



HFMA Webinars



# Sustainability reporting

Max Greenwood, Government Financial Reporting, HM Treasury

**4th February 2022 13.30 – 14.30**





HM Treasury

# Sustainability Reporting Update

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**4 February 2022**

Max Greenwood



HM Treasury

# Quick survey

# Introduction

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## **Responsibilities in area**

- Publishing the annual Sustainability Reporting Guidance for central government
- Secretariat for the FRAB Sustainability Working Group for the wider public sector

## **Overview of presentation**

Update on the sustainability reporting landscape and government policy

Overview of existing climate-related financial reporting guidance and reports

Overview of existing requirements, including the Sustainability Reporting Guidance

Introduce the Task-force on Climate-related Financial Disclosure (TCFD) recommendations

Introduce and update on the International Sustainability Standards Board

Review good practice for sustainability reporting

# 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 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 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 SDR framework.
- Application guidance will be developed over the coming years with direction from departments and advice from FRAB-SWG.
- Future versions of the Sustainability Reporting Guidance (SRG) will be updated to reflect upcoming reporting changes.

# Climate-related financial reporting guidance and reports

## 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

## Government climate-related financial reporting

In November 2021, FRAB established the Sustainability Working Group (SWG) to consider developments on climate-related and sustainability reporting in the public sector. FRAB-SWG plans to:

- Develop and 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)

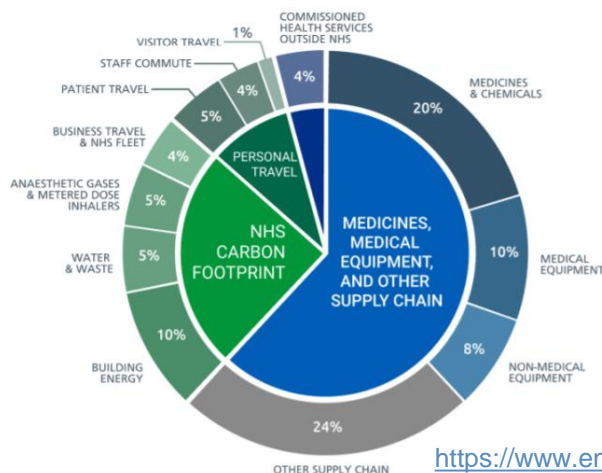
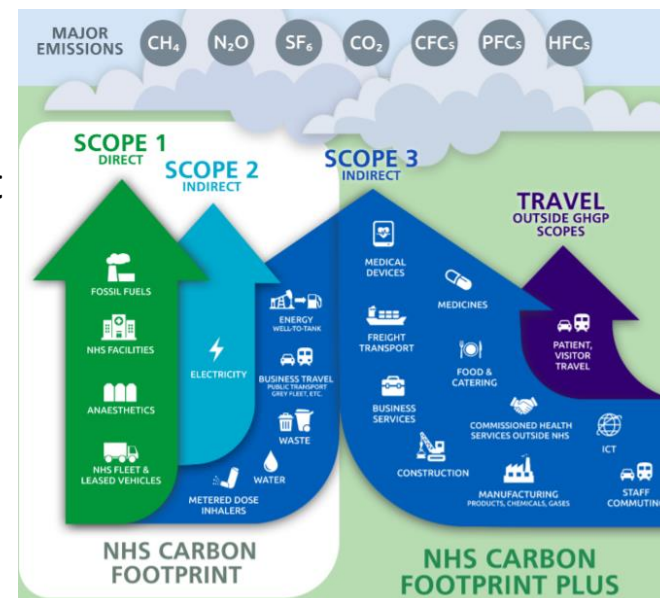
Conducted a climate-related reporting thematic review on the roles of boards, companies, auditors, professional bodies and investors. The report concluded that:

- climate-related issues weren't addressed in business models and strategy (board)
- narrative reporting is improving; however, consideration and disclosure in the financial statements lags (companies)
- 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)
- while narrative risk reporting is improving; reports lack related financial information (investors)

# Current NHS sustainability reporting requirements

## Reporting requirements

- Central government bodies (DHSC, NHS England, etc.,) are in scope of the Greening Government Commitments and must report against the Sustainability Reporting Guidance.
- Mandated annual sustainability reporting for Clinical Commissioning Groups (CCGs)
- Optional Sustainability Reporting Portal tool for providers and CCGs
- Internal reporting nationally on the Greener NHS Dashboard



## Delivering Net Zero National Health Service

Published in October 2020

NHS Carbon Footprint to include Scope 1, Scope 2 and Scope 3 (aligning with the Greenhouse Gas Protocol).

Net zero for care provided (by 2040) and entire scope (by 2045)

<https://www.england.nhs.uk/greenernhs/wp-content/uploads/sites/51/2020/10/delivering-a-net-zero-national-health-service.pdf>

# Sustainability Reporting Guidance (SRG)

## **Greening Government Commitments for 2021-25** published by Defra in November 2021:

- ☐ A new target baseline year of 2017-18 (from 2009-10), to more accurately reflect the current gov estate
- ☐ Setting more stretching targets on the core areas of emissions, water, waste and domestic flights, and introducing new measures on biodiversity, climate adaptation and food waste
- ☐ Integrating more transparent reporting requirements into the GGC targets for biodiversity and climate adaptation
- ☐ Reorganising the targets into headline commitments and sub-commitments, so that departments can commit to common overall objectives, with sub-commitments which contribute to the overall aims

## **SRG** published by the Treasury in November 2021

New and improved structure; enhanced format with summary of updates; with a clearer introduction and reporting requirements.

New reporting for:

- International air travel
- Ultra Low and Zero Emission Vehicles

Updated reporting for:

- Sustainable construction – new sub-section as separate requirement
- Rural Proofing – moved as only relevant for certain entities

## **Voluntary reporting:**

- ☐ Task force for Climate Related Financial Disclosure (TCFD) - certain public sector entities will be brought into scope of new requirements. The SRG allows entities to report against the TCFD recommendations.
- ☐ Green Finance – issuance and reporting on first Green Gilts for green public sector projects



# 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

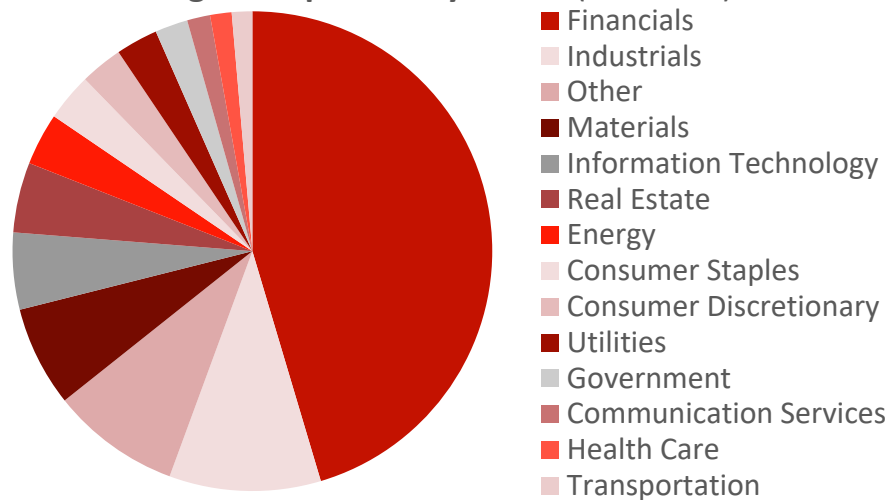
### Timeline

Joint taskforce published roadmap

Various consultations completed and ongoing

UK economy wide by 2025

UK TCFD-aligned reporters by sector (407 total)



### Worldwide

+ 2,500 TCFD-aligned annual reports

Mostly financial services and public companies

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

### UK public sector adopters

UKEF	Financial Conduct Authority
The Crown Estate	FRC – expect implementation soon
BBC	Ordnance Survey – Implementing from 2021-22
The Bank of England	
Pension Protection Fund	

# TCFD Recommendations



# International Sustainability Standards Board

## **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

### **Strategic direction:**

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

### **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)

**Timetable** - The ISSB is expected to publish an exposure draft of the first International Sustainability Reporting Standard (ISDS) in early 2022 with the first full standard expected by Q3.

### **Climate-related disclosure prototype**

- ☐ Recommendations from TRWG but not approved by the ISSB.
- ☐ TCFD recommendations and recommended disclosures
- ☐ Includes Scope 3 with definitions
- ☐ Industry disclosure requirements (includes healthcare)



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# **Good Practice Examples**

**From the NAO Good Practice Guide and  
upcoming Treasury Good Practice  
Guide publication**

# Sustainability reporting good practice – Performance highlights

## Our performance at-a-glance

**Reduce environmental impacts.** This year we have:

Launched the **ZEBRA scheme** which will provide up to

**£120m**

to support the introduction of **zero emission buses** and associated infrastructure

Established the **UK Emissions Trading Scheme** with a cap

**5%**

tougher than the EU equivalent

Funded over

**130,000**

electric vehicle charge points



Established the **Jet Zero Council** in July 2020 in collaboration with BEIS which aims to deliver **zero emission transatlantic flights** within a generation



Launched a

**£20m**

industry competition to design **zero-emission road freight trials**



Issued over

**400,000**

of the **£50 bike repair vouchers** across England through the **Fix Your Bike scheme**



Provided over

**£20m**

of revenue funding to local authorities through the **Access Fund** to get more people **Walking and Cycling**



Planted Over

**700,000**

trees to date as part of phase one of HS2.



Established the

**first**

**Carbon Management Plan** across government

Implemented a number of

**Clean Air Zones**



Launched a

**£20m**

Clean Maritime Demonstration Competition, to accelerate the design and development of greener ports



Began running all-electric services for the first time from London Paddington–Cardiff Central, following the completion of the **Great Western Electrification Project**



[assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1031059/dft-annual-report-and-accounts-2020-2021-web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031059/dft-annual-report-and-accounts-2020-2021-web.pdf)





# Sustainability reporting good practice – Performance highlights

**Reporting Issue** The Government Financial Reporting Review also emphasised the importance of reporting the annual performance highlights of an organisation. Providing an overview of performance over the course of a year increases the understandability and usability.

## Example and why this is best practice

This is an example from the [Department for Transport](#):

- ✓ Provides a clear overview of the department's sustainable activities throughout the year;
- ✓ Has a clear focus on summary information, allowing users to easily understand performance outcomes;
- ✓ Uses a variety of graphics, making this section more visually appealing.

[assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1031059/dft-annual-report-and-accounts-2020-2021-web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031059/dft-annual-report-and-accounts-2020-2021-web.pdf)

## Department for Transport – pg. 63





# Sustainability reporting good practice – Strategic priorities


## Strategic Priorities


Our strategic priorities reflect the themes and view of the future we will pursue to decarbonise our transport system before 2050. These were set out in Decarbonising Transport: Setting the Challenge last year, and remain valid as we recover from the COVID-19 pandemic.


- ### 1. Accelerating modal shift to public and active transport


  - Public transport and active travel will be the natural first choice for our daily activities.
  - We will have a cohesive, widely available, not zero public transport network designed for the passenger.
  - We will use our cars differently, and less often, with new technology helping reduce our carbon footprint.
- ### 2. Decarbonising Road Transport

  - We will phase out all new non-zero emission road vehicles, from motorcycles to HGVs, by 2040.
  - Delivered by a world leading regulatory framework and support packages, leading the global race to zero emission road transport.
  - We will ensure infrastructure will not be a barrier to the zero emission transition.
- ### 3. Decarbonising how we get our goods

  - We will decarbonise our freight systems, pioneering new zero emission technologies with mass scale demonstrations by 2040.
  - Increasing amount of freight will shift from road and air to more sustainable modes, with digital solutions and data sharing optimising efficiency.
  - The last mile will be decarbonised and places will have the logistics solutions best suited to their specific needs.
- ### 4. UK as a hub for green transport technology and innovation

  - We will lead the modern industrial revolution through UK transport, becoming the internationally recognised leader in green technology, innovation, science and research.
  - We will harness the opportunities from green innovation and technology to drive UK productivity growth and create new jobs.
- ### 5. Place-based solutions to emissions reduction

  - By 2050 every place in the UK will have its own net zero transport network.
  - We will reform the way local transport infrastructure is funded to drive decarbonisation at a local level.
  - All places will have the ability to take local action to decarbonise transport, to radically change how people travel and level up the UK.
- ### 6. Reducing carbon in a global economy

  - UK aviation will meet net zero by 2040 and UK shipping by 2050.
  - We will ensure the impact of aviation on the environment is significantly reduced and by 2050, zero emission ships will be commonplace globally.
  - We will continue to lead international aviation, co-operation and collaboration.

[assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1031059/dft-annual-report-and-accounts-2020-2021-web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031059/dft-annual-report-and-accounts-2020-2021-web.pdf)

# Sustainability reporting good practice – Strategic priorities

**Reporting Issue** A summary performance appraisal, providing a synopsis of the performance analysis section and outlining whether a department is progressing towards its strategic objectives and any other organisational goals.

*Department for Transport – pg. 86*

## Example and why this is best practice

This is another example from the [Department for Transport](#):

- ✓ Has broken down the steps and commitments required to deliver the transport decarbonisation plan into 6 strategic priorities;
- ✓ Provides clear explanations for each priority on the progress they have made;
- ✓ Includes various graphics for ease of understanding.



[assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1031059/dft-annual-report-and-accounts-2020-2021-web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031059/dft-annual-report-and-accounts-2020-2021-web.pdf)



# Sustainability reporting good practice – KPIs and targets







**Reporting Issue** Entities falling within the scope of reporting under the Greening Government Commitments and which are not exempted by de minimis limits or other exemption under Greening Government (or other successor policy), shall report performance against sustainability targets.

## Example and why this is best practice

The example on this slide from the [Foreign, Commonwealth and Development office](#):

- ✓ Uses multi-year trend data within individual graphs to clearly show how progress is being made against each Greening Government Commitment (GGC);
- ✓ Gives a balanced and honest reflection of each target, which provides trust and increases the value of the report to the user.

## Foreign, Commonwealth and Development office

Greening Government Commitment	Progress	2009-10 Combined Baseline <sup>12</sup>	2020-21 Target	2020-21 Performance	Performance
Greenhouse Gases		23,065 tCO <sub>2</sub> e	11,533 tCO <sub>2</sub> e Aiming for 50% reduction	6,111 tCO <sub>2</sub> e	Exceeding 2020-21 Target
Domestic Flights		4,345 flights	3,041 flights Aiming for 30% reduction	347 flights	Exceeding 2020-21 Target
Waste Production		1,533 tonnes of waste	Aiming for continuous reduction	313 tonnes	Exceeding 2020-21 Target
Recycling		58% of waste recycled	Aiming for continuous reduction	55% of waste recycled	Behind 2020-21 Target
Paper Consumption		38,930 reams of A4 equivalent	19,465 reams of A4e Aiming for 50% reduction	1,573 reams of A4e	Exceeding 2020-21 Target
Water		74,825m <sup>3</sup>	Aiming for continuous reduction	33,530 m <sup>3</sup> reduction	Exceeding 2020-21 Target

# Sustainability reporting good practice – Governance

There is disclosure of the training the board has undertaken in-year recognising the need to expand the board's knowledge and skills (page 97).

Consideration of the skill set of the board members brought together to give an overall picture of board make-up.

This is supported by biographies on subsequent pages that give further information on individuals skills, competence and experience.



[www.severntrent.com/content/dam/stw-plc/shareholder-resources/ara-annual-report-2021.pdf](http://www.severntrent.com/content/dam/stw-plc/shareholder-resources/ara-annual-report-2021.pdf) within [www.nao.org.uk/report/good-practice-in-annual-reports/](http://www.nao.org.uk/report/good-practice-in-annual-reports/)

# Sustainability reporting good practice – Rural proofing and Biodiversity disclosures

## Reporting Issue








- Entities must cover any biodiversity action plans and the organisation's performance against them in line with GGC.
- Entities must report on how Rural Proofing is applied to all aspects of departmental policy development and implementation cycles, and report on policies or projects making a significant contribution to RP

## Example and why this is best practice

The example on this slide from [Department for Work and Pensions](#):

- ✓ Uses Icons within the table to map the reporting area to the relevant broader policy objective(s), which have already been highlighted earlier on in the report.
- ✓ Provides detailed explanations on the activity for 2020-21 for each initiative.

Department for Work and Pensions – pg. 88

<b>Environment</b>		We aim to make prudent use of natural resources to help protect the environment
<b>Social</b>		We aim to recognise the needs of everyone and support those with complex barriers to turn their lives around for the better
<b>Economic</b>		We aim to achieve high and sustainable levels of employment to support economic growth
<b>Rural proofing</b>	 	<p>'Being flexible enough to meet the needs of rural communities, businesses and people.'</p> <p>Case studies:</p> <ul style="list-style-type: none"> <li>• Wales – Conwy are heavily involved in working with the rural community and supporting their employment needs. The team have worked closely with a local social enterprise/community centre in Llanrwst who run job clubs, men's sheds, theatre groups and sensory gardens, which help support people with a whole different set of needs. This has also helped people from the Armed Forces Community</li> <li>• Cumbria and Lancashire – Our teams have engaged with Lancashire and Cumbria Adult learning to deliver virtual skills development for all clients that highlighted work opportunities in growth sectors across district, specifically supporting rural communities. This work has been delivered virtually and this new innovative offer for our young people has been enabled by digital access via FSF awards to ensure clients in rural areas have access to IT.</li> </ul>
<b>Biodiversity</b>	 	<p>During 2020-21, DWP Estates have been in the process of installing bird boxes on approximately 200 sites where we believe they can deliver the following advantages:</p> <ul style="list-style-type: none"> <li>• Provide additional shelter and habitat for breeding small birds</li> <li>• Encourage wild birds onto our sites to enhance biodiversity</li> <li>• Provide education, enjoyment and increased health and wellbeing benefits to staff and visitors</li> </ul>

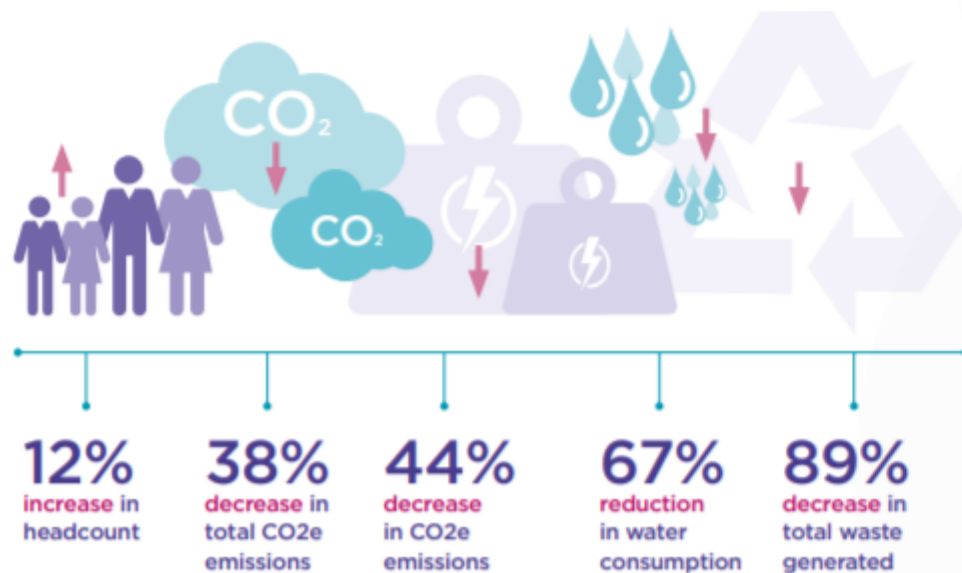
assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\_data/file/1005399/dwp-annual-report-and-accounts-2020-2021-web-ready.pdf

# Sustainability reporting good practice – External factors

## Waste performance commentary

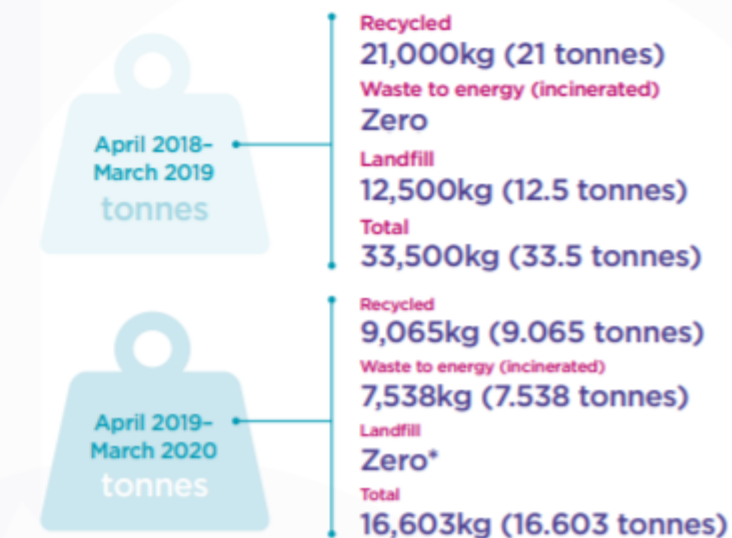
Total waste arising from TPR's estate for 2020-2021 was 3.6 tonnes, of which 2.52 tonnes were recycled, and 1.085 tonnes were processed as energy from waste (EFW) and zero waste to landfill. Overall, the total waste generated has decreased by 89% relative to 2019-2020. Total costs equated to £15,248.44 inc VAT on all waste contracts during 2020-2021.

Figure 3: Greenhouse gas and waste performance



## Three-year review in numbers

Figure 4: Breakdown of sustainability performance 2018-2021



[www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/annual-report-and-account-2020-2021.ashx](https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/annual-report-and-account-2020-2021.ashx) within  
[www.nao.org.uk/report/good-practice-in-annual-reports/](https://www.nao.org.uk/report/good-practice-in-annual-reports/)



# Sustainability reporting good practice – External factors

## Our strategy continued

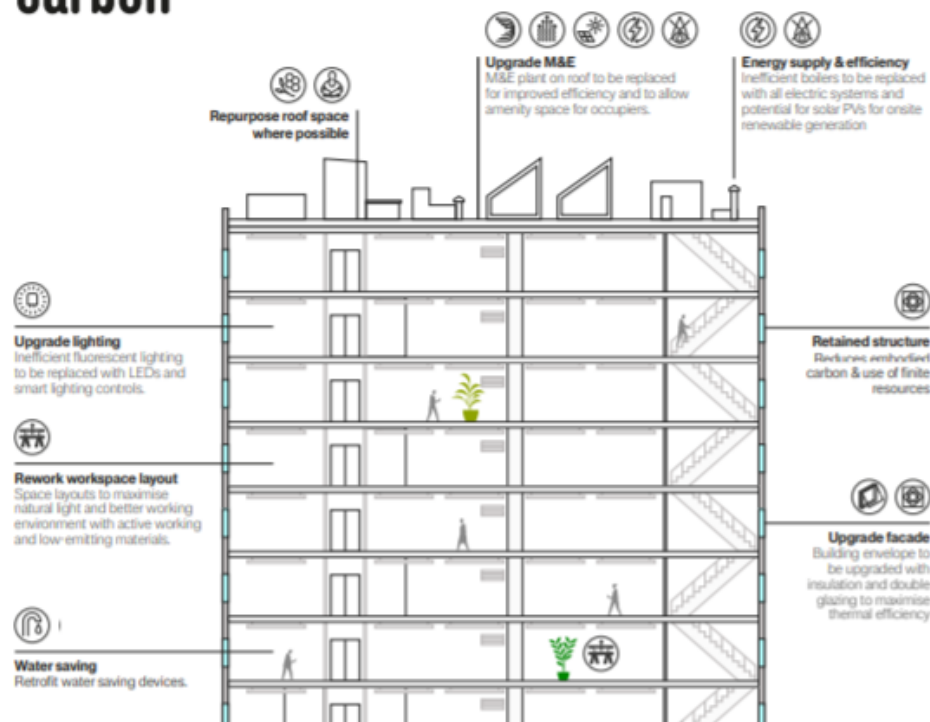
### 4. To design, deliver and operate our buildings responsibly

Delivering well-designed, adaptable, occupier-focused buildings is an integral part of our business model. We believe these buildings offer better long-term value for occupiers, reduce letting risk and void levels and command better rents, yields and values.

Setting high standards in terms of design and environmental responsibility builds flexibility, longevity and climate resilience into our portfolio, not just in our new developments but also in the properties we manage.

To meet our target of becoming a net zero carbon business by 2030 (see page 48 for more details), we must develop buildings that are even more energy efficient, powered by renewable energy and have very low embodied carbon footprints. Likewise, we must reduce our managed properties' reliance on natural gas and further improve their energy consumption.

## How to make buildings net zero carbon



[www.derwentlondon.com/uploads/downloads/Derwent\\_Annual\\_Report\\_2020\\_Final\\_Spreads\\_2021-04-14-121938.pdf](http://www.derwentlondon.com/uploads/downloads/Derwent_Annual_Report_2020_Final_Spreads_2021-04-14-121938.pdf) within [www.nao.org.uk/report/good-practice-in-annual-reports/](http://www.nao.org.uk/report/good-practice-in-annual-reports/)

# Sustainability reporting good practice – External factors



[www.nao.org.uk/wp-content/uploads/2021/02/Good\\_practice\\_in\\_annual\\_reporting.pdf](http://www.nao.org.uk/wp-content/uploads/2021/02/Good_practice_in_annual_reporting.pdf) within [www.nao.org.uk/report/good-practice-in-annual-reports/](http://www.nao.org.uk/report/good-practice-in-annual-reports/)

# Sustainability reporting good practice – External factors

Strategic report
Operational report
Governance
Financial statements
View large print version of this report

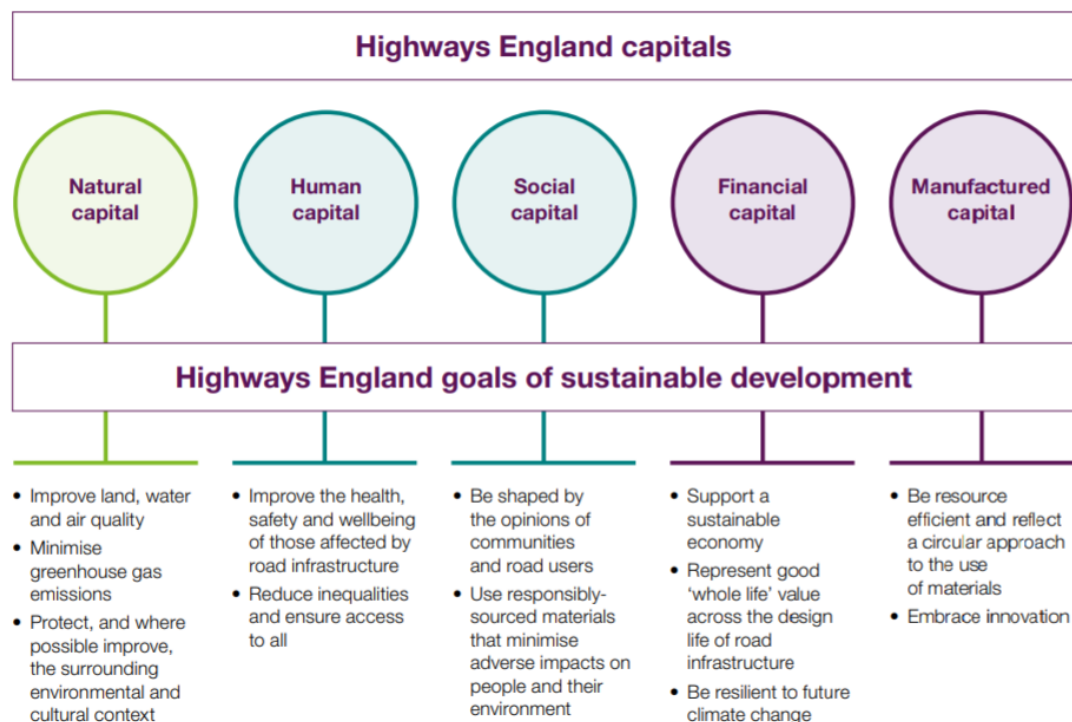
## SUSTAINABILITY REPORT

In this report, we discuss our progress towards building a sustainable business as well as extending our focus to wider areas of sustainability.

<b>Our approach</b>	<b>58</b>
– Updating our strategies	58
– Developing a social value strategy	63
– Planning for net zero	63
– Embedding sustainability governance	65
<b>Designated funds</b>	<b>68</b>
– Building a robust programme	68
– Safety and congestion fund	69
– Users and communities fund	70
– Environment and wellbeing fund	71
– Innovation and modernisation fund	72
<b>Environment</b>	<b>73</b>
– Improving air quality	73
– Reducing carbon emissions	75
– Supporting biodiversity	77
– Mitigating noise	79
– Reducing flooding and improving water quality	79
– Preserving cultural heritage	80
– Clearing litter	81
<b>People and communities</b>	<b>82</b>
– Delivering our People strategy	82
– Supporting customers and communities	90
<b>Supply chain</b>	<b>91</b>
– Establishing our routes to market	91
– Developing supply chain capability	92
– Supporting supplier equality, diversion and inclusion	94

## The Five Capitals Model of sustainability continued

The five capitals map to the 12 goals of sustainable development in our *Design manual for roads and bridges*. These also link to the internationally-agreed United Nations Sustainable Development Goals.



[nationalhighways.co.uk/media/0g2mueew/highways\\_ar21\\_interactive.pdf](https://nationalhighways.co.uk/media/0g2mueew/highways_ar21_interactive.pdf) within [www.nao.org.uk/report/good-practice-in-annual-reports/](https://www.nao.org.uk/report/good-practice-in-annual-reports/)



HM Treasury

# Questions



# References and further reading

## IFRS Foundation guidance and the International Sustainability Standards Board (ISSB)

- ❑ [Educational materials](https://www.ifrs.org/news-and-events/news/2020/11/educational-material-on-the-effects-of-climate-related-matters/) - [www.ifrs.org/news-and-events/news/2020/11/educational-material-on-the-effects-of-climate-related-matters/](https://www.ifrs.org/news-and-events/news/2020/11/educational-material-on-the-effects-of-climate-related-matters/)
- ❑ Technical Readiness Working Group, IFRS - <https://www.ifrs.org/groups/technical-readiness-working-group/#about>
- ❑ Sustainability standards, IFRS - <https://www.ifrs.org/projects/completed-projects/2021/sustainability-reporting/#about>

## Other guidance

- ❑ Financial Reporting Council, Climate Thematic Review - [www.frc.org.uk/our-purpose/climate-thematic-review-2020](https://www.frc.org.uk/our-purpose/climate-thematic-review-2020)
- ❑ Recommendations, status reports and guidance, TCFD - <https://www.fsb-tcfd.org/publications/>

## Government and public sector guidance

- ❑ The NAO's [good practice guides](#), department overviews - [www.nao.org.uk/search/pi\\_area/environmental-sustainability/](https://www.nao.org.uk/search/pi_area/environmental-sustainability/)
- ❑ Sustainability Reporting Guidance - [www.gov.uk/government/collections/public-sector-annual-reports-sustainability-reporting-guidance](https://www.gov.uk/government/collections/public-sector-annual-reports-sustainability-reporting-guidance)
- ❑ OneFinance's blogs, updates - [gff.civilservice.gov.uk/](https://gff.civilservice.gov.uk/)
- ❑ FRAB-SWG – Updates, publication and [approved work plan](#) - <https://www.gov.uk/government/collections/hmt-financial-reporting-advisory-board-minutes>

## NHS guidance

- ❑ Delivery Net Zero National Health Service - [www.england.nhs.uk/greenernhs/a-net-zero-nhs/](https://www.england.nhs.uk/greenernhs/a-net-zero-nhs/)