Environment Scrutiny 14 October 2016

Carbon Management Plan progress report 2015-6

Briefing on Government proposals on carbon emissions reporting and tax

Summary

Following a consultation in autumn 2015 the Government announced significant changes to the energy tax landscape in Budget 2016. Their **aim is to create an integrated approach to energy efficiency, carbon taxation and emissions reporting.**

It proposes to **consult on the details this summer**, but the key decisions are to

- **move to a single business energy tax from April 2019; public sector will be subject to the same tax and reporting requirements as the private sector**
- close the Carbon Reduction Commitment (CRC) following the 2018-19 compliance year
- **increase main rates of Climate Change Levy (CCL) from April 2019,** to recoup revenue lost from abolishing the CRC, in a fiscally-neutral reform, and encourage energy efficiency amongst CCL- paying businesses

It is estimated that by 2019 Lincolnshire County Council will pay CCL of £555,769 (increase of £312,870 on 2015/6 payment). This may vary depending on final legislation).

The Housing and Planning Act 2016 includes statutory requirement for local authorities to prepare a report (starting in 2017) on improving efficiency and sustainability of buildings owned by local authorities. It also has a requirement ensuring that buildings that become part of the authority's estate fall within the top quartile of energy performance.

With **established and robust energy monitoring and reporting in place as part of its Carbon Management Plan and Climate Local commitments Lincolnshire County Council is well placed to comply with both requirements.** The proposal further validates the importance of continued reporting on and investment in energy efficiency reducing energy bills and emissions.

Background

1.1 In autumn 2015 the Treasury consulted on a new integrated approach to energy efficiency, carbon taxation and emissions reporting. It followed long-standing criticisms of a complex patchwork of schemes, with overlapping reporting requirements and different tax rates that dilutes carbon pricing signals and investment incentives. The aim is to create a "simpler and more stable environment for business" by cutting administrative burdens and costs while encouraging investment in energy efficiency and low-carbon alternatives.

1.2 The review discussed the future of at least eight schemes, regulations and taxes. These include the Carbon Reduction Commitment (CRC), Climate Change Levy (CCL), Energy Savings Opportunity Scheme (ESOS), mandatory greenhouse gas reporting, Climate

Change Agreements (CCA), enhanced capital allowances (ECAs), DECC's electricity demand reduction (EDR) pilot and taxes on other fuels such as heating oils.

1.3 In Budget 2016 the Chancellor announced the outcome of their consideration of responses. The key decisions that the government has taken are to:

- move to a single business energy tax from April 2019
- close the CRC following the 2018-19 compliance year, with no purchase of allowances required to cover emissions for energy supplied from April 2019
- increase main rates of CCL from April 2019, to recoup revenue lost from abolishing the CRC, in a fiscally-neutral reform, and encourage energy efficiency amongst CCL-paying businesses
- rebalance CCL rates for different fuel types to reflect the fuel mix used in electricity generation and move to an electricity: gas ratio of 2.5:1 from April 2019. In the longer term the government intends to rebalance further, reaching a ratio of 1:1 by 2025
- consult later in 2016 on a simplified energy and carbon reporting framework for introduction by April 2019

1.4 The government will move to a single business energy tax, the existing CCL, with the abolition of the CRC from the end of the 2018-19 compliance year. Organisations will no longer be required to purchase allowances to cover emissions for energy supplied from April 2019. In order to recover revenue from abolishing the CRC, the main rates of CCL will increase from April 2019. This will motivate CCL-paying businesses to find further energy efficiencies through one, simple energy tax.

1.5 The government acknowledges that the current balance between CCL rates for different energy sources is out of alignment with their energy content. Therefore, the main rates for gas, electricity, liquefied petroleum gas (LPG) and other fuels will be updated to reflect recent data. Rebalancing CCL rates such that the ratio between electricity and gas is 2.5:1 will also provide a financial incentive for businesses to reduce gas use, saving carbon in the non-traded sector and helping the government to deliver on its climate change targets.

1.6 The government is committed to delivering on its climate change targets. Therefore, the government intends to rebalance gas and electricity rates further, to reach a 1:1 ratio by 2025. This will also help the UK in meeting its commitment to Carbon Budgets 4 and 5. This gives businesses time to plan ahead to improve their energy efficiency and adopt new technologies to reduce their gas consumption.

1.7 The government recognises the importance of businesses' ability to measure and understand their energy consumption and carbon emissions, facilitating action to improve energy efficiency. The government will therefore consult on a new, simplified energy and carbon reporting framework for introduction by April 2019. This will reduce the administrative burdens of an overlapping system while improving the incentive for organisations to save energy and reduce carbon emissions.

1.8 The government will work closely with the devolved administrations, businesses and the public and third sectors to develop the detail of how the new framework will operate with a consultation to be launched in summer 2016.

1.9 The consultation will propose mandatory annual reporting for the organisations within its scope, with board or senior level sign-off and some public disclosure of data. The consultation will cover issues such as the range and size of organisations to be covered and will make proposals about the amount and type of information to be collected and disclosed, data collection timetables and how information is reported.

1.10 In designing the proposed new reporting framework, the government will look to minimise administrative burdens for participants. The government will seek, as far as possible, to streamline data collection and reporting requirements, for example by limiting the number of times organisations have to measure and report their emissions and aligning data collection and reporting deadlines. The proposed new reporting framework will also aim to ensure that participants no longer need to determine how to define their organisational boundaries for different reporting schemes.

1.11 The proposed new reporting framework will replace the obligation for some organisations to report their energy consumption under the CRC. Continued reporting of GHG emissions by listed companies was supported by a number of respondents and the government believes it is important to maintain this reporting in order to provide data transparency for investors and establish London as a centre of global green finance. The government also fully supports the work of the Financial Stability Board's industry-led Task Force on Climate-related Financial Disclosures (TCFD).

1.12 The government is proposing to explore integration of the existing compliance and reporting requirements of CCAs, EU Emissions Trading System, and ESOS with any new reporting framework, to further minimise administrative burdens.

1.13 The government acknowledges the concerns of some respondents that a new reporting framework could place disproportionate administrative burdens on smaller organisations. In this context, the government proposes applying the new reporting framework to all large UK undertakings and their corporate groups who satisfy the qualification criteria for the ESOS scheme (or similar criteria), as well as large public and third sector organisations which meet these criteria. The government will protect the smallest or lowest energy-consuming businesses by exploring de minimis arrangements for the new reporting framework.

1.14 The government acknowledges support from respondents that the public sector should be subject to the same tax and reporting requirements as the private sector. It understands concerns from charities on the impact of new reporting requirements and therefore will consult on de minimis arrangements to exempt small or low energy-consuming charities, with details explored in the consultation launched later this year.

1.15 At Spending Review 2015, the government announced that over the course of this Parliament it would invest £295 million in funding for public sector energy efficiency. The new fund will provide interest-free loans to the public sector, building on the Salix public sector energy efficiency loan scheme. Salix Finance currently provides 0% loans and a framework of providers to public sector organisations. This investment will lead to lower energy bills in the public sector, allowing schools, hospitals and local authorities to operate more efficiently.

1.16 It should also be noted that the Housing and Planning Act which received Royal Assent in May 2016 has a requirement for local authorities to prepare a report (starting in 2017) on improving efficiency and sustainability of buildings owned by local authorities. It also has a requirement ensuring that buildings that become part of the authority's estate fall within the top quartile of energy performance. Again we expect a consultation in the near future.