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MANDATORY REPORTING OF GHG EMISSIONS

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WHAT MANDATORY EMISSIONS REPORTING LEGISLATION MEANS FOR UK BUSINESS.

INTRODUCTION

For financial reporting years ending on or after 30 September 2013, under the Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013 all UK quoted companies will be required to report their annual greenhouse gas emissions in their Directors Report.

This requirement affects all UK incorporated companies listed on the main market of the London Stock Exchange; or is listed on a European Economic Area market; or whose shares are dealing on the New York Stock Exchange or NASDAQ.

This document aims to outline the key requirements introduced by this new regulation which at a high level include:

- Reporting will be in the annual Directors Report and so will be subject to your auditor's review.
- The reporting scope will cover the entire organisation's operations, not just the UK based portion.
- The regulation requires that you report the 6 main greenhouse gases arising from your global operations, not just the carbon emissions arising from consumption of electricity and gas, as is currently the case with the UK's Carbon Reduction Commitment (CRC).
- Beyond the initial year, you will be required to repeat the emissions data disclosed in your previous report alongside the present year, in effect creating a 1-year rolling comparator.

- You will be required to express your emissions by way of at least one intensity ratio, either business metric or financial indicator such as sales revenue or square meters of floor space. This will allow for performance comparison with similar companies.

Based on our experience of delivering environmental reports and analysis over the last 5 years to 250 clients across all industries, we have provided a checklist of recommended early actions that you should seek to implement in order to be best placed to comply with this new Statutory Reporting requirement.

WHAT WILL YOU BE REQUIRED TO REPORT?

You will be required to report on activities that result in emissions of any of the six greenhouse gases (GHGs) listed in the Kyoto protocol phase 1. Although carbon dioxide is the most widely recognised and talked about GHG, the other five gases include methane, nitrous oxide, sulphur hexafluoride, hydrofluorocarbons and perfluorocarbons.

(Note that the newly issued Kyoto protocol phase 2 introduced a seventh gas, nitrogen trifluoride (NF3), however this is not as yet included in the UK's Climate Change Act 2008 and therefore NF3 currently remains out of scope for Mandatory Reporting).

For reporting purposes, these 6 GHGs are converted into a combined common reporting unit called carbon dioxide equivalent (CO2e). Among others, DEFRA is one source for tables of conversion factors that enable the conversion of a unit of consumption, such as a kWh of electricity or a litre of diesel, into its 6 component GHG values and combined CO2e value.

You will be required to report all CO2e from:

- The combustion of fuel, both stationary and mobile.
- The operation of any facility including process & fugitive emissions.
- Emissions resulting from the purchase of electricity, heat, steam or cooling.

For organisations already reporting under UK's Carbon Reduction Commitment (CRC) scheme, the proposed legislation extends beyond the current CRC reporting requirement. Firstly, by including all six GHGs, and secondly by including all scope1 emission sources such as fugitive gases (from refrigeration or air conditioning systems) and process emissions (such as CO2 emissions from cement manufacture) and by going beyond estate based emissions to include fuel consumed by company owned vehicles.

The inclusion of scope 3 emissions is optional – such as emissions arising from your business travel, supply chain and customer usage of your products. However, you might consider expanding your environmental data capture to include these elements to provide a view of your organisation's total direct and indirect CO2e impact.

WHO WILL BE REQUIRED TO REPORT?

Simply put, UK based quoted companies are all covered by this regulation. This will include not only companies quoted on the main market of the London Stock Exchange (LSE), but also UK based companies who report on European or US Stock Exchanges.

Unlike the CRC scheme, the GHG emission reporting will mirror the organisational basis used for financial reporting. For example, if you are an international group whose consolidated reporting is made on the LSE, then you'll have to report your worldwide-consolidated GHG emissions. This significantly increases the complexity, volume and scope of the required data capture.

WHAT WILL THE GHG EMISSION REPORT INCLUDE?

The reporting assumption is that you are reporting emissions for the same time period and the same organisational scope as your financial statements. You can deviate from this assumption, but if you do you need to disclose why. If you are already collecting emissions data this may represent a change in the way you currently structure your reporting (for example calendar year reporting for emissions versus an April to March financial year).

You will be required to include:

- All emissions (i.e. all 6 GHGs – CO_2, CH_4, N_2O, HFCs, PFCs & SF_6) arising from all operations (not just the UK portion). You are not required to report the total of each individual gas, but must report on the sum total of CO_2e (carbon dioxide equivalent).
- This year's and the previous year's emissions (after year 1), creating a 1 year rolling comparison figure. The exception to this is in year 1 when no comparator is required.
- The methodology used to calculate the emissions. It is recommended that you use robust and accepted methods, such as existing independent and widely recognised standards (for example the GHG Reporting Protocol or Defra Reporting Guidelines).
- An appropriate intensity metric (e.g. GHG emissions per revenue £).

The Directors Report is already covered by Companies Act 2006 and your GHG reporting will need to conform to the terms of this existing legislation. The Financial Reporting Council is responsible for enforcing compliance. The most significant implication is that auditors have to confirm that in their opinion the information given in the director's report complies with the Companies Act 2006. Hence GHG emissions reporting will now fall under the scope of your auditors and their requirements when providing their opinion on your financial statements.

Auditors bring with them the concept of materiality. Fundamentally an item is material if its inclusion or exclusion would change a user's interpretation of the Financial Statements. So you have the discretion to exclude a certain emission source, or part of your organisation if you deem it to be immaterial in the context of your overall emission reporting, and the auditors agree with this view.

WHEN WILL I BE REQUIRED TO START REPORTING?

The GHG emissions reporting requirement comes in to place for company reporting years, ending after 30th September 2013.

For example:

Your Usual Financial Reporting Year	Your First Reporting Year Under the New Regulation
1st Jan – 31st Dec	1st Jan 2013 – 31st Dec 2013
1st Apr – 30th Mar	1st April 2013 – 30th Mar 2014
1st Oct – 30th Sept	1st Oct 2012 – 30th Sept 2013

To be clear, if your current annual reporting period started on or after 1 October 2012, then your next Statutory Financial Reports will need to comply with the new Mandatory GHG Reporting legislation.

Based on these dates, you might be required to report on data from a period that occurred before the regulation was made a requirement. In this instance you can:

- Provide an estimate and submit the methodology you used with your report.
- Provide an explanation as to why it is not possible to provide 12 months of data.

WHY HAS THIS LEGISLATION BEING INTRODUCED?

The overall objective is to drive a change in behaviour in energy consumption and therefore reduce overall GHG emissions. It is assumed that once GHG emissions are reported and become much more visible to all stakeholders, the natural extension is for companies to demonstrate control in the form of reducing their emissions. The obvious benefit of reduced emissions from lesser consumption is lower operational cost, making these companies leaner and more competitive.

As Caroline Spelman the former UK Secretary of State for Environment, Food and Rural Affairs said when making the announcement, “Mandatory reporting of GHG emissions by all quoted companies will provide transparency enabling investors to see how listed companies are managing their carbon liabilities. This is essential information for investors who wish to assess medium to long-term risks. Business groups have called for regulation to create a common standard on GHG reporting and a level playing field and to create transparency for investors and wider stakeholders”.

SUMMARY

Including GHG emissions reporting in your annual Director’s Report brings it within the scope of Companies Act 2006 and therefore your auditors play a role. The rigour and robustness of your GHG data capture, conversion to CO2e, consolidation and reporting now needs to mirror the robustness and rigour that is currently applied to your financial reporting. In the same way, as there are generally accepted accounting policies and standards today, in the future there will be generally accepted GHG emission policies and standards to ensure consistent reporting.

Furthermore, an internal owner for GHG emissions reporting will need to be identified, who will be responsible for reporting to the Board about the organisation’s GHG emission. After all, the Board of Directors sign off the annual Directors Report and they need to be comfortable with the accuracy and completeness of the data.

Robust and repeatable processes of the quality required for financial data now need to be established for non-financial GHG emissions data. Complexities that need to be considered include:

- Capturing data for all emission sources from all international business operations.
- Applying appropriate conversion factors (these vary by source and by country).
- Maintaining an audit trail.

Enterprise class applications will have to aggregate and consolidate unstructured data from a variety of disparate sources, and use this data to report against defined standards.

The creation of a level reporting playing field will make it harder for some organisations to ignore their GHG emissions impact. For the first time we will be able to compare 'like with like' and enable those organisations that are truly making an effort to manage their emissions, to gain both reputational as well as cost reduction benefits.

READINESS CHECKLIST

Though the date of your first required reporting may be some months away, you should start taking action now to ensure that you are fully prepared.

- Determine who in your organisation will be responsible for the task of delivering your environmental impact report and allocate sufficient time for them to deliver against your reporting strategy.

- Define the scope of your reporting requirement. For example, what is the organisational scope you will be reporting on? The complexity and geographical breadth of your organisation will drive significant data collection and verification challenges that need to be well thought through.

- Determine the scope of emissions to be covered by your reporting. Identify and catalogue all your scope 1 and 2 emissions sources and consider which scope 3 sources you might want to include.

- Identify the existing processes for emission data capture. Determine if these processes are sufficiently robust and repeatable. Do they capture all sources and do they cover your entire organisation? Establish processes for new sources not already covered or not adequately covered.

- Decide which reporting methodology you will adopt for your reporting. Consider if you wish to adopt any widely recognised reporting standards such as GHG Reporting Protocol within your process, or there may be existing methodologies specific to your industry sector that are more appropriate.

- Identify the systems you will use to aggregate the unstructured emission data and convert this data into CO_2e. Review what other environment reporting you currently are either required to, or voluntarily do (UK CRC, CDP etc.). Ensure the selected system is sufficiently flexible to support your selected methodology and is also able to effectively reuse the aggregated data to satisfy all reporting requirements.

- Determine who will perform the validation and verification of your process and reported emissions. Though independent verification of the accuracy, completeness and consistency of reported emissions is not a requirement, it is recommended as best practice since it will give greater comfort to both the Directors and the auditors.

- Consider setting goals against a chosen baseline year to drive reductions that will deliver the value from your reporting efforts. You should seek a system that provides real-time analysis of these goals to make sure you remain on track.

- Anticipate the broader messages you'd like to accompany your GHG performance data. As part of your Director's Report, customers, partners and investors will be interested to see how ambitious your company is in responding to the challenges and opportunities presented by GHG reduction. Those that leverage cost savings from energy and resource efficiency or drive new revenues from low GHG emitting products and services will be viewed as those with the best prospects in a changing economy.

HOW CLOUDAPPS AND CGI CAN HELP

CGI provide market leading sustainability consulting and implementation services, including the delivery of CloudApps' unique sustainability management and reporting platform. Wherever your organisation ranks in terms of reporting maturity, the new legislation provides the opportunity to review your current practices and the systems that underpin them.

NO PRIOR SUSTAINABILITY REPORTING EXPERIENCE?

The new reporting regime presents challenging timescales. Reporting is required for financial years ending on or after 30 September 2013, so this only leaves very limited time to establish robust reporting processes and tools and identify and train the staff to manage them. CloudApps reporting & disclosures edition provides a cost effective and proven route to efficient, reliable reporting.

ESTABLISHED EXCEL BASED REPORTING?

Before the onset of regulatory reporting pressure, many businesses established their reporting processes with home grown excel- based solutions. Although a useful interim solution, these often prove labour intensive, inflexible and error prone and rarely provide the confidence required for third party assurance and greater regulatory scrutiny. CloudApps also grows with your ambition, extending beyond your GHG reporting requirements to monitor any social or environmental metric – from water, waste and hazardous chemicals to labour equality, volunteering hours and charitable donations.

ESTABLISHED EXCEL BASED REPORTING WITH THIRD PARTY ASSURANCE?

Many leaders in corporate sustainability still rely on excel for reporting – successfully securing third party assurance and stakeholder acclaim for their reporting. But they are missing many benefits that an enterprise-reporting platform can offer. Beyond freeing up your sustainability team to focus on performance improvement rather than data gathering, CloudApps Performance Management edition supports with target setting, benchmarking, performance management and evaluation and monitoring of sustainability projects. Full audit trail functionality also reduces the cost and uncertainty faced during third party assurance, while management dashboards can be customised to provide performance data by site and role. CloudApps can evolve to meet your changing needs, providing a platform to engage your suppliers and customers in improving sustainability and competitiveness across your value chain.

ENTERPRISE SUSTAINABILITY REPORTING SOLUTION IMPLEMENTED?

Implementing an enterprise reporting solution is a sound investment that will pay for itself through the energy and resource efficiency improvements it identifies and supports. However, even many leading applications fail to unlock the full potential of sustainability data to transform your organisation's performance. CloudApps is unique in its approach in making sustainability targets and performance visible and relevant to staff across your organisation. Its 'Sustainability Momentum' (SuMo) draws on gamification and social media to devolve sustainability targets to teams and individuals, harness personal competition to achieve sustainability challenges and gather suggestions for cost saving sustainability initiatives from those that know your business best – your staff.

Beyond ensuring on time delivery to meet the new regulatory deadlines, maximising the business benefits from transforming your sustainability reporting relies on the right implementation partner. As well as drawing on CGI's wider implementation and systems integration expertise, CGI sustainability practice can help ensure you have the right sustainability strategy and governance in place. This will ensure and that as well as delivering your Statutory and stakeholder reporting requirements you are also provided with insights into your own organisation. With experience spanning the full value chain from supplier carbon reduction to employee and consumer engagement, CGI can also help create a roadmap to reflect your evolving needs and get the most from CloudApps' highly flexible platform.

For more information on CloudApps and CGI's sustainability services or to request a demonstration, please contact:

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