

Briefing



2016 Budget

March 2016

Energy Efficiency in the 2016 Budget – CRC out and CCL on the rise

Executive Summary

In the 2016 Budget, the Chancellor has pledged to abolish the Carbon Reduction Commitment (CRC) and replace it with an increase in the Climate Change Levy (CCL).

Background

- On 28 September 2015, the Government launched a consultation titled Reforming the business energy efficiency tax landscape, which set out proposals to reform the carbon reporting and taxation regime for UK businesses.
- Currently, some businesses have to comply with two energy tax schemes - the Carbon Reduction Commitment (CRC) and the Climate Change Levy (CCL) – and three carbon reporting requirements - the CRC, the Energy Savings Opportunity Scheme (ESOS) and mandatory carbon reporting.
- The consultation suggested creating a system where a business is subject to only one tax and one reporting scheme and proposed implementing these changes through:
 - abolishing the CRC and the CCL and replacing them with a new energy consumption tax based on CCL, and
 - developing a single reporting framework, designed "through the prism of ESOS".

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- The Government has published its formal response to the consultation in the 2016 Budget. In the Chancellor's announcement, he confirmed that the CRC will be abolished with effect from the end of the 2018-19 compliance year. The CRC is to be replaced 'in a revenue-neutral way' with an increase in the CCL from 2019.
- In addition, from April 2019 the CCL discount available to Climate Change Agreement (CCA) participants is set to increase and the Government has pledged to commence a review starting in 2016 with the aim of ensuring that these agreements deliver on their energy efficiency goals.
- The Government have also indicated their intention of keeping the existing CCA scheme eligibility criteria in place until at least 2023.

■ The Budget does not mention how, or if, a replacement will be put in place for the reporting elements of the CRC or whether the ESOS reporting regime will be expanded to fill this role.

Conclusion

- The Government has abolished the CRC (as was implied in the consultation) and aims to account for lost revenue through increases to CCL.
- However, no plans have been announced for any expansion of the existing energy efficiency reporting regime or any new reporting regime to replace that aspect of the CRC. At present the only requirement under ESOS is that an energy efficiency audit is carried out, there is no obligation that this be published or otherwise officially submitted.
- It remains to be seen whether the current reporting framework will be expanded or overhauled or whether any new regime will be introduced in this regard.
- The changes are potentially good news for many business groups who argue that the compliance obligations of the current policies are too burdensome, complex and expensive. However, the extent of the practical benefit for UK businesses remains to be seen, and in particular we wait to see what, if any, changes to the reporting regime are to come.

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