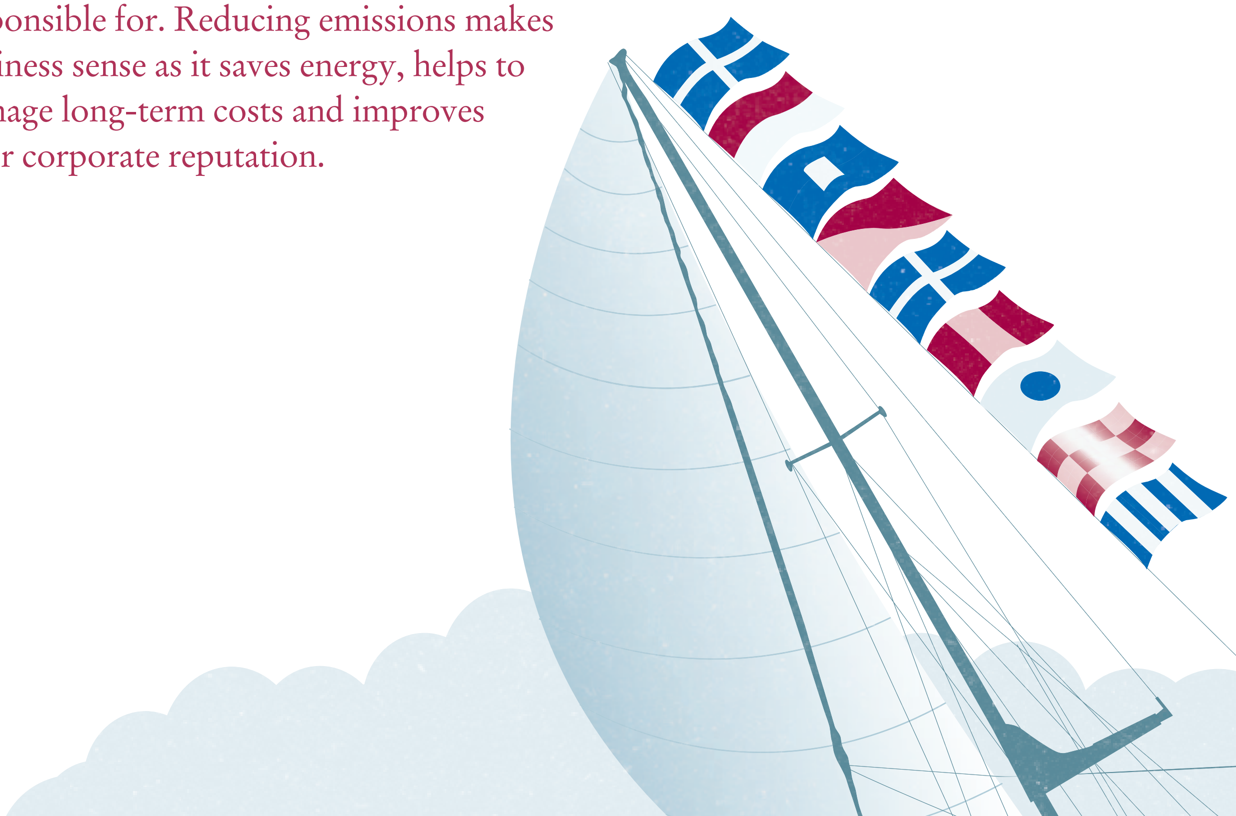
Mandatory Carbon Reporting

Moving towards a low carbon economy

At last year's Rio+20 conference on sustainable development, Deputy Prime Minister, Nick Clegg, announced that the UK would be the first country to make it compulsory for quoted companies to report on the greenhouse gas (GHG) emissions they are responsible for. Reducing emissions makes business sense as it saves energy, helps to manage long-term costs and improves your corporate reputation.



"British companies need to reduce their harmful emissions for the benefit of the planet, but many back our plans because being energy efficient makes good business sense too. It saves companies money on energy bills, improves their reputation with customers and helps them manage their long-term costs too."

Deputy Prime Minister, Rt Hon Nick Clegg MP

Why is this legislation being introduced?

The UK Government has challenging emission reduction targets under the Climate Change Act 2008[1] and whilst many companies have been making voluntary disclosures of their GHG emissions this is seen as an important stepping stone to drive a change in behaviour in energy consumption. The reporting of GHG emissions will make the information more visible in the Board Room and to all stakeholders, a key outcome of reduced emissions from lesser consumption will be lower operational cost and increased shareholder value.

Who is affected by the disclosure requirement?

The legislation applies to quoted companies as defined in section 385(2) of the Companies Act 2006[2] as a company that is UK incorporated and whose equity share capital is listed on the Main Market of the London Stock Exchange UK or in an EEA State, or admitted to trading on the New York Stock Exchange or Nasdaq.

Where should the captured data be disclosed?

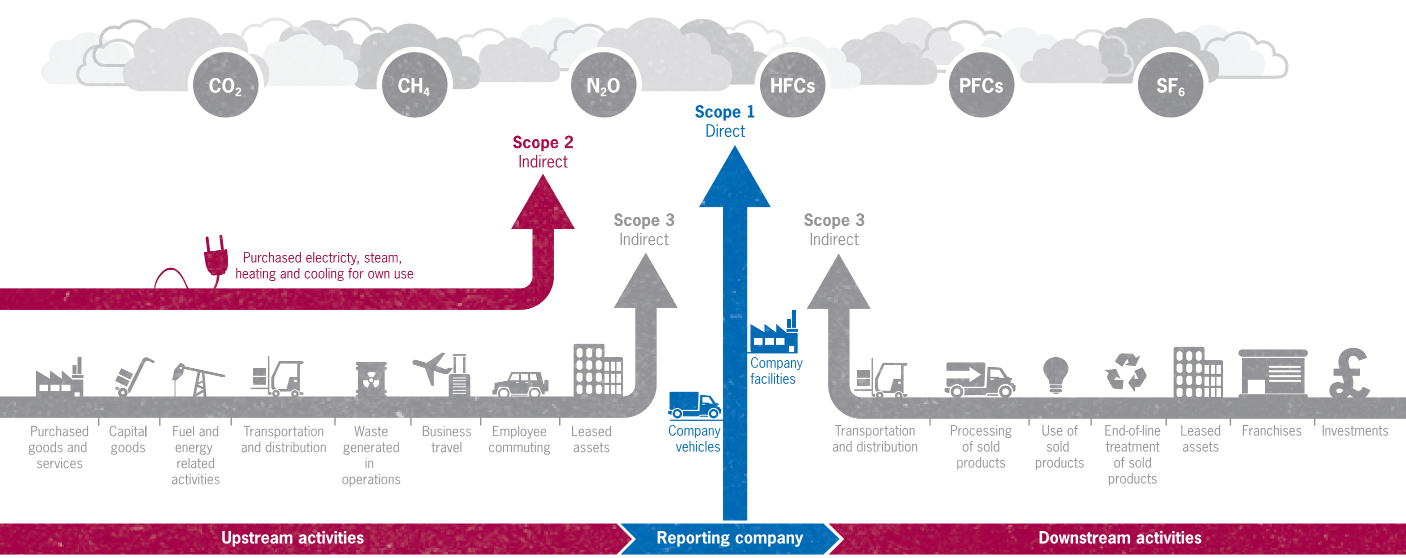
Quoted companies are required to report on their greenhouse gas emissions from activities for which they are responsible, in the directors' report. This applies to any operations[3] covered by the consolidated financial statements that includes those based in both the UK and abroad. Unlike the current CRC Energy Efficiency Scheme, this requires you to report on your worldwide GHG emissions so significantly increases the scope and complexity of data capture.

Which emissions need to be reported?

Companies are required to quantify and report on the annual emissions of the Kyoto greenhouse gases[4] using a common reporting unit called carbon dioxide equivalent (CO_2e) from the following emission sources:

a) the combustion of fuel, eg boilers, turbines etc (Stationary combustion) and trains, planes and automobiles etc (Mobile combustion);
b) the operation of any facility;
c) a separate figure giving the annual quantity of emissions in tonnes of carbon dioxide equivalent resulting from the purchase of electricity, heat, steam or cooling by the company for its own use.

This covers what are commonly referred to as 'Scope 1' and 'Scope 2' emissions only. Companies are not required to report on their 'Scope 3' emissions from their supply chain or emissions linked with outputs from their products or services, for example, when used by your customers.



Source: Greenhouse Gas Protocol - overview of GHG Protocol scopes and emissions across the value chain.

What needs to be disclosed?

- Methodology - quoted companies can use different methodologies to calculate their emissions but must disclose the methodology used. There is no prescribed methodology but it is recommended that companies use a widely recognised independent standard[5].
- Comparative data - with the exception of the first mandatory reporting year, quoted companies must state the emissions disclosed in their previous year's directors' report alongside their current year's data.
- Intensity Ratio – you must express your emissions using at least one intensity ratio that can compare emissions data with an appropriate business metric or financial indicator, such as sales revenue or square metres of floor space. This allows comparison of performance over time and with other similar types of organisations.

When will the legislation come into effect?

The requirement comes into place for companies that have reporting years ending on or after 30 September 2013.

"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."

Caroline Spelman
Former UK Secretary of State for Defra

Opportunities and challenges

Assurance – verification of GHG emissions is recommended by Defra[6] but this is not mandatory so should I get my data verified? Independent verification on the accuracy, completeness and consistency of data will be beneficial to both internal decision-making and for external stakeholders and this can be provided in different forms. Assurance can be provided externally (accountancy firms and specialist assurance providers) or through internal assurance. The changes in narrative reporting are likely to make these requirements more relevant to environmental information which currently has limited interaction with the financial audit process.

Accounting – this requirement is being introduced at a time when there are changes to narrative reporting and changes to the UK corporate governance code. There is increased visibility of environmental risks at board level and organisations need to be aware of their impact across the value chain. Organisations account for the GHG emissions from activities for which they are responsible but they may report GHGs based on a financial control, operational control or on an equity share basis. This may result in a reporting boundary that may differ from the Financial Statements and will require explanation in the directors' report.

Risk management – sustainability reporting frameworks are still in their infancy with a lack of robust systems, processes and controls in many companies. Systems are often manual and spreadsheet based so data quality is inherently risky. The added technical complexity and the absence of a double entry system for control purposes increases the risk profile for boards and assurance providers. As information comes into the mainstream of corporate reporting, the reputational risk of misinformation increases so how can the risks be mitigated? A collaborative approach is required between departments so training and guidance to staff in different departments and locations is necessary early in the process.

Stakeholder engagement – the collection of GHG emissions data requires closer stakeholder engagement. Emissions data is typically provided by suppliers such as utility companies and travel companies. Through greater cooperation with suppliers, cost saving opportunities can be identified and organisations can drive operational efficiencies and improvements by targeting cost reduction opportunities.

[1] http://www.legislation.gov.uk/ukpga/2008/27/contents
[2] http://www.legislation.gov.uk/ukpga/2006/46/section/385
[3] "Operations" is used here as a generic term to denote any kind of business activity, irrespective of its organisational, governance, or legal structures.
[4] Carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6), as defined in section 92 of the Climate Change Act 2008.
[5] For example, the WRI / WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) or UK Government's Environmental Reporting Guidance (2013 version)
[6] Department for Environment, Food and Rural Affairs
[7] http://www.cdsb.net

How can we help?

At Grant Thornton we have a team of dedicated experts in regulatory and non-regulatory compliance focused on delivering assurance and reporting advisory services, including:

- Carbon Reporting advisory and assurance services
- CDP advisory and verification services
- External Financial Reporting assurance
- Business Risk services
- Corporate Governance advisory services
- Integrated Reporting advisory services

Through our work with the Climate Disclosure Standards Board[7], a framework has been developed that offers detailed advice on integrating material climate change information with financial performance in mainstream reports and a guidance document that acts as a companion to work alongside the framework to help enhance the quality of disclosures in mainstream reporting.

Source: www.cdsb.net

Who to contact

If you would like to find out more about Grant Thornton's Sustainability Advisory Services, please contact:

Jane Stevensen
Director, Sustainability
T 020 7728 3046
E jane.stevensen@uk.gt.com

Mike Reid
Associate Director, Sustainability
T 0131 659 8503
E mike.reid@uk.gt.com

Grant Thornton
An instinct for growth™