

## Unprepared for the CRC - UK organisations risk financial and reputational loss

2degrees<sup>[1]</sup> and Camco<sup>[2]</sup> release results of a new survey <sup>[3]</sup> among private and public sector organisations that reveals significant disconnections, misconceptions, uncertainties and short-termism in relation to the CRC:

- 33.2% rate their state of readiness as less than moderate
- 49% of current energy management programmes are not aligned to the CRC
- 23.7% of organisations have yet to record their carbon reduction measures
- 21.9% do not know whether they will be investing in energy efficiency and carbon reduction measures
- 68.4% believe the CRC will have significant implications on their cash flow

With just 12 months until the start of the Carbon Reduction Commitment (CRC), a new survey reveals that a large number of organisations are ill-prepared to deal with the requirements of the scheme, after a third (33.2%) of respondents acknowledged they are less than moderately ready. The survey, conducted by 2degrees and Camco, assessed perceptions, preparedness and planning among sustainability professionals and specialists belonging to the 2degrees network. The results highlight significant gaps in understanding, key disconnects in organisational energy and carbon reduction strategies, and levels of uncertainty about future plans for investing in and funding projects.

The survey flags up **obvious disconnections between the CRC and existing energy management activity**. Three in four respondents (74.6%) confirmed that their respective organisations already had an energy management programme in place, but nearly half (49%) acknowledged that their programme does not consider the implications of the CRC scheme. Despite 86% of organisations confirming that they had started planning carbon emissions reductions, fewer than three-quarters are actually recording those efforts. Under the CRC, reporting will be a fundamental obligation and organisations will only be able to meet their strategic emission reduction targets if energy management systems are integrated with the scheme's requirements.

There is also evidence of **gaps in understanding and possible confusion about the impact** of the CRC scheme. Nearly half (46%) of respondents cited their main concern about the CRC as 'actual cost', above the other options of 'poor league position' (20.6%) and 'cash flow' (14.3%). However, when specifically asked about the implications of the CRC on organisational cash flows, 68.4% agreed that the impact would have a moderate to high significance. The preoccupation with the net cash position (actual cost) seems to contradict the Government's assurances that the scheme's inbuilt recycling mechanism will have a nominal impact to qualifying organisations <sup>[4]</sup>. These underlying misconceptions could also suggest that the organisation needs to create much stronger engagement between those responsible for managing the CRC obligations and the finance team.

Respondents revealed **levels of uncertainty around future investment plans and spend**, as well as preferred funding options for projects. One in four (28.6%) could not estimate what proportion of their net energy spend will be invested in carbon reduction and energy efficiency projects; one in five (21.9%) did not know whether their company will be investing in energy efficiency and carbon reduction measures at all; and around one in five (19.4%) did not know how they would fund their early investments.

Rather than developing a cohesive, long-term carbon reduction strategy, the majority of organisations seem to be **focused on short-term financial options and decisions**. Over half of respondents (53.2%) favour ad hoc project funding for early investments on a project by project basis, compared to only 18% that selected the long-term alternative of ring-fenced funds. Those organisations already involved in making carbon emissions reductions are prioritising projects by the less

sophisticated measures such as payback (30.4%) and cost (23.2%), rather than more relevant and meaningful CRC measures of carbon savings (21.4%) and cost per tonne of CO<sub>2</sub> (14.3%).

“Getting it right in the CRC means getting it right in effective carbon management,” explained Dr Paul Ruyssevelt, Strategic Projects Director, Camco. “However, too many organisations are treating the scheme as purely a compliance exercise that presents financial and reputational risk. By not adopting top-down strategies that mobilise the whole company beyond the compliance remit, they are missing the chance to gain early mover leadership and make real, long term and wholesale financial and carbon savings.”

“The survey reveals an interesting paradox,” commented Alex Lankester, Managing Director of 2degrees. “Respondents can see that strategies and investment need to be put in place, but there is a lack of focus on the carbon savings that lie at the heart of the CRC and specific, measurable plans to achieve those savings. The Environment Agency will issue CRC Qualification Packs in September; we believe that will bring home the impact of the CRC to many organisations. What is clear is that public and private sector organisations need more information, communication and guidance from governmental agencies, industry groups, media and peer-group networks like 2degrees to support their carbon reduction efforts, whether they qualify for the CRC or not. To help those of our members who do qualify – over 60% of this sample - we intend to maintain and increase our popular programme of CRC webinars through the rest of 2009 and into 2010.”

Based on the survey trends, Camco and 2degrees conclude that organisations are:

- Treating their CRC obligations as purely a compliance exercise by focusing on short-term and tactical action to minimise immediate risk
- Missing the wider opportunities by not adopting a proactive top-down or company-wide approach to create strategic advantage and therefore maximum organisational carbon reductions, energy efficiency gains and cash savings
- Not linking with finance departments to develop a coherent plan that takes account of short- and longer term budgetary provisions, actual cost and cash flow implications, project investment and funding requirements
- Failing to create the greatest organisational value by not adopting more long-term and holistic funding solutions, such as ring-fenced capital funding
- Not planning emissions reduction opportunities in a way that generates the highest possible carbon savings and reflects the marginal abatement costs of a range of measures
- Failing to grasp the implications of the growing responsibilities and liabilities that Directors will have under the CRC

## **ENDS**

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## Notes to editors

### [1] About 2degrees ([www.2degreesnetwork.com](http://www.2degreesnetwork.com))

2degrees is the collaboration service for sustainable business. At its heart is an actively managed, online collaboration platform focused on helping organizations accelerate the implementation of their sustainability strategies by providing services such as online event management, supply chain engagement, partner recruitment and ecosystem development, needs to solutions matching and knowledge transfer.

The networks help transform clients' access to the information, contacts, partnering and commercial opportunities necessary to achieve their sustainable business goals quickly and adapt to the challenges of an economy in transition.

Since its launch early 2008, the network has grown to over 2,800 senior public and private sector sustainable business leaders, solutions providers and policy influencers. Among our partners are The Climate Group, Carbon Trust, EcoSecurities, Forum for the Future, MITIE, CISCO, and others.

### [2] Camco ([www.camcoglobal.com](http://www.camcoglobal.com))

Camco is one of the world's leading climate change and sustainable development companies. With a 20-year track record in advisory services and one of the largest and most diversified portfolios of carbon credits, it is an international leader in identifying and implementing solutions that help businesses address their climate change risks and opportunities.

The business brings together the distinct but complementary service areas of Carbon Credits, Advisory and Investments into a unique proposition that helps clients manage all aspects of their carbon risk and all stages of their carbon management process.

### [3] The survey

The CRC survey was conducted online between 19th January and 27th February 2009 using a third-party subscription research service and was open to all members of the 2degrees network.

#### ***Additional commentary:***

**Approaches to internal resourcing** to deal with the extra work and requirements of the CRC seem to vary massively and could hint at uncertainty among organisations about the best way to deal with the scheme. There is little or no uniformity in departmental responsibility for the CRC – a quarter (25.7%) specified that this remit falls within the Environmental department, one in six (17.1%) stated the Energy department and one in ten (11.4%) cite the Property department with other responses indicating Facilities, CSR and to a lesser extent Finance/Accounts. Around half (49.2%) do not expect to recruit additional resources to deal with the CRC obligation, while nearly one in ten (9.2%) don't yet know.

It is believed that organisations will be successful in developing a leadership role if they absorb and embed CRC related issues into an existing structure with board level ownership, and create an internal steering group with company-wide representation to implement ubiquitous emission reductions and knowledge sharing.

### [4] Costs of the CRC

The cash flow implications will have the obvious impact related to the cost of cash for the 6 month period it resides with the government. This will be double in the first year given the current proposals for combining the first two years. However, the cash flow implications could have a more significant impact if they restrict the budgets available for expenditure on energy and carbon saving measures.