

# Reforming the business energy efficiency tax landscape: Consultation response

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## Background:

The response to this consultation is based upon the start of a three year study into environmental taxes and specifically the CRC (funded by the University of Birmingham). By the end of the project I aim to have interviewed between 40-50 participants of the CRC for their views on the CRC and environmental taxation on businesses more generally. The below responses to selected consultation questions (questions 2, 3, 6, 13 and 14) are based upon data collected during the pilot phase of this project. Interviewees all work in universities that are members of the CRC.

By way of general comment, the government's October 2013 guidance on consultation sets out that the window for consultation might last between 2 and 12 weeks and that, "For a new and contentious policy, 12 weeks or more may still be appropriate."<sup>1</sup> I am of the view that this consultation window was unnecessarily short.

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## Responses to consultation 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?

Reporting was raised as a potentially positive procedure by all interviewees, and as an essential element by one interviewee:

"I think organisations should report, they have to report; if you don't monitor it, you can't manage it but there's no... there probably could be some streamlining of these reports to remove some of the burden." (P1)<sup>2</sup>

Reporting, however, appears to be a task that is made considerably easier by software that collates emissions data and energy use; and which has the ability to generate reports for the participant:

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<sup>1</sup> See: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/255180/Consultation-Principles-Oct-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/255180/Consultation-Principles-Oct-2013.pdf)

<sup>2</sup> Interviewees were promised that their responses would be anonymous. For this reason, I have used identifiers (P1, P2 etc).

"I mean I hear a lot of people say that it's very onerous, but I think that's only if you don't really have a system in place to measure your emissions. I mean, this really didn't take me very long to generate the report with the [software name]. I think as long as you're diligent in collecting even just billing data - it's relatively straight forward, I mean there's so much software out there now and I don't think it's really that hard to be honest." (P2)

Software was a point raised by all interviewees: they all used their own, purchased software that allowed them to record all of their data and then generate a report using the CRC module for the software. This would potentially render reporting simpler and less of an administrative burden should a single software be made available to all participants. In terms of administrative burden, whilst all participants were happy using their software to generate reports, one interviewee raised the point that it is the number of reports that need to be generated that is the burden:

"The trick is to make sure that there isn't duplication of which there is massive duplication at the moment [...] there's various things that I'm aware of that we have to provide the same data for" (P1)

Additionally, one interviewee also stated that reporting should be intrinsically linked to incentives - and that if there were no incentives provided by the scheme, then there should be no reporting requirement (P4). However, this was not raised by anyone else. A final point on reporting (expanded below) is that it creates an awareness of emissions data, and, as such, provides an opportunity for participants to engage with their data.

Publication was also raised and linked to reporting (specifically relating to the CRC League Table - expanded on below). One interviewee stated that the data provided in the reports should be published by the regulator:

"I think yes but on a sector by sector basis, there's no point comparing apples with oranges you always have to compare like for like so I don't think it makes sense just to bundle everybody together and that's probably too much work for them so I don't think they'd do it." (P2)

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

One of the interviewees suggested that one of the aims of the CRC (and so environmental taxation generally) should be to push energy efficiency to boardroom level (P1). Having reports signed off at board room level for any environmental tax would achieve this.

My interviewees told me that senior members of their organisation are not aware of the CRC (P1-P4). Awareness is limited to the person dealing with the CRC and the finance team/ officer, which does not create any impact on an organisations' overall attitude and response to carbon emissions. Board level sign off could therefore push any environmental tax to the attention of board members which lead to a trickledown effect throughout the organisation.

**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.**

*a) Should the CRC be scrapped?*

My wide ranging interviews allowed for a number of opportunities to discuss the relative merits and demerits of the CRC. A summary of the main points raised can be found below:

<b>Advantages of the CRC</b>	<b>Disadvantages of the CRC</b>
<b>Awareness of emissions and energy use</b> - through both data collection and reporting, the CRC raises an awareness of energy consumption and the resulting carbon emissions	<b>No reinvestment of revenues</b> - which means that participants cannot make the link between what they are paying and any environmental benefit.
<b>Collation of good quality data</b> - the scheme requires the collection of good quality data by participants.	<b>Profile of the CRC</b> - few people who are not directly involved with the CRC are aware of it, or its aims.
<b>Financial stick to reduce emissions</b> - having to pay a tax will make people think about emissions.	<b>Not enough incentives</b> - the CRC does not encourage any investment in more energy efficient technology besides the reduction in allowances that might result.
<b>Good guidance and helpful participant updates</b> - participants found the guidance useful for understanding the scheme. Regular participant updates.	<b>Carbon cost</b> - stated by all as not high enough, suggestions that this should be gradually increased.
	<b>No bite</b> - all participants raised the abolition of the league table and half suggested this had rendered the CRC a weaker instrument.

One of the major benefits of the CRC raised with me focussed on the **awareness** that the CRC has brought to participants in relation to their energy use:

" I think it is effective in the sense that it certainly makes organisations think about their energy consumption. I think that in general [the organisation] would be far less enthusiastic about energy efficiency if it didn't have to pay such a high tax." (P2)

"I think the big benefit of the CRC has been [in] forcing people to capture fairly good quality, or hopefully good quality, information on their consumption of gas and electricity across their sites which I know has been a massive challenge with large portfolios of buildings so I think that's been one of the big benefits" (P1)

This has been linked to the fact that comprehensive and good quality data needs to be collected under the scheme in order to comply, and such an active participation has resulted in an increased awareness.

All interviewees made the point that the CRC had the ability to invoke change for financial reasons, and that organisations would try to reduce their financial obligations under the CRC by reducing their emissions.

Furthermore, guidance published by the Environment Agency was described as "very useful" (P2) and was raised by two of the interviewees as being a positive aspect of the CRC. Additionally, the participant updates from the Environment Agency meant that it was very difficult to fall out of the loop in relation to CRC obligations (P2).

Many, more negative, points were also raised by interviewees. Firstly, that due to the lack of reinvestment of any revenues of the CRC into energy efficiency, participants of the scheme are unable to make the link between what they are paying, and what benefit 'the environment' is receiving:

"I think the CRC actually has the effect that it negatively impacts the view of energy efficiency and the environment because they think 'Oh it's just another way of getting money' whereas people don't see the background to it, so for smaller companies it could be close to crippling and then for larger companies, it's a drop in the ocean. It means nothing to them, so you're not really penalising the people you should be." (P3)

This is linked to the point made to me that the focus of the CRC appears to be as a revenue raising tool, rather than a tool for reducing carbon emissions (P3), alongside a linked point raised by all interviewees: that the revenue from the CRC must be reinvested into environmental incentives (expanded on below).

Additionally, the CRC does not have a wider profile within the general community. Outside of those who work with it, very few people have an awareness that the scheme exists and therefore have little knowledge of its potential importance:

"I think the number of people who have any understanding of the carbon reduction commitment outside of people who are doing relevant courses and lectures and that area, there are probably a handful of people in property facilities and finance probably have very little awareness of the carbon reduction commitment." (P1)

This point was reiterated by interviewees as they tried to identify members of their organisation (other than themselves) who were aware that the CRC even existed. In most cases, only two people within the organisation were aware of the existence of the CRC: the energy manager in charge of the CRC and the financial director who signed off the reports. This is striking given all interviewees were based in universities that each employ thousands of people. Additionally, even though the financial director/ finance team would sign off the relevant CRC report, they might not have an understanding of the scheme itself (P1).

A minor point raised by one of the interviewees was the fact that the CRC does not encourage the investment in onsite technologies such as Combined Heat and Power (P2), and they even felt penalised for having invested in CHP by the CRC through the higher emissions factor for this energy.

Linked to this is the cost of carbon under the CRC, which was a point raised by three quarters of interviewees. They concluded that the cost of carbon should be higher to reflect the externalities (P1), that energy is too "cheap" at the moment under the scheme (P1), and that the cost of carbon should be increased gradually (P2):

"I think that the costs that we see at the moment are very low and the costs associated with the CRC are tiny" (P1)

However, the fact that the scheme creates a separate bill might create the illusion that the carbon price is higher than it actually is:

"I suppose this is a bit of the benefit of the CRC is that some organisations perceive them as high because it's a separate bill that has to be paid" (P1)

This would be a benefit of the CRC that would not be achieved through a mechanism that did not deliver this segregated process of billing.

Although most interviewees found the online guidance published by the Environment Agency useful, one interviewee made a point about recent, perceived cutbacks for the CRC scheme:

"They've already reduced the number of people on the CRC helpdesk to like 1 person or something ridiculous for the entire country [...] so you now get an automated email when you ask for help about things." (P2)

This would indicate that whilst published guidance for the CRC is perceived positively by participants, the 'real time' support infrastructure for the CRC is not as well regarded.

Another point raised by three of the interviewees (P1, P3 and P4) was the abolition of the Performance League Table during the 2012 reforms of the CRC. In general, interviewees heavily stressed its importance as an incentive:

"So essentially now, it's just a tax on your on your relevant gas and electricity use and emissions associated with that, so really it's massively simplified but [abolishing the League Table] probably removed quite a lot of the benefit that it potentially would have had in encouraging people to be more efficient." (P1)

The abolition of the League Table rendered the CRC "toothless" according to one interviewee (P4). In addition, these points about the League Table were raised without prompt in all three cases, which shows the importance of the League Table (or a similar mechanism) to participants. . If there is a move to scrap the CRC, and have a streamlined approach to environmental taxation, some form of benchmarking (via a league table or similar) will be an important consideration if the market is to be used as a means of securing environmental improvements over and over bare compliance with regulatory obligations.

In terms of the practicalities of the scheme, only one negative point was raised by one of the interviewees, who thought that allowances should be processed as a single transaction without the time gap between ordering and paying for allowances:

" I think it's the element around about the allowances...I think almost pulling together the data is okay, populating the annual report is beneficial, but then it should be - you need, I don't know, 6000-7000 allowances and you just go and buy them, just like you go and buy everything else. I don't really understand this process." (P1)

Whilst this was only raised by one interviewee, it potentially indicates that complexities in the CRC scheme still exist.

Finally, the interviewees who commented on how the CRC should change all made the point that the CRC was more effective in terms of reducing emissions before the 2012 reforms (P2, P3 and P4). The CRC was described as "interesting" when first introduced, but that it is now simply a tax (P4). It was also suggested that the CRC should be expanded gradually to incorporate smaller organisations (P2).

*b) Should the CRC move towards a tax based on the CCL?*

An initial point to be made is that all the interviewees only had a very limited knowledge and awareness of the CCL and how it worked when they were asked. One interviewee also made the point that any new piece of environmental regulation should be a tool to meet the country's commitments - so in this instance, any replacement of the CRC should also be a tool primarily to reduce carbon emissions (P4). It should also have the ability to create an awareness of energy use:

"I think that the overall objective is to try to draw organisations' attention to the amount of energy that they use and the resulting carbon emissions." (P1)

Another participant questioned the constant changing of regulation as change for appearance purposes:

"Probably, but I think in the end it would just evolve into something very similar, I mean as I said there's always this drive to simplify legislation and to make it cheaper for everybody, whilst maximising revenues. So I mean they could perhaps rethink the boundaries a little bit, rethink qualifying criteria and everything but I think it's just window dressing. To tackle climate change and to tackle energy wastage, you have to tax it. It's really as simple as that." (P2)

When specifically asked whether the CRC should move towards the CCL, participants were appreciative of the streamlining and simplification that this would create (P1 and P2), but fears were raised as to the ability for the CCL to reduce carbon emissions in its current format:

"Essentially it should produce the same effect, but I think there'll unfortunately be a reduction in the level of awareness within the organisations because people just pay bills, don't really think about it. They're like "Oh, that's high", but they don't think about why it's high. If you actually have a separate tax that says "this is a carbon tax, do something about it", then people are more likely to pay attention, especially senior management." (P2)

There is therefore the balance that needs to be made between simplification and the CCL's ability to reduce emissions. If any new regulation's primary purpose is also to reduce emissions rather than raise revenue, this point on awareness is important. In the eyes of the interviewees, the CRC

currently has a higher level of participant engagement (compared to the CCL) that creates this awareness.

In terms of reporting, the consensus from all interviewees was that purchased software eased the administrative burden of the scheme. As such, if the CRC is to be scrapped and an alternative put in place, then the relevant software should be provided to all participants:

"I mean if you look at someone like the HMRC, you know, they provide their own software to people, they have an entire website dedicated to help [...] so if you're going to treat it as any other tax then they should provide the software to people to help them with their submission." (P2)

This point would be relevant with the CCL should a reporting element be introduced.

When my participants were asked whether there was any other form of carbon related regulation that they would introduce, the focus was on the removal of fuel subsidies and a new focus on renewables (P3):

"I don't think I'd introduce anything else, I think fundamentally what is needed is a genuine levy, a level playing field between all energy sources. At the moment, I don't know the figures, but there's certainly mention of it in environmental articles that I read, about the still high subsidies that you get for fossil fuels and for power stations" (P1)

Fuel subsidies were mentioned by three quarters of interviewees, which highlights the link between subsidies and any environmental taxation introduced. Finally, one participant made the point that there is simply a need for consistency: Whatever the government decides, there needs to be consistency in order for there to be trust in the domain of environmental taxes (P4).

**13. Do you agree that incentives could help drive additional investment in energy efficiency and carbon reduction? Please explain why you agree or disagree.**

All interviewees specifically raised the point that any revenues raised from the CRC (and potentially other environmental taxes) should be ring fenced for incentives:

"I think that any revenues raised from environmental taxes and legislation should be ring-fenced for minimising the environmental impact of the country." (P2)

"I think if the CRC was to try to encourage companies to reduce, it would reinvest that money into energy efficiency, but the government are removing all options for energy efficiency and investing in energy efficiency. So it's now just a taxation system." (P3)

Other interviewees stated that the money should be kept in a separate pot (P1); and that any environmental tax should also be "revenue neutral" following the reinvestment into incentives (P4). Incentives were also labelled as "key" (P4).

When commenting on the CRC, a lack of incentives was offered up as a justification behind the potential scrapping of the scheme:

"I think because if you look at the CRC it's to encourage you to reduce energy and to be more efficient in your carbon, but it doesn't, because the previous incentives which were put in place to support energy efficiency by the government have been removed - the CRC was supposed to support the funding for those initiatives, so if those initiatives have been removed, then why has the CRC not been removed?" (P3)

All interviewees mentioned incentives as a positive driver that does not necessarily exist at the moment. Using the CRC as an example, the CRC does not have an extensive influence on green investment (P4); and that there is the need for both the "carrot and the stick" in such a scheme - currently within the CRC, there is said to be the need for "more carrots" (P4).

**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?**

Whilst this was not raised in any depth, interviewees talked about how the revenues from the CRC should be spent. Two main areas were highlighted as being important:

- 1) Investment in the renewable energy sector; and
- 2) Subsidies and incentives for investment (by the organisation) in more energy efficient technologies.

It was the view that by ring fencing revenues from the tax and by spending those revenues and investing them in such a way, then participants would be much more inclined to participate actively in the scheme and reduce emissions (P3).