

report

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Committee	CIPFA/LASAAC
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Subject	Financial Reporting Manual: Exposure Draft on Sustainability Reporting Initial Report

Introduction

1. The FReM ED on Sustainability Reporting proposes amendments to the Government Financial Reporting Manual which would introduce a requirement for reporting entities to include within their annual report and accounts, a sustainability report. Comments on the ED are to be received by 12 November.
2. It is proposed to initially apply sustainability reporting to central government bodies. Other public sector organisations, including local authorities, adopting it a year later. The first year would be a dry run. The central government dry run would occur in 2010-11. Other public sector organisations would have a dry run in 2011-12.
3. The reporting requirements focus on environmental performance indicators. Organisations would be required to report on their own organisational performance against targets for:
 - a. Greenhouse gas (GHG) emissions
 - b. Waste management
 - c. Energy use
 - d. Water use
4. Detailed guidance is provided in support of the ED. The guidance sets out the approach to take with regard to calculating GHG emissions and reporting on waste and finite resource consumption (energy and water).
5. While the ED establishes the minimum reporting requirements it also allows for voluntary inclusion of other environmental and social performance indicators.

Overview

6. The exposure draft is relatively light touch in that in terms of mandatory reporting requirements:
 - a. it focuses solely on environmental performance indicators
 - b. it limits itself to a few key indicators

- c. the first year is a dry run
- 7. While the ED makes reference to other areas of sustainability reporting, i.e. social indicators, it does not require reporting in these other areas.
- 8. The sustainability reporting required results in the creation of a new section in the annual report which will include:
 - a. a simple commentary on reported performance and future plans
 - b. a sustainability report, based on the Accounting for Sustainability Connected Reporting Framework, comprising a table of non-financial and financial information supported by notes.
- 9. The report information is analysed into three main areas: GHG emissions, waste and finite resource use. Over time, this would include comparative data for between three to five years.
- 10. Defra has produced guidance for measuring and reporting GHG emissions. GHG emissions to be reported include:
 - a. Direct emissions from sources owned and controlled by the organisation (e.g. gas boilers)
 - b. Indirect emissions from energy supplied by third parties (e.g. electricity)
 - c. Emissions arising from official business travel directly paid for by the organisation (i.e. not including any recharged by contractors).
- 11. Minimum reporting on waste requires:
 - a. absolute values for waste produced by the organisation (administrative and operational, including construction) and
 - b. methods of disposal (e.g. landfill, recycling, and hazardous)
- 12. Finite resource use includes water and energy and is to be reported using approved metrics defined in the guidance. Entities may also consider reporting on other key finite resource use although this is not mandatory.

Drivers

- 13. The government is committed to reducing risks associated with climate change, by reducing human caused GHG emissions. Monitoring, managing and reporting on emissions form an essential part of this commitment.
- 14. The Climate Change Act has established:
 - a. legally binding targets for the reduction of GHG emissions by 34% by 2020 and 80% by 2050 (against 1990 baseline),
 - b. five year carbon budgets which set a cap on emissions,
 - c. the Carbon Reduction Commitment (CRC) scheme, due to commence April 2010, which will require qualifying public sector organisations to report on energy use and CO2 emissions and participate in an emissions cap and trade scheme,
 - d. the requirement for government to develop a carbon accounting methodology.
- 15. National Indicators for local authorities include a range of environmental indicators; some concerned with climate change, CO2 and waste. Many indicators

go wider than the impact of the local authorities own organisational activities although they still have relevance. More specifically NI 185 is concerned with CO2 reduction from local authority operations and NI 188 covers adapting to climate change.

16. Comprehensive Area Assessments CAAs include an organisational assessment which looks at performance and use of resources. Evidence considered includes demonstrating that the organisation is satisfactorily managing carbon emissions from its own estate.
17. The CAA also expects local government, primary care trusts, police and fire authorities to target, measure and report water use
18. Local authorities play a key role in various sustainability initiatives. The Rio Earth Summit in 1992 highlighted the importance of sustainability at the local level. Two thirds of the action items of Agenda 21 relate to local councils. The Nottingham declaration on climate change has been signed by over 300 local authorities, representing over 90% of English councils, while the Welsh and Scottish equivalents to the declaration have been signed by all local authorities in those areas. More recently a number of local authorities have indicated their commitment to the 10:10 campaign, and the goal of cutting emissions by 10% in 2010.

Implications

19. The proposed sustainability report mandatory requirements are limited to reporting on a few key environmental indicators. The potentially most complex part of the report is in respect of GHG emissions.
20. While reporting on GHG emissions is relatively new and complex, local authorities will be able to draw on experience gained and data collected in respect of: the CRC scheme, NI 185 and the CAA resource use reporting.
21. Reporting on energy and water use can draw on data collected and produced for other purposes. For example: the CAA requirement to measure and report water usage; and for CRC scheme participants, the requirement to report on energy use.
22. The minimum reporting requirement regarding waste is in respect of the total volume of waste generated by the organisation, analysed into: land fill, recycling and hazardous.
23. The linking of non-financial indicators on GHG emissions, waste and finite resource use to financial information regarding associated costs will highlight links between quantities of resources used and related costs.
24. Appendix A provides an example of a sustainability report and indicates its relatively succinct format. Please note that additional notes would be required including, for example, preparation basis and sources of supporting information.

Timing

25. Of the three options considered in the ED regarding the introduction of sustainability reporting, HM Treasury's preferred option is:
 - 2010-11 Dry run for central government

- 2011-12 Mandatory reporting for central government and dry run for other public sector organisations including local authorities
 - 2012-13 Mandatory reporting for other public sector organisations including local authorities
26. Other reporting changes impacting on local authorities include:
- 2010-11 Adoption of IFRS
 - 2011-12 or later for transport infrastructure assets possible move away from historic cost basis.
27. As the proposal stands, introduction of sustainability reporting would follow a year after IFRS adoption but would be phased, with a dry run for 2011-12. Infrastructure accounting may occur later than 2011-12 and may initially involve disclosures in the notes, with inclusion in financial statements occurring later. As such, sustainability reporting may fit in between the changes arising from IFRS and infrastructure accounting.

Issues to be considered in relation to the Code of Practice on Local Authority Accounting

28. A question that CIPFA/LASAAC will need to consider relates to the scope of financial reporting, and how this interacts with narrative reporting.
29. As members will note from the report on financial reporting developments elsewhere on the agenda, the International Accounting Standards Board is planning to issue guidance, rather than a standard, on the management commentary. Similar discussions are taking place within the International Public Sector Accounting Standards Board regarding narrative accounting. CIPFA will also be producing guidance on wider stakeholder reporting as part of the Telling the Whole Story project. This raises questions regarding the status of any guidance that is produced, and where this would best be located.
30. Questions CIPFA/LASAAC will need to consider are:
- Should guidance on sustainability reporting be produced?
 - If so, should the guidance have the formal backing of the Code as a mandatory requirement, or should the guidance be framed in terms of recommended best practice?
 - If the guidance is to be recommended best practice, should it be included as a recommended but non-mandatory approach in the Code, or should separate guidance be issued?
 - If separate guidance is to be produced, should CIPFA/LASAAC be responsible for the guidance, or should an appropriate CIPFA panel be given responsibility for developing the guidance?

Web References

- Accounting for Sustainability project: www.accountingforsustainability.org.uk
- Audit Commission – Comprehensive Area Assessment: <http://www.audit-commission.gov.uk/localgov/audit/CAA/Pages/default.aspx>
- DECC information on Climate Change Act: http://www.decc.gov.uk/en/content/cms/legislation/cc_act_08/cc_act_08.aspx

- DECC information on Carbon Reduction Commitment:
http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/crc/crc.aspx
- Defra draft guidance on measuring and reporting greenhouse gases:
<http://www.defra.gov.uk/environment/business/reporting>
- Defra information on environmental reporting:
<http://www.defra.gov.uk/environment/business/reporting/>
- FReM Exposure Draft – Sustainability Reporting: http://www.hm-treasury.gov.uk/frem_comment.htm
- Nottingham Declaration on Climate Change:
<http://www.energysavingtrust.org.uk/nottingham>
- Stern Review on the economics of climate change:
<http://www.occ.gov.uk/activities/stern.htm>
- West Sussex County Council Sustainability Report 2007/08:
<http://www.westsussex.gov.uk/CS/committee/raac/raac240608i9bb.pdf>

Recommendation

CIPFA/LASAAC is requested to consider whether, following consideration of the issued highlighted in paragraph 30, the accounting Code should include sustainability reporting, and if so, how and when this should be introduced.

Appendix A: Sustainability report example

Sustainability Report For the Year ended 31 March 2011 (illustrative figures only)

GREENHOUSE GAS EMISSIONS		2008-09	2009-10	2010-11	Graphical Analysis
Non-Financial Indicators (tCO2e)	Total Gross Emissions for Scopes 1 & 2.	650	600	550	<p>Greenhouse Gas Emissions</p> <ul style="list-style-type: none"> Other Official Travel - Air Official Travel - Rail Official Travel - Road Gas Consumption Electricity Consumption
	Total Net Emissions for Scopes 1 & 2.	520	450	320	
	Gross emissions attributable to Scope 3 official business travel	250	230	198	
Financial Indicators (£k)	CRC Gross Expenditure (2010 onwards)	218	237	400	
	Expenditure on accredited offsets (eg GCOF).	-	-	-	
	Expenditure on official business travel.	250	190	165	
TARGETS AND COMMENTARY					
<p>Dept Yellow has a target to reduce its carbon emissions by 30% (to xxx tonnes) by March 2012 from our 2006-2007 levels which it is on track to achieve. A new target is currently being considered for the period beyond 2012 and this will be disclosed in the 2012-13 business plan due to be published in February 2012. [Central Government Departments could include performance against SoGE targets, and local Government could include performance against National Indicators].</p>					
DIRECT IMPACTS COMMENTARY					
<p>The main direct impacts for Department Yellow are in its electricity and fuel consumption. Strategies have been prepared to reduce these direct impacts through efficiency programmes.</p>					
OVERVIEW OF INDIRECT IMPACTS					
<p>Dept Yellow is able to significantly influence the emissions of its supply chain through procurement specifications. An action plan is now in place to communicate to suppliers about future contracts and expectations with regards to emissions reductions. We also actively discuss our emissions policy with the public to encourage them to consider their own personal impact when making use of our services.</p>					

WASTE		2008-09	2009-10	2010-11	Graphical Analysis	
Non-Financial Indicators (t)	Total waste [Minimum Requirement]	400	570	560	<p>Non Haz Waste volumes and disposal routes</p> <ul style="list-style-type: none"> Total waste Landfill waste Recycled waste Incinerated waste 	
	Hazardous waste*	200	120	60		
	Non hazardous waste*	Landfill	200	180		175
		Reused/Recycled	-	270		325
* Report if poss.	Incinerated/energy from waste	-	-	-		
Financial Indicators (£k)	Total disposal cost [Minimum Requirement]	1555	1324	569		
	Hazardous waste - Total disposal cost*	1200	853	213		
	Non hazardous waste - Total disposal cost*	Landfill	43	60	83	
		Reused/Recycled	-	411	273	
* Report if poss	Incinerated/energy from waste	-	-	-		
TARGETS AND NARRATIVE						
<p>We have a target of zero waste to landfill by 2012 which we are on target to meet.</p>						
DIRECT IMPACTS COMMENTARY						
<p>The main direct impacts of waste for Dept Yellow are in relation to construction waste from the building of new offices. This is expected to decrease in line with the final delivery of the Department's new office building programme.</p>						
OVERVIEW OF INDIRECT IMPACTS						
<p>Dept Yellow is able to place certain quality objectives on its suppliers in terms of their waste disposal performance. The Department is currently working alongside suppliers to improve both the culture (staff attitudes) and actual performance in relation to waste management and disposal.</p>						

FINITE RESOURCE CONSUMPTION - Water			2008-09	2009-10	2010-11	Graphical Analysis	
Non-Financial Indicators	Water Consumption (M ³)	Supplied	75000	30000	30000		
		Abstracted	-	-	-		
Financial Indicators (£k)	Water Supply Costs		207	205	101		
TARGETS AND NARRATIVE							
We have set a 2012 target to reduce water consumption by 25% from 2005-2006 levels to 51,223m ³ . We have met our year on year targets to date as shown in the above graph.							
DIRECT IMPACTS COMMENTARY							
Our major impacts in terms of water consumption are in our construction activities. We are addressing these through improved procurement and partnerships with suppliers.							
OVERVIEW OF INDIRECT IMPACTS							
The Department also has an indirect impact through the setting of water supply policy for new communities' development it is sponsoring. Negotiations are in place to ensure that a fully sustainable supply is considered.							

FINITE RESOURCE CONSUMPTION - Energy				2008-09	2009-10	2010-11	Graphical Analysis
Non-Financial Indicators	Energy Consumption (kWh)	Electricity: Non-Renewable	60	58	48		
		Electricity: Renewable	-	2	2		
		Gas	-	-	-		
		LPG	-	-	-		
		Other	-	-	-		
Financial Indicators (£k)	Total Energy Expenditure		6200	5100	4352		
TARGETS AND NARRATIVE							
Our energy key performance indicator (KPI) for buildings by 2012 is 30.5 million kWh which we will have difficulty meeting. It is expected that we will be in line to achieve 35 kWh.							
DIRECT IMPACTS COMMENTARY							
Our main areas for energy consumption is lighting our construction sites and our offices.							
OVERVIEW OF INDIRECT IMPACTS							
Our policy responsibilities for building sustainable communities enables us to have a direct impact in terms of the energy provision and consumption through planning decisions based on design. We are ensuring the whole life costing is applied in terms of sustainability in terms of future energy consumption and other finite resource usage.							