

LAAP BULLETIN 91

Accounting for the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme in 2011/12

February 2012

The Local Authority Accounting Panel issues LAAP Bulletins to assist practitioners with the application of the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), the Service Reporting Code of Practice (SeRCOP) and Prudential Code, and to provide advice on emerging or urgent accounting issues. Bulletins provide influential guidance that is intended to be best practice, but are not prescriptive and do not have the formal status of the Code, SeRCOP or the Prudential Code.

Please address any queries to CIPFA Technical Enquiry Service for CIPFA members and students
technical.enquiry@cipfa.org.uk

The Chartered Institute of Public Finance and Accountancy
Registered with the Charity Commissioners of England and Wales Number 231060

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the only UK professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation of a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. Our in-house CIPFA Education and Training Centre delivers the range of our programmes at locations across the UK, and works with other places of learning to provide our courses locally. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with governments, accounting bodies and the public sector around the world to advance public finance and support its professionals.

ACCOUNTING FOR CARBON REDUCTION COMMITMENT ENERGY EFFICIENCY SCHEME (CRC) IN 2011/12

INTRODUCTION

1. As previously reported in LAAP Bulletin 88 *Closure of the 2010/11 Accounts and Related Matters* there is now a degree of certainty about the first two years of the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This Bulletin therefore covers the accounting requirements for the Scheme in 2011/12. This Bulletin does not cover in any detail the reporting or administrative requirements of the Scheme, nor does it specify which authorities are required to participate in the scheme. Participating authorities will need to ensure that they comply with these arrangements in accordance with Scheme requirements.

RECOGNITION AND MEASUREMENT OF THE OBLIGATION IN THE 2011/12 FINANCIAL YEAR

2. The 2011/12 financial year is the first year for which there will be an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. Following the end of 2011/12, participating authorities will submit the annual report on their emissions for the 2011/12 financial year. The retrospective purchase of allowances is anticipated to take place from 1 June 2012¹. Participating authorities are then required to surrender allowances to the scheme by the last working day in July 2012 in proportion to their reported emissions for the preceding scheme year and in accordance with the scheme requirements.
3. The Local Authority Accounting Panel consider that under the CRC Energy Efficiency Scheme the obligating event occurs when participating authorities have produced emissions that require it to purchase and surrender allowances in accordance with the CRC Scheme's requirements at the reporting date. Therefore the obligation to meet the participating authority's CRC responsibilities will arise during the 2011/12 financial year and will need to be accounted for at 31 March 2012.
4. The provision arises at the point at which the energy is consumed and carbon dioxide emitted. This obligation will need to be recognised on the basis of the participating authority's liability to purchase and surrender the allowances. The measurement of the obligation will be based on the requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom (the Code)* in relation to accounting for provisions (see Section 8.2 of the Code) and (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) and is the best estimate of the expenditure required to settle the present obligation at the reporting date.
5. Notwithstanding the reporting requirements of the Scheme itself, participating authorities will also need to ensure that they have effective procedures for estimating carbon dioxide consumption under the Scheme to ensure accurate measurement of the liability at the reporting date.

¹ The DRAFT CRC Energy Efficiency Scheme (Allocation of Allowances for Payment) Regulations [2012] state that the first primary allocation period begins on 1st June 2012 and ends on the last working day of July 2012.

ACCOUNTING POLICY IN RELATION TO THE CARBON REDUCTION COMMITMENT ENERGY EFFICIENCY SCHEME

6. The recognition of the Carbon Reduction Commitment Allowances may be a material item; if so, participating authorities will need to ensure their accounting policies, in relation to provisions, extend to cover the recognition of the authority's obligations to the Scheme. An illustration of an example accounting policy, specifically about the scheme, that authorities may wish to draw upon, is included in the Appendix to this LAAP Bulletin.

REPORTING COST IN SERVICES

7. The Schedule of changes in the 2011/12 edition of the Service Reporting Code of Practice (SeRCOP) sets out that it was agreed by the Local Authority Accounting Panel that the Carbon Reduction Commitment transactions should be accounted for as central costs defined as Non-Distributed Costs. *However, due to the review of the Scheme, the 2011/12 edition of SeRCOP did not confirm the accounting treatment of the Scheme.* This Bulletin recommends that the cost of the obligation, as an operating cost of the participating authority, should be allocated to services in 2011/12 in accordance with the specific requirements of the 2012/13 SeRCOP (See SeRCOP 2012/13 Section 4 paragraph 4.9: Group 2-Premises-Related Expenditure).

Schools

8. Under existing CRC legislation maintained schools in England are grouped with their funding local authority for CRC purposes. The liability for compliance with the CRC's obligations resides with the participating local authority. Currently, the School Finance (England) Regulations 2011 includes the purchase of CRC allowances as a class of planned expenditure which may be included in central expenditure within the schools budget for local authorities.
9. Academies are currently grouped in whose area they reside; however, the government issued a discussion paper *Review of Academies' participation in the CRC Energy Efficiency Scheme* in August 2011. If changes to the scheme arise from this, CIPFA may issue additional guidance in this area.

THE ACCOUNTING TREATMENT IN 2012/13

10. When purchasing allowances in 2012, it is possible that participating authorities might purchase prospectively (ie in relation to expected 2012/13 emissions) as well as retrospectively (in respect of 2011/12 emissions). The CIPFA/LASAAC Local Authority Code Board will consult on the accounting treatment to be applied in 2012/13 and later years and will include its conclusions on the accounting treatment in a 2012/13 Code Update. The provision included in the Balance Sheet at 31 March 2012 should not include any allowances purchased prospectively.

APPENDIX

ILLUSTRATION ACCOUNTING POLICY – ACCOUNTING FOR THE COSTS OF THE CARBON REDUCTION COMMITMENT SCHEME

The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.