

Challenges for Large Energy Users

Achieving energy efficiency is a major challenge for large consumers of electricity. With the CRC Energy Efficiency Scheme just around the corner, taking no action is simply not an option.

Introduction

Historically businesses have needed incentives, financial or otherwise, to change their behaviour. The potential penalties from not addressing energy use looks like being one of the major drivers for change.

In 2010, the proposed changes to the building regulations could see an increase in the required energy efficiency of buildings by 25% on Part L 2006 standards. This will be a significant challenge for all projects, but especially so for plant intensive sectors.

A rethink on how projects are designed, constructed, financed and used is required to meet the needs of this new legislation.

Enhanced capital allowances

One incentive where a significant number of businesses are missing out is from the 100% Enhanced Capital Allowances (ECAs) tax relief. Its purpose is to encourage investment in certain qualifying energy and water saving technologies by giving an enhanced level of tax relief over standard Capital Allowances.

The importance of maximising the building content that qualifies for ECAs have never been more important. In addition to the challenges of CRC and the revisions to building regulations, there have been changes to the general Capital Allowances rules from April 2008. This means that the tax relief is spread out over a significantly longer period of time. Also, the scope for Capital Allowances was expanded to include thermal insulation to existing buildings, external solar shading, cold water installations and general power and lighting.

ECAs are available on new build expenditure, refurbishment work and even purchases; in all cases the plant must be new and unused. If, however, an organisation wishes to maximise their position, there are a number of steps that need to be taken.

Research has shown that the most successful claims for ECAs are achieved when they are highlighted early in the project and an appropriate strategy adopted. The later this is left in a project, the fewer opportunities become available to maximise the claim.

Design decisions will ultimately affect claim values, although such decisions should never be made purely for tax reasons. It is possible, however, to work in partnership with the architect and mechanical and electrical services consultant to achieve maximised results for tax purposes without compromise or affecting the design solution.

Supporting documentation

As design and build contracts continue to be the procurement route of choice in a broad range of sectors, the contractor has a vital role to play. They are in the prime position to not only design energy and water efficient installations, but also provide the necessary documentation that the end user needs to support a claim for ECAs. Nevertheless, there can be a clash of objectives if the contractor does not factor in the client's intentions to claim ECAs. By the nature of design and build, the contractor will typically provide the most financially effective solution to the client that meets the performance specification stipulated. More often than not, this will result in equipment that does not qualify for ECAs being installed.

Enlisting help

One way to address this is to have ECAs as a project success factor alongside the traditional considerations of time, quality and cost. By doing this you are taking steps to minimise the scope for missing out on ECAs. If you take value engineering as an example, without the correct control measures being in place an item of ECA qualifying equipment could be value engineered out of a project without considering the full financial picture. If you were to review the considerable cash flow advantage from installing ECA qualifying equipment, the project might have actually cost less. In certain circumstances you can spend 10-15% more on a piece of qualifying equipment as the benefits are so great. This is before you consider the potential energy and water savings through the life of the equipment.

In some instances the issue of ECAs is raised only when projects are either well advanced at the construction stage or even completed. This will mean that the opportunity to maximise a claim for ECAs may have been missed. It is, however, still worth reviewing what has been ordered and installed, as often some ECA qualifying equipment will have been fitted. It also allows you to learn for future projects.

In all cases, a claim for ECAs will only succeed if the qualifying technologies are correctly identified and verified with the criteria on the ECA website. Due care and diligence is essential, along with the correct paperwork to support the application. If not, a claim could be challenged by HM Revenue & Customs and may fail.

Challenges for Large Energy Users

There are some easy wins that don't always mean long back periods. A properly run building management system and controls strategy can offer some of the biggest advantages. ECAs are an important and expanding fiscal incentive that simply cannot be ignored when considering investing in commercial property. They cannot, however be considered in isolation from the wider carbon reduction agenda. There is now a better understanding of why we need to change our behaviours especially when considering energy, but the difficult part now is to focus on how to achieve it.

For further advice concerning any of the issues raised in this briefing, please contact Robert Winters at robert.winters@davislangdon.com, or alternatively one of our other contacts shown below. Information on other property tax related topics can also be found on our website at: <http://www.bankingtaxfinance.davislangdon.com>

London

Paul Farey
+44 (0)20 7061 7139
paul.farey@davislangdon.com

Scotland & Wales

Michael Murray
+44 (0)131 550 9473
michael.murray@davislangdon.com

Midlands & North

Christine Weaver
+44 (0)161 819 7600
christine.weaver@davislangdon.com

South

David Rees
+44 (0)23 8068 2801
david.rees@davislangdon.com

Ireland

Lois Stirling
+44 (0)28 9024 9800
lois.stirling@davislangdon.com