Response to BEIS Consultation – Streamlined Energy & Carbon Reporting

4 January 2018

Introduction

The UK Green Building Council (UKGBC) is an industry network with a mission to radically improve the sustainability of the built environment, by transforming the way it is planned, designed, constructed, maintained and operated. As a charity with over 400 member organisations spanning the entire sector, we represent the voice of the industry's current and future leaders who are striving for transformational change.

We have long called for mandatory public reporting of energy use and emissions in the business sector. We therefore welcome the proposal at the heart of this consultation that all large UK unquoted companies should report annually to Companies House on their energy use, emissions and an intensity metric. A key element of the proposed reporting framework is that annual reports will have to be signed off at board/senior management level. Currently there is insufficient awareness of energy costs and potential savings at the highest levels of business – and the proposed framework should help raise awareness and enable progress tracking. Potential investors will also be able to make informed decisions based on the energy and carbon data revealed in the annual reports.

However, while they will deliver much-needed transparency, measurement and reporting will not, on their own, deliver the significant energy saving potential identified in the consultation. Energy costs are a relatively minor proportion of overall business costs, so there need to be additional carrots and sticks to drive meaningful action. Among other things, we therefore propose below that the Energy Savings Opportunity Scheme (ESOS) be made more robust – for example by requiring ESOS audits to be publicly available and by requiring businesses in scope to demonstrate at the next audit that they have acted upon the energy saving opportunities identified in the last.

We also strongly recommend the mandatory display of operational energy ratings across the commercial sector. Mirroring the requirement for Display Energy Certificates (DECs) in the public sector – and learning from the success of schemes such as NABERS in Australia – this will be crucial for encouraging ongoing actual energy savings. It will also serve as a reputational driver, fulfilling a similar function to that originally envisaged for the CRC league tables.

Responses to individual Consultation Questions:

Question 1: Do you agree that the proposed energy and carbon reporting policy should apply across the UK? [Yes or No] Please explain your answer.

Yes. This is consistent with the CRC Energy Efficiency Scheme regime. In addition, different schemes would be burdensome to companies operating across the UK and would discourage investment.

Question 2: Do you have any comments on the analysis set out in the Impact Assessment?

We agree that Option 3 is the preferable one at this time, in other words that all large UK registered, unquoted companies should be required to report under the new arrangements. For further explanation, see our responses to Questions 6 and 7 below.

Question 3: Do you agree that reporting should be done through annual reports? [Yes or No] Please explain your answer. If yes, would any of the following, forming part of companies' annual reports, be better suited? a) Directors' reports, b) Strategic reports, or c) a new, bespoke report. Please explain your answer, note any issues you see with using these reports, and provide any comments on how proposals might best fit within the annual reports regime.

Yes, reporting should be done through annual reports. To have a separate report would be a retrograde step, when UKGBC and others have fought hard for environmental reporting to be integrated with other reporting. A separate report would also be an additional burden to businesses. The carbon and energy reporting should sit in the Directors' report in order to align it with mandatory GHG reporting for quoted companies.

Question 4: Do you agree that from 2019 energy and carbon reporting to Companies House should be electronic? [Yes or No]. If yes, please specify any digital formats, such as XBRL/iXBRL, that may be suited to this purpose, and any opportunities and challenges these may present.

Yes.

Question 5: Do you agree that the government should seek to establish a mechanism for collating published energy and carbon data for example via a central published report or tool? Please explain your answer

In principle yes, as this would aid further transparency. The data will need to be clearly and simply presented, in order to allow industry to undertake their own analysis of their supply chain and sector.

Question 6: Do you think that the policy should apply to: A) all 'large' companies based on employee numbers and financial tests; B) companies who meet the 6GWh ex-CRC annual electricity use threshold described; or C) another threshold? Please explain your answer. Please state if you have any views on whether reporting should be required to operate at the group or individual company level.

We believe that all 'large' companies should be required to report (i.e. option (A)). The use of an electricity use threshold would put an additional burden on businesses, who would have to calculate whether or not they are liable to report.

Consideration should also be given to encouraging SMEs to report voluntarily, with a view to phasing them into the mandatory reporting framework over time.

Question 7: If you prefer Population Approach A (all 'large' companies) which of the proposed company size definitions seems the most appropriate to you, (i) Companies Act 2006, or (ii) ESOS, or (iii) any others?

We believe that The Companies Act definition of 'large' is the most appropriate (i.e. option (i)). This will encompass a larger cohort of companies than the ESOS definition. It is also a lot simpler for companies to know whether they are in or out of scope. The ESOS qualifying threshold is complicated for organisations to work out; it is also something that they currently only have to do once every 4 years, so it would be unduly onerous for them to have to undertake the exercise annually.

Question 8: If you prefer Population Approach C, which energy use threshold is most appropriate? Please explain your answer, and state who you think should be required to report, describing any other energy threshold(s) you may favour (with options including but not limited to 6GWh per year across all energy products, and 500MWh per year for each of electricity, gas, and transport).

N/A.

Question 9: Should reporting requirements within the Companies Act regime also apply to Limited Liability Partnerships (LLPs)? [Yes or No]. Please explain your answer.

Yes, as LLPs typically use similar levels of energy to other companies.

Question 10: Please state where you agree that UK quoted companies should continue, or start to report, on one or more of the following a) global Scope 1 and 2 GHG emissions b) an intensity metric, and start to report on c) global total energy use? Please also provide any views and evidence on the effectiveness of the current mandatory GHG reporting regime in improving corporate transparency, reducing energy use, and reducing emissions.

We agree that UK quoted companies should continue, or start to report, on global Scope 1 and Scope 2 GHG emissions and start to report on global total energy use. We also believe that they should report on an intensity metric, but the exact nature of the metric should be left to companies to determine.

Question 11: Do you agree that UK unquoted companies in scope should report on a) total UK energy use, b) Scope 1 and 2 GHG emissions associated with UK use c) an intensity metric? Please explain your answer. Do you agree that only electricity, gas and transport energy should be in scope for unquoted companies? [Yes or No]. Please explain your answer, and if no please set out what you think the scope should be.

We believe that UK unquoted companies in scope should report on total energy use, but that this should cover ALL fuel use, and not just electricity, gas and transport use as proposed in the consultation.

They should report on (b) Scope 1 and 2 GHG emissions associated with UK use; and (c) an intensity metric. As per our answer to Question 10, the intensity metric should be left to companies to determine. The most important function of an intensity metric is to allow companies to normalise data internally and to compare their own performance year on year.

We also believe that the annual report should, over time, contain information about the previous five years' performance to enable a trajectory to be identified and to encourage the inclusion of a narrative in the report explaining significant changes from year to year. This in turn would facilitate Board-level discussion and inform decision-making.

Question 12: Should the government a) mandate specific intensity metrics by sector; b) propose best practice in any guidance; or c) leave the matter to sectors, and to existing best practice and guidance?

As per our response to Question 11, we believe that individual companies should determine which intensity metric they will use, in accordance with evolving best practice and guidance.

Question 13: A) Do you think it should be mandatory for UK quoted and unquoted companies in scope to include information from the most recent audit (including energy management systems such as ISO50001) on i) any identified energy savings opportunities [Yes or No] and ii) any energy efficiency action taken? [Yes or No]

We firmly believe that more action needs to be taken to encourage organisations to act on energy saving opportunities identified in relevant audits. We believe that the best way of doing this is by making ESOS more robust – for example by requiring ESOS audits to be publicly available and by requiring businesses in scope to demonstrate at the next audit that they have acted upon the energy saving opportunities identified in the last.

We do not believe that the proposed reporting framework is the right vehicle through which energy saving action is driven. The key driver of the proposed enhanced reporting framework is the need for greater transparency (both at Board level and to potential investors) about business energy use. A strengthened ESOS, capable of driving real action, would be complementary to this.

B) Building on the energy and carbon disclosures proposed here, please provide views on whether in the long-term any of the TCFD recommended voluntary disclosures should become mandatory disclosures within companies' annual reports.

No response.

C) Please specify what support government could provide to support uptake of TCFD disclosures by companies from all sectors.

No response.

D) Reporting of what other complementary information would add most value for businesses, the market and other stakeholders?

No response.

Question 14: Please explain what guidance, tools and data companies might need: i) for financial and risk managers to understand climate risks and their implications for their business and ii) for companies to implement the TCFD recommendations in financial disclosures.

No response.

Question 15: What other policy approaches can work with reporting to drive energy efficiency, reduce bills, reduce emissions and improve transparency for investors so they are more able to hold companies to account? We are particularly interested to hear about any implications of potential complementary policy approaches for the design of an energy and carbon reporting scheme.

As noted in the introduction (and in our response to Question 13), a streamlined mandatory reporting framework is an important component of a wider commercial sector policy landscape – particularly with a view to driving transparency about energy use and emissions. However, reporting needs to sit alongside a suite of complementary policies that will drive real action in the sector. It is worth noting that the strong view of our members is that increasing the rate of CCL post-April 2019 will **not** drive energy saving action – it will simply be borne by businesses as an additional tax.

We propose the following additional policies to drive energy saving activity in the sector:

1. **A strengthened ESOS**
   See our response to Question 13 above.

2. **Ringfencing the additional CCL revenues post-April 2019 to provide interest-free loans to companies to improve their energy efficiency, reduce carbon emissions and lower energy bills.** This would, in essence, fulfil a similar function for the commercial sector as Salix funding currently fulfils for the public sector.

3. **Mandatory display of operational energy ratings in the commercial sector**
   There is a strong view across the industry that we need to measure and report the actual, as opposed to theoretical, energy use of commercial buildings in operation. More often than not, this is significantly higher than the energy use that is predicted for buildings at the design stage (commonly referred to as the 'performance gap').

   The Australian NABERS scheme is repeatedly cited as an excellent driver of operational innovation. NABERS (the National Australian Building Environment Rating System) measures and rates (on a simple six-star scale) the environmental performance of Australian commercial sector buildings. In 2010 NABERS energy ratings became mandatory for all offices over 2,000m^2; this was reduced to 1,000m^2 in July 2017. The effect of the NABERS scheme has been transformational, creating a design-for-performance (as opposed to design-for-compliance) culture, with typical new office buildings using about half the energy they did when the system was introduced and the very best one-fifth as much. Mirroring the requirement for Display Energy Certificates (DECs) in the public sector, we believe that an operational rating system akin to the NABERS scheme should be mandated for UK commercial buildings. This will be crucial for encouraging ongoing actual energy savings.

   The evidence of the effectiveness of displaying energy ratings is not just confined to overseas. In its own quantitative analysis in 2013 of the impact of DECs, the UK Department of Energy & Climate Change found a decrease in median energy consumption of 11% between 2008 and 2012.[1] This study reviewed all DECs logged between 2008 and December 2012, which equated to about 138,000 DECs logged on an estimated

[1] https://www.gov.uk/government/statistics/energy-trends-june-2013-special-feature-articles-display-energy-certificates

48,000 unique premises. The study concluded that "*it is not possible to fully attribute this improvement to the DEC itself but it demonstrates changes in energy use/emissions following changes in building energy efficiency or management.*"

Further qualitative research by DECC into the impacts of DECs on energy management and decision-making found that DECs were perceived as one driver (albeit of several) for change. In particular they found that DECs were useful because:

- *"the process of information gathering had a positive impact on knowledge and could act as a stimulus to change;*
- *the recommendations report can help with negotiating energy management budgets and raise the internal profile of energy consumption;*
- *the format of the DEC can provide positive messages in terms of trend information; benchmarking can provide both a target and instigate competition between buildings and organisations."*[2]

The latter bullet point explicitly acknowledges the role that competition can play in driving improvements. In this respect the display of operational ratings could provide an important reputational driver, which would go some way to filling the void left following the scrapping of CRC league tables.

Question 16: Please provide views and any information you may have on the relative costs and benefits of: A) Central digital reporting and publication of energy and carbon data, including specifically how these costs and benefits compare to reporting through the Companies Act regime on paper that is scanned to images by Companies House to make it available.

As already indicated, we support the proposal for central digital reporting and publication of energy and carbon data, but we do not have any further information about costs.

(2) Please outline the different costs and benefits of: (i) mandating electronic energy and carbon reporting via Companies House, with complementary activity by government to public data and make a single central data set available
ii) replacing reporting to Companies House with a new dedicated central IT portal, the data from which could be published
(iii) placing such a dedicated central IT portal alongside the current proposals

No response.

B) (1) Dedicated administrator(s) and regulator(s), including specifically how these costs and benefits compare to administration and regulation of energy and carbon reporting as described within the Companies Act regime
(2) Please outline the different costs and benefits of administration and regulation in relation to both replacing the current proposed scheme and placing such a scheme alongside the current proposals

No response.

Question 17: If replacing the proposed regime in future, please set out how a dedicated central energy and carbon reporting regime could continue to meet the needs of investors and others in relation to GHG reporting by UK quoted companies, currently required to be alongside financial information in annual reports.

We feel it is premature to pose – and answer – this question. It will be important to review the operation and strengths/weaknesses of the new reporting framework once it has been in place for some time before introducing further changes.

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[2]www.gov.uk/government/uploads/system/uploads/attachment_data/file/211054/D13_703672__130605_Display_Energy_Certificates_-_Report_V8_FINAL.pdf

Question 18: Do you have any other comments on how the description of how potential future enhancements to energy and carbon reporting might function; have other suggestions for future enhancements; or consider that any aspects of energy and carbon reporting proposed for 2019 might be better deferred?

We would certainly not be in favour of deferring the introduction of the new reporting framework. Beyond that, we feel it is premature to speculate about what might be appropriate beyond the currently proposed reporting framework. To do so could undermine industry confidence in the expected longevity of the new reporting rules.

UKGBC
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