2019 – THE END OF THE CRC SCHEME?

The CRC Energy Efficiency Scheme was introduced eight years ago and while it has certainly been effective in highlighting and reducing energy consumption, it has undoubtedly put a large administrative burden on many investors in commercial property.

The nature of the scheme has meant that the onus has been on landlords (those that qualify) to report on and pay for carbon consumption, even though they were not the end users of the energy consumed.

The scheme has been the subject of review and Government consultation for the last few years and in July 2018 it was announced that it will be replaced with Streamlined Energy and Carbon Reporting (SECR).

Importantly, obligations to pay for and report on energy consumption are now being split. Not all those who previously had to report under CRC will continue to have to do so, but conversely some investors who were excluded from CRC will now qualify and be required to report under SECR.

2019 – THE END OF THE CRC SCHEME?

Paying for carbon consumption in the future

CRC will end after this reporting year (April 18 to March 19) and as of that point, the levy raised from CRC will be replaced with an increase on Climate Change Levy (CCL).

Because CCL is charged via energy invoices, this removes the requirement to pay based on energy data reporting and will be more directly paid for by the end users.

WHAT WILL IT COST?

CCL is an existing environmental tax on businesses (introduced in 2001) which has been steadily rising but which is due to almost double in April 2019, as the figures below demonstrate. The amount will continue to be levied through energy invoices and will affect all organisations (unless they have a formal CCL exemption) rather than just affecting those who were in scope of CRC.

The net effect of the CCL changes is an increase in energy costs for all organisations who were previously out of CRC scope and a likely reduction of energy costs for those who were previously part of the CRC scheme.

Given the recent unprecedented rise in energy costs, we are budgeting for a 15-20% increase in energy costs within budgets next year generally but then to add an additional 10% for those clients who were previously not part of CRC to account for CCL increases.

> *"The transition to SECR could see utility costs increase by up to 25% for those organisations who were not previously part of the CRC scheme."*

THE RISING COST OF CLIMATE CHANGE LEVY (CCL)

	Rate from 1 April 2018	Rate from 1 April 2019
Electricity (£ per kWh)	£0.00583	£0.00847
Natural gas (£ per kWh)	£0.00203	£0.00339

2019 – THE END OF THE CRC SCHEME?

Reporting carbon consumption in the future.

To ensure there is still disclosure of consumption, the introduction of SECR requires an annual declaration of consumption through company accounts.

The aim of SECR is "to introduce simpler reporting that builds on the existing mandatory reporting of Greenhouse Gas (UK quoted companies) and Energy Savings Opportunity Scheme (ESOS) whilst continuing to incentivise organisations to reduce consumption".

IF WE WERE IN CRC, ARE WE IN SECR?

The short answer is no, not necessarily. The qualification for CRC was based on the volume of consumption through Half Hourly meters. SECR's qualification follows the same methodology as ESOS being:

- All quoted companies
- All 'large' UK incorporated companies and LLPs – large being defined as at least 250 employees or an annual turnover greater than £36m, or an annual balance sheet total greater than £18m
- UK subsidiaries that qualify for SECR will not be required to report where covered by a qualifying parent company
- Companies not registered in the UK and that do not file annual reports to Companies House are out of scope – however where a subsidiary is registered in UK and is in scope on its own right it is within scope
- Public sector organisations and some charities are out of scope
- Companies using less than 40,000 kwh are out of scope regardless of the criteria above.

Therefore there will be a number of investors who have been reporting carbon consumption under CRC who will no longer need to under SERC, but also a number who will have to report under SECR for the first time.

WHAT TO DO NOW?

As a rough rule of thumb, companies that were in scope of ESOS Phase 1 are likely to be in scope of SECR. However, as we are fast approaching Phase 2 of ESOS it is worth seeking legal advice now on whether you are in scope of both, neither or one of these, as qualification triggers within your organisation may have changed.

As yet the actual SECR reporting requirements and means of submitting data are not fully understood or documented but we would advise all clients to be ready for it by knowing whether this will affect them or not.

Budgets can then be set and consultants can be engaged to assist with reporting as requirements become clearer. As this starts in April 2019 and ESOS reporting can also be started now, we suggest this clarification is sought as soon as possible.

For more information on ESOS, please see our **Client Bulletin>>**.

FOR FURTHER INFORMATION AND HOW WE CAN HELP YOU TO PREPARE FOR THE INTRODUCTION OF SECR, PLEASE CONTACT EITHER VICKY COTTON OR NICK HOBBS WHO WILL BE ABLE TO ASSIST WITH YOUR QUERIES.

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