Consultation: Reforming the business energy efficiency tax landscape

From: HM Treasury and Department for Energy and Climate Change

Submission from CIBSE

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CIBSE is one of the leading global professional organisations for building performance related knowledge. The Institution and its members are primary sources of professional guidance for the building services sector. CIBSE Certification Ltd is one of the first to be approved by the Environment Agency to operate a register of ESOS Lead Assessors.

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.**

1.1 At a national level, focussing on improving the efficiency of business energy use by reducing energy demand is a time and cost effective approach. It is also a more cost effective policy than merely investing in new generating capacity to meet anticipated demand. There needs to be a coherent policy landscape to provide appropriate market signals to encourage businesses not just to identify potential energy efficiency savings, but to stimulate them to make those savings. There is also a need for stability in this policy area, so that those who do seek to implement energy efficiency measures can do so with some certainty over the policy and business environment in which they are operating. There should therefore be simplification and rationalisation, followed by a period of stability.

1.2 Simplification of the existing system of overlapping policies is welcome. Care will, however, be needed to combine and retain the most successful elements of these existing policies, rather than disregarding them wholesale. A great deal of business time, effort and resource has been put into developing compliance regimes for these policies, creating the appropriate systems and structures to put them into action, and this investment should not be wasted, but wherever possible used in the new single tax and reporting regime.

1.3 Simplification should lead to more efficient and cost-effective processes for both administration and compliance. It is essential to focus on the overall objective of improving business energy efficiency to boost business productivity, support growth, improve security of energy supplies and help decarbonise the economy. In doing so, the demand for additional generating infrastructure will be reduced, freeing investment and resources to deliver more productive investments.

1.4 Appropriate policy instruments can be used to help raise the profile of energy efficiency and carbon reduction with decision makers, and improve the case for investments in energy efficiency and low carbon alternatives. This should not be primarily seen as an additional revenue stream for HM Treasury but as a clear market signal to encourage reduced energy demand. Attempting to maintain the existing CRC tax revenue without any form of opportunity for those who implement energy savings initiatives to not only reduce their tax liability but also to gain some form of incentive from the scheme will be detrimental to the true objective of business energy efficiency.

1.5 A unified scheme should be able to make savings on compliance through consolidation of reporting and by not collecting CRC tax on reported amounts of energy consumption. These savings can then be used to invest in energy efficiency measures. Such a scheme would have the benefit of simplification, transparency, greater insights into energy use in business, improved business cases for energy efficiency and a basis for stimulating behavioural change.

1.6 The CBI produced a report on the potential energy savings from the business sector in August 2013. "Shining the Light" found that with appropriate energy savings measures British industry could save some £17bn. The benefits to be gained from an effective system of business energy efficiency improvement are of very significant value to the UK economy.

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?

2.1 Mandatory reporting is a key element of any energy efficiency activity. You cannot manage what you do not measure and requesting a consistent format of reporting for business energy use will help to ensure transparency, consistency, equality and comparability between organisations. Mandatory reporting also helps to underpin market efficiency.

2.2 The quality of the reporting will be very important to reinforce the points made above. Many organisations already have their own reporting structures in place under both the CRC and Greenhouse Gas Reporting, and many also have to comply with the Energy Savings Opportunity Scheme, ESOS. A growing number are now investing in certification to ISO50001, the energy management certification standard. Best practices from these should be used to inform the single mandatory reporting scheme.

2.3 It is also important that the reporting measures engage with business leaders, who need to be aware of the fiduciary aspects of the reporting scheme and also need to understand the operational risks from not reporting and from not being clearly seen to be taking this issue seriously by investors and shareholders.

2.4 The benefit of building on the best aspects of the existing schemes is that this will reduce the transitional costs to industry of moving to a single tax and reporting regime.

2.5 The EU Energy Efficiency Directive, Article 8[1] requires the UK to have a scheme for energy auditing of large enterprises. It is therefore essential that the UK

[1] http://ec.europa.eu/energy/en/topics/energy-efficiency/energy-efficiency-directive

maintains this scheme, which strongly supports the proposal to build on the ESOS reporting arrangements. This will ensure that growing businesses that come within the scope of ESOS as a result of their growth do not have to adopt a new reporting system, but are already familiar with the basic scheme.

3. Should such reports require board level sign-off and should reported data be made publically available? Please give your reasons.

3.1 Board level sign-off should be required. It increases the profile of energy efficiency within an organisation, according it a level of significance and providing those working on reducing energy consumption with a strong mandate. This requirement has been shown to be very effective in catalysing action. For example, HEFCE (Higher Education Funding Council for England) mandated that all universities should have a carbon management plan containing clear reduction targets and that the plan should signed off at the highest level by each institution's governing body. This led to very intense and focused carbon reduction activity in universities and most would agree that it was the primary driver for the achievements made in this area in the higher education sector. Additional benefits included financial savings, improved student experience, improved building performance and better business processes.

3.2 Providing access to this data and making energy reduction targets public helps to hold organisations to account, catalyses action and engages a range of people e.g. customers, employees, shareholders, suppliers. Reporting should be seen as an opportunity rather than simply a compliance activity.

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?

4.1 Yes, with the public sector included. There is a need for a report like the GHG report which includes a specific indicator (for example, per £ turnover or kg production). Other items that could be included are; energy generated and used from renewables, progress against reduction targets and audit measures for implementation.

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?

5.1 A streamlined report should be consistent and clear to provide market actors with transparent, reliable and comparable information. This should include energy consumption and costs, CO_2 emissions, renewable energy generation, reduction targets and achievement and completed energy audit actions. Performance indicators appropriate to the organisation should also be included.

5.2 Reporting should apply to all organisations; listed, public, private etc. Accountability for energy consumption should be a requirement of all organisations who utilise national infrastructure to obtain energy.

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.

6.1 Please see our answers above to Q1. Moving the revenue collection of the current CRC onto CCL would have the benefit of a wider tax base, removing a transition when a company becomes large enough to be affected by CRC. With a wider base for the tax, it also treats all business in the same way (although some mechanism will be needed to ensure that this does not penalise intensive energy users and move their activity offshore, along with the employment they offer. But again, a transfer from CRC to CCL would allow this to be addressed through the mechanism of CCAs for heavy users.

6.2 The CCL would have more effect as an ongoing annually increasing process, and not just as a sudden jump then stagnation. This has apparently worked effectively with Landfill Tax - a known stable medium term tax environment even if steadily increasing. Moving to a wider tax would also mean that all business could be incentivised through a specific relief related to the implementation of energy efficiency measures identified by accredited assessors as part of the mandatory reporting process. Where these measures are fully implemented (again, subject to some third party verification) in response to the mandatory report and within a certain timescale, then there could be some relief from the full rate of CCL. This would also require some form of escalator to deliver the additional CCL revenue to make this approach revenue neutral.

7. How should a single tax be designed to improve its effectiveness in incentivising energy efficiency and carbon reduction?

7.1 A single tax should be based on a simple pence per kWh varying by fuel to allow for varying impact (CO_2 factor). It needs to be simple and non-technical to gain traction with business leaders, not just energy specialists.

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?

8.1 Yes, all participants should pay the same rates and then reliefs, incentives and Climate Change Agreements should be used to provide necessary protection to particular groups as required.

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?

9.1 First there should be clarity regarding the aims of this tax reform, is the Government looking to reduce energy use or carbon emissions? If it is about reducing energy use, then to keep the system simple, there should be one levy rate per fuel. Complex arrangements can lead to gaming and unintended consequences.

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?

10.1 Yes, the aim of reliefs is to provide protection as appropriate. Each CCA should be reviewed against the original criteria and effectiveness then assessed.

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?

11.1 No, if CCAs are effective (see Q10), then separate carbon leakage protection should not be required.

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 22 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.

13.1 Incentives do have the potential to drive additional investment in energy efficiency alongside taxation because they provide a positive ‘carrot’ alongside the ‘stick’.

13.2 Any incentives would need to be designed so that they can be administered simply and not become victim to bureaucracy, negating any benefit.

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?

14.1 The challenge is to create a revenue neutral system that incentivises organisations to implement energy efficiency measures identified in ESOS or ISO 50001 assessments. We should aim to incentivise each business operating in ESOS, if it is the single reporting tool.

14.2 If CRC is folded into CCL, so that there is one tax for energy use by business, then rather than setting the new CCL at a rate which is just revenue neutral, the new rate of CCL should be set at perhaps 10-20% higher to offer some additional funding to support energy efficiency measures. Each large organisation will have an ESOS or 50001 audit report setting out cost effective measures they could implement. One way to incentivise finance directors is to allow them to effectively reclaim some of their CCL payments to fund investment in the energy efficiency measures identified by the report. This would require eligible energy efficiency measures to be identified by a competent third party, either an ESOS assessor or an ISO 50001 certification body. They would then be implemented by the organisation and the implementation would be certified or signed off by a third party assessor. The scheme would allow the organisation to reclaim a proportion of their spending from the additional 20% CCL funding. A cap may need to be set, so that only those claims that fall within the cap are funded. This would create a competitive scheme in which early action is rewarded with support.

15. What impact would moving to a single tax have on the public sector and charities?

15.1 A single tax should reduce administrative burden, especially for public sector organisations who participate in CRC and have to expend a great deal of staff and financial resource in complying with the legislation. This time and money would be better spent on actual energy management to make savings through reduction in energy use.

16. How should the merged tax be designed to improve its effectiveness in driving energy and carbon savings from the public sector and charities?

16.1 As outlined in responses to previous questions, the merged tax scheme should be clear, easy to comply with and include mandatory reporting, regardless of the type of organisation.

17. Should a new reporting framework also require reporting by the public sector?

17.1 Yes, transparency and engagement on energy efficiency applies to the public sector too. It could be seen as even more important as taxpayers money should be used efficiently and wastage through energy unnecessary energy consumption should not be accepted. Large sections of the public sector are already part of the CRC and required to report on energy consumption. Public sector buildings are also required by the Energy Performance of Buildings Directive to have Display Energy Certificates, so there is some energy reporting already taking place in the sector. Introducing a more robust framework would help to control public sector energy spending and help to ensure that money intended to deliver frontline services is not used to fund wasteful energy consumption patterns and behaviours.