that for a mid-point. I hesitate to say third way or mid-way because I would not want people to think that I was going soft in my old age. I think she makes the powerful point that consideration should be given to, or we should at least look again at, the impact on industry.

1.45 pm

**Mr Iain McKenzie** (Inverclyde) (Lab): It is a pleasure, Mr Amess, to serve under your chairmanship. My hon. Friend is making a powerful point on behalf of industry; I know that very well. In my constituency, BPI Polythene has applied this method, and only yesterday it told me that it had enabled it to not only underline its green credentials—I am sure my hon. Friend will agree on that—but subsidise the production and efficiency of its plant. Indeed, it is thinking about rolling it out to other plants throughout the country.

**Cathy Jamieson:** I thank my hon. Friend for that information. Those are typical of the sorts of arguments that are coming forward from industry. I know that from work that I did before I came to this place, when I was a Member of the Scottish Parliament. Part of the constituency that I represented contained a number of industrial sites that wanted to use CHP and had found the measures the Labour Government had put in place extremely helpful.

Industry is telling us that if support is removed, it should be replaced with another system. That is the important point. People are not saying that things should never change, or should not be taken away, but they want an equivalent system and some certainty. They say that without support, the industry will become less competitive because the cost of owning and operating CHP plants will rise; emissions savings from CHP will fall as CHP stops, displacing some of the less efficient

[Cathy Jamieson]

plants; and fuel imports will increase, because energy use will be less efficient and more gas and coal will have to be brought in to meet the same energy demand.

I understand that the Government's view is that the CHP levy exemption certificate was not an ideal scheme for supporting CHP, so it would be helpful if the Minister put on the record what he believes is the way forward, and gave the update that my hon. Friend the Member for Feltham and Heston asked for on the discussions and consultations that have taken place with the industry. It would also be helpful if the Minister said when we might see an alternative scheme. If the present scheme is not to be taken forward, an alternative scheme should be put in place to deal with the very real concerns that the industry has outlined.

**Mr Gauke:** Clause 205 introduces important changes to the UK's climate change and energy policy framework through the climate change levy, climate change agreements, and the carbon price floor. Taken together, those changes strike a sensible balance between helping business and meeting our environmental objectives. I shall begin by setting out what the clause and the schedules do.

Schedule 29 makes changes to the climate change levy. First, it retrospectively amends the Finance Act 2000 to include a consequential amendment that was omitted from the 2010 legislation, which changed the reduced rate of the climate change levy from 20% to 35%. This ensures that businesses that have paid the reduced rate of the CCL on more energy than was used will not have to repay more levy than was intended. We are not aware of any relief claimants that have been adversely affected by this omission. Nevertheless, it is still important to correct the error.

Secondly, the schedule introduces a lower rate of the CCL for supplies of taxable commodities for use in steel and aluminium recycling processes from 1 April 2012. Thirdly, it increases the rate of the climate change levy in line with the retail prices index from 1 April 2013, as is usual practice. The lower rate for gas supplies that will apply in Northern Ireland until 31 October 2013 will also be increased in line with the retail prices index.

Fourthly and finally, the schedule amends the reduced rate of the CCL on supplies of electricity for energy-intensive businesses with climate change agreements. From April 2013, the rate will be brought down from 35% to 10%. This relief will help around 4,500 businesses across the 54 participating sectors.

Schedule 30 will simplify the administration of the climate change agreement scheme from 1 April 2013 by providing for a new administrator of the new scheme. That will provide long-term certainty and reduce the regulatory burden on industry. The measure will also enable the consolidation of a number of statutory instruments. The schedule will also allow the administrator to impose penalties for minor failure through a light-touch scheme.

Schedule 31 will amend the legislation for the carbon price floor introduced in last year's Bill and add new provisions. It will set the 2014-15 carbon price support rates, which are equivalent to £9.55 per tonne of carbon dioxide. The rates will provide certainty for investors by ensuring that the carbon price is in line with the Budget

2011 trajectory. The carbon price support rates of fuel duty for both years have also been announced and will be legislated for by statutory instrument in spring 2013.

We are also amending the basis on which the carbon price support rate for coal will be applied, so that levy due will be calculated by reference to the calorific value of the coal—its heat content—rather than its weight, in order to reflect commercial reality.

A further change will exempt the input fuels used to generate all good-quality non-electricity outputs in combined heat and power plants, subject to state aid rules. HMRC is discussing with the CHP industry exactly how the relief will operate. The Treasury will propose regulations next spring, exposing them in draft around the time of the autumn statement. The introduction of the relief will ensure that CHP generation is on at least a level playing field with non-CHP heat generation, which is not subject to the carbon price floor. As non-CHP heat generation is liable to the climate change levy on input fuels while CHP is not, CHP plants overall will continue to be publicly subsidised.

We are also making changes to exclude small-scale electricity generation of 2 MW capacity and less from the carbon price support rates. That will mean that many smaller CHP stations will be exempt, and it will greatly simplify the administration of the price floor.

Schedule 31 will also remove the exemption from the climate change levy for electricity generated by CHP plants and exported to the national grid. The relief was expensive to the taxpayer and not well targeted. However, if the electricity was generated in an eligible CHP station before 1 April 2013, electricity utilities will be able to exempt the supply to a business consumer up to and including 31 March 2018. My hon. Friend the Minister of State at the Department of Energy and Climate Change is looking at alternative options for supporting the technology.

The changes are being introduced in response to representations from business and in the interests of fairness and minimising business burdens. The introduction of a threshold of 2 MW generating capacity will exclude many CHP generators from the scope of carbon price support rates, meaning that they will not be required to register or pay the tax. The remaining CHP plants will benefit, in some cases significantly, from the exemption for input fuels used for heat.

Amendments 197 and 198, tabled by the hon. Member for Feltham and Heston, seek to extend Government support for combined heat and power plants for a further four years. Operators would continue to receive CHP levy exemption certificates for the electricity they generate through to 1 April 2017, rather than 1 April 2013. Also, sticking with a recurring theme, amendment 199 would require a report on the expected impact of the removal of the exemption.

The Government are committed to creating an environment that supports manufacturing within the UK, while meeting our environmental objectives. Schedule 31 will remove the exemption from the climate change levy for electricity generated by CHP plants and exported to the national grid. Extending the exemption to 2017, as the hon. Lady suggests, would not provide value for money for the taxpayer, nor would it provide optimal support for the technologies. The relief was expensive to the taxpayer and administratively complex.

In the current fiscal climate, it is not possible to justify the extension of the subsidy, which many people recognised was not perfectly targeted. However, if electricity was generated in an eligible CHP station before 1 April 2013, electricity utilities can exempt the supply to a business consumer up to and including 31 March 2018, which gives them five years to use up any stockpile of levy exemption certificates they hold.

The Government have considered the impacts set out in amendment 199. The exemption is not the most efficient way of meeting our environmental objectives while allowing our industries to remain competitive. We are introducing alternative ways of supporting CHP generation, as set out in schedule 31. We are exempting the input fuels used to generate non-electricity outputs from high-efficiency CHP, which, in practice, is mainly heat. Originally, we proposed a flat rate of relief for all CHP fossil fuel input, but industry asked for input fuels to be exempt when they produce heat, so, subject to state aid rules, that is what we will do.

HMRC will discuss with the CHP industry exactly how the relief will operate. We will continue to work with it to develop its longer-term strategy for heat, in line with wider fiscal and economic policy. The amendments are unnecessary and would result in a significant cost to the taxpayer, and although I appreciate that they have given the Committee an opportunity to debate CHP further, I ask the hon. Member for Feltham and Heston not to press them to a vote.

To conclude, the Government continue to make progress on the climate change and environment agenda with a range of policies. The measures under discussion strike a fair balance, supporting low carbon investment while allowing UK industry to remain competitive. I therefore hope that the clause and schedules stand part of the Bill.

**Seema Malhotra:** I thank the Minister for his comments and hon. Members for their speeches and interventions. I am slightly disappointed that we have not addressed more quickly the alternative ways of supporting CHP technology, but it is useful to hear confirmation that there are ongoing discussions with the Department of Energy and Climate Change to consider alternative options to support the technology. We look forward to hearing more on that in the near future. It is also useful to hear that discussions are ongoing with industry on a strategy for the future. I therefore beg to ask leave to withdraw the amendment.

*Question put and agreed to.*

*Clause 205 accordingly ordered to stand part of the Bill.*

*Schedules 29 to 31 agreed to.*

*Ordered, That further consideration be now adjourned.—  
(Greg Hands.)*

1.59 pm

*Adjourned till Tuesday 26 June at half-past Ten o'clock.*

