One reporting regime, one tax: our challenge to DECC

With new reporting and tax schemes on business energy efficiency emerging over the last few years, the landscape is now complicated for companies to navigate.

As a result, DECC and HM Treasury opened a consultation between September and November 2015 inviting stakeholders to help inform their review of existing schemes. The results are eagerly anticipated by business and stakeholders in early 2016.

We welcome this consultation and hope the government's response will appropriately revitalise energy efficiency incentives, ensuring they are focussed on the right thing: encouraging business to reduce energy consumption through efficient reporting and a single tax regime.

At Carbon Smart we have talked about simplification of these regimes for a number of years. Here's how we think it should be done:

A single tax and single reporting scheme is the way forward: it would simplify the whole compliance exercise and allow businesses to spend more time and resources implementing improvement measures.

The tax

- The single tax should be determined at an organisational level but still be imposed on a site level to simplify implementation
- Good behaviour should be rewarded via taxation bands where companies that improve their energy consumption pay less
- Organisations need stronger incentives to reduce consumption: CCAs should be extended to all businesses.

The reporting scheme

- The reporting scheme needs a clearer methodology with less room for interpretation to be more effective
- It should be extended to include all companies complying with ESOS and follow the same scope as a company's financial boundaries
- Mandatory director sign off would ensure energy is properly managed internally
- Reporting should align with a company's financial year, with a review of recommendations every four years
- High-level information should be made public and detailed data similar to ESOS requirements should be kept private
- Companies with an ISO 50001 energy management system in place should be considered as compliant with UK legislation, barring public disclosure obligations.
- The public and third sector would also benefit from a simplified scheme. Sharing the same scheme would mean clarity on how it all works and comparability between all bodies.

Aspects to improve

Wasted time and money
The current landscape makes it difficult for businesses to comply as well as implement improvements to be more energy efficient. A lot of time and resources are spent to ensure businesses are compliant with the various schemes – these could be used more productively such as for the implementation of recommendations.

No comparability, transparency or reliability
Comparability is currently difficult between organisations and within an organisation, from one year to the next, as companies use different rules for scopes of data measured, size of the organisation and the conversion factors used.

No director sign off and no mandatory publication of data
The fact that reporting does not always require director sign off or publicly available data to be published means that reporting risks are managed internally with often no involvement of directors. This, in turn, increases the likelihood of a corporate failure to address energy. With energy scarcity on the increase and carbon taxes also becoming greater, companies with high energy costs will face greater stress and changes in the near future: investors and shareholders should be able to access information regarding these companies' consumption when making decisions.

No strong incentives
Incentives for businesses are not strong enough and not optimised. Currently, CRC is burdensome if the organisation is already complying with Climate Change Agreements (CCAs). Furthermore, CCAs are not easy to obtain and limited to certain industries only. Where they are in place, the penalties for non-achievement are too low.

Complexity for all sectors
We believe simplification of the reporting landscape would also be beneficial to the public and third sectors. As it stands, compliance is equally complex for the public sector as it is for businesses, since they have to comply with GGCs, FREM/ARAC, CRC, CCL, Article 5 of the EU Energy Efficiency Directive, independent sustainability reporting, etc.

Proposed solutions

Simplification and clearer rules and methodology

In order to simplify and improve the current situation, we 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 with a clear and consistent methodology. Removing room for interpretation would actually simplify the compliance exercise.

A well-defined scope that includes more businesses

To simplify reporting, the scope of the company should be aligned with its financial boundaries, as established in the Companies Act or in its financial reporting. To determine who should comply, it would ease the process if the UK kept to the EU definition of ‘large businesses’ rather than the current UK only ESOS interpretation. Mandatory reporting requirements should be extended to all companies that are required to comply with ESOS: in our experience the requirement to produce mandatory reports acts as a highly effective catalyst for management attention and action; in many examples, more so than tax. In many businesses, energy is an unknown cost and a resource with little or no active management. Opportunities for improvement, the implications of building and management decisions and the options for facilities and locations are all less visible if no mandatory reporting regime is in place.

Useful data that is publicly disclosed at sensible intervals

A single reporting scheme occurring once a year and following ESOS requirements for data would be appropriate, with opportunity identification occurring every four years. To facilitate compliance, we believe reporting requirements and indeed tax requirements should align with the accounting period for each business. In terms of public disclosure, companies should be allowed to keep detailed data required by the current ESOS scheme private, but public disclosure of the high-level information required by mandatory greenhouse gas reporting should be compulsory. We believe these two current regimes are appropriate but should be aligned.

Other avenues to compliance

Companies that have an ISO 50001 management system in place should be considered as compliant with UK reporting obligations, save for any public disclosure. ISO 50001 is a global standard, well respected, audited and recognised in the EU energy directive. This should be reflected in any adjusted UK approach.

A single taxation scheme that makes sense

As far as single taxation is concerned, the mechanism for the imposition of tax would be more straightforward if the levy was taken from energy bills directly, as in the Climate Change Levy (CCL), since it means direct access to data and energy providers applying the tax within their tariff. If the new tax is to reflect improved energy performance then it should be imposed and adjusted at an organisational level, like the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) currently. As such, the tax should be imposed at site level but aggregated to establish the tax rebate at an organisational level. The R&D tax credit on corporation tax could be used as a precedent to this amended tax: a company could offset their energy management efficiency with a credit on their corporation tax bill.

Finding the right format to provide powerful incentives

The tax should be structured with various taxation bands that reflect different levels of energy

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consumption. Businesses should be able to improve their exposure to the tax by improving their energy performance. Furthermore, we believe CCAs should be available to everybody. They should be based on a company's energy consumption level rather than its sector of activity.

Incentives can encourage businesses to invest in energy efficiency and carbon reduction if they are significant enough to provide a business case for the investment. However, public disclosure and compliance are also effective tools. Any single system needs both sticks and carrots: the new scheme and taxation should make businesses an offer they cannot refuse – expensive and potentially shameful to do nothing; cost saving and positive to act.

The public and third sectors should be included too
A single approach would simplify the reporting process for the public and third sectors. Another advantage would be that the private and public sector would collectively know how reporting works and would be in a position to support each other throughout that process. Furthermore, it would make all entities comparable.

Follow this link if you would like to read our full consultation response

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