

# Wider Simplification of the CRCEES

*An Emerging Thinking Paper Supported By:*

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## Background

In 2008/2009 a number of organisations came together as the Carbon Reduction Commitment Property Industry Working Party<sup>1</sup> to interpret the requirements of the Carbon Reduction Commitment for leased commercial property, in a way which sought to achieve the overarching objectives of the Scheme. Through a series of meetings, the main output of this process was the Guide for Landlords and Tenants to the Carbon Reduction Commitment. In September 2010, a second version of this Guidance was issued, taking account of changes to the timetable for the Scheme<sup>2</sup>.

In the recent Comprehensive Spending Review 2010, it was announced that:

‘...the Scheme will be simplified to reduce the burden on businesses, with the first allowance sales from 2011-12 emissions now taking place in 2012 rather than 2011. Revenues from allowance sales totalling £1bn per year by 2014-15 will be used to support the public finances, including spending on the environment, rather than recycled to participants.’

The unexpected announcement of these changes has led to significant confusion among participants and many who had prepared themselves for its introduction in good faith feel that they have wasted time and resources in an increasingly pressured market and difficult economic circumstances. Government should be sensitive to the impact of its announcements on commercial organisations and activities. HM Treasury’s new approach to tax policy making<sup>3</sup> sets an excellent example that we would be pleased to see other departments following.

Following announcements at the Comprehensive Spending Review, and the announcements on wider simplification of the CRCEES, this group has reconvened to discuss what it would like to see from the simplification process. **These discussions are ongoing, but as we have been asked to supply officials with our thoughts prior to the end of 2010, we thought it helpful to outline our direction of travel in this short paper.**

## Recommendation 1: Create a Simple and Effective Carbon Tax

The Industry Working Party believes that the CRCEES, having become a revenue raising instrument, can be radically simplified. Government should rationalise the fiscal element of the CRCEES and the Climate Change Levy (CCL) to a simple retrospective tax on the carbon associated with energy consumption that is applied equally to all sectors. Incentives to improve energy efficiency and to reduce carbon emissions could be set via a price escalator (akin to the approach taken by the Landfill Tax). The price of carbon under this tax could be set in consultation with the Committee on Climate Change.

The implications of this proposal would be that much of the administrative burden associated with the Scheme would be reduced.

This approach would ensure that participants are not required to make crude estimates of the number of allowances required in advance. Via the use of an escalator, participants would be able to exercise marginal cost abatement strategies and make educated choices as to whether to purchase allowances or to make building improvements to reduce exposure to future increases in the cost of allowances.

<sup>1</sup> The BBP, BCO, BCSC, BPF, BRC, CoreNet, IPF, RICS and UK GBC collaborate on sustainability issues as the Green Property Alliance which convened the Industry Working Party

<sup>2</sup> [http://www.bpf.org.uk/en/files/bpf\\_documents/CRC\\_Guide\\_2010.pdf](http://www.bpf.org.uk/en/files/bpf_documents/CRC_Guide_2010.pdf)

<sup>3</sup> [http://www.hm-treasury.gov.uk/tax\\_policy\\_making\\_new\\_approach.htm](http://www.hm-treasury.gov.uk/tax_policy_making_new_approach.htm)

We imagine that participants would still be required to self-certify, as with any other tax, and to submit a single return each year of the emissions for which they are responsible and to pay at that point for the requisite number of allowances retrospectively for the previous year.

Given that currently both landlords and tenants may be caught by the CRCEES and/or CCL, there would be a clear need to ensure that changes to either scheme are implemented in a fair manner which encourages energy efficiency and carbon reduction in both parties.

## **Recommendation 2: Stimulate Energy Efficient Behaviour via Clearer Reputational Drivers through:**

### **A: Revision of the League Table to Encourage Joint Energy Efficiency Programmes**

The League Table as currently proposed is not likely to incentivise significant levels of energy efficiency improvement and carbon reduction. This is because reputational drivers are concentrated on the purchaser of energy, but energy efficiency in non-domestic buildings often requires the co-operation of both owner and occupier, even though in many tenancies both parties will not be caught by the Scheme. Reputational drivers could be more evenly distributed at the building level via a roll-out of Display Energy Certificates (DECs) to commercial buildings (above a building size threshold to be determined).

For that to work, the Industry Working Party believes that DECs must be fully reviewed to ensure the robustness of their underlying methodology, the credibility and appropriateness of their benchmarks, the consistency of the results produced, and industry confidence in the rating. There is currently considerable industry disquiet as to the reliability of the DEC process and methodology. If these issues are addressed, the Industry Working Party believes that the CRCEES could be administered very effectively at the building level through the mandatory roll-out of Display Energy Certificates (DECs) to all public and commercial buildings. The aggregated DEC scores for each organisation could then be displayed on a public performance League Table. The key benefits of this approach would be:

- DECs encourage building level engagement on energy;
- DECs allow for multi-tenanted situations;
- DECs allow aggregation of existing DEC scores across portfolios;
- A joined-up approach that links different sustainability policy interventions;
- Would reduce administrative costs for participants;
- Could be used for a public sector league table today;
- Offers incentives via the DEC methodology for a roll-out of sub-metering, and in particular sub-metering of special uses;
- Offers incentives for the adoption of on-site and directly connected renewable energy; and
- Would assemble a robust set of benchmarks for buildings-in-use<sup>4</sup>.

### **B: Escalation of Energy Efficiency Decision Making to Board Level and Rewarding Relative Improvement**

There is a wide expectation that mandatory emissions reporting will be introduced. Defra's Voluntary Carbon Reporting Guidance, on which we would expect reporting to be based, permits reporting of 'net' carbon emissions (i.e. taking into account the purchase of off-sets, low carbon energy purchased etc). The adoption of mandatory carbon reporting, as outlined in Defra's Voluntary Carbon Reporting Guidance, would provide very important incentives for relative performance improvements and off-setting of emissions, which could complement the heavy emphasis on absolute reductions under the CRCEES.

Mandatory carbon reporting would also mimic public emissions disclosure functions currently performed by the League Table and elevate consideration of sustainability issues to Board level within organisations.

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<sup>4</sup> Recommendations 6.20 and 6.22 of the Low Carbon Construction IGT Report