Opinion: final stage IA
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Regulatory Policy Committee

Streamlined energy and carbon reporting framework

Department for Business, Energy and Industrial Strategy

RPC rating: fit for purpose

Description of proposal

The aim of this proposal is to reduce the administrative burdens associated with energy efficiency and decarbonisation policies, and to incentivise private and third sector organisations to save energy through energy efficiency. The Department expects that this will reduce both energy bills and carbon emissions.

The Government propose closing the CRC energy efficiency scheme; increasing climate change levy (CCL) rates and rebalancing them between electricity and gas; and introducing a streamlined energy and carbon reporting framework (SECR). Increasing the CCL rates, and thus the cost of gas and electricity, is intended to incentivise organisations to use less energy. The rebalance between electricity and gas is intended to encourage an even balance between electricity and gas usage, which should result in in a reduction of emissions associated with electricity.

Impacts of proposal

SECR will apply only to organisations that are considered large under the definition of the Companies Act 2006. Responsibility for ensuring compliance with SECR will fall to a company's highest UK parent organisation. This means that individual organisations, which would not be considered large under the definition of the Companies Act 2006, will be brought into scope. The Department estimates that 11,300 large private and third sector organisations will be affected, which represents an increase on the 3,800 organisations in scope of CRC.

The costs and benefits of the proposal are presented separately between the closure of the CRC, the increase and rebalance of CCL rates, and the introduction of the SECR framework. Total estimated costs over the appraisal period are £2,013m, which consists of £1,386m for SECR and £2,845m for CCL rates, partially offset by the closure of CRC and the resulting removal of £2,218m costs. Total estimated benefits over the appraisal period are £3,562m, which consists of £2,204m for SECR and £3,056m for CCL rates, partially offset by the closure of CRC and the resulting removal of £1,698m in benefits. This results in an overall net present value of £1,549m.

The CCL currently has different rates for electricity and gas, with a ratio of 2.9:1 from electricity to gas. This will be rebalanced to 2.5:1 in April 2019 before reaching the goal of 1:1 in 2025. The gas rate will be increased in order to catch up with the electricity rate, though the electricity rate will continue to rise during this period. This measure will offset the loss of revenue from closing CRC. The Department expects organisations to shift towards gas because of the rebalance, with an expected reduction in associated emissions.

Costs to business

The Department has calculated administrative burdens to include familiarisation and up-front costs. The total estimated cost over the proposal period is £245m. This is a direct cost of the proposal. The administrative burdens are generated entirely by the introduction of a new SECR framework and are offset by a £266m saving on admin burdens from the closure of the CRC. The activities that generate the costs associated with admin burdens include ongoing maintenance of monitoring and reporting systems, collating energy supplies, reporting, and record keeping and auditing; a full list of the activities can be found in Annex D of the impact assessment. The costs were estimated using data from the CRC cost of compliance study.

The Department estimates capital, hassle and operational costs over the proposal period at £2,108m. This consists £1,141m for introducing SECR and £2,845m for CCL rates, partially offset by the removal of £1,878m costs, not being required following the closure of the CRC. These are treated as indirect costs.

Benefits

The Department estimates monetised benefits over the assessment period at £3,562m. This consists £2,204m for the introduction of SECR and £3,056m for CCL rates, partially offset by the loss of £1,698m benefits due to the closure of CRC. These benefits include: energy savings and the resulting reduced energy bills; carbon savings both traded and non-traded; air quality improvements; and noise pollution benefits due to energy efficiency savings in the transport sector. The IA includes a table showing the energy consumption across the transport, industrial, commercial and agricultural sectors, which gives an indication of the possible energy savings across those sectors.

Quality of submission

This IA assesses impacts over a 17-year period, from 2019 to 2035. The start date has been chosen to reflect the closure of CRC in July 2019, increase and rebalancing of CCL rates in April 2019, and the introduction of the SECR framework. The 17-year appraisal period is required in order to cover the economic lifetime of the measure. This approach appears reasonable, but the IA would be improved by explaining how this is consistent with some of the measures having "…*lifetimes of 20 years or more.*" (paragraph 16, page 10).

The IA states that "*As the CRC is classed as an environmental tax for the purposes of regulatory accounting, the fall in administrative burdens from closing the CRC is not in scope"* (paragraph 91, page 25). The Department's EANDCB of £15.6 million, therefore, covers the only the direct "regulatory" costs, which consists of the administrative burdens of SECR. The Department also presents an overall EANDCB of -£1.3 million which includes the administrative savings of closing the CRC. The Department's approach accords with the business impact target being a 'regulatory account', i.e. capturing impacts only from changes in regulation, and aligns with the RPC's role in validating such impacts, as opposed to changes in the overall burden on business (taking account of any non-regulatory changes). However, the RPC notes that the overall impact on business is slightly net beneficial in EANDCB terms and is of the view that the savings associated with the closure of the CRC should feature in the government's 'tax account'. The Department does add a caveat in the IA that its approach "*could change with updates to the Better Regulation Framework*" (paragraph 91, page 35). The Committee also notes that the Department's approach appears to run counter to the BRFM 2016 Q&A relating to the previous framework. The Q&A "*What happens if a regulation replaces an out of scope policy intervention, or vice-versa?*" states that the EANDCB should take account of the net cost to business of any immediate predecessor measure that is replaced by the new measure, even where that predecessor measure is out of scope. The Department's approach will, of course, need to be consistent with the rules for the framework covering the present parliament, once these have been set out.

The IA includes a clear, well-written sensitivity analysis. The IA also includes a helpful table that shows the key cost and benefit changes of the central option from the 2017 consultation stage IA to the preferred option in the final stage IA. The small and micro business assessment is sufficient, as small and micro businesses are out of scope of this proposal.

The RPC issued an opinion on the 2016 consultation stage IA on 21 June 2016. Although that IA was rated fit for purpose, the RPC's opinion included recommendations for improvement through consultation and at the final stage. The Department has engaged well with those points and as a result strengthened the final stage IA, but there are still some areas where it could be strengthened. The IA would benefit from further comparative discussion of the options as it is not immediately clear why SECR is the preferred option. A clearer explanation of the total impacts on business and why it is net beneficial, particularly with regard to changing $PM_{2.5}$ and CO_2 levels, would strengthen the IA. Finally, the IA includes an assumption that the *"requirement to report on energy efficiency actions taken during the 12 months of the reporting period is assumed to increase energy savings by 5% with no associated additional costs"*. The IA would benefit from a clear explanation of the evidence supporting this assumption.

The RPC welcomes the fact that the proposal includes a review which is set for 29 February 2024.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£15.6 million
Business net present value	-£245 million
Overall net present value	£1,549 million

RPC assessment

Classification	Under the framework rules for the 2015-17 parliament, qualifying regulatory provision (IN)
Small and micro business assessment	Sufficient

Regulatory Policy Committee