EXPLANATORY MEMORANDUM TO

THE CLIMATE CHANGE AGREEMENTS (ADMINISTRATION, ENERGY-INTENSIVE INSTALLATIONS AND ELIGIBLE FACILITIES) (AMENDMENT AND REVOCATION) REGULATIONS 2026

2026 No. [XXXX]

1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of His Majesty's Treasury and is laid before the House of Commons by Command of His Majesty.

1.2 This Memorandum contains information for the Select Committee on Statutory Instruments.

2. Declaration

2.1 Dan Tomlinson MP, Exchequer Secretary to the Treasury, confirms that this Explanatory Memorandum meets the required standard.

2.2 Judith Kelly, Deputy Director in Excise and Environmental Taxes Policy, at HMRC, confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Farah Ullah at HMRC can be contacted by email at the following address with any queries regarding the instrument: energy.taxes@hmrc.gov.uk Alternatively, the department can be contacted by telephone: 0300 200 3700

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument amends secondary legislation concerning eligibility and the administration of the Climate Change Agreement (CCA) scheme. The CCA scheme is a voluntary scheme where eligible facilities enter into agreements with the Government to reduce their energy use or emissions and, in exchange, are entitled to pay reduced rates of climate change levy (CCL). CCL is a tax on the supply of energy to non-domestic users, introduced in 2001 to encourage energy efficiency.

4.2 This instrument expands the scope of CCA eligibility to three new processes, consolidates and clarifies the existing eligibility and administrative requirements for the CCA scheme, and corrects an error in a different instrument.

Where does the legislation extend to, and apply?

4.3 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 CCL is a tax on the supply of energy to non-domestic users, introduced in 2001 to encourage energy efficiency.

5.2 The CCA scheme is a voluntary scheme, where participants enter into agreements with the Government to reduce their energy use or emissions and, in exchange, are entitled to pay reduced rates of CCL.

5.3 The CCA scheme supports the Government's objectives to deliver affordable and secure energy and decarbonisation while also helping productivity and the growth agenda.

5.4 The scheme is open to facilities which carry out one of the listed eligible processes. This instrument extends the eligible processes to include: production of automotive grade battery cells, packaging of spirits, and the mechanical recycling of plastics. From November 2023 to February 2024, the Government invited expressions of interest for new sectors/processes to be added to the CCA scheme that would support its objectives. After considering those expressions of interest, the Government has decided to expand the CCA scheme to these three new processes.

5.5 The instrument will expand CCA eligibility to these three processes with effect from 1 January 2027.

5.6 The instrument also makes drafting changes to existing secondary legislation to consolidate and clarify eligibility to the CCA. As part of this, references to European Union (EU) directives relevant to the definitions of certain processes are being modified to ensure they continue to operate as intended as a result of the UK's exit from the EU. These changes are not intended to impact the eligibility of those sectors/processes that are already eligible to participate in the CCA scheme.

5.7 The instrument also corrects an error in the Climate Change Agreements (Administration) Regulations 2012 to amend the formular description for "H" (the carbon emission factor for gas) by altering the value from 0.0497 to 0.0498. This amendment corrects the value of "H" to account for carbon and carbon equivalent emitted. "H" is used in the calculation of the buy-out fee which participants can pay to qualify for reduced rates of CCL if they have missed agreed energy or emissions targets. Facilities that do not meet agreed energy efficiency or carbon reductions targets must pay a buy-out fee to remain compliant in the CCA scheme.

What was the previous policy, how is this different?

5.8 The three new processes mentioned above were not previously eligible to participate in the CCA scheme. Once the instrument takes effect, they will be able to do so.

5.9 The formula description used for "H" (the carbon emission factor for gas) in the buy-out fee for TP7-TP9 is changed from 0.0497 to 0.00498.

5.10 The drafting changes to consolidate and clarify existing legislation (including those that modify EU references) are not intended to change existing policy.

6. Legislative and Legal Context

How has the law changed?

6.1 Section 30 of, and Schedule 6 to, the Finance Act 2000 make provision for CCL to be charged on certain supplies of energy. A reduced rate of CCL is charged if a facility

which receives supplies of energy is certified as being covered by a CCA for a certification period. The Climate Change Agreements (Administration) Regulations 2012 (S.I. 2012/1976) (the 2012 Admin Regulations) appoint the Environment Agency to administer CCAs and make provision in relation to the administration of the scheme. Paragraph 146 of Schedule 6 allows the Treasury to make provisions to the administration of the CCA Scheme. This power has been exercised to alter the 2012 Admin Regulations, so that the formula description used for "H" in the buy-out fee is altered.

6.2 Facilities may only be covered by a CCA if they meet the definition of installations as set out in paragraph 51 of Schedule 6.

6.3 This instrument expands the scope of installations covered by paragraph 51.

6.4 The instrument revokes and remakes Climate Change Agreements (Energy-intensive Installation) Regulations 2006 (S.I. 2006/59) ("the 2006 Regulations") and amends the Climate Change Agreements (Eligible Facilities) Regulations 2012 (S.I. 2012/2999) ("the 2012 Regulations"). It combines the descriptions of installations (contained in the 2006 Regulations) and eligible processes (contained in the 2012 Regulations) they must carry out so that they appear together this instrument. Paragraph 8 of the Schedule to the 2006 Regulations, which provided for any installation not otherwise covered by paragraph 51 to be an installation, has been removed. Consequential amendments have been made to the 2012 Regulations. The instrument provides that new types of installations carrying on new eligible processes will be installations covered by paragraph 51. The new installations are those carrying out;

- the mechanical recycling of plastic;
- the packaging of spirits; and
- the production of automotive grade battery cells.

6.5 The instrument also consolidates definitions relevant to the eligible processes that were previously in the 2012 Regulations. Where those definitions referred or cross-referred to provisions in EU legislation, their reading has been modified to ensure they are operable as a result of the UK's exit from the EU. The modified reading of these provisions applies only for the purposes of interpreting the regulations within this instrument.

Why was this approach taken to change the law?

6.6 The only way to achieve the aim of including the new sectors in the CCA scheme is to add them to the relevant existing regulations. Consolidation of the descriptions of installations and the relevant eligible processes simplifies the existing regulations by identifying eligible sectors/processes in one place and including the amendments to the 2006 and 2012 Regulations in one instrument was considered to be a proportionate approach. It was also considered proportionate to use this instrument to amend the buy-out fee.

7. Consultation

Summary of consultation outcome and methodology

7.1 The Department for Energy Security and Net Zero (DESNZ) published a consultation alongside an announcement of a new 6-year phase of the CCA scheme at Autumn

Statement 2023.[1] The consultation ran between 22 November 2023 and 14 February 2024. It sought views on policy proposals for the new 6-year phase. The consultation also invited proposals for new processes to be considered for inclusion in the CCA scheme from January 2026. It sought views from:

- sector associations and businesses which participate in the scheme,
- operators of facilities not currently in the scheme that may be eligible,
- trade associations,
- non-governmental organisations (NGOs),
- consultants,
- energy suppliers,
- academia,
- and any others with an interest in the scheme.

7.2 The Government response, published on 16 October 2024, reaffirmed that new processes would only be admitted to the CCA scheme if they met certain energy efficiency requirements:

- amounting to at least 10% of their production value (i.e. EI ≥ 10%); or
- amounting to 3% or more but less than 10% of their production value so long as there is an import penetration ratio of at least 50% (i.e. 3% ≤ EI < 10% and IP ≥ 50%).

7.3 The Government received applications from 7 processes. The Government Response highlighted that more time was necessary to implement CCA changes. As a result, the Government stated that facilities carrying out new processes included in the scheme would be admitted to the CCA scheme from January 2027. In October 2025, having considered the energy efficiency requirements and other relevant factors, the Government announced its decision to add 3 new processes to the CCA scheme: production of automotive grade battery cells, packaging of spirits and mechanical recycling of plastic. The devolved administrations in Scotland, Wales, and Northern Ireland are regularly updated on changes to the scheme, recognising the UK-wide application of the CCA scheme.

8. Applicable Guidance

8.1 Guidance previously issued is being updated to take account of the introduction of the new CCA scheme and will be published and available on the GOV.UK website Climate Change Agreements page.[2]

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument will be published on the GOV.UK website.[3]

[1] CCA Consultation: https://assets.publishing.service.gov.uk/media/655b917fd03a8d001207fd07/climate-change-agreements-consultation-on-new-scheme.pdf
[2] CCA Guidance: https://www.gov.uk/guidance/climate-change-agreements--2
[3] Tax Information and Impact Note: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

Impact on businesses, charities and voluntary bodies

9.2 There is no significant impact on business, charities or voluntary bodies because, as costed at Autumn Budget 2025, the estimated overall revenue impact is negligible.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no significant impact on the public sector.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 No specific monitoring arrangements are required. The policy objectives will be kept under regular review by the Treasury and DESNZ to ensure the CCA scheme continues to provide value for money.

10.2 The instrument does not include a statutory review clause because it is exempt under section 28 (3) (a) of the Small Business, Enterprise and Employment Act 2015 (provisions relating to tax).

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This instrument also corrects an error in The Climate Change Agreements (Administration) Regulations 2012. The free issue procedure has not been applied because the correction only accounts for a very small proportion of the instrument. The SI Registrar has been consulted in accordance with paragraph 4.7.6 of Statutory Instrument Practice.

12. European Convention on Human Rights

12.1 The Exchequer Secretary of the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of The Climate Change Agreements (Administration, Energy-Intensive Installations and Eligible Facilities) (Amendment and Revocation) Regulations 2026 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").