BUSINESS ENERGY TAX REFORM

This paper was put together following the CBx breakfast event in April 2016, to describe and explain the announced changes to the energy tax landscape.

Following the abolition of the Carbon Reduction Commitment following the 2018/19 compliance year, as announced by the Chancellor in the Spring Budget, business is left wondering what will fill its place. The related increase in the Climate Change Levy seems more a way of balancing the books than providing a strong driver for action. The CRC was regarded by many as a bureaucratic exercise.

"A repeated theme in energy policy is that decisions end up being taken by the wrong people in the organisation to make any real change to energy consumption. The mechanism of the CRC enabled it to be removed as an operational target and shifted to the finance department where it became another overhead tax, dealt with in same way as any other tax. Building a real reputational driver into policy design, effective irrespective of the energy intensity of the target companies, must be the aim."

– Sunil Shah, MD Acclaro Advisory

The observation that in many corporates it became just another overhead tax rather than being seen as an operational target does little to strengthen confidence in tax schemes as a viable driver of energy efficiency.

Our discussion found that essential drivers to encourage energy efficiency investment by business include:

- Provide stable legislation and supporting frameworks
- Set a clear long-term direction on price.
- Tax reforms need to be 'cost neutral'
- Target behavioural change rather than box ticking

However, even with these drivers in place, it is questionable whether energy taxes alone can spur on real improvement in businesses with relatively low energy bills. Reputational drivers may provide a stronger incentive, and the new mandatory carbon reporting requirements could support real performance comparisons between peer companies. A new DECC consultation in summer 2016 will examine how these requirements can be implemented. The focus should be on how to create a strong lever for reputational pressure by facilitating informed and effective stakeholder action.

KEY FINDINGS

- There is a lack of effective energy policy in the UK to incentivise real change
- For many companies, even the relatively well-designed ESOS has become another regulatory compliance 'tick-box' exercise
- With a current politcal apetite for regulatory simplification, continuining economic hardship for many UK sectors, and now Brexit likely to dominate policy discussion for some time, stronger energy policy is unlikely to be a focus in the near future
- The move towards mandatory carbon reporting, if coupled effectively to stakeholder pressure, could provide a stronger incentive for business.
- Looking for ways to add to the public database of knowledge on building performance in the UK would help future policy achieve greater impact

FULL REPORT:
http://cbxchange.org/knowledge/white-paper-business-energy-tax-reform/

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