



HM Treasury

Sustainability Reporting Update



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GGCs 2021-25– Main updates (and intro to SRG21-22 (1))

Updated GGC targets for 2021-25 (published in October 2021) supersede the 2016-20 targets. Key changes include:

- Changing the target baseline year from 2009-10 to 2017-18, to more accurately reflect the current government estate - *Defra's considering C19's subsequent impact*.
- More stretching targets on the core areas of emissions, water, waste and domestic flights and introducing reporting on international travel.
- Introducing new measures on biodiversity, climate adaptation and food waste.
- Reorganising the targets into headline commitments and sub-commitments.
- Sustainable construction – moved to a new sub-section as a separate requirement.

Note - Defra's plan to publish an updated set of GGC guidance in the near future. There may be small impacts on the quarterly returns/GGC annual report (international air travel). No impact on SRG requirements for 2021-22.

Updated SRG for 2021-22 (published in November 2021). Key changes include:

Added 'Foreword' section – summarises the key changes from the previous version

Added 'Annex A to D' – which will improve navigation of the paper and provide further information to users (team contacts, further reading and links)

Changes to chapter and section structure for clarity and to align with government commitments (now included in red text boxes in each chapter)

General updates to the text and format and removed unnecessary, repeated and out-of-date content

SRG 2021-22 – Updates to mandatory requirements (2)

New reporting requirements:

- Policy objectives and targets – must describe other significant policies pursued on climate change/sustainability
- International flights/transport - now included in the minimum reporting requirements (inline with the GGC update)
- Vehicle fleet – moved from voluntary/best practice to mandatory reporting. Entities must report on progress towards the Ultra Low Emission and Zero Emission (ULEZ) fleet target.
- Disclose FTE and floorspace for comparative purposes – average over period
- Self Audit - entities required to reconcile and explain material difference between the GGC figures disclosed within the GGC annual report published by Defra and the published ARA for the prior period – *not possible as the GGC annual report won't be published in time for 2021-22 cycle.*

Other changes (mandating specific treatment/methodology):

Clarification and clear direction on the following requirements:

- Apply carbon accounting standards
- Use rolling grid average emission factors
- GHG information not weather corrected
- Unable to net-off renewable energy and energy produced on site

Voluntary reporting:

1. TCFD - certain regulated public sector entities are likely to come into scope of new TCFD requirements from 2022-23. The SRG has more details and will be developed further.
2. Green Finance – issuance and reporting on first green gilts for green public sector projects.

Introduction - Sustainability reporting landscape and government policy

Standard setters:

At COP26 in November 2021, the IFRS Foundation:

- established the International Sustainability Standards Board (ISSB)
- announced the consolidation of voluntary standard setters

Positioning themselves as the global baseline for corporate reporting standards for sustainability.

Government policy:

The Treasury announced economy-wide plans for:

- TCFD-aligned disclosure to mandated across the UK economy by 2025
- a new Sustainability Disclosure Reporting (SDR) framework expected for implementation by 2024
- the UK's Green Taxonomy, expected over the coming months

ISSB's International Sustainability Disclosure Standards (ISDSs) will form a key component of the SDR framework

Public sector (early discussions):

- Expect public sector to adopt an adapted version of the TCFD/SDR framework.
- Approach and baseline framework for public sector sustainability reporting will be developed with advise from the FRAB-Sustainability Subcommittee (established in November 2021) and in coordination with each relevant authority.

Financial reporting for climate change and FRAB

International Financial Reporting Standards (IFRS)

Published educational material for account preparers on climate-related financial reporting matters, including on:

- provisions/contingent liabilities arising from fines and penalties
- changes in expected credit losses for loans and other financial assets
- changes in useful life of assets ○ impairment

FRAB Sustainability Subcommittee

In November 2021, FRAB established the Sustainability Subcommittee (SSC) to consider developments on climate-related and sustainability reporting in the public sector, including:

- Develop/publish financial reporting guidance on climate-related matters for the public sector
- Advise the Treasury on a suitable strategy for future public sector sustainability reporting

Financial Reporting Council's (FRC)

Conducted climate-related reporting thematic review on the roles of boards, companies, auditors, investors and professional bodies which concluded that:

- narrative reporting is improving; however, consideration and disclosure in the financial statements lags (companies, investors)
- there's a lack of clarity on terms (companies)
- risks are not appropriately addressed in planning and execution (auditors)
- guidance varies in quantity and detail (professional bodies)

FRAB-SSC work plan:

- Financial reporting implications of climate change (Mar-22)
- Overview of current public sector (PS) reporting frameworks
- Consider ISSB standards and private sector reporting for PS
- Consider TCFD recommendations for the PS

Task force on Climate Related Financial Disclosure (TCFD) - Introduction

Background

Established by the Financial Stability Board in 2015

Aims to improve/expand reporting of climate-related financial information

Published first report and recommendations in June 2017 and updated report in October 2021

UK Government endorsed the TCFD framework in September 2017

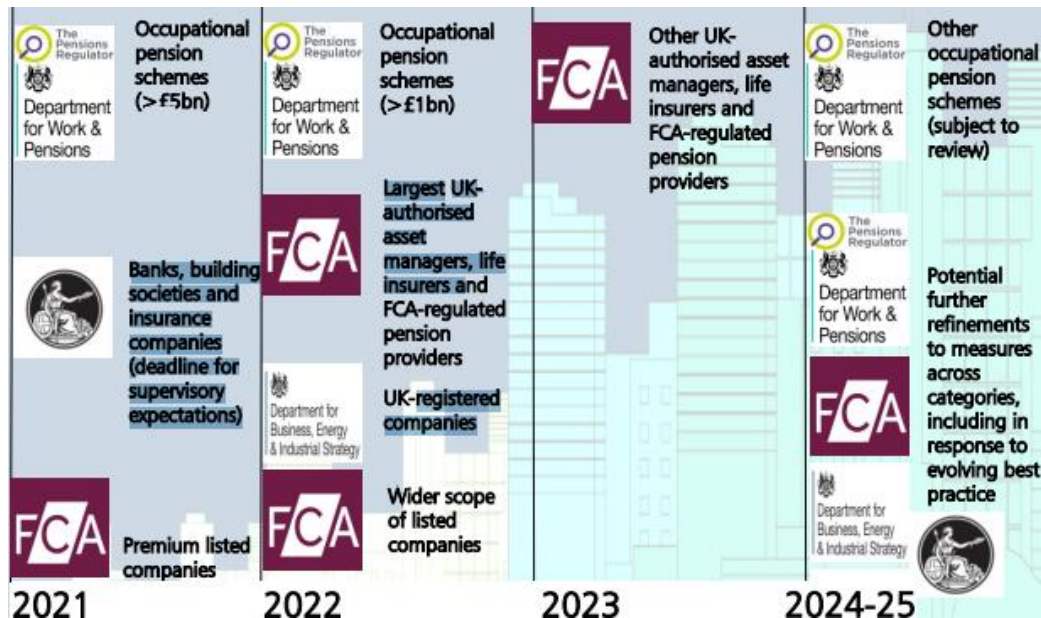
Established the UK joint regulator and government taskforce

Worldwide

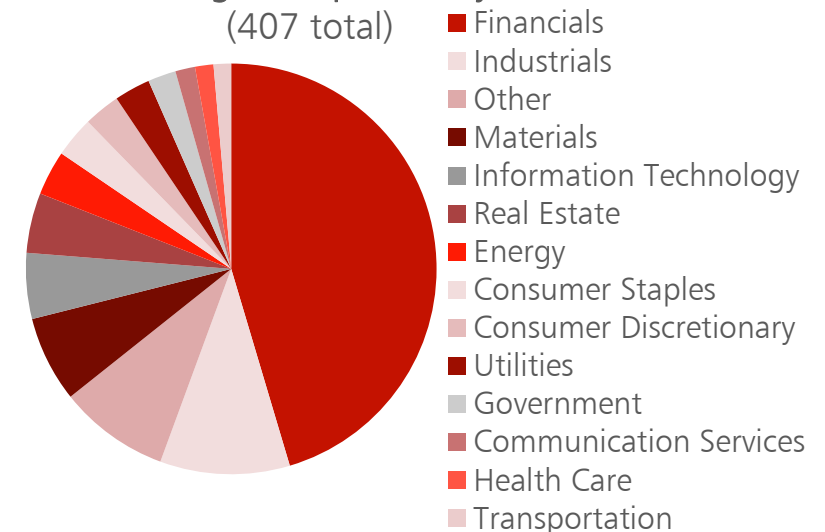
+ 2,500 TCFD-aligned annual reports

Mostly financial services and public companies

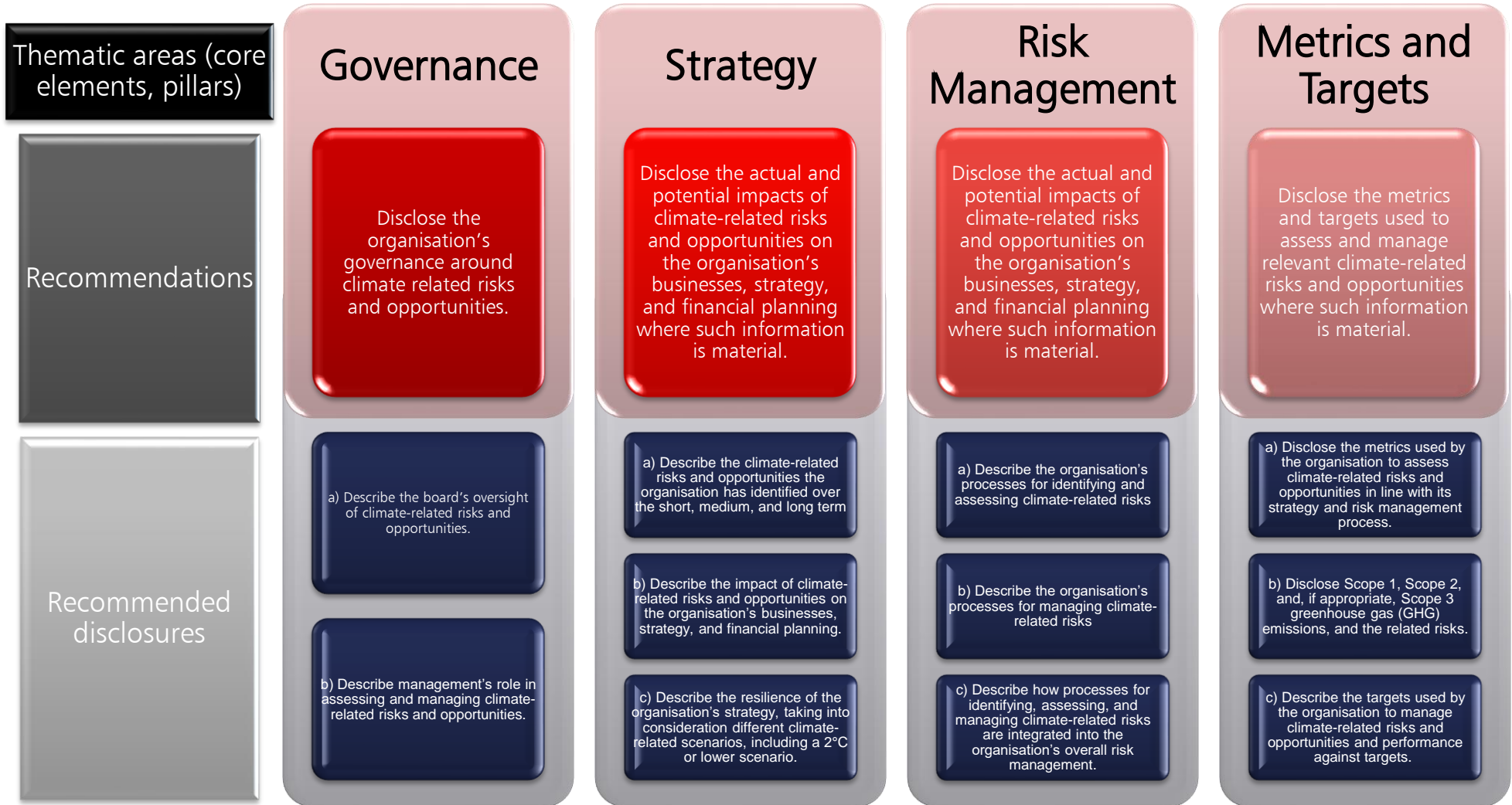
Public sector reporting, includes: central banks, government departments, local governments



UK TCFD-aligned reporters by sector (407 total)



TCFD recommendations – Overview



International Sustainability Standards Board (ISSB) - Introduction

International Sustainability Standards Board (ISSB) technical board of the IFRS Foundation

- Public consultation in late 2020 received 576 comment letters across 33 jurisdictions with overwhelming support.
- In March 2021, the Technical Readiness Working Group (TRWG) was established

Suitability of IFRS:

- Connection between accounts and management commentary - to become more important
- Experience from IFRS/IASB

Benefits of consolidation

- Combat 'alphabet soup' and greenwashing
- Global baseline
- Adoption
- Simplicity
- Direction

Technical Readiness Working Group

Participants:

- The International Accounting Standards Board (IASB)
- The Climate Disclosure Standards Board (CDSB)
- The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)
- The Value Reporting Foundation (VRF)
- The World Economic Forum (WEF)

Observers:

- The International Organization of Securities Commissions (IOSCO)
- The International Public Sector Accounting Standards Board (IPSASB)

Strategic direction of IFRS:

- Investor focus for enterprise value
- Sustainability scope, prioritising climate
- Build on existing frameworks
- Building blocks approach

There's a drive to hold international organisation to account on issues wider than just finance



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Questions