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# A Closer Look

Streamlined energy and carbon reporting

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## In a nutshell

- Regulations intending to streamline energy and carbon reporting extend the current disclosures for quoted companies and bring large unquoted companies and large limited liability partnerships (LLPs) into scope for periods beginning on or after 1 April 2019.
- Alongside the existing greenhouse gas (GHG) emission disclosures in the directors' report, quoted companies must now disclose their total energy consumption and identify what proportion of the figures reported relates to emissions and energy consumed in the UK and offshore[1] area.
- Large unquoted companies must, for the first time, disclose certain GHG emissions and their energy consumption in their directors' report. Large LLPs must disclose the same, but in a new "Energy and carbon report" that accompanies the financial statements.
- All entities in scope must also describe any principal measures taken for the purpose of increasing the company's energy efficiency in the year.

[1] The "offshore area" is broadly defined in the SECR as the sea adjacent to the UK, including the territorial sea, plus the sea in any designated area under section 1(7) of the Continental Shelf Act 1964 and section 41(3) of the Marine and Coastal Access Act 2009.

## Background

The Streamlined Energy and Carbon Reporting regulations (SECR) reflect Government's thinking that mandatory reporting has an important role to play in influencing behaviour because 'what gets measured gets managed'. Managing energy consumption and carbon emissions is a key part in addressing climate change.

Climate change is likely to drive some of the most profound changes to business in our lifetimes. Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events. A growing number of scientific projections detail not only potential average increases in global temperatures, but also the consequences, such as rising sea levels and more frequent extreme weather events. Economic forecasts are also increasingly reflecting these impacts, including related factors such as carbon pricing and changing demand for fossil fuels. Investors, regulators and other stakeholders increasingly demand better disclosures on climate change risks and are challenging companies that are not factoring the effects of climate change into their critical accounting judgements. Recommendations by the Taskforce on Climate-related Financial Disclosures (TCFD) are now embraced by many in mainstream reporting.

Against this background of rising discussion and debate on the broader issue of climate change, the Government introduced a "streamlined and more effective energy and carbon reporting framework" for the UK – SECR, which was enacted into law in 2018 through the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SI 2018/1155).

**2006**
**GHG Protocol**
(Corporate Standard) developed as a methodology for companies to use in reporting carbon emissions.

**2010**
The **Carbon Reduction Commitment (CRC)** came into force for large public and private sector organisations. with >6,000 MWh of energy consumption per annum emissions. This required the reporting of carbon emissions, and purchasing allowances for their emissions at £15 to £19 per tCO2.

**2013**
**Mandatory GHG Reporting**
requirements come into place for quoted UK companies requiring the reporting of direct and indirect emissions.

**2014**
**Energy Saving Opportunities Scheme (ESOS)**
comes into force for all large UK organisations outside the public sector. This required the assessment of energy efficiency opportunities across the organisation's portfolio.

**2015**
**Taskforce for Climate-related Financial Disclosures (TCFD)**
published a recommended framework for companies to report under regarding the financial impact of climate change on their business.

Streamlined

**2019**
**Streamlined Energy and Carbon Reporting (SECR)**
requirements come into place for all quoted companies and unquoted 'large companies'. LLPs required to prepare and file an 'Energy and Carbon Report'.

**2022**
Pressure on climate-related reporting is set to increase, as the UK Government's Green Finance Strategy (July 2019) outlines the expectation that all listed companies and large asset owners to **be disclosing in line with the TCFD** recommendations by 2022. This is in line with the FCA's consultation paper.

SECR brings large unquoted companies and large LLPs in the UK into scope and extends the existing annual report disclosure requirements for UK quoted companies, effective for reporting periods beginning on or after 1 April 2019. These requirements are intended to complement TCFD disclosures.

SECR forms part of the UK Government's response to its broader Green Finance Strategy published in 2019, which includes the Government's commitment to achieve net zero GHG emissions by 2050 and an expectation that the TCFD recommendations would be mandatory for certain companies by 2022. The strategy was welcomed by financial regulators, including the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA), The Pensions Regulator (TPR) and Financial Reporting Council (FRC) in a Joint Statement of support, which said:

“Companies should consider the likely consequence of climate change on their business decisions, in addition to meeting their responsibility to consider the company’s impact on the environment.”

In March 2020, the FCA issued a consultation paper proposing, for certain listed issuers, enhanced climate-related disclosure rules aligned with the TCFD recommendations, initially on a ‘comply or explain’ basis. It further clarifies that existing disclosure obligations in the annual report already capture climate change impacts where they are financially material to a company’s prospects. The rules are proposed to be effective for periods beginning on or after 1 January 2021.

SECR replaces the Carbon Reduction Commitment (CRC) Reporting which required large energy users to monitor and report on their energy use and also to purchase and surrender allowances for their emissions. SECR builds on current mandatory GHG reporting in annual reports, required by the Companies Act, and complements remaining schemes, such as the Energy Savings Opportunity Scheme (ESOS) which requires audits every four years of energy used by an organisation’s buildings, industrial processes and transport to identify cost-effective energy saving measures.

Since SECR has been enacted in law, the Government has updated its Environmental Reporting Guidelines (the Government Guidelines), to help businesses within scope of the new regulations to comply with their legal obligations.

SECR is designed to help organisations as they become more conscious about their energy consumption and work towards the UK’s transition to a low-carbon economy. The intention is that SECR will increase awareness of carbon emissions and energy usage within organisations, provide organisations with the right data to inform adoption of energy efficiency measures and highlight opportunities to cut costs, improve operational efficiencies and reduce their impact on climate change.

## Which organisations do the SECR regulations apply to?

The Department for Business, Energy & Industrial Strategy (BEIS) has estimated that the new SECR regulations will apply to about 11,900 UK incorporated entities.

| **Entity Type** | **Updated Section of Current Legislation** | **Summary of Requirements** |
|---|---|---|
| Quoted companies | Regulation 10 and Part 7 of Schedule 7 to the *Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)* | New requirement to make statements in the directors’ report concerning the company’s energy consumption (in kWh), the proportion of GHG emissions and energy consumption relating to those in the UK and offshore area, and any measures taken to increase its energy efficiency |
| Large unquoted companies | New Part 7A of Schedule 7 to the *Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)* | New requirements to make statements in the directors’ report concerning greenhouse gas emissions, energy consumption and action taken to increase its energy efficiency in the UK |
| Large LLPs | New Regulation 12B of *Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (SI 2008/1911)* (“LLP Regulations”) | New requirement to prepare an “Energy and carbon report”, equivalent to a company’s directors’ report, which will contain statements concerning greenhouse gas emissions, energy consumption and action taken to increase its energy efficiency in the UK |

While many of the requirements of SECR will be mostly familiar to quoted companies[2], large unquoted companies and Limited Liability Partnerships (LLPs) are now brought into scope. 'Large' companies are those that meet two or more of the three monetary size limits:

- Turnover of more than £36m
- Balance sheet total of more than £18m
- More than 250 employees.[3]

Similarly, a parent company qualifies as 'large' if the group that it heads meets two or more of the following requirements:

- Turnover of more than £36m or £43.2m gross
- Balance sheet total of more than £18m or £21.6m gross
- More than 250 employees.[3,4,5]

A company which is a parent must look at the size of the group it heads to determine if it is in scope, irrespective of whether it is preparing consolidated financial statements and a group directors' report.

**Observation**

The criteria to be 'large' for the SECR regulations is based only on monetary limits so will not bring into scope those companies that would meet the small or medium size monetary limits but which for other purposes may have been treated as 'large' by virtue of being 'ineligible' in the Companies Act 2006 (e.g. a PLC whether listed or not or a company with permission to perform certain financial services or a company which is a member of an ineligible group).

The scoping of SECR is consistent with the scope of the new directors' report disclosures regarding engagement with suppliers, customers and others in a business relationship with the company introduced by *The Companies (Miscellaneous Reporting) Regulations 2018 (SI 2018/860)*. However, the scoping of SECR differs from that of the new requirement to disclose a section 172(1) statement in the strategic report which does include companies that are treated as 'large' by virtue of being 'ineligible'. Preparers will need to take care to note the similar but different scoping criteria of both sets of regulations.

[2] A quoted company is as defined in section 385 of the Companies Act 2006 as one whose equity share capital:
(a) has been included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000 (c. 8);
(b) is officially listed in an EEA State; or
(c) is admitted to dealing on either the New York Stock Exchange or the exchange known as NASDAQ.
The "official list" has the meaning given by section 103(1) of the Financial Services and Markets Act 2000. This does not include companies listed on AIM; any AIM companies meeting the size limits will therefore apply the SECR disclosure requirements for unquoted companies.

[3] For the purposes of these criteria:
- for a period that is a company's financial year but is not in fact a year the figure for turnover must be proportionately adjusted;
- the balance sheet total means the aggregate of the amounts shown as assets in the company's balance sheet;
- the number of employees means the average number of persons employed by the company in the year determined as follows-
  - find for each month in the financial year the number of persons employed under contracts of service by the company in that month (whether throughout the month or not),
  - add together the monthly totals, and
  - divide by the number of months in the financial year.

[4] The aggregate figures are ascertained by aggregating the relevant figures determined for each member of the group (see footnote 3).
In relation to the aggregate figures for turnover and balance sheet total:
- "net" means after any set–offs and other adjustments made to eliminate group transactions (in the case of Companies Act accounts, these are in accordance with regulations under section 404 of the 2006 Act; in the case of IAS accounts, these are in accordance with international accounting standards);
- "gross" means without those set–offs and other adjustments; and
- a company may satisfy any of the size requirements on the basis of either the net or the gross figures.

[5] In a company or group's first financial year, the company or group is large if the size limits are met. In relation to subsequent years, a company or group does not qualify as large if:
- the size limits are not met in both the current and preceding year, or
- if the size limits are not met in the current year and the company or group was otherwise exempt in the previous year, or
- if the size limits were not met in the previous year and it was exempt in that previous year.

Consistent criteria apply to LLPs.

Organisations that are not in scope of the legislation are encouraged by Government to report similarly, although this remains voluntary.

**Exemptions**

Certain exemptions apply to all entities:

- If the company consumed less than 40,000kWh of energy during the period, then the directors' report (or for LLPs, the carbon and energy report) can state that the information is not disclosed for that reason.
- If the disclosure would be seriously prejudicial to the interests of the entity, then the directors' report (or for LLPs, the carbon and energy report) can state that the information is not disclosed for that reason. Note that BEIS expect this situation to be very rare.
- A subsidiary is not required to report the information when it is included within the group reporting of a parent company who has provided the relevant reporting as part of the group accounts. See further discussion on subsidiaries below.
- In addition, where it is not practical for the company to obtain the information required, the entity must state what information is excluded and why.

Exemptions under ESOS or the CRC Energy Efficiency Scheme have no bearing on SECR, and having part of the organisation defined as a Public Body under the Public Contracts Regulations does not provide an exemption from SECR.

**Observation**

The disclosures must be provided by all entities in scope, irrespective of materiality. There is no threshold referencing "to the extent necessary for an understanding of the position and performance of the business" as there is for some of the information to be included in the strategic report.

The above exemptions are likely to be of limited use since the cut-off point of 40,000kWh is the same as the 'low energy user' definition as used in ESOS. 40,000kWh is a relatively low bar (approximately equivalent to 10 households' worth of electricity usage or 3.5 households' worth of energy usage), so there are unlikely to be many companies with such low energy use levels. However, carbon reporting is already well established amongst the world's largest public companies and is generally not seen as impractical or causing a serious commercial prejudice.

## What needs to be reported and where?

The table below summarises the requirements (for more detailed information on the new requirements see the relevant section below) which differ depending on whether an entity is a quoted company, unquoted company or an LLP. These requirements apply to periods commencing on or after 1st April 2019.

| Quoted companies | Large unquoted and LLPs – ☆ all new |
|---|---|
| Annual global GHG emissions (in tonnes of carbon dioxide equivalent):<br>• from activities for which company is responsible; and<br>• from buying electricity, heat, steam, or cooling by the company for its own use | Annual GHG emissions (in tonnes of carbon dioxide equivalent) within the UK and offshore area[6]:<br>• from activities for which the company is responsible involving gas combustion, or fuel consumption for transport purposes; and<br>• from buying electricity for own use, including for the purpose of transport |
| ☆ **New:** Annual global energy consumption (in kWh), being the aggregate of:<br>• energy consumed from activities for which company is responsible; and<br>• energy consumed resulting from buying electricity, heat, steam, cooling by the company for its own use | Annual energy consumption (in kWh), within the UK and offshore area[6], being the aggregate of:<br>• energy consumed from activities for which the entity is responsible involving gas combustion or fuel consumption for transport purposes; and<br>• energy consumed resulting from buying electricity for own use, including for the purpose of transport |

[6] The "offshore area" is broadly defined in the SECR as the sea adjacent to the UK, including the territorial sea, plus the sea in any designated area under section 1(7) of the Continental Shelf Act 1964 and section 41(3) of the Marine and Coastal Access Act 2009.

| Quoted companies | Large unquoted and LLPs – all new |
|---|---|
| **New:** The proportion of GHG emissions and energy consumed relating to the UK and offshore area[6] | |
| Methodology used to calculate emissions and energy consumption | Methodology used to calculate emissions and energy consumption |
| At least one intensity ratio in relation to emissions | At least one intensity ratio in relation to emissions |
| **New:** Description of any energy efficiency actions taken | Description of any energy efficiency actions taken |
| Comparative information (except in first year the information is presented) | Comparative information (except in first year the information is presented) |
| Companies to include within the directors' report (or elevate to strategic report) | Companies to include within the directors' report (or elevate to strategic report)<br><br>LLPs to include information in an 'Energy and carbon report' |

### Emissions and energy consumption

Both quoted and unquoted companies must disclose greenhouse gas emissions and energy consumption, but there are two major differences between the quoted and unquoted companies' disclosures, notably the scope of emissions and energy consumption to disclose and the jurisdiction of emissions and energy use which it applies to:

1. *Scope of emissions and energy consumption:* the GHG Protocol, a standard for reporting greenhouse gases, divides emissions into three 'scopes' and these definitions have become widely accepted and used, as follows:

- Scope 1: These include emissions from activities owned or controlled by an organisation that release emissions into the atmosphere. They are direct emissions. Examples of Scope 1 emissions include emissions from combustion in owned or controlled boilers, furnaces, vehicles; emissions from chemical production in owned or controlled process equipment.
- Scope 2: These include emissions released into the atmosphere associated with consumption of purchased electricity, heat, steam and cooling. These are indirect emissions that are a consequence of an organisation's activities, but which occur at sources that the organisation does not own or control.
- Scope 3: Emissions that are a consequence of an organisation's actions, which occur at sources which the organisation does not own or control and which are not classed as Scope 2 emissions. Examples of Scope 3 emissions are business travel by means not owned or controlled by the organisation, waste disposal which is not owned or controlled, or purchased materials

**Quoted companies** are required to report their Scope 1 and 2 emissions, although the Government strongly encourages reporting Scope 3 emissions, as is also recommended by TCFD.

A quirk of the SECR regulations is that **unquoted entities** need to disclose only certain Scope 1 and 2 emissions, but must include certain aspects of Scope 3 emissions as well, notably emissions from business travel in rental cars or employee-owned vehicles, where organisations are responsible for purchasing fuel. Unquoted entities must also disclose energy consumed in relation to transport using the same definitions.

The rationale behind this quirk is based on research that showed transport energy consumption is an area where companies have focused less upon than the traditional focus on gas and electricity.[7] By including transport emissions, BEIS hopes that companies will increase their awareness of their transport energy, potentially identifying significant additional bill, energy and emission savings opportunities.

[6] The "offshore area" is broadly defined in the SECR as the sea adjacent to the UK, including the territorial sea, plus the sea in any designated area under section 1(7) of the Continental Shelf Act 1964 and section 41(3) of the Marine and Coastal Access Act 2009.

[7] As cited in paragraph 76 of BEIS' response in July 2018 to the Streamlined Energy & Carbon Reporting consultation, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/729586/SECR_Govt_response_Final__1_.pdf

The Government Guidelines explain what is captured with reference to "transport". Emissions from transport are only included where the organisation is responsible for purchasing the fuel for its own business services. This means that where an organisation purchases transportation services where the charge includes an indirect payment for the fuel consumption those emissions do not need to be reported. In practice, this includes fuel used in company cars, personal/hire cars and fleet vehicles on business use, fuel used in private jets, fleet aircraft, trains, ships, or drilling platforms which the organisation operates and onsite transport such as fork-lift trucks. It excludes fuel associated with activities such as trains, flights and taxis taken by employees where the entity does not operate those methods of transport.

**Observation**
Unquoted entities do not need to disclose all Scope 1 and 2 emissions, such as emissions from fuel combustion for onsite facilities such as a boiler or furnace, and the emissions resulting from purchased steam, heating and cooling for own use. For those entities which nevertheless collate the data for the whole of their Scope 1 and 2 emissions, this could be disclosed voluntarily.

2. *Jurisdiction of emissions and energy use:* quoted companies must report their global energy use and emissions, although they must now also state the proportion of emissions and energy use related to the UK and offshore area combined. BEIS expects unquoted entities to report their UK and offshore area emissions and energy consumption, although when it comes to calculating this in relation to transport, it includes energy consumed during a journey which either started, ended or both started and ended in the UK.

**Observation**
Where GHG emissions or energy use also form part of a key performance indicator (KPI) of the company, it is helpful to make clear why it is a KPI, how this aligns with the business model in terms of the key sources of value and risks identified, how it helps to demonstrate progress against strategy and explains the link between environmental and financial performance. An explanation should be given as to whether and how these metrics are incorporated into remuneration policies.

### Methodology
There are various published methodologies available for entities to use when calculating emissions, and the chosen methodology used must be stated.

The Government Guidelines identify some widely recognised standards such as the GHG Protocol, which is the standard recognised in TCFD, as well as some existing regulatory schemes that entities may already be reporting under, such as the Energy Savings Opportunity Scheme (ESOS) and the Climate Change Agreements Scheme (CCA). If using data from a regulatory scheme, entities must consider whether additional data is needed to be collected and reported to meet the SECR requirements.

As referred to in the Government Guidelines, conversion tables are published by BEIS annually to aid entities in calculating their emissions in tonnes of carbon dioxide equivalent. These tables themselves include useful frequently asked questions which preparers may wish to refer to.

### Intensity metric
All companies must also report on at least one intensity metric which compares 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 often with other similar types of organisations in relation to emissions; the Government Guidelines list some common ratios.

### Energy efficiency
If the company has taken any measures for the purpose of increasing the company's energy efficiency in the year, the report must describe the principal measures taken. These may overlap with or be driven by recommendations identified under ESOS. The Government Guidelines advise that the description should be meaningful and informative for stakeholders and be commensurate with the size of the business and the extent of its energy use. The Guidelines provide useful examples and state that if no measures have been taken to increase efficiency this fact should be disclosed.

**Observation**
There is clear overlap between these disclosure requirements and those in the TCFD recommendations, which provides an opportunity for organisations to streamline their reporting and to present the relevant information in one place in the annual report. Preparers should consider how best to demonstrate how the emissions and energy consumption disclosures and the energy efficiency narrative connect with the entity's broader response to climate change. By linking clearly the SECR disclosures to their climate strategy, entities can show how their performance connects to their business model and strategic targets.

### Comparative figures

Comparative figures must be provided, except for information provided in the first year of reporting.

### Location of disclosure

Companies must include all disclosures made under SECR in the directors' report, but as ever, if the information is of strategic importance, it can be moved to the strategic report and cross-referred to from the directors' report. Many quoted companies already do this. The SECR disclosures may link in closely to other climate change disclosures and also to the section 172 statement in the strategic report, so it is important to think carefully about the placement of this information.

Charitable companies should provide disclosures in the combined Directors' and Trustees' Annual Report.

LLPs, which do not publish a directors' report, must include the SECR information in a new "Energy and carbon report" accompanying the financial statements.

**Observation**

The revised LLP Regulations indicate that the Energy and carbon report should be treated in the same manner as the annual accounts and auditor's report in that it must be approved by a designated member, circulated to all members and also filed along with the accounts and auditor's report. This would imply that the Energy and carbon report should form part of the annual report as a whole (otherwise comprising the financial statements, the statement of members' responsibilities and the auditor's report), rather than a standalone publication. Where LLPs choose to prepare a members' report, the Energy and carbon report may be included within the members' report, provided that it is clearly labelled as such.

This is also reflected in the Government's Guidelines, which confirm that "LLPs which are "large" are also required to prepare and file energy and carbon information **in their accounts and reports** (in a new 'Energy and carbon report')."

The FRC has published a taxonomy for the SECR disclosures which was developed in collaboration with Companies House and BEIS and enables businesses to report information in XBRL format. While it is not mandatory to tag SECR data, the Government is keen to enable companies that file their annual reports digitally to be able to report their SECR data in the same way, to ensure the same level of transparency is available to external users.

**Observation**

There are no requirements under SECR to provide a narrative explanation of the data disclosed. However, an explanation of changes in emissions year on year would further a user's understanding of the data. In particular, it would be useful to identify any activities which were one-off or exceptional in the year that resulted in a significant change in emissions.

The Government Guidelines provide a list of recommended supporting explanations including an explanation of the choice of intensity measure, any targets for reducing emissions and the target date, an overview of governance around performance against that target, performance to date, country-by-country analysis and the impact of any purchased carbon credits or green tariffs.

## What about entities in a group?

### Entity-only annual reports

Subsidiary companies need not include the SECR disclosures in their own annual report if they are included in the group report of a parent which is making the disclosures for the group and has the same, or earlier, financial year end as the subsidiary. Companies that meet the qualifying requirements but are subsidiaries of overseas parent companies will have to report in their own right, as they will not be included in a group report of a parent making these disclosures for the group. Where the subsidiary is also a parent company but not required to prepare consolidated financial statements and a group directors' report, it would include SECR disclosures based on the individual company if it is not included in a group report of a parent making these disclosures for the group.

### Group annual reports

In terms of which subsidiaries a parent should include within its disclosure, the starting point in the Government Guidelines is that information of any subsidiaries included in the consolidation which are quoted companies, unquoted companies or LLPs should be taken into account. However, any of these subsidiary entities which would not be in scope of SECR at an individual level (such as through individual size or the low energy consumer exemption) may be excluded from the group disclosure.

The Government Guidelines indicate that they would expect:

- Quoted companies to account for global consumption, which would include its overseas subsidiaries; and

- Large unquoted entities to report any emissions from UK operations including that of any UK-based subsidiaries, but they may exclude any usage or emissions generated outside of the UK.

Should none of the entities within the group (subsidiaries or parent) qualify at an individual level (for instance, because all of the entities are individually below the 40,000kWh threshold), the parent may be exempt from full disclosures in the group directors' report if a statement is included that nobody in the group meets SECR requirements at an individual level. Note that in a group directors' report there is no requirement to disclose the energy and carbon information of the parent company separately from that of the group as a whole.

**Observation**
Where subsidiary companies have different year ends from that of the parent preparing a group directors' report, the disclosure concerning action taken around energy efficiency must be aligned to the group's year end. However, there is no requirement for the other emissions and energy consumption SECR data to be aligned to a financial year end. Groups should adopt an approach that is consistent and transparent. In practice it may be easiest to align SECR disclosures with the financial year end to aid comparability across reports and organisations.

## Preparing for disclosure

Some of the practical considerations for implementing the new SECR requirements are included below.

- *Scope determination.* The first step is to identify which entities within the group are captured by SECR, taking into account the available exemptions. For quoted companies there is likely to be no change.

- *Boundary of data collection.* Determining what an entity should include in their Scope 1 and 2 emissions is generally straight forward. However, stakeholders are enhancing their focus on businesses' Scope 3 emissions. Defining logical reporting boundaries for Scope 3 emissions and communicating a company's impact on Scope 3 emissions can pose a challenge. Given the directors' report would usually cover all entities included in the consolidated financial statements, where the energy and carbon information is not aligned with the boundaries of the financial statements the Government Guidelines state the report should explain how it differs.

- *Methodology.* Quoted companies will already have methodologies which are followed and no change is required. The Government Guidelines suggest several different widely recognised methodologies which an entity could choose from, such as the GHG Protocol, which is the standard recognised in TCFD. Considerations when choosing a methodology may include industry practice and alignment with the organisation's current processes, particularly if they are already reporting under other existing regulatory schemes, such as ESOS and the CCA.

- *Data capture.* For quoted companies, much of this information will already be collected and so relatively minor amendments to the reported data may need to be made. One area where data collection may not already be complete is around the steps taken to increase energy efficiency throughout the group's operations. A new process to capture this non-financial information will need to be put into place, if not captured through a company's reporting processes designed in the context of ESOS.

  Large unquoted companies and LLPs may, on the other hand, find themselves in unfamiliar territory. These entities will need to conduct a gap analysis to review their current approach and ensure they have robust processes in place, which will produce the appropriate data on their energy and carbon performance in a clear and quantified way. Where this information is not already captured, companies will need to plan, record, and store energy and carbon data, and undertake any energy efficiency actions, through implementing utility and transport data collection processes across the company.

- *Governance and controls.* A robust governance and control environment should be set to ensure the accuracy and completeness of the final disclosures.

- *Assurance.* There is no statutory requirement to assure environmental information, however the Government Guidelines highlight that disclosing misleading data poses a reputation risk to companies and therefore suggests that it is assured as "best practice". Assurance over this information also increases stakeholder trust and confidence in an entity.

- *Format.* There is no prescribed format for reporting but the Government Guidelines include a reporting template that organisations are encouraged to refer to facilitate consistency of disclosed information. Deloitte's model financial statements include an example disclosure format – see Further Information for details.

- *Location-based vs market-based emissions.* Some quoted companies have previously chosen to comply with the mandatory GHG emissions reporting requirements using the same approach as for their Carbon Disclosure Project (CDP) reporting, which is based on location and market data. Location-based reporting discloses emissions based on the average emissions factor of the electricity grid used by the entity. Market-based reporting discloses emissions based on the specific emissions factor of the electricity tariff used by the entity. For example, if a company uses 100% green electricity, it can report zero market-based carbon emissions, compared with a much greater than zero emissions if the data is reported based on location. SECR does not prescribe an approach and therefore this practice can usefully continue.
- *Reporting by segment or business unit.* Some companies, particularly those in heavy-energy use industries such as mining, often disclose emissions by business unit in the strategic report. This can provide useful insight by putting emissions and energy efficiency data in the context of the business unit strategic and operating review.
- *Science based targets.* The Government has encouraged organisations to go beyond compliance-based reporting and suggested setting forward-looking science-based emissions reduction targets, using the framework developed by the TCFD, and developing and disclosing the environmental, social and governance (ESG) strategy.

**Observation**
Overall, SECR represents a significant move forward in the Government's broader green strategy by making all large UK companies and LLPs, not only quoted companies, look more closely at their environmental impact. The disclosure of this data is designed to promote transparency as to how directors are performing their duty under s172 to have regard to environmental impact and to pave the way for further disclosure around climate change, in particular, such as those under TCFD recommendations.

## Further information

Log in to or subscribe to DART for further guidance and disclosure examples on SECR in Deloitte's IFRS Model annual report and financial statements for UK listed groups or FRS 102 Model annual report and financial statements for UK unlisted groups.

For further information on climate change and the impact it has on business, see our website www.deloitte.co.uk/climatechange

The Government-issued Guidelines on environmental reporting including SECR are available on the Government's website.

The SECR regulations can be found here.

The FRC's SECR taxonomy is available on the FRC's website.

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