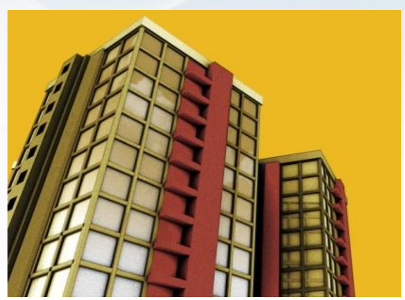

Briefing on the **Business Energy Efficiency Tax Landscape** Consultation

2nd October 2015

Julie Gartside

Intent of the consultation

- HM Treasury are leading the consultation but with close input from DECC and BIS.
- A launch of the consultation was held on 1st October at the Treasury department. Below are some themes from the launch event:
  - The Government wants to engage in an open discussion about energy efficiency and taxation and seek stakeholder views.
  - The Government appreciates the complexity of the current situation and the need for reform and balance.
  - The Government believes more can be achieved on energy efficiency and hence wants the right policies to facilitate it.
  - This is the start of the reform process. Further consultations are expected (and will probably be needed) therefore quick dramatic change is not likely.

Overview of the consultation document

- Chapters 1 and 2 describe the aims behind the consultation:
  - Help to improve productivity of UK organisations.
  - Achieve simplification of regimes to reduce cost of compliance.
  - Protect businesses at risk of international competition.
  - Provide policy stability.
  - Incentivise low carbon and energy efficient investments.
- Chapter 3 summarises the different policies in this landscape:
  - CCL, CRC, CCAs, ECAs, EDR, ESOS, GHG Reporting (see Glossary for definitions)

  and the feedback from stakeholders about this landscape:
  - complex, uncertainty, confusing where to invest.
- Chapter 4 presents proposals and seeks views (see next slide).
- Chapter 5 assessing the impacts on stakeholders.
- Chapter 6 summarises the questions posed as part of the proposals.

Chapter 4 – the proposals in the consultation

1. To develop a single reporting framework, which incorporates the most effective elements from the range of reporting schemes and delivers a significant net reduction in compliance costs associated with reporting schemes.

2. To move towards a single tax by abolishing the CRC and moving the revenue raising element into a single business energy consumption tax based on the CCL. The government is open to views as to the balance of tax costs across fuels, where proposals can better deliver carbon reduction potential.

3. The government is open to considering options for new incentives in line with the principles [bulleted below]. Proposals would need to be funded through increases in tax to support fiscal consolidation objectives. Proposals would also need to be simple, meet strict value for money criteria and be more effective than other options.
    - Incentivises energy efficiency and carbon reduction;
    - Is simple for businesses to understand, access and comply with;
    - Maximises impact, in particular by overcoming wider barriers to action, and encouraging uptake by those who would not otherwise take action.

Proposal 1 - reporting

1. To develop a single reporting framework, which incorporates the most effective elements from the range of reporting schemes and delivers a significant net reduction in compliance costs associated with reporting schemes.

- Reporting data and having it signed off by a senior manager or board director is believed by most stakeholders to be an effective way of managing energy use and carbon emissions. The Government is keen to maintain the requirement to report but to reduce the burden.
- There are currently a number of schemes where the same data can be reported multiple times. Calls have been made for a single way of reporting such that other policies or measures can call upon that data if needed. A single reporting framework should deliver administrative and compliance efficiencies so that more time can be focussed on implementing measures.

Proposal 2 - tax

2. To move towards a single tax by abolishing the CRC and moving the revenue raising element into a single business energy consumption tax based on the CCL. The government is open to views as to the balance of tax costs across fuels, where proposals can better deliver carbon reduction potential.

- The CRC has been criticised widely for a number of years so this proposal is no surprise. The Government wants any change in taxes to be revenue neutral, hence if the £600-800 million income from CRC is lost the proposal is to increase the CCL to compensate. By how much the CCL would have to increase is unknown but estimates between 20% and 40% have been cited. Linked to the first proposal, if CRC goes then the intention is that the reporting element of CRC would be replaced by the new single reporting framework.
- As energy taxes will remain in some form, the consultation also asks who needs to be protected from them? The phrases ‘energy intensive’ and ‘carbon leakage’ are used. The intent is to protect businesses that become internationally uncompetitive if energy taxes increase. (See later slide describing how CCAs feature in this consultation.)
- At the 1st October launch, Treasury stressed that they want to look at the rates of CCL between electricity and the other fuels (particularly gas). At the moment the CCL rate on electricity is 2.5 times higher than gas. The government is keen to know if this difference changed what would be impact be?

Proposal 3 - incentives

3. The government is open to considering options for new incentives in line with the principles [bulleted below]. Proposals would need to be funded through increases in tax to support fiscal consolidation objectives. Proposals would also need to be simple, meet strict value for money criteria and be more effective than other options.
   - Incentivises energy efficiency and carbon reduction;
   - Is simple for businesses to understand, access and comply with;
   - Maximises impact, in particular by overcoming wider barriers to action, and encouraging uptake by those who would not otherwise take action.

- This proposal focuses on how to incentivise the implementation of energy efficiency measures, it is different to how to protect certain sectors which relates to Proposal 2.
- Government are looking for ideas, however, they are very keen for any suggestions to be simple and cost effective, and focus on implementing reductions that would not have otherwise been possible.

CCAs & the consultation

This consultation is about the general policy landscape and hence CCAs are part of that. Below are where CCAs are mentioned in the consultation:

- CCAs currently provide relief from the CCL for certain sectors. Some sectors have been officially classed as ‘energy intensive’ and/or ‘at risk of carbon leakage’ due to their interaction with the EU ETS, or ‘energy intensive’ as part of their eligibility for a CCA.   The Government is not convinced that all sectors with a CCA would be put at a ‘significant competitive disadvantage’ if they did not have a CCA.
- The consultation is seeking views (via questions 10 to 12) about who should be protected from energy taxes and what criteria should be used to asses this, and are CCAs an effective mechanism to incentivise energy efficiency.
- The current CCAs will operate as normal for now. *If change was to happen*, it would take a few years to consult upon, develop new legislation and then be implemented.

Questions in the consultation

1	Do you agree with the principle of moving away from the current system of overlapping policies towards a system where a single business/organisation faces one tax and one reporting scheme? Please provide evidence on level and types of benefits of an approach like this.
2	Do you agree that mandatory reporting should remain as an important element of the landscape in driving the uptake of low carbon and energy efficiency measures? If not, why not?
3	Should such reports require board level sign-off and should reported data be made publically available? Please give your reasons.
4	Do you agree that government should develop a single reporting scheme requiring all ESOS participants (and potentially the public sector (see paragraphs 4.21 – 4.23) to report regularly at board level? If so, what data should be included in such a report?
5	The government recognises the importance of ensuring market actors have access to transparent, reliable and comparable information to support financing and investment in energy efficiency and low carbon measures. How best can a streamlined report achieve this? To what extent does your response apply to other large companies (as defined in the Companies Act) that are not listed companies?
6	Do you agree that moving to a single tax would simplify the tax system for business? Should we abolish the CRC and move towards a new tax based on the CCL? Please give reasons.
7	How should a single tax be designed to improve its effectiveness in incentivising energy efficiency and carbon reduction?
8	Should all participants pay the same rates (before any incentives/reliefs are applied) or should the rates vary across different businesses? For example, do you think that smaller consumers and at risk Energy Intensive Industries (EIIs) should pay lower rates?
9	Do we currently have the right balance between gas and electricity tax rates? What are the implications of rebalancing the tax rate ratio between electricity and gas? What is the right ratio between gas and electricity rates?

10	Do you believe that the CCA scheme (or any new scheme giving a discount on the CCL or on any new tax based on the model of the CCL) eligibility should only focus on industries needing protection from competitive disadvantage? If so, how should government determine which sectors are in need of protection?
11	Do you believe that the CCA scheme (or new scheme) eligibility should focus only on providing protection to those EIIs exposed to international competition and at risk of carbon leakage? If so, how should the government assess which CCA sectors are at risk of carbon leakage?
12	Do you believe that the targets set by the current CCA scheme are effective at incentivising energy efficiency? Do you believe that the current CCA scheme is at least as effective, or more effective, at incentivising energy efficiency than if participants paid the full current rates of CCL? How could CCAs be improved? Are there alternative mechanisms that may be more effective?
13	Do you agree that incentives could help drive additional investment in energy efficiency and carbon reduction? Please explain why you agree or disagree.
14	What is the best mechanism to deliver incentives for investment in energy efficiency and carbon reduction (e.g. tax reliefs, supplier obligations, grants, funding based on competitive bidding)? Are different approaches needed for different types of business? If so, which approaches work for which business types? What approaches should be avoided?
15	What impact would moving to a single tax have on the public sector and charities?
16	How should the merged tax be designed to improve its effectiveness in driving energy and carbon savings from the public sector and charities?
17	Should a new reporting framework also require reporting by the public sector?

Glossary

CCAs	Climate Change Agreements	CCAs are voluntary and only available to sites undertaking an ‘eligible’ process. A company agrees to reduce the energy consumption or carbon emissions at the site in return for both a discount on the Climate Change Levy and for that energy to be exempted from the Carbon Reduction Commitment.
CRC	Carbon Reduction Commitment	CRC is mandatory for all organisations that use over 6,000 MWh of electricity through half hourly meters. The affected organisation then reports electricity and gas annually which is converted in carbon allowances and must then be purchased. Any energy already covered by CCAs or EU ETS is excluded from CRC.
ECA	Enhanced Capital Allowances	An ECA allows a company to claim tax relief against 100% of the cost of assets if they have been deemed to be energy efficient technology. The Energy Technology List shows all equipment that has deemed to be energy efficient. This is a self assessment process and therefore claimed through a company’s accounts function.
EDR	Electricity Demand Reduction	A pilot programme to fund the implementation of projects to deliver large and sustainable electricity savings. Funding for the project is obtained via an auction process and paid once implemented.
ESOS	Energy Savings Opportunity Scheme	ESOS is mandatory for any organisation that contains at least one company that is classed as a ‘large undertaking’*. A qualifying organisation must measure their buildings and vehicle energy use over a 12 month period and assess the potential for energy savings across at least 90% of the total energy consumption.
EU ETS	EU Emissions Trading Scheme	EU ETS is mandatory for all sites undertaking specific processes or having a large amount of combustion equipment. EU ETS is a ‘cap and trade’ scheme; i.e. a site is set a cap on the CO2e it can emit and if it is over that allowance it must secure more allowances in a trading market to cover its actual emissions.
n/a	GHG Director’s Report	UK quoted companies must calculate their Greenhouse Gas (GHG) emissions in tonnes carbon equivalent (CO2e, also known as their carbon footprint) annually and include in their Director’s Report. The CO2e emissions cover all sources of greenhouse gases (e.g. energy, transport, waste, refrigerants, agriculture, etc).

Julie Gartside
jgartside@slrconsulting.com
07879 063493