September 09

the inside track #17

Highlighting CSR Issues of the moment

The UK's Carbon Reduction Commitment (CRC) will affect you - one way or another.

Actions you take will determine whether this is an opportunity or a burden.

Expect the letters “CRC” to enter business - and public - consciousness in a big way by the end of 2009. The media, such as the Sunday Times, has already been running regular “scare” stories, featuring the likely costs to companies like Tesco; squads of green jacketed auditors from the Environment Agency; and alarmed stakeholder reactions from the likes of CBI and the Engineering Employers' Federation.

Next April, around 20,000 UK organisations will be required to respond to the most far reaching carbon emissions legislation in the world. Whilst the CRC (part of the UK's Climate Change Act 2008) is still to emerge in its final form, it will affect private and public sectors, as well as larger bodies in the voluntary sector. Those potentially affected are still awaiting the publication of the definitive guidelines - after a protracted consultation period.

Politically, there is cross-party support for the overall shape of the legislation, but once again, our civil servants have done their best to create a “gold-plated “ sledgehammer, and the complexity of the draft guidelines has many energy and environmental managers scratching their heads. Given Government's “previous” in watering down similar legislation just before the statute books, questions remain over its nerve in fully implementing the CRC - but the Department of Energy and Climate Change has shown grit so far.

Whilst the penalties on companies for non-disclosure or mis-reporting are severe, the potential negative reputation impacts resulting from the CRC could be substantial - and of major concern.

The performance league table, so beloved of civil servants in the Departments of Health and Education, has become a centrepiece of CRC. The reputational (and ultimately financial) damage of appearing in the bottom quartile of the table should encourage boards to take a particularly close interest in the effects of climate change and their response to this growing risk. Companies, especially large ones, do not like to be shown up in this way.

Even in its unfinished form, the CRC is having an effect - and not necessarily the one intended. Because of the way the CRC is structured, some companies are already deferring energy saving measures until they can be counted as part of their response after April 2010. The renewable industry has also been negatively impacted due to the UK's complex system of Renewable Obligation Certificates (ROCs), which render energy generated within the latter scheme ineligible under CRC.

Despite all the problems and negative effects of CRC, it is a significant step to help reduce energy usage and therefore emissions. The UK leads the way with its regulatory determination to find ways to reduce carbon emissions substantially - by 34% in 2020, and 80% in 2050. China's emissions may be the largest in the world now, but their per capita output of greenhouse gases remains way below Western levels. The UK is demonstrating that words require actions.

Time will tell whether other countries adopt a similar approach, but the EU is watching CRC closely, and is likely to encourage equivalent actions across Europe. France and Japan have recently proposed different measures.

Others are likely to follow, which means the UK's CRC gives companies the opportunity to learn and innovate, and roll out their experiences internationally.

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Whilst there may be some that still question aspects of the CRC, UK organisations should recognise it is the law (bar some last minute tinkering) - so they need to plan now to manage their approach.

TVC's clients' experience is that they have received letters from the relevant environmental agencies in England and Wales, Scotland and North Ireland informing them of their half hourly meters details as the first trigger for CRC registration. However, this appears inconsistent- some of these letters go to the different UK divisions, rather than to the head office - and not every company has received these letters.

Around now, potentially affected organisations should be receiving CRC registration packs. Given recent experience with the half hourly meter letters (and earlier experience of DEFRA sending out CRC emails to the "For information" email addresses), organisations should be proactive and check they have received these packs.

We believe that a company's successful management of CRC will need a holistic view of energy consumption, and resulting emissions. The path TVC recommend goes beyond carbon footprint reporting, as our **IMMI** flow diagram below shows:

Identify → Measure → Manage → Improve

The first steps are to Identify, on a comprehensive basis, all the UK operations' sources of property based energy (including properties leased to third parties). Measure requires an accurate and rigorous consumption measurement of energy at all these sources.

However, we suspect some companies are mistakenly stopping CRC planning at this stage. The Manage and Improve stages are those that ensure a company succeeds (or fails) in its CRC programme.

Manage requires well-informed and realistic target setting, together with inspirational employee awareness programmes to encourage and implement behavioural change. One worry is that if a company just adopts a compliance approach then it will miss opportunities to reduce costs - especially if it forgets that the behaviour of frontline employees will determine how well energy consumption is managed. One recent client visit demonstrated this in a "chilling" manner. Our meeting was in a room also used by visiting managers. In this case, the manager being asked to vacate had adjusted the individually controlled air conditioning down to 12°C - the large meeting room was like a chill cabinet - just for one person! The future behaviour of such managers could be critical in successfully managing the CRC.

Improve requires actions such as cost-effective investment in new equipment, the incorporation of emissions reduction measures into strategic planning, and better operational management of the 24 hour energy profile. One good example is where a client invested in an "icebank" to utilise low cost night time electricity to create ice for use in daytime air-conditioning. Not only was it more energy efficient, but the use of lower cost tariffs meant it offered a good return on investment. Similar actions include setting all non-critical PCs to automatic standby. For one client, this PC shutdown alone has saved a significant amount of CO_2. This demonstrates the need to ensure accountable management goes beyond procurement, finance and budgetary planning, to encompass others such as operations, IT and property management.

Climate change is now acknowledged as a serious issue. For UK companies, CRC is likely to be the first of a worldwide set of schemes. CRC should be seen by management as an incentive to develop energy management strategies - both for the UK and globally.

Companies failing to respond effectively to CRC will incur additional costs - and damaged reputations.

On the other hand, those companies that embrace CRC wholeheartedly will be making a positive contribution to future generations, **and**, more immediately to their own reputations and bottom line profits.

For more details of who is affected and how, look at our Inside Track 15 Newsletter - via our website http://www.thevirtuouscircle.co.uk/INSIDE_TRACK.html

If you would like an objective and impartial view on addressing CSR, risk management or business review reporting issues, contact Tony Hoskins - thoskins@thevirtuouscircle.co.uk or Martin Batt - mbatt@thevirtuouscircle.co.uk