

Energy Efficiency, ECAs and Tax Reliefs 10 Point Plan for success

Historically many property developers, investors and occupiers have ignored the subject of energy efficiency within their commercial properties, but with increasing raw fuel prices and financial penalties for bad behaviours, there is a much greater emphasis placed on the environmental impact of how we all carry out our day to day business. To encourage a change in attitude continual changes are being made to the Capital Allowances regime in favour of energy efficient equipment.

Introduction

This article considers some of the key areas to be considered when embarking on any project. Presently the level of new build activity is quite low, with the bulk of development work being refurbishment of existing accommodation. This in itself presents some major challenges as to meet the Governments CO₂ reduction targets there needs to be some major investment on this existing building stock.

To get the best end result, there are a number of key actions which require your early consideration. This is to ensure the buildings overall energy efficiency targets are achievable, the correct plant and machinery is selected to maximise a claim for Enhance Capital Allowances (ECAs) and to make sure other tax relief's are not overlooked.

Below we summarise our ten point plan:

1. The easy wins – better use of the property

In December 2009, the Carbon Trust published a report entitled 'Building the Future Today', which highlights some of the major challenges that we all face in reducing our carbon emissions. The report also suggests a number of policy and behavioural changes that need to be adopted if the UK is to get close to reducing our CO₂ emissions by at least 80% by 2050 compared to 1990 levels.

One of the recommendations of the report is to ensure that all cost effective energy efficiency measures are adopted across all non domestic buildings by 2020. This includes low-cost measures such as lighting and heating controls, or better energy management and building user behaviours. These types of actions must be looked at first before any large scale works are undertaken.

The report can be downloaded from the Carbon Trust's website at the following link;
<http://www.carbontrust.co.uk/Publications/pages/publicationdetail.aspx?id=CTC766>

2. Get energy cost into the board room

In the past the cost of energy has not been a major consideration for non energy intensive businesses. This is now changing with supply cost set to increase and for those caught by the CRC Energy Efficiency Scheme, the immediate challenge being finding funds to purchase carbon allowances.

3. Consult the Carbon Trust

For businesses spending over £50,000 a year on energy, the Carbon Trust offers free in-depth, on-site surveys, conducted by an accredited expert. The surveyor assesses every aspect of energy consumption within a facility and identifies ways to cut energy use. The Carbon Trust will then provide ongoing support to help make those savings a reality. These surveys are only available in Scotland, Wales and Northern Ireland.

Details of the Carbon Trust's Carbon Surveys can be found at the following link;

<http://www.carbontrust.co.uk/cut-carbon-reduce-costs/products-services/carbon-surveys/pages/carbon-surveys.aspx>

4. Carbon Trust Standard

The Carbon Trust Standard was developed to encourage good practice in carbon measurement, management and reduction by businesses and public sector organisations. The Standard is also a recognised early action metric under the CRC Energy Efficiency Scheme.

The Carbon Trust Standard website can be found at;
<http://www.carbontruststandard.com/>

5. Spend now, save now

Many businesses continue using old equipment, rather than pay the up-front cost of replacing it. This can be a false economy when you consider how inefficient old equipment can be when compared to new models.

6. Look at all sources of funding available including grants

The Carbon Trust Loan scheme provides interest free loans ranging from £3,000 to £100,000 (Wales and Northern Ireland only). Broadly speaking, any equipment that generates an on site fossil fuel energy saving as part of the project has the potential to be funded in whole, or part by a Carbon Trust Loan. Examples range from insulation through to CHP and renewables.

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<http://www.carbontrust.co.uk/cut-carbon-reduce-costs/products-services/business-loans/pages/loans.aspx>

7. Whole life costing

Consider not only the capital cost but also the running costs and payback period. In many cases the cheapest solution will not be the one with the lowest initial cost once you consider the energy saving potential and enhanced tax relief of more efficient products

8. Consider ECAs early

A lot of our clients are taking the opportunity of a quieter market to take a fresh look at how they specify and procure the mechanical and electrical services. A key driver behind this is the post tax saving and the cash flow advantage of installing equipment qualifying for ECAs.

9. Look to maximise Capital Allowances where ECAs do not apply

From 1 April 2008 Capital Allowances are now available on installing thermal insulation to existing buildings. It is vital that you keep up to date with changes in the Capital Allowances legislation so that you can adapt your project to maximise the post tax return.

10. More efficient buildings make better work places and consume less carbon

There is also evidence that occupiers are becoming more discerning; investment will be required to maintain yields as 'older' and lower performing properties become less desirable and rents fall. The cost of investment can be mitigated by grants, loans and increased allowances as briefly described in this article.

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 in the opposite column. Information on other property tax related topics can also be found on our website at: <http://www.bankingtaxfinance.davislangdon.com>

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