Deloitte.

Mandatory carbon reporting
Red tape or silver lining?

Overview

New regulations have introduced for the first time, a requirement for UK quoted companies to disclose data relating to their global greenhouse gas (GHG) or 'carbon' emissions into the Director's report of their annual reports. The regulations, delivered as part of a set of updates to the narrative reporting regulations under the Companies Act 2006 will come into force on 1st October 2013 and apply to companies with financial years ending on or after 30 September 2013. [Note the requirement for retrospective information from 1 October 2012 for 30 September 2013 year-end companies.]

The regulations are accompanied by newly published guidance from the Department for Environment, Food and Rural Affairs (Defra) for businesses on measuring and reporting greenhouse gas emissions: *Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance June 2013*.

The requirements apply to quoted companies as defined in the Companies Act 2006 and include UK incorporated companies with equity shares listed on the LSE (the main market) or admitted to trading on another EEA regulated market, the NYSE or NASDAQ.

The new regulations require disclosure of the methodology used to prepare the footprint, scope 1 and 2 emissions for which the company is responsible (in tonnes of CO_2e equivalent) gross of any offsets, the reporting boundary (with differences to the annual report boundary described), an intensity ratio and, with the exception of the first year, comparative data. The new regulations will be reviewed in 2015 to decide whether to extend the approach to all large companies from 2016.

Today, many organisations highlight environmental or climate risk in their annual report, but with varying degrees of clarity on how that may impact their business model and what adaptation or mitigating measures they are taking. Using the onset of regulation to institute an enhanced focus on the management of non-financial data that may reveal significant underlying costs, bring with it the opportunity to drive down annually escalating liabilities from fuel, electricity and vehicle fleet costs, meet the regulatory challenge and demonstrate strong corporate responsibility to stakeholders by showing progress with each subsequent carbon disclosure.

How ready are you?		
Are you aware of your reporting commitments? **How confident are you in your present carbon disclosures?**	From 1 October 2013 the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 will require all UK quoted companies to report on their greenhouse gas emissions as part of their annual Directors' Report. The government encourages all other companies to report similarly, although this remains voluntary. Advice for those companies required to report, as well as those for which it remains voluntary, is included in Defra's environmental reporting guidance.	• *If you are quoted, are you ready for mandatory reporting? Are you ready to include this information in the Directors' Report? What assurance over the quality of the data might you look for?* • *If you are not caught by the new regulation, have you considered reporting voluntarily in accordance with the Defra guidance? Where would you disclose the information? What assurance over the quality of the data might you look for?*
Are you ready for wider scrutiny? **Do you understand and explain the likely impact of climate change on your business?**	Company law requires the directors' report of a quoted company to contain as part of the business review information about environmental matters (including the impact of the company's business on the environment), any policies of the company in relation to those matters and the effectiveness of those policies. It is likely that stakeholders will look to emissions reporting in the directors' report as evidence to support (or otherwise!) management's discussion of environmental impact.	• *Do you assess climate change to be a risk or opportunity for your business? Do you report this and clearly explain your actions?* • *If you will not be ready to comply in full in 2013, how will you explain the steps you are taking to achieve compliance?* • *Will your strategic report disclosures around environmental policies and their effect be consistent with your quantified carbon reporting footprint? Does your reporting tell a consistent story?*

July 2013

How ready are you?		
Have you realised the cost savings available from a strategic review of your carbon footprint?	Have you realised the cost savings available from a strategic review of your carbon footprint?	• *Have you measured the carbon impact of your activities and assessed the value that you can create from reducing your footprint? Do you have sufficiently robust information to be able to make informed business decisions that save you money?*

How will this affect you?		
How integrated should your reporting be?	There are wider changes to narrative reporting afoot. In April 2013, the European Commission published proposals for non-financial reporting. Also in April 2013, the International Integrated Reporting Council (IIRC) published a Draft of its proposed International Integrated Reporting Framework. The aim of integrated reporting is to 'integrate' environmental and social value drivers into the financials (and ultimately to enable informed and better management decision-making), with linkages between strategic direction, financial performance and sustainability impacts made clear. An integrated report gives a concise but more balanced picture of a company's performance, whether positive or negative, across all the resources and relationships it uses and affects. It includes forward-looking information and tells a company's value creation story into the short, medium and long-term.	• *Is your sustainability strategy integrated into and aligned with your business strategy?* • *How 'integrated' is your report today? Reports should already 'tell a consistent story.' What is best practice in this area?* • *Do finance teams interact sufficiently closely with others in the business so that financial and non-financial information is used strategically for decision-making?* • *Can investors with a socially responsible investment (SRI) mandate access to the non-financial or environmental, social and governance (ESG) information they need easily within your annual reporting package?*

How we can help you

Our team of financial reporting experts and sustainability specialists can help you to stay ahead of developments in this area, answer these questions and assist you with your carbon accounting and reporting strategy, by:

- Carbon reporting – provide specialist guidance on making robust and relevant disclosures on climate change-related risks and opportunities, strategy and GHG data for inclusion in your annual report.
- Insights – benchmark your reporting practices and performance against your competitors, and help you set a strategy that is in line with your stakeholder expectations.
- Energy & carbon management – give you the latest analytical and carbon footprint tools, investment and tax advice, and proven methodologies to support your achievement of significant reductions in your global carbon emissions and cost liabilities.
- Assurance – provide public or private assurance on carbon or wider non-financial information for inclusion in your annual report or separate sustainability report.
- Finance Transformed for Sustainability (FT4S) – support you as you transform your finance function to more effectively manage sustainability performance data, equip the business with the right KPIs and reporting approaches to meet internal and external stakeholder expectations.

Contacts

Guy Battle
020 7007 7537
gubattle@deloitte.co.uk

Stuart Wright
020 7007 7533
stuawright@deloitte.co.uk

Rowan Gray
0207 007 8518
rowgray@deloitte.co.uk

Becky Fell
020 7007 0795
bfell@deloitte.co.uk

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. 27797A