



HM Treasury

Reforming the business energy efficiency tax landscape

September 2015



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Preface

Subject of this consultation:

Following the announcement of a review of the business energy efficiency tax landscape at the Summer Budget, this consultation seeks evidence and sets out policy proposals to simplify and improve the effectiveness of the landscape in supporting the government's objectives around simplicity, productivity, security of energy supplies and decarbonisation.

Scope of this consultation:

This review considers the interactions between business energy policies and regulations, including the Climate Change Levy (CCL), the Carbon Reduction Commitment Energy Efficiency Scheme (CRC), taxes on other fuels – e.g. heating oils, Climate Change Agreements (CCA), mandatory greenhouse gas (GHG) reporting, the Energy Saving Opportunity Scheme (ESOS), Enhanced Capital Allowances (ECAs), and the Electricity Demand Reduction (EDR) pilot.

Who should read this:

Businesses, representative bodies, public and third sector organisations, think tanks, academics and other interested parties.

Duration:

The consultation was launched on 28 September and will conclude by 9 November. As part of the overall policy-making development, previous engagement with businesses, academics and other bodies has taken place prior to this consultation in order to create an evidence base and, depending on the outcome, the government will follow with further communication and discussions with interested groups after this consultation.

Lead official:

Khalid Aly, HM Treasury.

How to respond or enquire about this consultation:

Please respond to this consultation by accessing the [Citizenspace form](#) or email businessenergyefficiencyreview@hmtreasury.gsi.gov.uk, or alternatively send responses to Khalid Aly, Energy & Transport Tax, 1 Yellow, 1 Horse Guards Road, HM Treasury, SW1A 2HQ

Additional ways to be involved:

The government will hold a number of working groups with stakeholders on the proposals set out in this consultation. If you are interested in being involved, please send an email to businessenergyefficiencyreview@hmtreasury.gsi.gov.uk to register your interest.

Sharing consultation responses:

Responses from this consultation will be shared with the Department of Energy & Climate Change (DECC), HM Revenue and Customs (HMRC) and the Department for Business, Innovation and Skills (BIS).

After the consultation:

The government will consider all responses submitted to this consultation and is likely to publish its formal response at Budget 2016. Depending on the outcome of this consultation, the government may follow up with more detailed consultation on policy design and implementation.

Getting to this stage:

The government has been undertaking a review of the business energy efficiency tax landscape since the announcement at the Summer Budget. This involved reviewing evidence on the operation of existing schemes, looking at lessons learned from schemes overseas, and engaging with a wide range of businesses, academics and other bodies to inform this consultation.

On request this document can be produced in Welsh and alternative formats including large print, audio and Braille formats.

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Foreword

At the Summer Budget the government announced a review of the business energy efficiency tax landscape to simplify and improve the effectiveness of the regime.

Improving the productivity of UK businesses is a key strategic objective for this government. This review is included in '*Fixing the Foundations*'¹ - which set out the government's objective of encouraging long term investment in economic capital to boost the productivity of the UK economy.

This government is also committed to meeting our environmental targets. We will ensure that the UK can meet these cost-effectively, taking careful account of the impact of policies, to ensure we are not imposing unnecessary burdens on business. The government has listened to concerns from businesses and environmental groups around the complexity of the current energy efficiency landscape and the impact it has on administrative burdens.

Encouraging business energy efficiency will play an important role in supporting our environmental objectives. It will help the UK decarbonise cost effectively and ensure security of energy supplies, but it also has the additional benefits of boosting business productivity, and supporting growth and competitiveness.

This consultation sets out proposals to reform the landscape in order to deliver a simpler and more stable environment for business. This will reduce administrative costs and improve incentives to invest in energy efficiency.



Damian Hinds

Exchequer Secretary to the Treasury

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443898/Productivity_Plan_web.pdf

1 Introduction

1.1 At the Summer Budget, the government announced it would review the business energy efficiency tax landscape and consider approaches to simplify and improve the effectiveness of the regime. This review considers the interactions between business energy efficiency policies and regulations, including the Climate Change Levy (CCL), the Carbon Reduction Commitment Energy Efficiency Scheme (CRC), taxes on other fuels – e.g. heating oils, Climate Change Agreements (CCA), mandatory greenhouse gas (GHG) reporting, the Energy Saving Opportunity Scheme (ESOS), Enhanced Capital Allowances (ECAs), and the Electricity Demand Reduction (EDR) pilot.

1.2 Since this announcement the government (HM Treasury - HMT, the Department of Energy & Climate Change - DECC, the Department for Business, Innovation & Skills – BIS, and HM Revenue & Customs - HMRC) has reviewed evidence on the operation of existing schemes, looked at lessons learned from schemes overseas and sought initial views from a range of businesses, academics and other bodies to help inform this consultation. As the next stage of this review, this consultation sets out the government’s policy proposals to simplify and improve the policy environment.

1.3 Improving business energy efficiency can boost business productivity, support growth, improve security of energy supplies and help decarbonise the economy. Feedback from informal discussions with stakeholders supports the government’s assessment that there is a significant amount of cost-effective energy and carbon saving potential not currently being realised, in business sectors. *‘Fixing the Foundations’*, published in July 2015, set out the government’s objective of encouraging long term investment in economic capital to boost the productivity of the UK economy. Encouraging the uptake of energy efficiency and low carbon measures will play a crucial role in the government’s strategy for meeting ambitions around productivity, growth, security of energy supply and decarbonisation.

1.4 The review over the summer has raised questions about whether the current set of policies is best placed to achieve the cost-effective energy and carbon saving and productivity potential identified. A number of stakeholders argue that the current suite of overlapping policies is complex and administratively burdensome, limiting the effectiveness of policy levers. A wide range of barriers have been identified – including lack of skills, access to finance and the challenge of making the business case for energy efficiency with decision makers. The proposals set out in this consultation document do not seek to address all the barriers but set out approaches to improving the effectiveness of the policy framework by:

- simplifying reporting and taxes to reduce administrative burdens;
- targeting policy levers at cost-effective energy efficiency potential identified in business sectors and heat use;
- using policy instruments to help raise the profile of energy efficiency and carbon reduction with decision makers; and
- improving the case for investments in energy efficiency and low carbon alternatives.

Background

1.5 Over the past 15 years a number of policies encompassing tax, regulation and voluntary schemes have been introduced, aimed at tackling complex sets of market failures to encourage the uptake of energy efficiency and low carbon measures. To comply with these schemes, businesses may be required to report emissions and energy consumption multiple times. Furthermore different businesses may face significant variations in tax rates on different sites, activities and fuels.

1.6 The complexity of the landscape has been identified as being among the factors affecting investment in energy efficiency and decarbonisation. A number of business groups have argued that the overlapping nature of policies makes the landscape complex, burdensome and costly to comply with. Business groups also argue the current suite of policies sends unclear messages to decision-makers; this reduces their effectiveness in delivering the government's policy goals. It is clear that improvements could be made to the current landscape to make it more streamlined and integrated from the view point of an individual business.

1.7 In the Autumn Statement 2012 the then government committed to review the CRC Scheme in 2016 and consider alternative approaches that can meet the government's objectives. Since this announcement the government has simplified the CRC and CCAs following concerns around compliance costs. However, new policies, such as ESOS and mandatory GHG reporting, have also been introduced. The government therefore believes it is important to consider both the future of the CRC and the wider policy environment to identify opportunities to improve the effectiveness of the landscape and address business concerns most effectively. This review brings forward and delivers on the government's commitment to review the CRC while also broadening the exercise to encompass an assessment of the wider policy landscape.

1.8 This government is committed to meeting its environmental and climate change targets, but will do this cost-effectively without placing unnecessary burdens on businesses. Demonstrating that policies provide value for money for the taxpayer is essential for ensuring long term public support for them. Central to this is improving the effectiveness of the policy environment to encourage businesses to realise energy and carbon savings, improve business productivity and support growth.

2 Objectives

2.1 The government will consider reforms that meet the following objectives:

- Consistent with fiscal consolidation plans.
- Simplify and reduce compliance and administrative costs.
- Protect energy intensive businesses at risk of carbon leakage.
- Support productivity through improving incentives for energy efficiency and carbon reduction.

Supporting energy efficiency and productivity

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3.1 This review considers the interactions between business energy efficiency policies and regulations. These include the CCL, CRC, CCAs, mandatory GHG reporting, ESOS, ECAs and EDR pilot. As the next stage of the review, this consultation sets out policy proposals to simplify and improve the policy environment in boosting business productivity, supporting growth, decarbonising the economy and ensuring secure energy supplies.

Energy taxes and price signals designed to reduce consumption

3.2 The **Climate Change Levy (CCL)** was introduced in 2001. It is levied on the supply of energy to business and public sector consumers. Each of the four main groups of taxable commodities (electricity, gas, coal and liquefied petroleum gas) has its own main rate per unit of energy. The main rates of the CCL are intended to change business behaviour to reduce energy consumption and ensure the UK fulfils its EU obligations under the Energy Tax Directive (ETD).

3.3 The **Carbon Reduction Commitment Energy Efficiency Scheme (CRC)** is designed to improve energy efficiency and cut emissions of large energy users in the public and private sectors, together responsible for around 10% of the UK's greenhouse gas emissions¹. Participants are required to monitor and report their energy use and must buy allowances for every tonne of carbon dioxide they emit.

Tax exemptions, reliefs and financial incentives

3.4 Certain energy supplies are excluded from the CCL, including those to households, non-business activities of charities and to the smallest business users. Energy that is not used as a fuel, including mixed use (where it is used partly as a fuel and partly not) may also be exempt from CCL. Similarly energy supplied to combined heat and power plants (CHP) may also be exempt from CCL under certain conditions. Energy used in mineralogical and metallurgical processes has been exempt from the CCL since 1 April 2014.

3.5 **Climate Change Agreements (CCAs)** were introduced alongside the CCL. They have the dual policy aims of mitigating the impact of the CCL on energy intensive industry, and delivering energy efficiency improvements at least equivalent to the savings that would have been achieved were sectors required to pay the full main rates of CCL. CCAs are voluntary agreements giving eligible sectors a discount on the main rates of CCL in exchange for agreeing to energy efficiency targets. CCAs cover 53 sectors, ranging from primary industries through to manufacturing and service sector processes. This relief provides a 90% CCL discount on electricity and 65% discount on gas and other taxable fuels. Sites with CCAs are also exempt from the CRC scheme as long as over 70% of the site's energy is eligible for the CCA scheme.

3.6 **Enhanced Capital Allowances (ECAs)** let businesses set 100% of the cost of certain assets against taxable profits in a single tax year. This means the company can write off the cost of the new plant or machinery against the business's taxable profits in the financial year the purchase was made. This can provide a cash flow boost and an incentive to invest in energy-saving equipment which can carry a price premium when compared with less efficient alternatives.

¹ Based on 2011-12 emissions data: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/426863/LIT_9008.pdf

ECAs are available for specific energy efficiency and low carbon technologies specified on the [Energy Technology List](#)², which is managed by the Carbon Trust on behalf of DECC.

3.7 The Electricity Demand Reduction (EDR) pilot is a DECC fund to support projects that deliver lasting reductions in electricity demand through installation of energy efficiency measures³. Projects above a minimum size (50kW) are eligible to bid for funding through an auction. Successful projects are paid following delivery of the electricity savings. Phase II of the pilot was launched in June 2015 with £6 million available to be allocated in an auction in 2016. The purpose of the pilot is to test whether electricity demand reduction measures could participate in Great Britain's electricity capacity market and to learn lessons about electricity demand reduction.

Reporting and auditing schemes to raise awareness

3.8 The Energy Savings Opportunity Scheme (ESOS) is a mandatory energy measurement and auditing scheme. It applies to large undertakings in the UK and small or medium undertakings which are group undertakings in respect of such a large undertaking, not including public bodies (as defined in the scheme). These organisations are required to calculate their total energy consumption and ensure that at least 90% is subject to energy audits every four years, unless it is covered by a certified ISO500014 energy management system or connected to a building with a valid display energy certificate or green deal assessment. The scheme covers all energy consumed by assets held, and activities carried on, by undertakings including energy consumed by buildings, transport and industrial processes. Acting on audit findings is voluntary. While participants are required to provide notice of compliance, ESOS is not strictly a reporting scheme.

3.9 Mandatory Greenhouse Gas (GHG) Reporting was introduced in 2013. It aims to allow investors to incorporate emissions, energy and other resource efficiencies into analyses and provide shareholders and other stakeholders with better environmental disclosure. It also contributes to the government's emission reduction objectives through increasing the number of companies reporting on carbon. It requires all UK quoted companies to report on their greenhouse gas emissions as part of their annual Directors' Report. The requirement affects all UK incorporated companies listed on the main market of the London Stock Exchange, a European Economic Area market or whose shares are dealing on the New York Stock Exchange or the American/Canadian stock exchange NASDAQ.

3.10 As noted above, businesses may also be required to measure and report their energy use and emissions under other schemes including the CRC scheme, to demonstrate compliance with CCAs and, although out of scope of this review, to comply with the EU Emissions Trading System.

Improving productivity and economic efficiency

3.11 Improving the productivity of UK businesses is a key strategic objective for this government. Supporting investment in energy efficiency and carbon saving will not only help to meet the government's goal of decarbonising the economy cost-effectively, but has the additional benefits of boosting business productivity and ensuring security of energy supplies. The government is determined to deliver an effective framework to improve productivity by

² Enhanced Capital Allowances are also available for certain items not on the Energy Technology List: <https://www.gov.uk/capital-allowances/first-year-allowances>

³ Further detail on the EDR pilot, including projects supported through Phase I, can be found at <https://www.gov.uk/electricity-demand-reduction-pilot>

⁴ The standard specifies the requirements for establishing, implementing, maintaining and improving an energy management system, whose purpose is to enable an organisation to follow a systematic approach in achieving continual improvement of energy performance, including energy efficiency, energy security, energy use and consumption. The standard aims to help organisations continually reduce their energy use, and therefore their energy costs and their greenhouse gas emissions

supporting business to realise the benefits from investment in energy efficiency and carbon saving.

3.12 *Fixing the Foundations*, published in July 2015, sets out the government objective of encouraging long term investment in economic capital to boost the productivity of the UK economy. The efficient use of energy can increase the amount of economic output possible for a given level of energy supply, boosting business productivity. Lower energy demand reduces business energy costs and can increase profits and growth. Energy efficiency has spill-over productivity benefits at a micro level as businesses can save on other input and maintenance, and benefit from improved processes and product value. Worker productivity can also improve as a result of facility improvements such as lighting design, temperature, noise reduction and ventilation.

3.13 It is important that the tax system and accompanying policy environment supports these objectives. A productive economy requires a competitive tax system that provides stability and certainty for long term investment and supports innovation, while minimising negative distortions in economic choices, and the administrative burden of paying taxes. Understanding and complying with taxes and other regulatory requirements can be costly for businesses, taking up time and money. The proposals set out in this consultation document aim to improve business productivity by minimising administrative burdens and addressing perverse incentives to encourage productive long term investment that supports a dynamic economy.

3.14 The government is committed to developing an effective framework that provides businesses with certainty and encourages business investment in energy efficiency and carbon saving.

Energy efficiency and carbon reduction, and barriers to their uptake

3.15 Business energy policy is complicated by the need for policymakers to balance a range of often competing objectives, comply with legal and statutory obligations, and tackle complex sets of market failures. It has evolved to encompass a range of levers spanning tax, regulation, reputation and voluntary schemes. Policies are often targeted at specific sectors or types of firms. A number of stakeholders have argued that this has resulted in a fragmented and complex landscape with multiple schemes targeted at different elements of the same organisation and significant overlap between policies. Stakeholders have made it clear that some firms with similar energy use can be subject to different carbon prices and multiple compliance requirements depending on what sectors they are in or the nature of their energy use.

3.16 A number of businesses have raised concerns around the administrative burden and costs of complying with multiple policies, arguing this makes policies less effective in driving energy efficient behaviour. They believe greater simplicity would improve the effectiveness of policy at driving investment in energy and carbon savings.

3.17 The proposals set out in this consultation document aim to simplify and improve the business energy tax and reporting landscape, while recognising the complexity of business energy policy and the different barriers faced by different businesses. These can include a lack of information or skills to make the case and/or the fact that energy efficiency may not be a top priority for the business. While the proposals set out in this consultation document do not seek to tackle all of these barriers, an effective policy landscape can help reduce barriers to investment in energy efficiency and low-carbon measures, for example by growing board-level buy-in and helping energy managers make the financial case for action.

3.18 There are a number of aspects of existing policy that stakeholders feel reduce its effectiveness. Some stakeholders feel that:

- the complexity of the current landscape can make it challenging to set a clear strategy for improvement;
- uncertainty over the policy landscape or carbon tax levels can undermine investor confidence; and
- the current hierarchy of incentives can make it more attractive to invest in renewables over energy efficiency despite the fact that the latter should be considered as a first step to reduce energy demand, can work well in combination with renewables, and may be more cost-effective, all other things being equal.

3.19 The policy proposals set out in this consultation document intend to address stakeholder concerns around the complexity of the current landscape. The intention is to deliver a stable policy environment that is more effective in boosting business productivity by reducing barriers to, and encouraging long term investment in energy efficiency and carbon saving.

The government's proposals

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4.1 This consultation seeks evidence and sets out proposals that aim to simplify the policy landscape and improve the effectiveness of policy in realising cost-effective energy and carbon savings. The proposals also support government ambitions around productivity, competitiveness and fiscal consolidation.

Simplifying and improving the effectiveness of policy instruments

4.2 A key aim of this review is to simplify the policy environment for business. This will minimise compliance costs and rationalise the current system of overlapping policies. The government envisages a simplified landscape that minimises overlap so that a single business or organisation faces one tax and one reporting scheme.

Questions

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.

Reporting

4.3 A pre-requisite for effective management of energy use and emissions is for businesses to measure these and understand where in their operations they arise. Some stakeholders have suggested that mandatory board-level reporting creates a standardised framework that can provide information on energy and carbon consumption to investors and other stakeholders to inform investment decisions. Some stakeholders have also said that public reporting can increase transparency and create a reputational driver to incentivise decarbonisation.

4.4 The government would like to develop a single effective reporting framework which incorporates the most effective elements from the existing range of reporting schemes and delivers a net reduction in compliance costs associated with reporting schemes. Subject to the outcome of this consultation, the government proposes to achieve this by developing a single reporting framework, which incorporates the most effective elements from the range of reporting schemes and delivers a net reduction in compliance costs. It proposes to look at designing this framework through the prism of the ESOS, which is an EU requirement under the Energy Efficiency Directive.

4.5 This will provide a simplified, streamlined approach that retains the benefits to businesses of reporting. The government would work with stakeholders to develop more detailed proposals on the substance of the new reporting framework in order to ensure it observes the principles of good regulation, keeps administrative burdens to a minimum and helps drive investment in energy efficiency and carbon reduction. The government is interested in views on what data should be collected through reporting while observing the above requirements. Areas suggested by some stakeholders include GHG emissions (automatically generated from energy data), energy from renewable sources and actions taken against audit recommendations.

Proposal

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

Questions

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 publicly 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?

Taxes and price signals

4.6 The government is committed to delivering a tax system that is simple, effective and economically efficient. A price signal is an important component of the policy landscape in reducing demand for energy.

4.7 The UK currently has an energy tax system where tax costs and implicit carbon prices vary significantly across different groups of businesses and within organisations. A number of stakeholders have argued that this has weakened the effectiveness of tax as a price signal to save energy and cut emissions.

4.8 The government believes there is potential to streamline taxes in a way that reduces variations in tax rates faced by different users, simplifies the tax system and strengthens the price signal. This consultation proposes doing this by replacing the CRC and CCL with a new energy consumption tax based on the CCL.

4.9 There is also significant variation in the tax costs across fuels, with CCL and CRC tax rates significantly higher for electricity than other taxable fuels. Implicit carbon prices on electricity include not just current energy tax and direct prices, but also indirect costs relating to other energy policies that are outside the scope of this consultation.

4.10 The Institute for Fiscal Studies¹, as well as the Committee on Climate Change and many other stakeholders, have advocated that the more even the implicit carbon price across the economy, the more likely energy efficiency/decarbonisation will be carried out at the least cost to business, as the strength of incentive is more consistent across different parts of the economy:

¹ IFS, Energy use policies and carbon pricing, 2014

'If different users face different prices, then those facing a higher price would spend more per unit of abatement (emission reduction) than those facing a lower price. This creates an efficiency cost: the same abatement could be achieved at lower cost by shifting abatement effort from the high-price to the low-price consumer.'

4.11 The government is open to views as to the balance of tax costs across fuels, such as gas and heating oil, in the context of its objective to meet its carbon commitments cost-effectively.

Proposal

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.

Questions

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 (EIs) 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?

Protecting the competitiveness of Energy Intensive Industries and incentivising energy efficiency and carbon reduction

4.12 The government is committed to enabling UK businesses to compete internationally and protecting the most exposed sectors at risk from energy tax costs. Manufacturing is playing a key role in the government's economic plan and the government is committed to ensuring that manufacturing is able to remain competitive while cutting carbon emissions as effectively as possible.

4.13 There are a number of policies in place to mitigate the impact of the CCL on energy intensive industries. Energy intensive processes in metal and mineral sectors are exempt from the CCL. Climate Change Agreements (CCAs) mitigate the impact of the CCL on 53 sectors of energy intensive industry and aim to deliver energy efficiency improvements at least equivalent to that which would have been achieved were sectors required to pay the full rates of the CCL.

4.14 Views on the effectiveness of CCAs have been mixed. A number of stakeholders have suggested that CCAs are effective in mitigating the impact of the CCL and delivering energy efficiency improvements. When asked if all sectors currently covered by a CCA were at risk of being put at a significant competitive disadvantage due to the CCL, some stakeholders said that they were not.

Questions

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 EIs 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?

4.15 To date, government policy has relied primarily on regulation, price signals and conditional tax rebates (such as CCAs) to drive investment in energy efficiency and carbon reduction in the non-domestic sector. This has been based on the assumption that energy efficiency “pays for itself”.

4.16 The evidence suggests, however, that there is much energy efficiency and carbon abatement potential which businesses are not currently accessing, including in particular low carbon heat. The financial benefits of direct energy savings alone may not be sufficient to stimulate the necessary levels of investment where payback periods are longer than 12–18 months. Some stakeholders have suggested that a simplified energy tax and reporting framework is more likely to encourage investment if it is accompanied by an additional, positive financial incentive for energy and carbon saving.

4.17 The government is open to considering options for incentives for energy efficiency. In the context of fiscal consolidation, proposals would need to be funded through increases in tax. They will also need to meet strict value for money criteria, including demonstrating that they will deliver additional savings compared with current policies, and are more effective than other options. This consultation will close ahead of the Spending Review so that proposals for incentives can be assessed in the round against other proposals being considered to support the government’s policy objectives. Subject to the outcome of this consultation, the government is likely to publish more detailed consultations on policy design and implementation.

4.18 There are many ways in which incentives could be designed. Current examples include tax relief (in the form of ECAs and CCAs), funding awarded on a competitive basis (the EDR pilot), supplier obligations (the domestic energy company obligation – ECO - represent one model, but there are a wide range of possible models), and feed-in tariffs (FiTs - as is available for micro-generation of renewable electricity). Stakeholders have made a number of proposals, for example suggesting that a tax relief could be introduced in return for investments in energy saving measures (possibly including behavioural measures); government could ‘match-fund’ investments in energy efficiency and low carbon measures; and/or that there could be a link to audits (e.g. ESOS) whereby businesses could claim an incentive to cover the cost of implementing actions highlighted by audit reports, or in return for more reporting.

4.19 There are important questions to consider around eligibility for any incentive and how the incentive could be applied for, administered and audited. The decision on who is eligible would

depend to some extent on the eventual design of any new tax system as well as legal requirements (including possible state aid clearance and compliance with the Energy Tax Directive). It may be that different financial incentives or reliefs are appropriate for different types of business. Decisions on any scheme would also need to take into account simplicity for business and value for money would be a guiding principle.

4.20 In considering incentives, the government wants to ensure that it would contribute to the objectives set out in Chapter 3. In addition, it believes that proposals for any new incentive should be designed in line with the following principles:

- 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

The government is open to considering options for new incentives in line with the principles in paragraph 4.20. 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.

Questions

13. Do you believe that incentives could help drive additional investment in energy efficiency and carbon reduction? Please explain your reasons.
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?

Impact of proposals on the public sector and third sector

4.21 Although the government's review has primarily been concerned with the impact on business, a number of the proposed changes would have an impact on other large organisations including the public sector and third sector.

4.22 Any changes to the level of tax, and/or to the balance of tax costs across fuels, in the proposed single tax could affect charities and public sector bodies. Further, charities are excluded from paying the existing CCL on 'non business use' of energy, meaning that they are not required to pay the CCL on energy consumption associated with non-business activities. As this is not the case for the CRC, the government's proposal to merge the CRC and CCL into a single energy consumption tax based on the CCL model would exclude certain activities of a number of organisations from a price signal that drives energy and emissions savings.

4.23 The CRC requires measuring and reporting on emissions in the public sector and provides a price signal to drive investment in energy efficiency and there is evidence to suggest that it has helped to drive annual emissions savings in public sector organisations. Without the CRC there would be a reduced requirement on the public sector.

Questions

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?

5 Assessment of impacts

Summary of Impacts

Economic impact	Improving incentives to invest in energy efficiency and reducing administrative and compliance costs for business will support economic growth and business productivity.
Impact on individuals and households	These proposals are not expected to have an impact on family formation, stability or breakdown.
Equalities impacts	No significant impacts.
Impact on businesses and Civil Society Organisations	Reduction in administrative and compliance costs, depending on the outcome of this consultation.
Impact on HMRC or other public sector delivery organisations	Depending on the outcome of this consultation, there could be impacts on HMRC, DECC and the Environment Agency from reform.
Other impacts	Improving incentives to invest in energy efficiency will help decarbonise the economy and ensure secure energy supplies.

List of consultation questions

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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 (EIs) 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 EIs 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?

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