How can you avoid falling down the reporting rabbit hole?

November, 2013

2013 has seen yet more changes to the world of corporate carbon reporting, with the introduction of legislation that makes it mandatory for many UK listed companies to report, and to report in accordance with a new set of guidelines. So it is clear that carbon reporting is here to stay and its formalisation in UK legislation moves us a step closer to a consistent approach which allows comparability between companies' performance. However, as it stands there is a huge variety in the way that companies present their sustainability performance to an external audience.

Sustainability and carbon reporting offer opportunities for companies to engage with staff, to publicly demonstrate progress, to make better informed business choices, to mitigate reputational risk and to attract and retain investors. Even so, with many benefits for the taking, there are concerns and questions from the corporate sphere associated with carbon reporting: A chance to be caught out publicly with errors in data collected; additional administrative load, with the need to invest in staff to manage sustainability reporting; the challenge presented by balancing the various functions of the report itself. Which audience is shouting the loudest, and how will this shape the report that you produce? And importantly, how can you identify the key areas for practical action which will reduce the impact of business operations?

Carbon Smart works with a range of high profile companies, government departments and local authorities to help them on their reporting journeys. Some organisations are voluntarily reporting on carbon, others are affected by new legislation; our multi-national clients are faced with determining the best way to manage data collection across geographical boundaries. Here, we share the most important considerations for those responsible for carbon reporting, whether that is to meet legislative requirements or on a voluntary basis.

What are the internal and external drivers for your company's reporting? Understanding the unique needs of each audience you seek to satisfy must be your first step.

First things first, any reporting organisations must clearly establish the purpose of the sustainability reporting they are to carry out, looking closely at the audiences they are seeking to engage, and what each of these requires. Is motivation for reporting based solely on meeting legislative requirements? If so, a close eye needs to be kept on any changes which could affect your company's obligations. Not understanding how these impose data collection requirements or presenting your reporting in a non-compliant manner can have painful and expensive consequences

Perhaps pressure from environmental campaign groups has created a need to demonstrate action on sustainability performance in key areas, and your reporting needs to clearly show an understanding of the operations under scrutiny. You want to demonstrate how action is being taken to lessen these, so your report needs to show you are aware of what these are, and it needs to show how your future objectives will improve your performance. More sophisticated understanding of sustainability performance among many stakeholder groups means transparency in the way you display your results is important. Comparability is improving but there are still vast differences in what organisations choose to include in their reporting; be that shifting organisational boundaries, or which parts of operations are deemed relevant. What you choose to include and your rationale for such decisions needs to be obvious to readers of your report, so they can see how you match up against competitors and market equivalents.

Financial companies get it right Satisfying investors is paramount when planning corporate reporting and business strategy; this now extends to sustainability performance and the part it plays in financial risk.

Investors increasingly expect to see the sustainability risks due to companies' operations to be identified clearly in their corporate reporting. Awareness surrounding the trends in growing regulations, the costs associated with some of these and the impact that bad sustainability performance can have on a company's reputation, act together and are providing important driving factors in Investor/ Company relationships. Abigail Heron, previously of The Co-operative Asset Management, spoke at our Sustainable Futures Event in April about the way in which investors are now taking the lead in calling for major corporations to improve their sustainability reporting and resulting business decisions. She cited an example: A letter was drafted by TCAM and other leading investors, asking prominent oil companies involved in the business of extraction from black tar sands to reconsider their position. On the one hand, too high operating costs of these activities were called into question, and on the other a host of ethical and environmental issues arising from the extraction process were highlighted as a serious risk for investors working with these companies. Along with TCAM, many investors are showing how organisations that ignore their impact on sustainable issues, leave themselves open to reduced investment opportunities.

All reporting needs to align with your business strategy and as such engaging multiple business functions is essential for a successful outcome.

In all likelihood, your report will need to meet a variety of requirements, and mapping out what this consequently requires of your data collection process and formatting of the report itself is very important. As with any other business process, objectives are agreed and a plan drafted, but this exercise shouldn't be carried out inside a CSR vacuum within your company. Because sustainability performance requires the involvement of multiple departments and locations within an organisation, a clear path must be created for ensuring that those involved in providing data and implementing improvement actions are engaged while establishing a reporting process. This means at the outset, during implementation, and then once results are published ensuring they are fed back across the company so that a better understanding of progress can be attained. Failure to approach sustainability reporting in an integrated multi-department manner, that includes a good communications feedback loop, risks flimsy results. This may lead to the company being accused of paying lip service to its sustainability commitment and not being capable of delivering its claims.

Inside Company Reporting

"Rathbone Brothers Plc is a leading independent provider of investment and wealth management services with 14 offices across the UK and in Jersey, managing over £20 billion of funds for our clients, which range from private investors to charities and trustees. Our business is built on the reputation we hold as a trustworthy choice for long term investments, so our priority for corporate sustainability reporting was to measure our environmental impact and reduce it where possible.

The requirements for data collection and the whole reporting process were established early and explained clearly to us, and both these factors have helped to keep staff time on our side to a minimum. We are pleased with the development of our sustainability reporting and its role in helping us protect our position as a market leader."

Richard Loader, Rathbones PLC

Are you legal? With new regulations being passed or amended during 2013 it's important to know whether you are affected, and if so, what you need to do to ensure compliance.

New regulations can present a challenge for companies, and increase the consequences of errors in reporting bearing an impact on a company's legal compliance as well as its reputation. Here, we provide a summary of the two main regulatory mandates affecting UK companies, with new and amended guidelines issued this year. Even if your company isn't currently affected by these legislative frameworks, it's important to keep track to ensure the situation doesn't change, as has been shown with the CRC scheme.

Mandatory Greenhouse Gas Reporting (MGHR) was redrafted and passed through parliament on 12th June 2013; affecting around 1000 companies it stipulates that greenhouse gas emissions must be reported on publicly in the annual company report. The first group of companies affected are those whose reporting year ends 30th September 2013. This means companies may already be behind with capturing their emissions data, in line with the reporting that must be submitted in their annual company report for this period. The report must include all Scope 1 and 2 emissions as a minimum, although Scope 3 reporting is encouraged as a best practice approach.

The CRC Energy Efficiency Scheme came into force in October 2010 and specifically aims to reduce UK emissions not covered by other regulatory mechanisms. Phase 2 of the CRC will come into effect in April 2013 and with this second phase, captures a larger number of private sector organisations.. Organisations are included in the CRC if they have at least one settled half-hourly electricity meter and have consumed more than he 6,000 megawatt hours electricity threshold through these meters during the qualification period of 1 April 2012 to 31 March 2014. We expect allowances will costs organisations £12 per tonne of CO_2 and organisations must cover all their emissions from electricity and gas from April 2014. Non-compliance in registering and reporting to the scheme can result in financial and other penalties.

That's the way you do it: Methodology and data collection processes are vital to success, helping you keep the cost of reporting to a minimum and providing you with accurate, trustworthy results.

Here are some key considerations for enabling a smooth running reporting process, meaning you set out on the right path and don't need to spend time and money rushing to capture data retrospectively that you weren't aware was required at the outset.

1) The scale of your reporting process should be **proportionate** to the importance it carries for your business and your environmental impact. If your operations are relatively low impact, it might be wise to keep data collection and your reporting process relatively simple.
2) Your **organisational boundary must be clearly defined**, so that when you start data collection you know where to get it from. Serious consideration should be applied to these decisions, to make sure you can provide consistent reporting year-on-year and meet your legislative requirements.
3) Start **collecting your data as early** as you can and collect it on a **regular basis**. This provides time for queries to be raised, and reduces the need to use assumptions and the subsequent risk of errors in your results.
4) Getting **high quality data** will hugely improve the reliability of your reporting, meaning it can be trusted to a far greater extent when used to make the case for business action. This means using primary data over spend data as practicable.
5) Carbon Smart orchestrated an **overhaul of Defra's conversion factors** which came into effect in June 2013. The factors themselves have been simplified and a new online navigation tool has been launched to help users find the factors the need with greater ease. Making sure you know which factors your organisation requires for carbon footprinting is extremely important and a process your internal sustainability teams or consultancy can help you understand.
6) Recording your reporting methodology and **creating a protocol** will enable you to maintain consistency in data capture and calculations between years and across business functions.

For more about conversion factors visit http://www.ukconversionfactorscarbonsmart.co.uk/ for guidance notes and to access the online navigation tool.

Smarter companies like to be sure. Third party verification of companies' sustainability reporting seems sensible, but guess how many of the FTSE 350 companies still don't carry out assurance?

280. And this includes many well known companies such as easyJet, Rolls Royce, Sainsbury's and companies with big environmental impacts in the petrochemical and basic material industries such as Antofagasta, Kazakhmys and Vedanta Resources. Assurance is not a requirement of Mandatory Greenhouse Gas Reporting regulation, but it helps to ensure compliance. Of the 70 companies that do assure, there is a huge variety in the quality of their assurance. Carbon Smart launched its 4th annual report and index on the state of sustainability assurance in October 2013, produced in conjunction with a panel of experts from the UK investment banking sector.

In the context of ever increasing public scrutiny and new regulations making it mandatory for companies to report environmental metrics, the risks associated with reporting inaccurately are rising. The Smart Assurance Index continues to track how well companies are responding to these developments and pressures and reports how the quality of assurance statements has improved over the last four years. Two thirds of companies now produce an assurance statement that is clear about the level of assurance that has been carried out, and the environmental data or processes under review, a 25% increase on what we reported in 2009. For a complete copy of the Smart Assurance Index, and to see where your company is ranked, please visit: http://www.carbonsmart.co.uk/opinion/the-smart-assurance-index-2013/ .

Getting reporting wrong is painful and expensive, but getting it right adds significant value to your business.

In summary, there has been a shift in the last 3 years that has seen corporate sustainability reporting become the norm. With new legislation and increasing pressure from stakeholders, the reporting landscape is continuously developing, and organisations need to consider how they can benefit from the changes. As with any shifting external business conditions there are opportunities presented, and lithe, forward-thinking companies have and will continue to take advantage of these. When new to sustainability reporting, it can seem a daunting task full of risks for your business; these risks are real and it would be ill advised to ignore them. However, once your understanding of the purpose of reporting for your organisation is understood, and your regulatory obligations fully grasped, you will be in a fantastic position to realise its potential for adding value to your business. With a good, solid approach to data collection and company-wide involvement, sustainability reporting will become second nature to your business, as much a part of its processes as financial reporting. And with this step-change, a new way of communicating your business to investors, staff, and the public, will emerge, helping you to demonstrate your progress and grow your business.

Contact us to discuss your corporate sustainability reporting requirements today.

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