Rialtas na hÉireann
Government of Ireland

Budget 2021
The Use of Carbon Tax Funds 2021

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The Use of Carbon Tax Funds 2021

The Minister for Finance announced in Budget 2021 that the carbon tax will be increased by €7.50 a tonne in 2021. All of the resulting revenues raised will be allocated in line with the Programme for Government commitment to use increases in the carbon tax to:

- Ensure that the increases in the carbon tax are progressive through targeted social welfare and other initiatives to prevent fuel poverty and ensure a just transition;
- Fund a socially progressive national retrofitting programme targeting all homes but with a particular emphasis on the Midlands region and on social and low-income tenancies;
- Allocate funding to a REPS-2 programme to encourage and incentivise farmers to farm in a greener and more sustainable way.

This note details how much the carbon tax is expected to raise in 2021, the allocation of the resulting funds in line with the Programme for Government commitments, as well as detail on the programme areas that will receive additional funding.

Available Funds

In Budget 2020, the Minister committed to ring-fencing the revenue arising from the €6 carbon tax increase announced in that Budget. The Department of Finance estimated that the €6 portion of the carbon tax increase announced in Budget 2020 would raise €90m in 2020 and €130m in 2021 (i.e. over the course of a full year).

To this €130m must be added the sums likely to be available from the increase in the carbon tax in Budget 2021. Department of Finance estimates suggest that a €7.50 increase in the carbon tax in Budget 2021 will lead to increased carbon tax revenues in 2021 of €108m[1] and €147m in a full year.

<u>This means that the combined proceeds of the 2020 and 2021 increases in the carbon tax are estimated at €238m in 2021</u>. This additional funding will be allocated in 2021 towards the Programme for Government commitments. These are allocations that would not have taken place in the absence of increases to the carbon tax.

The table below details the allocation of the increased carbon tax revenues in 2021:

Table 1: Allocation of Carbon Tax Expenditures in 2021 versus 2020

	€ m - 2021	Department	€ m - 2020
1. Investment in Residential & Community Energy Efficiency	100	DECC	N/A
2. Targeted Social Protection Interventions	48	DEASP	N/A
3. Pilot Environmental Programmes in Agriculture	20	DAFM	N/A
4. Continuation of 2020 Carbon Tax Investment Programme	70	Various	90
Total Expenditure	**238**		**90**

[1] Despite the 2021 increase (€7.50) being higher than the 2020 increase (€6) the resulting revenue will be lower in 2021 as the €7.50 increase will only commence for non-auto fuels from 1 May 2021.

1. Investment in Residential & Community Energy Efficiency

Improving the energy efficiency of the residential housing stock is a core commitment of the Government's Climate Action Plan and the Programme for Government. Our homes are responsible for 10.2% of all of Ireland's greenhouse gas emissions and, at the moment, they use 7% more energy than the EU average and emit 60% more CO_2.

This needs to be addressed by investing significant sums in the energy efficiency renovation of 500,000 homes, along with the installation of 400,000 renewable heating systems in existing homes by 2030. The detail of how these targets will be achieved will be set out in a comprehensive National Retrofitting Plan that will be published by the Minister for the Environment, Climate & Communications as part of the forthcoming National Economic Plan.

In advance of the publication of this plan, Budget 2021 commits an unprecedented level of funding for residential and community energy efficiency. An additional €100m in capital funding is being provided from the expected carbon tax revenues. This is an 82% increase in the funding available for energy efficiency in 2021. This investment will be complemented by significant additional Exchequer funds to provide for increased staffing levels in both the Department of the Environment, Climate & Communications (DECC) and the Sustainable Energy Authority of Ireland (SEAI).

DECC will use the increased funding to greatly expand existing grant schemes, such as the Warmer Homes scheme, which provides free energy efficiency upgrades to households in, or at risk of, energy poverty. Approximately €100m is expected to be spent on this programme in 2021. This is an increase of 300% compared with average spending levels over 2015 – 2019.

The additional funding will also provide for the creation of new energy efficiency schemes, such as the National Home Retrofit Scheme, that will support homeowners who want to upgrade the energy efficiency of their home to a high (B2) level. In total, funding provided by the carbon tax is expected to pay for 51% of total DECC spending on residential and community energy efficiency in 2021.

In macroeconomic terms, this additional investment in energy efficiency will bring a range of benefits. Investment in energy efficiency is generally considered to support twice as many jobs as investment in electricity generation[2] and SEAI estimate that investment in Irish energy efficiency schemes supports 17 direct and indirect jobs per € million invested. To ensure that workers both existing and new can avail of these jobs, the Department of Further and Higher Education will make an additional €8m in funding available to provide the necessary training courses and skills development.

In addition to jobs, the International Energy Agency has identified[3] a wide range of other benefits from investment in energy efficiency. With specific relevance to carrying out home energy upgrades, benefits of this investment are likely to include:

- Homes becoming cheaper to run, leading to energy bill savings and reducing poverty;
- Improved health and wellbeing, particularly for the young and elderly, through improved internal dwelling temperatures and air quality;
- Improved asset values;
- Reduced greenhouse gas emissions;
- Increased economic activity and employment.

[2] https://ec.europa.eu/energy/sites/ener/files/documents/CE_EE_Jobs_main%2018Nov2015.pdf

[3] IEA (2015), Capturing the Multiple Benefits of Energy Efficiency, IEA, Paris https://www.iea.org/reports/capturing-the-multiple-benefits-of-energy-efficiency

2. Targeted Social Protection Interventions

Research suggests that the impact of increases in the carbon tax on household costs is extremely limited. However, the burden falls unequally. Since their income is lower, energy costs typically represent a higher proportion of overall household costs for the less well-off in society. In addition, low income households are far more likely to live in a home with poor energy efficiency. This suggests that increasing the carbon tax without taking any compensatory measures is likely to be regressive because it imposes a greater burden (relative to resources) on lower income households.

In summer 2020, the Government asked the ESRI to undertake analysis to determine whether the Irish carbon tax could be increased in a progressive manner, with impacts on lower-income households and poverty offset through additional spending on social welfare supports. The resulting ESRI research paper, "*Carbon Taxes, Poverty and Compensation Options*[4]" published alongside the Budget finds that it can.

Specifically, the ESRI found that by recycling one third of the revenue raised from a €7.50 increase in the carbon tax, the lowest income fifth of households can be left on average better off and poverty reduced. In particular, the ESRI research found that families with young children and people living alone while in receipt of social protection benefits are especially vulnerable to increases in the carbon tax.

In line with the findings of this research, the Government has committed to very significant increases in a targeted package of social protection supports. These supports were selected to counteract the impact of the increased carbon tax, as identified by the ESRI. The specific measures are:

- <u>An increase to the a Qualified Child Payment of €2 per week for children under 12 and €5 per week for children over 12</u> - This protects low income families and will reduce child poverty;
- <u>An increase in the Living Alone Allowance of €5 per week</u> - People living alone are often the elderly most at risk of poverty or people suffering from a disability. These groups are likely to have higher energy needs than average;
- <u>An increase to the Fuel Allowance of €3.50 per week</u> - This will compensate a broad range of lower income households (since the FA is means-tested) for the additional energy costs they are likely to incur due to an increase in the carbon tax.

The total cost of these interventions is likely to reach an estimated €153.5m in 2021. This will be part-funded by receipts from the increased carbon tax of €48m, with the remaining €105.5m cost to be funded by general Exchequer receipts.

The ESRI research confirms that interventions of this nature will reverse the regressive impact of the carbon tax and will actually lead to a reduction in overall poverty, particularly child poverty. In fact, the ESRI found that expenditure levels of just €50m - €55m were sufficient to counteract the regressive impact of the carbon tax.

By allocating €153.5m in additional social protection spending, the Government ensures that increases in the carbon tax will actually leave a majority of households better off than they were before the increase in the tax. Analysis undertaken by the Department of Finance using SWITCH, the ESRI tax and benefit model, to simulate the impact of the reforms on households has confirmed this. The analysis suggests that <u>households in the first five income deciles will see increases in their disposable income as a result of these measures.</u>

[4] https://doi.org/10.26504/sustat98

3. Pilot Environmental Programmes in Agriculture

Ireland's agriculture sector produces high quality, safe food enjoyed by consumers across the globe. The sector can also play a key role in contributing to national and international strategies on climate change mitigation and the protection of biodiversity, air and water quality.

Against that background, the Programme for Government recognises the special economic and social role that agriculture plays in Ireland, but also commits to the creation of schemes that will encourage and incentivise farmers to farm in a greener and more sustainable way. This is with the aim of developing a sustainable Irish agricultural sector that protects the environment and aligns with emerging consumer sentiment, while benefiting farmers and rural communities.

To do this, the Government will support farmers in lowering their carbon footprint, improving biodiversity and protecting air and water quality. Appropriate policies will be developed to enhance the carbon sequestration potential of soils and maximise other ecosystem services.

The first step in this commitment is the additional allocation in Budget 2021 of €20m in funding to contribute to piloting new schemes that will offer lower carbon solutions to farmers.

The new funds will be used to create an innovative, results-based pilot scheme for farmers who improve the bio-diversity and carbon management of their land, by undertaking specific actions which they report directly based on the results generated from their actions. Ireland is viewed as a leader in the development of results-based schemes in the EU, based on the roll-out of such schemes under the current CAP.

This pilot scheme will be modelled on best practice from those existing schemes, and will be informed by experiences of those involved in implementing such schemes currently and other stakeholders. It is intended that this pilot will only be open to farmers who are not participating in the current GLAS scheme in order to broaden the reach of these types of schemes.

The funds will also contribute to targeting other specific commitments in the Programme for Government, including re-wetting of peat soils and climate and biodiversity training, in measures that will be available to a broader range of farmers.

In addition to driving immediate environmental gain, the pilot scheme will also be designed to inform the design and roll out of a new environmental scheme on a National scale under the new CAP.

4. Continuation of 2020 Carbon Tax Investment Programme

In Budget 2020, the Minister for Finance announced that the projected revenue raised by a €6 increase of the carbon tax in 2020 would be ring-fenced to protect those most exposed to higher fuel and energy costs, to support a just transition for displaced workers and to invest in new climate action.

Specifically, ten programmes benefitted in 2020 from the increased funding provided by the carbon tax. These programmes ranged from increases to the fuel allowance and energy efficiency schemes targeted at energy poverty, to the creation of a Just Transition Fund and increases in the allocations to greenways and urban cycling programmes. The Government will continue funding these programmes in 2021 to the same level as 2020 using carbon tax revenues (with one exception).

The table below illustrates the continued allocation of carbon tax funds to individual programmes:

Table 2: Allocation of Continued Carbon Tax Investment Programme

	€ m - 2021	Department	€ m - 2020
Protecting the Vulnerable			
1. Fuel Allowance	21	DEASP	21
2. Energy Poverty Efficiency Upgrades	13	DCCAE	13
A Just Transition			
3. Aggregated Housing Upgrade Scheme	0	DHPLG	20
4. Peatlands Rehabilitation	5	DCHG	5
5. Just Transition Fund	6	DCCAE	6
Investing in the Low Carbon Transition			
6. Greenways/Urban Cycling	9	DTTAS	9
7. Continuation of Electric Vehicle Grants	8	DCCAE	8
8. Further Investment in EV Charging Infrastructure	3	DCCAE/DTTAS	3
9. ODA - Green Climate Fund	2	DCCAE	2
10. Green Agricultural Pilots	3	DAFM	3
Total Expenditure	**70**		**90**

The only change being made is that Budget 2020 used carbon tax funds to pilot a Local Authority housing upgrade scheme in the Midlands. This scheme was designed to determine the savings that might be obtained through the aggregation of energy efficiency upgrades to larger batches of public sector housing. This was a once-off pilot scheme, which is now being rolled out across the midlands. Accordingly, no additional provision has been made for an expansion of this pilot in 2021, pending the outcome of the pilot scheme.

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