

# Are you ready for the carbon reduction commitment?

*In this first of two articles Stephen Cirell, Head of Local Government at Eversheds LLP, explores the new carbon reduction commitment and asks what will this new 'cap and trade' carbon emissions scheme mean for local councils and the public sector?*



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**A**s I write this piece, some of the world's top leaders meet in London for the G20 Summit. The main item on the agenda is the world's economy and how to fix it following the banking crisis. In December of this year there is another intergovernmental conference, this time on the other main problem facing governments, namely climate change. In Copenhagen, leaders will have to thrash out an agreement on climate change that will apply from 2012 onwards.

When viewing the world stage in this way, it is sometimes hard to recognise and appreciate the effect of these issues

at local level but the UK government has been working hard to build a legal and policy framework within which its promises on the world stage will be delivered. The key element here is the Climate Change Act 2008, whereby the government has become the first country ever to tie itself to long term greenhouse gas emissions targets (an 80% reduction by 2050). This demonstrates its commitment to a low carbon future.

Somehow, though, those targets have to be met and in the usual scheme of things that means a combination of legislative provisions, financial incentives and a regulatory regime. We are now seeing the detail of that emerge and over the next twelve months or so, it will become much clearer how all this will apply at local authority level.

A good example of this development of law and policy is the Carbon Reduction Commitment (CRC). Many authorities have not heard of this yet, but it will be an important driver towards more low carbon and energy efficiency projects. Schemes to reduce greenhouse gasses have existed for some time, for example the well known EU Emissions Trading Scheme (EU ETS) which covers energy intensive traditional industry. The scheme is designed to reduce emissions with a resultant benefit for the environment.

But to date other parts of the economy, such as the services sector (including

local government) have not been required to reduce their carbon emissions. In these sectors the energy usage might be less intensive, but nonetheless, emissions run into thousands of tonnes of carbon. Hence the introduction of the CRC, to cover this gap in the economy where no provisions currently apply.

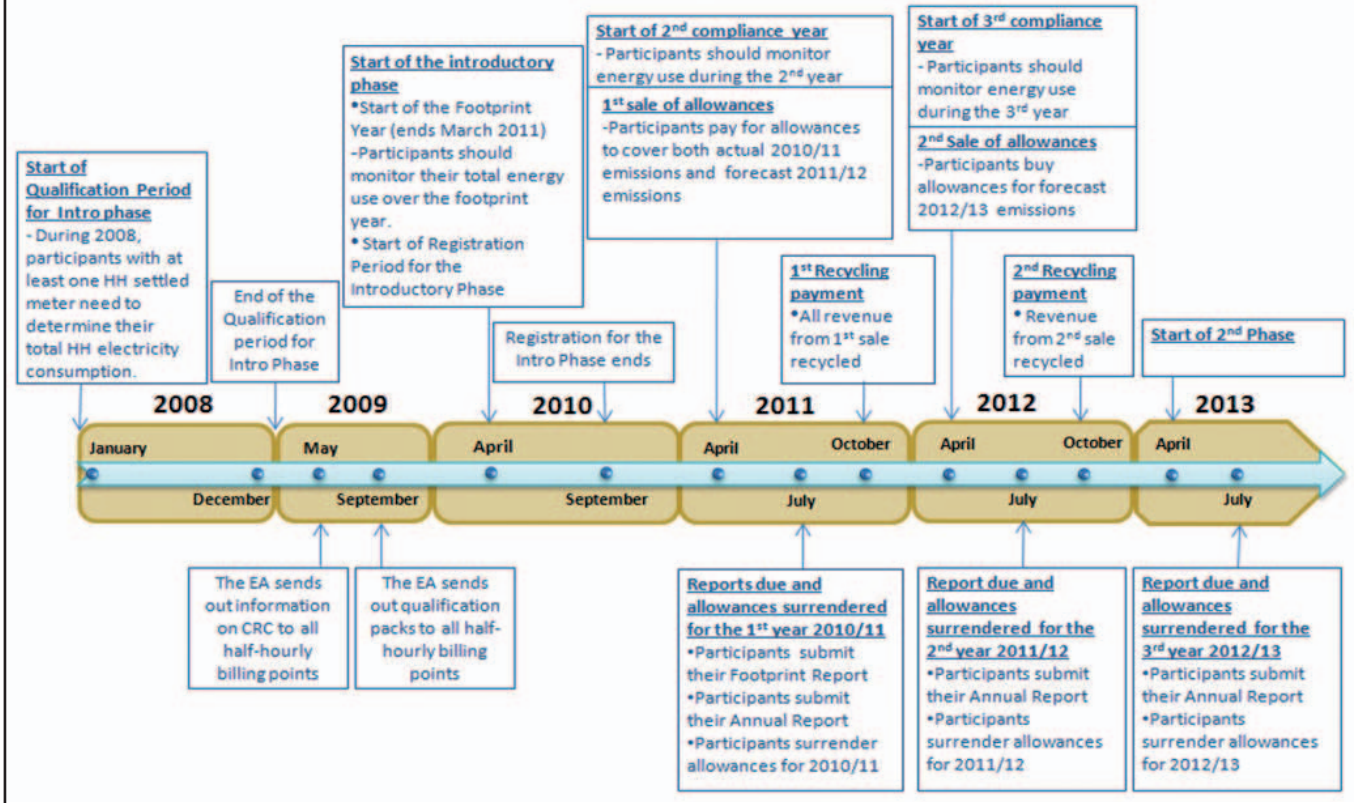
So what is the CRC and what will it mean for local government? The CRC is a 'cap and trade' scheme for carbon emissions. Put very simply, every qualifying body (which generally means those with an energy bill of over £500,000 pa) will have a baseline of carbon emissions and will be given a 'cap' on those emissions, ie a lower level (say 5% less) that it will have to attain. In order to comply with the scheme, a body needs to buy and surrender 'credits' equivalent to the tonnes of carbon that it emits, on an annual basis. Those entities that manage to reduce their energy consumption and hence their emissions will be required to surrender less credits and so will have to buy less. If they hold surplus credits they will be able to sell these credits to other scheme participants who have not performed so well. This means there is a clear financial incentive to take the action to reduce carbon emissions or you will start to pay heavily for not having done so.

It is generally thought that the CRC will apply to all London Boroughs, all metropolitan and County councils and the larger unitary authorities and so it

# CRC TIMELINE

CRC timeline taken from the consultation on the draft order to implement the CRC.

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will be relevant to a large part of local government.

An example might assist in the understanding of this. Barchester Council is a metropolitan authority that will be subject to CRC with emissions of 50,000 tonnes of carbon pa, from its buildings, street lighting, schools and so on. The cap is set at 5%, so its target is 47,500 tonnes of carbon emissions in the next year. Carbon is priced in the introductory stage of the scheme at £12 per tonne so it needs to purchase 47,500 allowances annually at a cost of £570,000. As the scheme is designed to be cost neutral, there is a mechanism to return the revenues raised from the sale of the allowances to the scheme participants so depending upon its performance, Barchester Council should get some of its money back.

There will be a league table of the 5000 or so organisations that are covered by CRC and where a body is placed in the league table will also have a financial consequence. If your performance is poor (e.g. your emissions exceed your target) then you will be subject to a penalty payment so you will get back less than you spent on your allowances.

Conversely, if you perform well you can receive a bonus payment so you will get back more than the cost of your allowances. The penalty/ bonus payments are progressive with up to +/- 10% being added/ deducted in the first year and up to +/-50% in the fifth year being added/ deducted. In other words the financial benefits for those reducing their carbon emissions will mirror those who suffer penalties for not having reduced their carbon emissions. Remember, the scheme is cost neutral so what is really happening is that the money Barchester Council put in the pot at the start either comes back to it (neutral position); or, where it has failed to reduce its emissions, is effectively given to another body that had taken the action required (net loser); or where it exceeded its targets, it gets more back than it put in (net gainer).

This raises some interesting political issues. It will be interesting to see how this plays out but it is entirely possible that an authority that takes no action will pay in a significant sum to the scheme and get very little back at the end. Members will then have to deal with the press and publicity angle of

why that authority is so low in the league table and why it is "wasting" public money by being penalised.

The CRC is a complex mechanism and the foregoing is a simplified version but suffice to say for these purposes it will apply to many authorities and authorities should take urgent action to ensure they will be in compliance with the scheme when it starts. The qualifying year for whether your authority is covered or not was 2008; if covered by the scheme you will receive a registration pack in September of this year and need to register under the scheme early next year; and most importantly you will need to collect comprehensive data on your emissions and you need to be doing this now.

In the second part of this article (to be published in the May/June edition of *direct news*) it will be explained what actions you need to be taking and how this regime is in fact an opportunity as well as a threat.

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