



# The carbon reduction commitment

The carbon reduction commitment is a new legally binding climate change and energy saving scheme. This begins in 2010 although important actions are required in 2009.

## Key issues

New legal requirements for local authorities in reducing carbon  
Scheme starts in 2010 although there are preparations which need to be made in 2009  
This briefing paper sets out the main provisions and how it will affect councils, including financial and operational impact  
APSE seeks comments on the proposals, please email: [djohns@apse.org.uk](mailto:djohns@apse.org.uk) or discuss this on [APSE connect](#)

## 1. Introduction

The carbon reduction commitment is the UK's first mandatory carbon trading scheme and will cover both public and private sector organisations, including local authorities. It is designed to encourage large non-energy intensive organisations in the UK to reduce their CO<sub>2</sub> emissions. The aim of the carbon reduction commitment is to reduce the level of carbon emissions by approximately 1.2 million tonnes of CO<sub>2</sub> per year by 2020. As a Climate Change Bill commitment, the scheme is aiming for a 80% reduction in CO<sub>2</sub> emissions by 2050.

Even though the scheme doesn't officially start until April 2010, local authorities will need to make preparations before that date to ensure that they comply with the requirements. This briefing paper outlines some of the key features of the carbon reduction commitment. For more detailed information, the following websites are useful:

<http://www.defra.gov.uk/environment/climatechange/uk/business/crc/index.htm>  
<http://www.carbonreductioncommitment.info/>

## **2. What is a carbon trading scheme?**

Carbon trading allows the Government to regulate the amount of emissions produced overall by setting the overall cap for the scheme but gives organisations the flexibility of determining how and where the emissions reductions will be achieved.

Participating companies are allocated allowances, each allowance representing a tonne of the relevant emission, in this case carbon dioxide equivalent. Emissions trading allow organisations to emit in excess of their allocation of allowances by purchasing allowances from the market. Similarly, an organisation that emits less than its allocation of allowances can sell its surplus allowances. Emissions trading gives organisations the flexibility to meet emission reduction targets according to their own strategy; for example by reducing emissions on site or by buying allowances from other companies who have excess allowances. The environmental outcome is not affected because the amount of allowances allocated is fixed.

## **3. Criteria for inclusion in the carbon commitment reduction scheme**

The initial phase of the carbon reduction commitment will be compulsory for organisations whose annual half-hourly metered electricity use in the UK was above 6,000 Mega Watt hours during the period January 2008 to December 2008. As a guide, this includes organisations spending more than £500,000 a year on electricity in the UK.

## **4. How will this affect local authorities?**

Local authorities will be responsible for:

- Calculating their emissions responsibility under the scheme
- Purchasing allowances to cover their emissions
- Monitoring and reporting their annual energy consumption (including electricity, gas and other fuel types) except for transport emissions
- Surrendering sufficient allowances to cover their stated emissions
- Keeping an evidence pack which provides an audit trail to demonstrate how they have calculated their total energy use.

The local authority would be defined as the '*carbon reduction commitment participant*', and the legal and financial responsibility for participating in the scheme falls onto the local authority. Defra also proposes to include all state-funded schools that fall within their geographical area in the local authority portfolio, so school emissions would form part of the local authorities overall carbon footprint under the scheme. A duty would be placed on schools requiring them to supply the local authority with annual energy use data. The guidance also states that the aim is for local authorities to work with schools and provide energy management advice and resources. In Northern Ireland, schools are not overseen by local authorities and the Executive are considering whether and how best to include schools in the scheme.

## **5. How will it work?**

The main aim of the carbon reduction commitment is to encourage large non-energy intensive organisations of all kinds to become more energy efficient and so reduce their CO<sub>2</sub> emissions. The more energy efficient an organisation becomes the fewer emissions it will generate and the fewer allowances it will have to buy under the scheme.

Organisations will have to identify their total half-hourly energy consumption for 2008 to calculate whether or not they exceed the 6,000 MWh threshold and therefore meet the criteria for inclusion in the scheme.

The first year of the scheme will be April 2010 to March 2011 and during this time, participants will need to monitor all energy sources and use this data to prepare a Footprint Report to submit by the end of July 2011.

In April 2011, participating organisations will have to purchase carbon allowances at a fixed price of £12 per tonne at the end of the first year, for both the previous year and the forthcoming year. That is, in April 2011, organisations will need to buy sufficient allowances to cover their actual emissions for 2010/11 and their forecast emissions for 2011/12. However, the first year of the scheme will be the only time that organisations can buy allowances to cover their previous year's emissions. Participants may purchase several years allowances but they cannot be banked beyond the end of March 2013 (that is, they can only be used in that particular phase of the carbon reduction commitment scheme).

The UK government will recycle all money raised from the sale of allowances back to participants. The first recycling payment will take place at the end of October 2011. The amount of payment each participant receives back from the UK government will depend on performance in a league table and will involve either a penalty or a bonus. The aim of the bonus and penalty scheme is to act as an incentive for organisations to reduce their emissions. Therefore, if organisations perform well, the money they get back should exceed the cost of buying allowances.

There may be cash flow implications for local authorities from April (purchase of allowances) to October (recycled payments made), while they wait for the revenues to be recycled. There are no requirements for organisations to reinvest bonus payments to reduce energy by investing in green technology or services.

The carbon reduction commitment league tables will rank participants in the scheme in terms of performance on the following:

- Absolute emissions - % reduction in carbon emissions compared to the previous year.
- Growth - % reduction in other carbon emissions per unit of turnover
- Early action metric – early action initiatives made by the organisation to reduce their carbon emissions prior to April 2013, including being assessed for coverage of the carbon trust standard and automatic meter readings. The first league table will be based solely on the early action metric.

The league tables will be publicly accessible and the scheme will also publish responses to three questions:

- Does your organisation disclose long-term carbon emission reduction targets?
- Does your organisation disclose carbon emissions performance against these targets?
- Do you have a named director with responsibility for overseeing carbon performance?

To do well in the carbon reduction commitment, participants will need to:

- Implement automatic meter readers before March 2011

- Sign up to the Carbon Trust Standard
- Establish comprehensive monitoring and targeting mechanisms
- Collect and record procedures
- Assign responsibilities and ownership for energy reduction tasks
- Carry out regular reviews of data collection
- Reduce emissions within the scheme
- Proactively develop a strategy to identify and implement future energy savings.

For the first 3 years, allowances will be at a fixed price but from April 2013, allowances will be bought through auction and the government will cap allowances. Over time, the number of available credits will diminish which is likely to drive up the price.

The carbon reduction commitment will place an onus on the participating organisations to record and report their own emissions to the scheme. However, 20% of all participants will be audited annually. All participants will be required to produce evidence packs in case of an audit and these will consist of structural records, data records and special event records.

## **6. What happens next?**

Next month, Defra will issue a user guide to provide organisations with information on what you need to do to assess whether your organisation qualifies for the scheme and to guide you through the registration process. Defra will also be consulting on the carbon reduction commitment regulations next month.

In the summer, the Environment Agency will contact all UK billing addresses with half-hourly meters (HHM) providing them with registration packs. In 2010, all organisations with a HHM will need to provide information on their total half-hourly electricity consumption for 2008 together with a list of half-hourly meters, assisted by their electricity supplier.

The scheme begins in 2010 with a 3-year introductory phase and the first compliance year is April 2010 – March 2011.

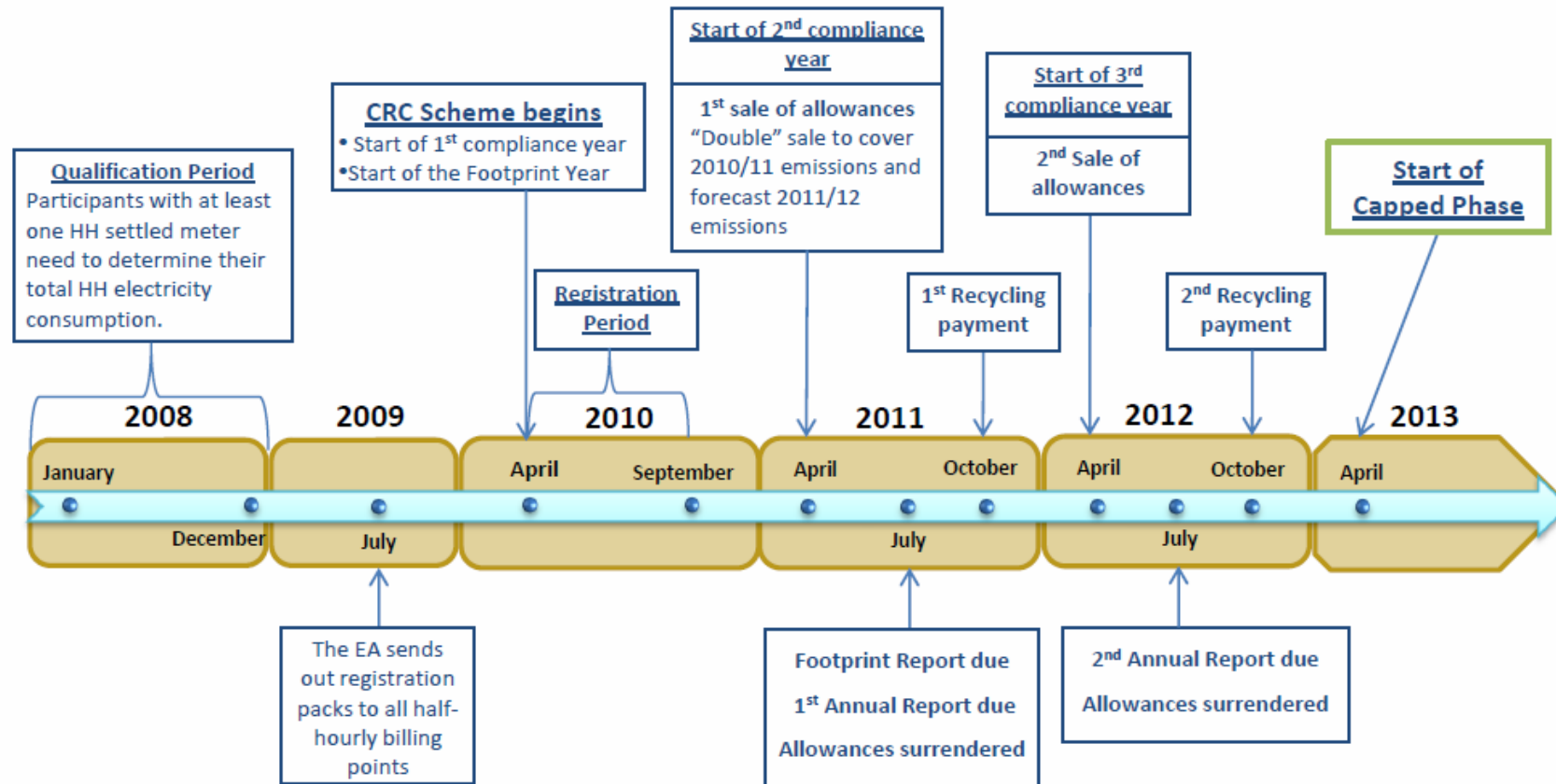
The timeline is shown in the diagram overleaf.

# CRC Timeline – Introductory Phase



Department of the Environment  
www.doeni.gov.uk

Department of Energy and Climate Change



## **7. APSE comment**

The carbon reduction commitment has obvious benefits in terms of:

- Reducing carbon emissions in the UK and therefore greenhouse gases impacting adversely on the environment
- An opportunity to identify and reward best performing authorities both in terms of financial payments and recognition from the league tables
- Having reduced their carbon emissions, organisations will enjoy long-term financial benefits from reduced energy costs.

The new legal requirements will have implications on local authorities in terms of the records that need to be kept, the need to monitor and report energy consumption, the need to purchase allowances to cover emissions and then wait 6 months for recycling payments and also the implications in terms of the demoralising and financial effects of being lower in the performance league table.

Defra will be consulting on the draft regulations next month. In the meantime, APSE would appreciate feedback from member authorities in terms of:

1. Is the proposed timeline realistic for local authorities?
2. Do you agree with the proposals and if not, why not?
3. Do you require any additional support from APSE in developing monitoring and record keeping arrangements and understanding your legal responsibilities?

Please send any comments through to [djohns@apse.org.uk](mailto:djohns@apse.org.uk) or click here to discuss this on [APSE connect](#)

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