



# HM TREASURY

## Financial Reporting Advisory Board Paper

### SUSTAINABILITY REPORTING

<b>Issue:</b>	This paper considers the issue of sustainability reporting in the annual accounts of government departments and other entities covered by the FreM.
<b>Impact on guidance:</b>	Subject to the views of the FRAB, none.
<b>UK GAAP adaptation?</b>	N/A.
<b>IAS/IFRS compliant?</b>	N/A
<b>IPSAS compliant?</b>	N/A
<b>Impact on budgetary regime?</b>	No.
<b>Recommendation:</b>	The FRAB is invited to consider the points discussed and advise on whether they agree that the current reporting requirements are adequate and that no further amendments to the FreM are required.
<b>Timing:</b>	N/A

### DETAIL

#### Background

1. The World Commission on Environment and Development defines sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.
2. The question of reporting on sustainability issues has been given more prominence by the need for the Operating and Financial Review to include information on “environmental matters (including the impact of the business on the environment)” and on “social and community issues” (paragraph 29 of Reporting Standard 1), and by the publication by CIPFA in late 2004 of a discussion paper *Advancing Sustainability Accounting and Reporting: An Agenda for Public Service Organisations*.

Board members were given a copy of the CIPFA paper with papers for the meeting in May 2005. The Executive Summary is reproduced at the Annex for ease of reference, but Board members might like to acquaint themselves with the main points of the publication prior to the meeting.

3. The ICAEW has also issued a number of reports in its series *Prospective Financial Information: Guidance for UK Directors*. The fourth, *Sustainability: the role of accountants* analyses the role of accountants in sustainability by considering how information supports mechanisms through which market activity is directed towards more sustainable, and in that sense, better outcomes.

4. The CIPFA paper argues that, in general, public service organisations are failing to keep pace with the steady growth of sustainability reporting in the corporate sector – but notes that three bodies within central government produce sustainability reports in addition to their annual report and accounts:

- the Environment Agency (<http://www.environment-agency.gov.uk/yourenv/1088978>);
- NHS Purchasing and Supply Agency (<http://www.pasa.nhs.uk/sustainabledevelopment/2003>); and
- the Prison Service (<http://www.hmprisonservice.gov.uk/abouttheservice/environmentalpolicies>).

### ***What is sustainability reporting?***

5. The CIPFA paper defines sustainability accounting and reporting as “a public account of an organisation’s sustainability performance achieved through a combination of: leadership, strategic partnering, stakeholder engagement; policy outcomes; and the management of the organisation’s impacts on the local environment, social well-being and economic prosperity”.

6. Although the CIPFA paper suggests that public sector has been slower than the corporate sector in considering sustainability issues, it does acknowledge that the UK Government has committed itself to reporting progress on its sustainability agenda (para 3.5 of the paper). In 1994, the then Government produced its national strategy for sustainable development (in response to the Rio summit in 1992) and in 1999 the current Government produced *A Better Quality of Life* which proposed a series of headline indicators to measure economic, social and environmental outcomes. This strategy was reviewed in *Securing the Future - Delivering UK Sustainable Development Strategy* (Cm 6467) which was issued in March 2005. It notes that a number of Departments have been set Public Service Agreement targets which relate to environmental and social and community issues, performance against which is reported in the autumn performance statements (<http://www.hm-treasury.gov.uk/performance>). For example, DEFRA has a number of targets relating to renewable energy, use of resources, domestic water use, recycling of household waste, care for the natural heritage, sustainable farming, sustainable fishing, and Department of Health has targets relating to the reduction of mortality in infants and adults, reduction in adult smoking rates, and improvements in diet. (This is by no means a comprehensive list and the examples were chosen at random.)

### ***Conclusion and proposals***

7. CIPFA’s paper makes a sound case for building on the current arrangements for reporting on sustainability issues. The Treasury encourages departments and other bodies to consider sustainability issues, and supports the preparation of separate sustainability reports. However, it is

arguable whether the FrEM, being concerned with financial reporting, is the most appropriate vehicle for the promulgation of guidance on this topic. Entities will have to address environmental issues in their OFRs (see FRAB(74)04) and, where relevant, will either note their performance against any relevant Public Service Agreement targets, or will cross refer to their Autumn Performance Reports where such information is given. This paper concludes that the current guidance in the FrEM on reporting sustainability issues in annual accounts is adequate.

### **UK GAAP compliance**

8. The proposals for the disclosure of information on environmental and social and community issues in the Operating and Financial Review are compliant with UK GAAP.

### **Summary and recommendation**

9. This paper notes that central government is tackling the issue of sustainable development and that departments are required to report performance against Public Service Agreement targets which relate to environmental and other aspects in their Autumn Performance Statements. Some organisations also prepare separate sustainability reports and the Treasury supports this approach. For 2005-06 onwards, annual accounts will be required to provide information about environmental and social and community issues within their Operating and Financial Reviews, and the current guidance in the FReM on reporting such issues in annual accounts is considered to be adequate.

10. The FRAB is invited to comment on the recommendation that the FrEM need contain no guidance additional to that already given in respect of the requirements for an OFR.

HM Treasury

June 2005

## ADVANCING SUSTAINABILITY ACCOUNTING AND REPORTING: AN AGENDA FOR PUBLIC SERVICE ORGANISATIONS: A DISCUSSION PAPER

CIPFA 2004

### EXECUTIVE SUMMARY

Sustainability reporting in public service organisations is an emerging field. Key questions need to be resolved if more public service organisations are to take up the challenge of sustainability reporting. For example, what are the objectives of public service organisation sustainability reporting and who is the intended audience? How should sustainability reporting in practice recognise the distinctive roles of public sector organisations in envisioning and promoting a more sustainable future? What forms could and should sustainability reporting take? How often is it feasible to report?

Arguably, public sector organisations are failing to keep pace with the steady growth of sustainability reporting in the corporate sector. This situation needs to be redressed. While private sector initiatives are important in advancing sustainability reporting generally across the economy, none of them specifically addresses the different roles of public sector organisations. Indeed, some initiatives argue that there is no fundamental difference between organisations in the public and private sectors.

The regulatory framework is adapting as sustainability begins to influence thinking on governance. For example, the publication of draft regulations on the Operating and Financial Review (OFR) [now Reporting Standard 1] raised the prospect of mandatory (if basic) corporate social responsibility reporting. The public sector needs to consider how it might use the opportunities presented by such changes.

There are many and various definitions of “sustainability”. A working definition of sustainability reporting in public sector organisations is offered in **section 1** of this discussion paper:

*A public account of an organisation’s sustainability performance achieved through a combination of: leadership, strategic partnering, stakeholder engagement; policy outcomes; and the management of the organisation’s impacts on the local environment, social well-being and economic prosperity.*

**Section 2** sets out the case for a distinctive model for public services sustainability reporting practice. In the private sector, the Global Reporting Initiative (GRI) guidelines for sustainability reporting have been influential, and are soon likely to be supplemented by specific guidance for public sector agencies. This supplement may not be wide-ranging enough, however, to reflect (for example) reporting on issues of leadership, policy outcomes or the diversity of practice which has already developed in the public services.

**Section 2** also discusses the predominant agenda for efficiency in public service provision, as reflected in the Gershon report. Given the ascendancy of environmental cost management in the private sector, Gershon arguably fails to identify the potential of eco-efficiency in relation to the public services financial “bottom line”. However, it is important to think beyond prevailing ideas about efficiency, financial cost savings or potential league tables of eco-efficiency in public

service organisations if the full potential of a sustainability reporting agenda is to be realised.

**Section 3** reviews developments to date and emerging challenges in advancing sustainability reporting in public service organisations. Generally, the UK is keeping pace with international developments. However, organisations are more likely to disclose sustainability performance information through a diversity of reporting channels. It may be more effective to focus this information through a single, holistic report.

Initiatives in local government in particular have provided important advances. These include the use of state of the environment reports, the ecological footprint and local or community quality of life indicators. However, a chief challenge will be to shift sustainability reporting from the margins to the mainstream of public service reporting.

Sustainability reporting is only likely to be advanced within the current “rules of the game” for public service reporting. Where there are practical difficulties manifest in institutional arrangements for performance reporting, these need to be identified and the relevant institutions need to be engaged in an agenda for reform.

**Section 4** focuses on sustainability reporting in local government as a case study of how institutional arrangements for performance reporting arguably need to be reformed to promote significant further progress on sustainability issues.

By way of conclusion, **Section 5** discusses the possibility of a CIPFA framework for public service sustainability reporting and sets out the next practical steps for CIPFA in working towards establishing this framework. In relation to a possible framework, this section draws together the central issues to be resolved if sustainability reporting in the public sector is to rapidly develop. For example, what data set might be included in an OFR for public service organisations? Should CIPFA issue guidance in relation to established reporting models, particularly the GRI? And is there a case for “monetising” environmental or social impacts, given the potential influence of this idea and its obvious link to a skill set identifiable in accountants?

While sustainability reporting poses many challenging questions, the conclusions of the discussion paper underline the current opportunity for CIPFA, in partnership with other interested organisations, to develop leading-edge practice for the public services.