Plot Your Path to Net Zero

A Focus on Incentives

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Business Solutions

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Section 1

Introduction

We have long championed the vital role that businesses will play if the UK is to achieve its ambition to hit net zero emissions by 2050. And, with much of the UK public becoming increasingly climate aware, the pressure will only increase on businesses to 'do the right thing' when it comes to sustainability. For example, the latest public perceptions research from the Department for Business, Energy and Industrial Strategy (BEIS) showed that 83% of participants believed that climate change was a concern and 87% had heard of net zero.

However, reaching net zero comes with a cost. As we outlined in our 'Plot Your Path to Net Zero: A Focus on Funding' report in July, businesses are prepared to invest in measures to reduce their emissions, but they are also concerned about the potential cost impact on their operations.

In this latest report, we take a closer look at the area of incentives. We asked over 60 businesses for their views on the areas where they would welcome greater support, whether they believe incentives such as tax breaks for good sustainability behaviour should be introduced, and whether they think the current government schemes go far enough.

What it reveals is that many are calling for more incentives from the government to help support them in their decarbonisation ambitions. For example, the closure of schemes such as the Non-Domestic Renewable Heat Incentive (RHI) means that suitable replacements need to be introduced sooner rather than later to keep things on track.

We have stated before that businesses broadly support net zero and understand that they need to play their part. However, what they are telling us is that it can't be a one way street, and that they need the right incentives to help them turn their ambitions into reality.

We hope you find it useful.

Anthony Ainsworth
COO, I&C Energy Sales and Solutions,
npower Business Solutions (nBS) powered by E.ON

Section 2

Executive summary

Businesses don’t believe there are enough incentives to help them with their net zero plans

While we have seen some policies and strategies published, some key pieces of the net zero jigsaw are still missing, including the Heat and Buildings Strategy, the Treasury’s Net Zero Review and the Net Zero Strategy.

Based on what they have seen so far, three quarters of businesses don’t feel the current policy landscape offers enough incentives for them to invest in decarbonisation measures.

Businesses favour rewards for good sustainability practice

That said, very few of the respondents we spoke to had taken advantage of previous schemes such as the Non-Domestic RHI.

The research revealed that a significant majority would welcome an approach that rewards good sustainability behaviour, as outlined in the Confederation of British Industry’s (CBI) ‘Greening the Tax System’ paper.

Businesses would welcome more incentives around energy efficiency, on-site generation and electric vehicles (EVs)

The report revealed that businesses backed the announcement by the Chancellor in the Spring Budget of a new ‘super-deduction’ tax incentive, with two thirds (66%), saying they would consider using this to enable investment in ‘green’ plant equipment such as combined heat and power (CHP) and other emissions reduction measures.

Our respondents also said they would welcome greater incentives in priority areas such as energy efficiency, on-site generation and EV charging infrastructure.

Section

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Incentivising net zero:

is enough being done?

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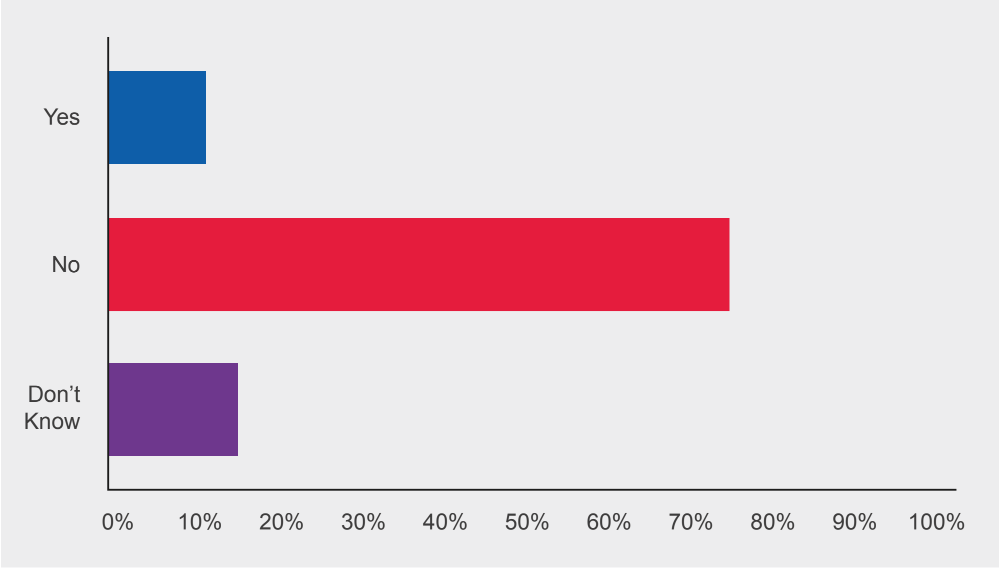
Incentivising net zero: is enough being done?

This year, the government has promised to publish multiple strategies and policies to help turn the net zero ambition presented in the 'Ten Point Plan for a Green Industrial Revolution' and the Energy White Paper into reality.

While we have seen the publication of the National Infrastructure Strategy, the Industrial Decarbonisation Strategy, and the Transport Decarbonisation Plan, at the time of writing, we are still awaiting some key pieces of the net zero jigsaw, particularly the Heat and Buildings Strategy, the Treasury's Net Zero Review and the Net Zero Strategy, which have been promised in the autumn.

With so much still to be confirmed, we asked businesses whether what they have seen so far offers enough incentives for them to invest in decarbonisation measures. Our results show that a huge majority - three quarters (75%) - did not believe this to be the case. (Figure 1.)

Figure 1: When thinking about the most recent government policies and strategies - including the Ten Point Plan, Energy White Paper, and Industrial Decarbonisation Strategy - do you feel they offer enough incentives for businesses to invest in decarbonisation measures?

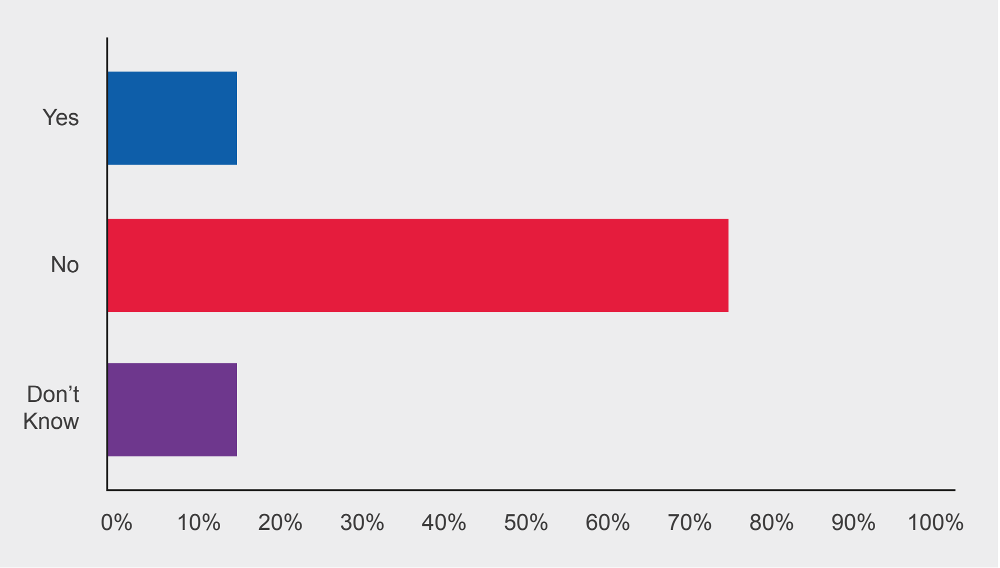


Section 3 - Incentivising net zero: is enough being done?

With more to be done, we also wanted to assess whether businesses have taken advantage of any recent incentive schemes, such as the Non-Domestic RHI or Feed-in Tariffs (FIT). While one in eight (13%) said they had taken advantage of the schemes above as well as the Energy Technology List (ETL), the majority had not. (Figure 2.)

This demonstrates the need to focus on raising awareness of the available incentives so organisations know about potential opportunities open to them, as well as increase the number of schemes that are accessible to a wider range of businesses. Many could be missing out on significant savings, both in terms of reducing carbon emissions and costs.

Figure 2: Does your business currently - or has it previously - taken advantage of any government climate incentives?



Section 3 - Incentivising net zero: is enough being done?

We also gauged views on whether incentives proposed by influential business stakeholders - such as in the CBI's 'Greening the Tax System' paper - would be welcome.

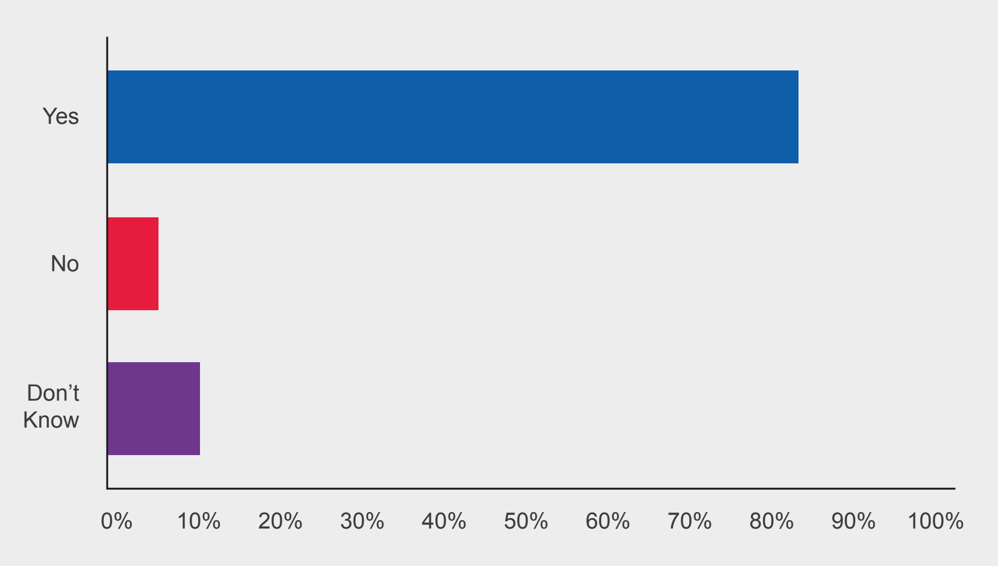
The paper outlined how 'fiscal measures, including environmental taxes and tax incentives, can play an important role in driving change'. The CBI wants the government to review how the UK tax system could be reformed to drive the progress to net zero - including 'carrots' as well as 'sticks' aimed at curbing 'polluting behaviour'.

It outlined three key areas that it believed the government should focus on to help businesses progress towards net zero:

1. A quicker uptake of zero emission vehicles via a company car tax (BiK), capital allowances, vehicle Excise Duty (VED), and VAT measures
2. More energy efficiency, low carbon heat and use of renewables in buildings via business rates system, capital allowances, Structures and Buildings Allowance (SBA), and VAT on energy saving materials
3. Innovation in industrial emissions reduction via maximising the deployment of Research and Development (R&D) tax credits

Our respondents overwhelmingly welcomed this approach, with 83% agreeing with the CBI's recommendations. (Figure 3.)

Figure 3: The CBI recently called for an overhaul of the UK's tax system to reward and incentivise corporate behaviour that reduces pollution. Would you welcome this approach?



Section 4

Incentivising net zero:

where do businesses need support?

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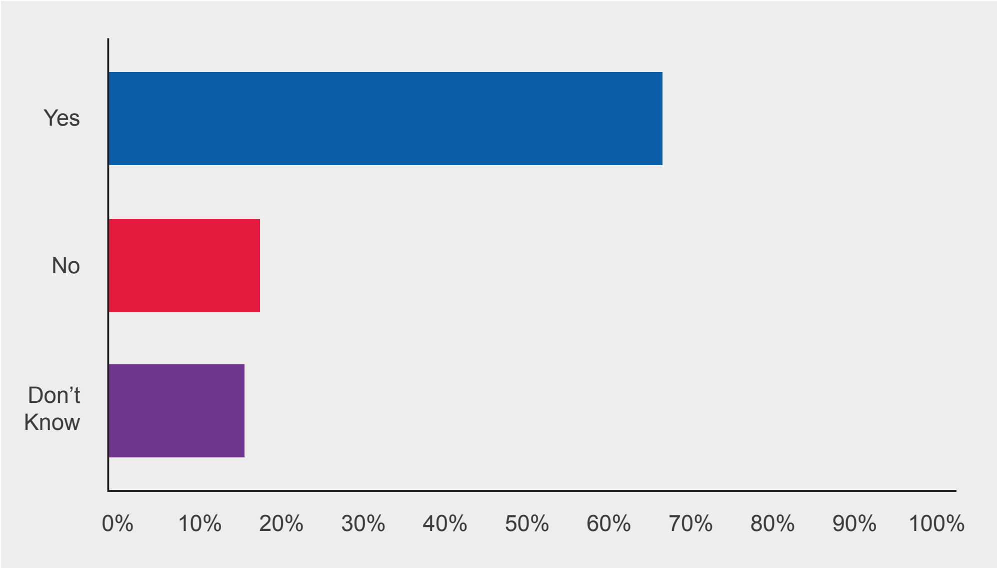
Incentivising net zero: where do businesses need support?

While businesses do not believe that the current government policies and schemes offer enough to incentivise greater sustainability progress, there was backing for the announcement by the Chancellor in the Spring Budget of a new 'super-deduction' tax incentive, which will cut companies' tax invoices by 25 pence for every pound they invest in new equipment. As 'Figure 4' demonstrates, two thirds (66%), said they would consider using this to enable investment in 'green' plant equipment.

Figure 4: In the most recent Budget, the Chancellor announced a new 'super-deduction' tax incentive. Would you consider applying this to invest in 'green' equipment?



Section 4 - Incentivising net zero: where do organisations need support?

Specific areas businesses would look at investing in - if eligible - include:

- Carbon reduction technologies
- Heating, ventilation and air conditioning (HVAC)
- CHP
- EV charging
- Solar photovoltaic (PV)
- Battery storage
- Fuel cell technology
- Wind
- Heat pumps
- More energy efficient manufacturing, machinery and equipment
- Office and building infrastructure

These were reflected in the areas where businesses said they would welcome greater incentives to help them with their decarbonisation plans. When asked to rank their priorities, energy efficiency came top, followed by on-site generation and EVs. (Figure 5.)

Figure 5: Which areas would you most welcome incentives from the government to help with your business's decarbonisation ambitions?

1. Energy efficiency e.g. HVAC, lighting
2. On-site generation e.g. solar PV, wind, CHP
3. EVs
4. On-site energy storage
5. Energy management technologies
6. Switching to renewable energy supply

We often refer to energy efficiency as a 'no regrets' action, a sentiment echoed in National Grid ESO's latest 'Future Energy Scenarios', which stated that clear policy support around energy efficiency and how to reduce emissions from buildings and heating is needed.

As these findings demonstrate, incentives around energy efficiency is a crucial area that businesses believe could have a real impact on their decarbonisation strategies.

Section

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Incentivising net zero:

what are the options for businesses?

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Incentivising net zero: what are the options for businesses?

While the businesses that responded to our survey would welcome greater incentives, including tax breaks and a reduction in business rates for 'greening' their operations, there are existing options that many businesses may be eligible for.

Here, we give a short overview of some of the incentive schemes that are currently available and are designed to help organisations to reduce their emissions.

The Climate Change Levy (CCL) and Climate Change Agreements (CCA)

CCL was introduced in 2001 and is a UK-wide tax on commodities including electricity, gas, liquid petroleum gas (LPG) and solid fuels supplied to businesses and public sector consumers. It is designed to encourage businesses to be more energy efficient in how they operate, as well as helping to reduce their overall emissions, therefore reducing their overall CCL total.

The main rates on these commodities are paid to HMRC by energy suppliers who pass on the costs, through invoicing, to their non-domestic (business) customers. The CCL rate and charge are displayed as separate items on your monthly gas or electricity invoice.

Can I avoid paying the CCL?

Each business must register for the CCL. If you fail to pay the CCL – or you do not register – you will have to pay a penalty of £250 for each 'failure'.

However, not all businesses are required to pay the CCL. While the CCL exemption for renewable electricity was removed in August 2015, your organisation may be exempt if it is a charity engaged in non-commercial activities.

Section 5 - Incentivising net zero: what are the options for businesses?

Can I reduce the amount my business pays?

Businesses can save money on their CCL by entering into a CCA. This is a voluntary agreement that energy intensive users from a variety of industry sectors can sign up to reduce their CCL. For businesses holding a CCA, if they meet certain pre-agreed targets, the CCL can be reduced by around 90% on electricity invoices and up to 80% on other fuels. The levy rate varies for each commodity and is charged on kilowatt-hours (kWh) for electricity and gas and kilograms (kg) for all other taxable commodities.

Last year, BEIS confirmed it would extend the CCA scheme for two years, until March 2025, allowing more businesses to participate.

Non-Domestic RHI - what next?

It closed to new applicants on 31 March 2021. The move was criticised by some, with the Association for Renewable Energy and Clean Technology’s (REA) Chief Executive Dr Nina Skorupska saying that, “the Government must address the large policy vacuum for industrial and commercial heat decarbonisation that has been left after the closure of the Non-Domestic RHI”.

The forthcoming Heat and Buildings Strategy is set to give more detail around the replacement for the Non-Domestic RHI. There are two schemes:

- **The Clean Heat Grant** - which is due to commence in 2022, will provide funding for measures such as heat pumps. However, this will primarily be aimed at domestic and smaller non-domestic audiences
- **The Green Gas Support Scheme (GGSS)** - which is intended to increase the proportion of green gas in the grid, decarbonising our gas supply and continuing the transition to net zero. The scheme is expected to launch in autumn 2021

UK Emissions Trading Scheme (UK ETS)

In the Energy White Paper, published in December 2020, BEIS confirmed the establishment of the UK ETS, which replaced the UK's participation in the EU ETS on 1 January 2021. It was positioned as 'the world's first net zero cap and trade scheme'.

Alongside ensuring continuity for participants, with the UK ETS, BEIS is also taking the opportunity to develop a scheme with greater ambition, by reducing the cap on emissions allowances by 5% from the UK's expected share of the EU ETS cap.

This limits the total amount of carbon that can be emitted and, as it decreases over time, will make a significant contribution to how we meet our net zero 2050 target and other legally binding carbon reduction commitments.

Within this cap, participants receive free allowances and/or buy emission allowances at auction or on the secondary market which they can trade with other participants as needed.

Each year, industries covered by the scheme must surrender allowances to cover their reportable emissions. The cap is reduced over time, so that total emissions must fall.

The Energy Savings Opportunity Scheme (ESOS) and the Streamlined Energy and Carbon Reporting (SECR) scheme

ESOS is a mandatory energy assessment scheme for large organisations[1] in the UK. It requires all of those who qualify to undergo an assessment of energy use and energy efficiency opportunities in their organisation.

It's primary aim is to help businesses identify savings opportunities that will directly benefit their bottom line as well as reducing emissions.

However, ESOS has been criticised for 'lacking teeth' when it comes to ensuring compliance. A consultation was launched in July 2021 seeking views on how it can be improved and strengthened to increase the uptake of energy efficiency measures by participating businesses. Suggested measures include expanding the scheme to include medium-sized businesses, the possibility of mandating action to ensure that participating businesses take up their energy efficiency recommendations, and whether the public disclosure of ESOS data could increase the uptake of recommendations by participating businesses and make reporting more transparent.

Many organisations that qualify for ESOS will also have to comply with SECR, which requires businesses to include their energy use (including electricity, gas and transport) emissions and an intensity metric in their annual financial reports. All participants must also provide details on energy efficiency actions taken in the financial year.

This increase in transparency means that an organisation's efforts to reduce emissions will be in the public domain and can not only be accessed by potential clients and customers, but also by shareholders and investors. The incentive here is to go beyond 'box ticking' and demonstrate that your organisation is serious about sustainability.

1 Applies to businesses with over 250 employees or those with an annual turnover exceeding £39 million or a balance sheet exceeding £33.5 million

Section

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The expert view:

finding the right incentive scheme for your business

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The expert view:

finding the right incentive scheme for your business

What is clear from this report is that organisations from all sectors are hoping that future policy announcements will include more incentives to support their road to net zero. Many welcome the idea of both 'carrot' and 'stick' initiatives that reward good sustainability practice and help accelerate organisations' contribution to the net zero ambition.

However, when it comes to navigating the current incentive opportunities, it can be difficult to know whether your business is eligible. While many are aimed at larger, energy intensive users to give them the tools to reduce emissions, our survey shows that businesses of all sizes would welcome support for more 'day-to-day' measures including energy efficiency.

That said, there are schemes available that your business could take advantage of. In our previous report – 'Plot Your Path to Net Zero: A Focus on Funding' – we outlined some of the funding and grant schemes available including the Industrial Energy Transformation Fund (IETF) and the Public Sector Decarbonisation Scheme (PSDS).

So, when it comes to incentives, what can your business do?

Work with an expert partner

It is important to work with an expert partner who can look at your energy demand and consumption and recommend the best way forward.

For example, 53 business sectors can participate in the CCA, and it's open to energy intensive companies of all sizes, not just the larger ones. Many medium-sized businesses can apply if they spend a reasonable amount on energy, however, for those who don't have an in-house energy expert, awareness of the CCA scheme can be low.

Similarly, while many businesses may see ESOS and SECR as an administrative burden, an expert partner can work with you to help unlock the opportunities. For example, going beyond what is required under ESOS will result in reduced energy consumption, lower invoices, less CCL to pay, reduced emissions and improved reputation. So, while it may not be seen as an 'incentive', the schemes have multiple benefits for eligible businesses.

Dan Meredith
Policy expert,
nBS powered by E.ON

Section 6 - The expert view: finding the right incentive scheme for your business

Get involved in consultations

The government regularly launches consultations into the potential schemes and strategies it is considering implementing. For example, it has sought views on the future of free allocations under the UK ETS and also how ESOS can be strengthened.

We regularly respond to consultations both from our point of view and on behalf of our customers. It is a key way to have your say and influence policy - we can alert you to the latest opportunities and also respond on your behalf.

Incentivise your internal audience

As well as engaging with an expert partner to research external and government incentive schemes, a focus on energy efficiency and carbon reduction can be used to incentivise your workforce.

From working with our customers, the most successful when it comes to sustainability are those that engage with their employees and embed it into their business culture. Getting everyone bought-in to your vision can pay dividends as it will change behaviours to help meet your targets.

Introducing initiatives such as internal incentive programmes which reward branches, teams or employees for good sustainability practice can be an excellent motivator.

In short, having a robust sustainability plan that everyone is behind will result in numerous benefits, from reduced costs and carbon emissions through to enhanced reputation.

Section 7

How we can help

However ambitious your net zero goals, speak with our experts to help your organisation research current and future incentives and funding schemes, and for advice on how to make the most of your sustainability obligations.

Contact us

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