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BRIEFING FOR THE
HOUSE OF COMMONS
ENVIRONMENTAL
AUDIT COMMITTEE

DECEMBER 2012

Sustainability reporting in government

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In response to a request from the Environmental Audit Committee, this briefing reviews central government compliance with the mandatory sustainability reporting requirements for Annual Reports and Accounts for 2011-12, and sets those findings in the context of sustainability reporting developments elsewhere in the public and private sectors.

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Summary

1 In response to a request from the Environmental Audit Committee, this briefing reviews central government compliance with the mandatory sustainability reporting requirements for Annual Reports and Accounts for 2011-12, and sets those findings in the context of sustainability reporting developments elsewhere in the public and private sectors.

2 The Environmental Audit Committee last reported on government sustainability reporting in June 2006, drawing on a National Audit Office review. The Committee called for sustainability reports to be published alongside departmental annual reports and accounts, covering departments' performance related to both their operations and policymaking; and for a single department to take ownership and responsibility for the development of departmental sustainability reports. The Government agreed in its October 2006 response that public bodies should report annually on both operations and policymaking. It committed to providing guidance on departmental reporting, including determining the core data that must be collected to monitor delivery against operational targets. The Government announced in December 2010, that it would introduce mandatory sustainability reporting for central government with effect from 2011-12 and further confirmed this commitment in its Mainstreaming Sustainable Development vision published in February 2011.

3 For the 2011-12 financial year, HM Treasury (the Treasury) introduced two new requirements for including sustainability information in Annual Reports. The Public Expenditure System (PES) annual reporting guidance for 2011-12 required departments to report on how sustainability is taken into account in operations, procurement and policy development. The 2011-12 Financial Reporting Manual (FReM) required all central government organisations to include a sustainability report in their Annual Report and Accounts. The Treasury also produced detailed content guidelines to assist with meeting the Financial Reporting Manual requirements, which specify that sustainability reports must include commentary on performance and financial and non-financial data on waste, resource use and greenhouse gas emissions. Its requirements for reporting of non-financial data are broadly aligned with the data requirements of the Greening Government Commitments, which set targets and transparency requirements for central government organisations on greenhouse gas emissions, operations and procurement. In the report, we refer to the Financial Reporting Manual requirement and the associated guidelines as the Treasury's FReM sustainability requirements.

4 The report is structured as follows:

- Part One describes what sustainability reporting is and sets out in detail the mandatory sustainability reporting requirements for central government;
- Part Two examines central government compliance with the Treasury's Public Expenditure System and Financial Reporting Manual (FReM) requirements for sustainability reporting;
- Part Three sets out the key mandatory and voluntary sustainability reporting developments taking place across the wider public and private sectors.

5 The main sources of evidence for our briefing were:

- a review of the 2011-12 Annual Reports and Accounts of 15 departments to assess the extent of compliance with the PES requirement. The sample included the 14 ministerial departments which had published accounts at the time of our review, as well as HM Revenue & Customs (a major non-ministerial department);
- a review of 28 of the largest central government organisations' 2011-12 Annual Report and Accounts, to assess the extent of compliance with the Treasury's FReM sustainability reporting requirements. The sample included the above 14 ministerial departments, as well as 14 of the five largest executive agencies, non-departmental public bodies and non-ministerial departments (based on gross expenditure in 2010-11) that had published their accounts at the time of our review; and
- an informal discussion workshop with sustainability practitioners and finance staff from central government, to explore their experiences of implementing the Treasury's FReM mandatory sustainability reporting requirements.

A more detailed methodology is set out in Appendix One.

Key findings

6 The Treasury's introduction of the PES and FReM sustainability reporting requirements for central government departments, agencies and non-departmental public bodies was a significant step. It required central government organisations to report on their operations, procurement and policy development and to provide non-financial and financial information on their key environmental impacts. These requirements exceed the 2006 Companies Act requirements for quoted companies.

7 The Treasury's FReM sustainability reporting requirements have been followed by others across the UK public sector. The Scottish Executive introduced guidance for voluntary sustainability reporting by central government organisations in Scotland for the 2011-12 reporting year. There are also sustainability reporting requirements for NHS trusts; and Monitor (the independent regulator of NHS foundation trusts) encourages NHS foundation trusts to produce a sustainability report. There are currently no requirements to include a sustainability report in the Annual Report and Accounts for central government bodies in Wales, Northern Ireland, for local authorities and local government bodies or schools.

8 Both of the Treasury's sustainability reporting requirements incorporate some elements of good practice from voluntary reporting initiatives, such as the Global Reporting Initiative. The Treasury's Public Expenditure System requires government departments to report on embedding sustainable development into their business and policy initiatives. The Financial Reporting Manual requirements involve reporting on energy use, water and waste; on addressing sustainability impacts of procurement; and commentary on performance and future plans. It also introduced requirements for financial data to be presented alongside non-financial data to help make and strengthen the link between acting more sustainably and related costs and benefits. The Financial Reporting Manual also identifies areas where central government organisations may choose to go beyond the mandatory requirements.

9 Government departments and central government organisations in our samples have complied with the Treasury's FReM requirement to include a sustainability report in their Annual Report and Accounts, which was a significant achievement. The sustainability practitioners and finance staff at our informal discussion workshop told us that there had been challenges in gathering the required data and some considered the effort involved in preparing the report was at the expense of managing the sustainability impacts. However, some participants felt that sustainability reporting would be less resource intensive in future years, as they overcome the difficulties associated with first time reporting. There were mixed experiences related to whether reporting in 2011-12 had raised the profile of sustainability within their organisation.

10 In their 2011-12 Annual Reports and Accounts, all 15 government departments in our sample complied with the PES reporting requirement to explain how sustainability was embedded into either their operations, procurement or development. In our sample of the largest central government organisations, we found good compliance with many of the FReM sustainability reporting requirements. However, in this first year of mandatory reporting, none of the organisations in that sample reported data for all of the specific sustainability reporting requirements in the FReM, although 46 per cent of central government organisations reported on all of the *key* reporting requirements. Most organisations provided data on the non-financial reporting requirements, which drew on information that organisations already collected to meet their Greening Government Commitments.

11 There were some important aspects of the PES and FReM sustainability reporting requirements that were not fully addressed:

- embedding sustainability into policymaking: nine of the fifteen departments in our sample did not fully address how they had embedded sustainable development in their policymaking; and six did not give examples of policy developments that demonstrated good practice in sustainable development (despite policy impacts often having more far-reaching effects than operations);
- providing data on individual waste streams: in relation to the Treasury's FReM sustainability requirements, ten of the twenty-eight central government organisations we reviewed did not provide non-financial data on all of their waste streams and 20 did not provide financial data on all of their waste streams; and
- an overview of forward plans: nine of the twenty-eight central government organisations did not provide this.

12 Both the Treasury's PES and FReM sustainability reporting requirements are focused on environmental impacts and are not as extensive as other reporting requirements on the social and economic aspects of sustainability reporting, although the Treasury's minimum FReM requirements are expected to expand in future to cover social and economic factors. The 2006 Companies Act requires reporting on the company's employees and social and community matters. The Global Reporting Initiative voluntary framework includes additional disclosure requirements, including disclosures on sustainability governance structure and engagement with stakeholders on sustainability issues. The United Nations Global Compact, which is a voluntary reporting initiative, also addresses reporting against human rights, labour and anti-corruption commitments.

13 The FReM sustainability reporting requirements state that central government organisations' sustainability reports should be included as a discrete section within their Annual Report and Accounts. However, as the Outcome Statement recognised at this year's UN Rio +20 conference on Sustainable Development, there are growing calls for integrating the most material sustainability, financial and strategic information into a single report, focused on forward strategy as well as past performance. A key objective of integrated reporting is to streamline annual reports, so that they cover, concisely, only the most material information about that organisation.

14 There is no generally accepted sustainability reporting assurance standard in place and the wide range of international, national and sector specific standards that are used by companies differ in terms of their nature and scope. For 2011-12, the Treasury guidelines did not require central government organisations to have their reports independently assured, but encouraged organisations to use their internal audit arrangements to provide assurance on data quality. We did not identify any organisations in our sample that had had their reports independently assured, although four organisations included a statement in their report indicating that their internal audit team had provided assurance over aspects of the report. The Treasury has indicated that it will further consider whether assurance should be required in the future.

Areas of interest to the Committee

15 The Committee may wish to consider the following issues in thinking about sustainability reporting across government:

- **whether the Treasury's Public Expenditure System (PES) and Financial Reporting Manual (FReM) sustainability reporting requirements are encouraging central government organisations to improve their sustainability;**
- **whether there should be common sustainability reporting requirements across the whole of the public sector in the UK and how that could be achieved;**
- **whether there needs to be greater consistency and clarity of the sustainability reporting requirements across the PES and the FReM and those in the Greening Government Commitments;**
- **whether the PES and FReM sustainability reporting requirements sufficiently cover all of the environmental, social and economic aspects of sustainable development;**
- **the reasons why organisations were relatively weak on reporting how they were embedding sustainability in policy;**
- **whether the PES and FReM sustainability reporting requirements strike an appropriate balance between mandatory requirements to ensure consistency; and encouraging central government organisations to tailor their reporting to their business and their material impacts;**
- **whether there needs to be greater priority attached to the continuous development of sustainability reporting in government, that takes into account how departments perform against requirements, sustainability reporting developments in the wider public and private sectors and current pressures on resources; and**
- **whether there should be assurance of public sector sustainability reports.**

Part One

Introduction

Background

1.1 Over the last two decades, sustainability reporting has become an increasingly important aspect of corporate reporting, building relations with stakeholders and setting corporate strategy. Around 6,000 corporate sustainability reports are produced globally each year, up from fewer than 100 in 1993.[1] The sustainability of an organisation is concerned with balancing economic goals with environmental and social development and ensuring each is taken into account in decision-making. Sustainability reporting encourages transparency and accountability to stakeholders on all aspects of activity, including resource-use, decision-making and social and environmental impacts and opportunities that are typically missed from financial information. More experienced sustainability reporting practitioners are moving away from reporting on basic information and compliance, towards ever more 'punchy, targeted and engaging' reporting, with more tailored communications, greater and more frequent audience engagement and an increasing focus on material issues.[2]

1.2 This part describes the Treasury's Public Expenditure System (PES) reporting guidance and the Treasury's Financial Reporting Manual (FReM) reporting requirements for central government in England, which took effect from the financial year 2011-12, the scope of the requirements and their intended effects. To set the Government requirements in context, this part also outlines selected developments and best practice in sustainability reporting, although we explore developments in sustainability reporting in more depth in Part Three.

1 CorporateRegister.com CR Reporting Awards 12 Official Report: Global Winners & Reporting Trends, (2012) pp4; and CorporateRegister.com Towards transparency: progress on global sustainability reporting (2004), pp8. Both available at www.corporateregister.com, accessed November 2012.

2 Corporate Citizenship (2012) *Adding value through sustainability reporting*, 2012. Research based on 153 responses to a survey and interviews with companies around the world, around half of which were UK firms. Available at www.corporate-citizenship.com/wp-content/uploads/Adding-Value-Report-Final.pdf, accessed November 2012.

Mandatory sustainability reporting for central government

Requirements of the mandatory sustainability reporting framework

1.3 The PES reporting guidance requires government departments to report, in their Annual Reports and Accounts, on how they take account of the long-term needs of the economy, society and the natural environment in their operations, procurement and policy development. The reporting guidance also includes requirements to provide examples of policy development that demonstrate good practice in sustainable development as well as reporting forward commitments for improving performance next year. The reporting requirement was introduced following the Department for Environment, Food and Rural Affair's publication of the government's vision for sustainable development in February 2011, which committed to 'mainstreaming' sustainable development, so that it is central to policymaking, operating estates and procuring goods and services.

1.4 The Treasury's FReM required central government organisations (subject to the exemptions outlined at paragraph 1.11) to include a sustainability report within the Annual Reports and Accounts in 2011-12. Previously, the FReM required the inclusion of a "discussion of environmental matters and social and community issues" in the management commentary section of the Annual Report, and this requirement continues to exist alongside the new requirements. Departments were separately required to report annually against their departmental Sustainable Development Action Plan, and to report to the Cabinet Office to enable the compilation of a pan-government report on progress in meeting central government targets for energy use, water use, waste and other related targets. The Treasury's new FReM sustainability reporting requirements were introduced to provide organisation-level transparency, accountability and accuracy around sustainability reporting. The specific aims were to improve the consistency and comparability of reported information; influence improved performance management in relation to sustainability; and provide a reporting format that better links the cost implications and related benefits of becoming more sustainable.[3]

1.5 The Treasury's FReM requires organisations to include (as a minimum):

- an overall commentary on performance and forward plans;
- a comparison of non-financial and financial information covering the organisation's greenhouse gas emissions and associated energy use; waste minimisation and management; water consumption; and other finite resource consumption where material; and
- a commentary on performance against any biodiversity action plans and progress in achieving more sustainable procurement methods.

3 HM Treasury, *Public sector Annual Reports: Sustainability reporting, guidance for 2011-12 reporting* pp. 4. Available at: www.hm-treasury.gov.uk/d/psar_sustainability_reporting_guidance20112.pdf, accessed November 2012.

1.6 The Treasury's PES and FReM sustainability reporting requirements are complementary. The PES requirements are wider and at a higher level. They focus on describing the processes by which sustainability is embedded into the organisation, including how sustainability is taken into account in policy development. The FReM focuses on detailed performance reporting requirements, for operations and procurement. Alongside the PES requirement to place sustainable development in the mainstream, the PES also contains two separate requirements to report on progress in adapting to Climate Change as well as how the interests of rural people, communities and business are considered in policy development and implementation.

1.7 The non-financial sustainability reporting requirements of the FReM aim to align with information requirements under existing Greening Government Commitments. These set targets and reporting requirements for central government on greenhouse gas emissions, waste and other areas of operations and procurement.[4] The Treasury's FReM requirements include the stated ambition to strive for a single reporting mechanism in the future. However, for the first time, the FReM requirements call for organisations to report financial sustainability data alongside non-financial information.

1.8 The sustainability reporting accounting boundary of the FReM is designed to match the financial reporting boundary, which means that departments are required to produce a consolidated sustainability report for the full department and those entities falling within their financial reporting boundary that are required to produce a sustainability report.

1.9 There were no requirements for the reports to be independently assured in 2011-12, although the Treasury has indicated in its reporting guidance that it will give further consideration to future arrangements. The Treasury encouraged organisations to establish their own internal audit arrangements for providing assurance over data quality and the information reported in the sustainability report.[5]

Who the requirements apply to

1.10 The PES reporting requirements apply to all UK government departments (including non-ministerial departments but excluding devolved bodies). Sponsoring departments may also require their agencies and arm's-length bodies to follow the PES reporting requirements and hence its sustainability reporting requirements.[6] The guidance allows for exceptions to reporting requirements on a case-by-case basis in agreement with the Treasury.[7]

4 The Greening Government Commitments apply to central government departments, executive agencies, non-departmental public bodies and non-ministerial Departments in England. There are, however, certain exemptions, including for organisations that have fewer than 250 full-time equivalent staff or floor space that is less than 1,000 square meters.

5 HM Treasury, *Public sector Annual Reports: Sustainability reporting, guidance for 2011-12 reporting pp. 12*. Available at www.hm-treasury.gov.uk/d/psar_sustainability_reporting_guidance20112.pdf, accessed November 2012.

6 HM Treasury, *Public Expenditure System (2011)10: Guidance on the preparation of 2011-12 Annual Reports and Accounts*, 20 December 2011. Para 2.2.

7 HM Treasury, *Public Expenditure System (2011)10: Guidance on the preparation of 2011-12 Annual Reports and Accounts*, 20 December 2011. Para 2.1.

1.11 The Treasury's FReM sustainability reporting requirements apply to all UK central government bodies that produce Annual Reports and Accounts and which fall within the scope of Greening Government Commitments. In practice, this means they apply to departments (including non-ministerial departments), executive agencies and most non-departmental public bodies in England, but not to schools, NHS bodies, devolved bodies and local government entities.[8] Organisations do not have to report if they have fewer than 250 full-time equivalent staff or floor space that is less than 1,000 square meters. There are also special case exemptions, including reasons of safety, likelihood of perverse outcomes and commercial reasons.

Leading practice in sustainability reporting

1.12 There is a variety of content guidance, frameworks and best practice to help with mandatory and voluntary reporting in the public and private sector. However, good sustainability reporting is not just about complying with guidelines on performance-related content. It also relates to how an organisation reports its results and the degree to which sustainability considerations are connected to the business.

1.13 Both in the UK and internationally there are sustainability reporting awards that recognise this. For example, the Building Public Trust Awards (BPTA) have for the last four years recognised achievements in both public and private sector sustainability reporting, alongside the awards for trust and transparency in financial reporting, which have been running for ten years. The criteria used to help shortlist organisations for the sustainability reporting award are:

- providing an overview of the organisations role; the degree to which sustainable development issues are being factored into core business strategies and priorities;
- balanced reporting;
- the quality of presentation;
- explaining the key risks and opportunities arising from the sustainability agenda;
- the inclusion of 'smart' targets and performance indicators relating to sustainable development performance;
- evidence of understanding the material sustainability impacts of the organisation;
- explaining the sustainability governance system;
- obtaining assurance over the content of the report; and
- engagement with stakeholders.

8 HM Treasury, *Public sector Annual Reports: Sustainability reporting, guidance for 2011-12 reporting* pp. 4.

1.14 The BPTA awards process was initiated by PricewaterhouseCoopers LLP, which is responsible for shortlisting the top-performing reports in the private sector. The NAO has been working alongside PwC to help shortlist organisations for the award for sustainability reporting in the public sector. An independent expert judging panel selects the winners. In 2012, the award for sustainability reporting in the public sector went to the Highways Agency. In the private sector, the awards for sustainability reporting in the FTSE 100 and in the FTSE 250 went to Unilever and Balfour Beatty respectively.

1.15 Part Three sets out in detail some of the mandatory and voluntary reporting developments which are taking place across the wider public and private sector.

Part Two

Central government compliance with reporting requirements

2.1 This part of the report examines the extent to which central government organisations complied with the Treasury's Public Expenditure System (PES) and Financial Reporting Manual (FReM) sustainability reporting requirements. It also sets out the extent to which organisations reported beyond the reporting requirements and captures the views of sustainability practitioners and finance staff from central government on complying with the requirements. It illustrates good practice which can be achieved under the reporting requirements with reference to the four leading reports shortlisted for the Building Public Trust Award public sector sustainability reporting award – The Crown Estate, Environment Agency, Foreign and Commonwealth Office and the Highways Agency (Appendices 2–5).

Departmental compliance with the Public Expenditure System (PES) requirement

2.2 In this first year of mandatory reporting, three of the fifteen departments in our sample complied with all three aspects of the PES reporting requirements (see **Figure 1**). The requirements that departments most often did not fully address were the second and third requirements – to provide examples of policy developments that demonstrate good practice in sustainable development (nine departments complied); and to make forward-looking commitments for embedding sustainability (seven departments complied).

2.3 We found that 14 of the 15 departments complied with the first requirement to report on the steps they had taken to embed sustainability into either their operations, procurement, or policy development. Only five reported on how sustainability is embedded into their operations, procurement *and* policy development. Also in relation to this first PES requirement, we found that:

- Eleven departments described how sustainability is embedded into operations and 14 described how sustainability is embedded in procurement, for example, by explaining their internal governance and assurance processes for taking account of sustainability in these areas.

- Six departments reported on how sustainable development is embedded into policy development, despite policy impacts often having more far-reaching effects than operations. These six departments commonly reported that they had included sustainability criteria in their business case templates or impact assessments, or that they had issued guidance to staff on how to consider sustainability in policymaking. Of the nine organisations that did not fully address this requirement, six reported that they took account of sustainability in policy development, but without explaining how or providing specific examples of action they had taken.

Figure 1

Departmental compliance with the Treasury's Public Expenditure System requirements

Public Expenditure System requirement	Number of departments that complied
Reports on how sustainability is embedded into *either* their operations; procurement; or policy development.	14[1]
Provides *examples* of policy developments that demonstrate good practice in sustainable development.	9
Makes forward-looking commitments for improving performance next year.	7[2]
The number of organisations that complied with all of the above requirements.	3

NOTES

1 Of these 14 departments, 11 explained how sustainability is embedded into their operations; 14 described how it is embedded into procurement; and 6 explained how it is embedded into policy development. In total, five reported on how sustainability is embedded into their operations, procurement *and* policy development.

2 We have assessed a department as having complied with this requirement where they provide at least one forward looking commitment for embedding sustainability into *either* their operations, procurement or policy development. Where a department provides forward-looking commitments for improving their general sustainability performance, without reference to forward-looking commitments which focus on embedding sustainability at the official level, we have assessed them as non-compliant.

Source: NAO review of compliance with the Public Expenditure System requirement to report, provide examples and give future plans on how sustainability is taken into account in operations, procurement and policy development. We reviewed compliance by the 14 ministerial departments which had published their accounts at the time of our review, as well as HM Revenue & Customs, which is a major non-ministerial department

Performance against the Treasury's Financial Reporting Manual (FReM) sustainability reporting requirements

2.4 All 28 of the largest central government organisations in our wider sample included a sustainability report in their Annual Report and Accounts, except Partnerships for Schools, which on April 2012 was closed and its functions transferred to the Education Funding Agency.

2.5 The majority of organisations provided data for the non-financial data requirements, which they were already familiar with under the Greening Government Commitments and its predecessor frameworks. However, fewer central government organisations had complied with all the new financial data requirements, with the majority not providing detailed financial data on waste. Some participants at our workshop told us that they relied on contractors to provide them with data on waste and that data was not always accurate or provided on a timely basis.

2.6 The most common area where organisations did not provide non-financial data was on their waste streams. For example, 36 per cent did not report on how much of their waste was incinerated for energy, and 21 per cent did not report on how much waste they sent to landfill (see **Figure 2**).

2.7 The Treasury's FReM sustainability reporting guidelines require organisations to report separately their greenhouse gas emissions as: scope one (from sources owned by the organisation), scope two (from energy consumed by the entity but supplied by another party) and scope three travel (all other emissions that indirectly result from business travel). We found that while the majority of participants provided data on these types of emissions, only 32 per cent disclosed each scope separately and referred to their emissions using the scope one, two and three terminology. Some reporting frameworks, such as the Global Reporting Initiative, use other methods for classifying emissions, such as whether emissions result from direct and indirect sources.

2.8 As well as providing data, the FReM sustainability requirements also require organisations to provide commentary to help readers of the report to understand the performance data and the organisation's commitment to sustainable development. We found that 64 per cent of organisations reported both parts of the commentary requirement – to i) provide an overarching commentary on performance; as well as ii) an overview of forward plans. Of the ten organisations that did not comply, nine complied only with the first part of the requirement, by providing commentary on performance against at least one key performance indicator, but did not comply with the second part. Partnerships for Schools did not report its performance or provide commentary.

2.9 Taking all criteria together we found that, overall, nearly half of the central government organisations (46 per cent) in our sample reported on all the *key* reporting requirements, by providing high level financial and non-financial data for greenhouse gas emissions, waste and water use as well as providing the required overarching commentary on performance and forward plans. But, in this first year of reporting, none of the 28 organisations reported on all the specific sustainability reporting requirements in the Treasury's FReM (see Figure 2).

Figure 2

The number of central government organisations that reported on the Treasury's Financial Reporting Manual's (FReM) sustainability reporting requirements

	Non-financial disclosures		Financial disclosures	
	Specific disclosure requirement	**Number of organisations that met requirement (percentage)**	**Specific disclosure requirement**	**Number of organisations that met requirement (percentage)**
Greenhouse gas emissions	Scope one emissions[1]	25 (89%)	Expenditure on the purchase of energy	26 (93%)
	Scope two emissions[2]	26 (93%)	Expenditure on the CRC Energy Efficiency Scheme	19 (68%)[4]
	Scope three business travel emissions[3]	26 (93%)	Expenditure on official business travel	24 (86%)
	Classifies emissions as Scope 1, 2 and 3, and discloses each scope separately	9 (32%)	Expenditure on accredited offset purchases	13 (46%)[5]
Waste	Total waste	25 (89%)	Total waste	18 (64%)
	Waste sent to landfill	22 (79%)	Waste sent to landfill	9 (32%)
	Waste recycled/reused	26 (93%)	Waste recycled/reused	9 (32%)
	Waste incinerated/ energy from waste	18 (64%)	Waste incinerated/ energy from waste	8 (29%)
Water	Water consumption	25 (89%)	Expenditure on water	23 (82%)

Figure 2 *continued*

The number of central government organisations that reported on the Treasury's Financial Reporting Manual's (FReM) sustainability reporting requirements

Commentary sections	Disclosure requirement	Number of organisations that met disclosure requirement (percentage)
	Provides an overview commentary on performance and an overview of forward plans.	18 (64%)[6]
	Includes overall strategy for sustainability.	24 (86%)[7]
	Explains performance in terms of Key Performance Indicators, direct impacts and indirect impacts.	27 (96%)[8]
	Discuss trends and the organisations strategic role in improving performance.	22 (79%)[9]
	Commentary explaining progress in achieving more sustainable procurement methods.	23 (82%)
	Commentary on biodiversity action plans and performance against them.	16 (57%)[10]

NOTES

1 Scope one emissions are those from sources owned by the organisation. We have assessed an organisation as having reported in this area where it provides data for their scope one emissions, regardless of whether the emissions data is disclosed separately from scope two or scope three emissions, and whether or not the report specifically uses the term 'scope one' to describe those emissions.

2 Scope two emissions are those that result from energy consumed by the entity but supplied by another party. We have assessed an organisation as having reported in this area, where it provides data for their scope two emissions, regardless of whether the emissions data is disclosed separately from scope one or scope three emissions, and whether or not the report specifically uses the term 'scope two' to describe those emissions.

3 Scope three emissions relate to all other emissions that indirectly result from the business, however, the disclosure requirements are limited to emissions relating to official business travel directly paid for by the organisation. We have assessed an organisation as having reported in this area, where it provides data for scope three emissions, regardless of whether the emissions are disclosed separately from their scope one or scope two emissions, and whether or not the report specifically uses the term 'scope three' to describe those emissions.

4 Where an organisation does not participate in the CRC Energy Efficiency Scheme, it would have to state that, or provide a nil value, in order to be assessed as having reported in this area.

5 Where the organisation has not purchased any accredited offsets in the reporting year, it would have to have stated that or provided a nil value, to be assessed as having reported in this area.

6 An organisation has been assessed as having reported in this area where it provides commentary against greenhouse gas emissions, waste or water; and at least one forward plan in relation to sustainability.

7 An organisation has been assessed as having reported in this area where it includes at least one of the following: a statement setting out their commitment to sustainable development; a description of the organisation's role and responsibilities for sustainable development polices; or a description of its aim or objectives for sustainability.

8 An organisation has been assessed as having reported in this area where its report explains performance on at least one direct and indirect impact for greenhouse gas emissions, waste or water.

9 An organisation has been assessed as having reported in this area where it explains trends for at least one key performance indicator; as well as explaining its strategic role in improving performance (for example, by providing at least one example of how it will improve its performance in the future related to the trend commented on, or by describing its overall responsibility for sustainability).

10 Organisations that have included a statement that biodiversity is not relevant to them have been assessed as not having reported data in this area. Of the 12 organisations that did not report in this area, three included a statement to say that biodiversity is not relevant to them and nine made no mention of biodiversity.

Source: Based on NAO review of 28 of the largest Central Government organisations. The review does not include the Ministry of Defence, the Department for Culture, Media and Sport, or National Savings and Investment, where Annual Report and Accounts were not available at the time of our review

Central government perspectives on the first year of mandatory reporting

2.10 The representatives from 14 central government organisations that we spoke to told us that the main challenges they had experienced in the first year of mandatory reporting related to data collection.[9] Those organisations that had been undertaking sustainability reporting for longer or had piloted their reporting in 2010-11, considered that they had been able to build on their earlier experience and so preparing their report for 2011-12 was not so challenging, and that they were now able to make more use of their data. Examples of the data issues that the workshop participants found particularly challenging were:

- Obtaining complete, accurate and timely sustainability data from contractors, suppliers and arm's-length bodies, such as travel and waste data. The Environment Agency, which first included a sustainability report in their 2007-08 Annual Report, informed us that by installing automatic meter readings and working with suppliers to implement a system of electronic billing, they had been able to improve the accuracy and timeliness of their reported energy data.
- Reconciling the mismatch that can arise in the scope of data captured by finance systems and that captured by sustainability practitioners directly from utility bills or contractors. For example, some organisations reported that the information they capture through their finance system on energy expenditure includes data that is not directly related to consumption, such as the cost of installing new meter readings or cables, which has to be excluded.
- Knowing which methodology to use to estimate data, for example where data such as waste data is missing; or knowing which conversion factor to apply, for example to convert raw travel data, such as the cost of a taxi ride, into the associated greenhouse gas emissions. The Highways Agency, which first included detailed information on sustainability in their 2005-06 Annual Report told us that they had introduced a system where individuals are required to record their mileage on their taxi travel claim before it would be paid.

9 The 14 participants who we spoke to came from nine (out of the 16) ministerial departments and five arm's-length bodies. Twelve took part in an informal discussion workshop, and two added their views on the four different discussion points after the workshop. Participants' views and experiences may not be typical of all sustainability practitioners and finance staff working across central government. Appendix One gives a detailed outline of our informal workshop methodology.

2.11 The representatives from the central government organisations that we spoke to agreed that the Treasury's guidance on sustainability reporting is generally clear and helpful. However, some participants suggested areas where they felt guidance could be improved These included:

- More information on when it might be appropriate to estimate data, and on the methodologies for making estimates and applying conversion factors. Some participants also suggested more guidance or examples would be helpful in deciding how much information they should include to explain their data.
- Clarity on the extent of alignment between the Treasury's FReM sustainability requirements and the Greening Government Commitments. An underlying principle of the Treasury in the development of the guidance was to ensure that the FReM sustainability reporting requirements were aligned with the Greening Government Commitments, to ensure consistency. However, some participants discussed their perception that the guidelines include different requirements for reporting on greenhouse gas emissions and non-domestic flights, even though the reporting guidelines in these areas are aligned.

2.12 The Treasury has written to the Finance Directors of departments, asking for their feedback on the clarity and ease of use of its guidance. It does not anticipate needing to introduce significant changes to the guidance when updating it for 2012-13, partly as the Department for Environment, Food and Rural Affairs does not anticipate making any significant changes to the Greening Government Commitments.

2.13 Some of the participants at our informal discussion workshop reported that the new mandatory reporting requirements had raised the profile of sustainability within their organisation among senior management or the finance team, although there were mixed experiences. A number of participants reported that the senior management teams within their organisation had been more engaged with sustainability in 2011-12, or had raised queries about information included in the report. Some considered that the reporting requirements had led to an improved understanding within their organisation of the financial benefits of operating sustainably and greater understanding by the Finance team or internal auditors of the need for systems to produce accurate data for sustainability reporting. Other organisations reported that the new reporting requirements had not raised the profile of sustainability within their organisation.

2.14 Some participants told us that meeting the requirements of sustainability reporting – the Treasury and Greening Government Commitment reporting requirements alongside others with similar aims, such as the CRC Energy Efficiency Scheme – was resource-intensive and diverted efforts away from actively managing their organisation's sustainability impacts. Some of those participants felt this could improve in the future, as they overcome the learning curve associated with first-time reporting, and establish processes for monitoring and reporting data to meet the mandatory requirements.

Reporting beyond the mandatory reporting requirements

2.15 The Treasury's FReM guidelines recognise that there are many disclosures that organisations can make in relation to sustainability. The guidelines include examples of areas for additional sustainability reporting beyond the mandatory requirements, and encourages further reporting – including:

- the wider economic, social and environmental impacts that are most material to the organisation;
- producing a detailed carbon account;
- data on waste from construction, demolition and excavation; and
- indirect resource use impacts, such as indirect supply chain emissions; indirect water use; or the carbon emissions or finite resources embodied in raw materials and assets that the organisation uses.

2.16 Other reporting frameworks, for use by the public and private sector, give best practice examples of other sustainability information on which organisations could report. In our judgement, the most important examples show the significance the organisation attaches to embedding sustainable development in its business and the linkage between sustainable development commitments and other aspects of the business, and are disclosures on:

- the relationship between sustainability and the organisation's corporate strategy and the priority of sustainable development issues;
- what the organisation's material sustainability impacts are and the process that it uses to identify them;
- how the organisation engages with its stakeholders on its sustainability strategy; and
- the organisation's sustainability governance structure, including an outline of arrangements for gaining assurance over the reliability of information in the sustainability report.

2.17 In our review of 28 of the largest central government organisations' reports, we found that most had gone beyond the mandatory requirements in some way. (**Figure 3** overleaf).

Figure 3

Examples of the ways in which organisations reported beyond the Treasury's mandatory reporting requirements

Disclosure	The number of organisations that reported in this area
Treasury suggestions for reporting beyond the mandatory requirements	
Reported on the wider economic impact of the organisation in their sustainability report.	5
Reported on the wider social impact of the organisation in their sustainability report.	9
Produced a detailed carbon account.	26[1]
Reported data on waste from construction, demolition and excavation.	2
Reported on indirect resource use impacts, such as indirect supply chain carbon emissions, or indirect water use.	2
Reporting in some of the areas encouraged by other reporting frameworks	
Described both their sustainability strategy and its relationship with the organisation's overall corporate strategy.	5
Included a statement on sustainability from a senior authority within the organisation.	3
Describes what the organisation's material sustainability impacts are.	0[2]
Describes its process for identifying material sustainability impacts.	0
Showed evidence that they had engaged with internal or external stakeholders on their sustainability strategy, or disclosed issues identified by key stakeholders.	0
Described the organisation's sustainability governance structure (for example by identifying the Board member responsible for sustainability or describing how sustainability data is monitored and reviewed).	18
Included a statement to say that their internal audit department had provided assurance over aspects of the sustainability report.	4
Included a statement to say that the sustainability report had been independently assured.	0

NOTES

1 In our sample, we found that 26 organisations included additional detail on the source of emissions or energy consumption reported under the mandatory requirement, which goes some way to producing a full carbon account.

2 In reviewing whether an organisation has reported in this area, we have assessed whether the organisation has identified the sustainability topics or indicators on which its business has the most material impact. No organisation in our sample reported this information. However, there were two organisations that identified the areas of their business that contributed most to a particular sustainability indicator.

Source: Based on NAO review of 28 of the largest Central Government organisations. The review does not include the Ministry of Defence, the Department for Culture, Media and Sport, or National Savings and Investment, where Annual Report and Accounts were not available at the time of our review

2.18 Some went beyond the mandatory requirements in respect of their reporting on their sustainability strategy. This can provide the reader of the report with more contextual information to understand the business and performance of the organisation. For example, in our sample of the largest central government organisations some included an explanatory statement from a senior authority in the organisation on the importance of sustainability or the organisation's key priorities for sustainability. Five organisations described both their sustainability strategy and its relationship with their overall corporate strategy, for example by explaining the priority that is given to sustainability relative to other objectives, or how sustainability contributes to the achievement of corporate objectives. The Highways Agency's report explained the relationship between its sustainability strategy and its wider corporate strategy, and also referred to its more detailed sustainable development plan on its website (illustrated at case study four, Appendix Five).

2.19 Some organisations reported additional data on their significant indirect sustainability impacts (those that an organisation can influence but not control), the scale of which is often far greater than direct sustainability impacts. For example, the Environment Agency and Highways Agency provided data on their non-office construction waste and their indirect supply chain greenhouse gas emissions. The Highways Agency also reported that its indirect supply chain greenhouse gas emissions accounted for 80 per cent of its overall greenhouse gas emissions (see case study four, Appendix Five).

2.20 It is helpful if a sustainability report explains which sustainability topics or indicators are most material to the organisation, to help the reader understand where the organisation should be focusing its efforts on improving performance. None of the organisations in our sample reported this information, although two identified the main contributing factors to the organisation's greenhouse gas emissions, water consumption or waste. Although not included in our sample of the largest central government organisations, The Crown Estate explained its process for establishing its most material issues (case study one, Appendix Two).

2.21 In relation to carbon emissions, the Treasury's FReM requirements suggest organisations may wish to go beyond the mandatory requirements to include a full carbon account. Such an account might, for example, provide details of emissions by mode of travel, and can help the reader to understand the source of the organisation's carbon impact and hence the actions the organisation would need to take to reduce them. Twenty-six of the organisations' reports that we reviewed included additional detail on the source of emissions or energy consumption reported under the mandatory requirement, which goes some way to producing a full carbon account.

2.22 We found that central government reporting focused mainly on the environmental aspects of sustainability, rather than on wider social and economic impacts, such as how performance is linked to financial outcomes or the impact of the organisation's operations on the local community. The Crown Estate (not in our sample but by way of illustration) also included commentary on social impacts, in this case, by reporting progress against targets on community investment projects (see case study one, Appendix Two). In our review of 28 of the largest central government organisations, we identified nine organisations that made a reference to their wider social impacts in their sustainability report. The Treasury's minimum requirements are expected to expand beyond environmental aspects in future years to cover social and economic factors.

2.23 Some central government organisations told us that they felt constrained by what they could include in their Annual Report, for example, because of restrictions on the length of the report and use of diagrams. The Environment Agency is an example of an organisation that uses internet-based reporting on sustainability to supplement the information that is provided in their Annual Report with additional information on the environmental aspects of the Agency's sustainability strategy, performance and future plans (case study two, Appendix Three).

Part Three

Sustainability reporting developments in the public and private sectors

3.1 The Treasury's Public Expenditure System (PES) and Financial Reporting Manual (FReM) sustainability reporting requirements apply to central government bodies in England, (subject to the exemptions outlined in Part One) but do not extend to NHS organisations or devolved bodies. This section sets out some of the mandatory and voluntary sustainability reporting developments that are taking place across the wider public and private sectors, to provide additional context for our findings on reporting in central government.

Sustainability reporting in the wider public sector in the UK

Devolved administrations

3.2 The Scottish Government introduced guidance for voluntary sustainability reporting in January 2012 to have effect from the 2011-12 financial year.[10] The guidance encourages central government organisations to produce a sustainability report for publication alongside their Annual Report and Accounts, and is similar to the Treasury's FReM sustainability reporting requirements for bodies in England. The Scottish Government's aim was to encourage a more consistent and comparable approach to reporting between different public sector bodies in Scotland and across the UK as a whole, as well as between different accounting periods for the same body. Like the Treasury FReM sustainability requirements, the Scottish guidelines encourage organisations, where possible, to report beyond the suggested minimum reporting requirements, and gives examples of how they can do this, for example by reporting on indirect supply chain emissions.

3.3 In Northern Ireland and Wales, there are currently no requirements for central government bodies to include a sustainability report in their Annual Report and Accounts. However, the Government of Wales Act 2006, requires Welsh ministers to publish an annual report setting out how their proposals for promoting sustainable development, as set out in their Sustainable Development Scheme, have been implemented in that financial year.

10 The Scottish Government, *Public Sector Sustainability Reporting – Guidance on the Preparation of Annual Sustainability Reports: Financial Year 2011-12*. January 2012. Available at www.scotland.gov.uk/Resource/Doc/366332/0124742.pdf, accessed November 2012.

Wider public sector

3.4 The Department of Health introduced a requirement for NHS trusts to include a sustainability report in their Annual Report from 2011-12, to ensure more comparable and consistent reporting and help further its goal of having an NHS which is both environmentally and financially sustainable.[11] NHS foundation trusts, which are regulated separately by Monitor, are not covered by the Department of Health requirements. However, Monitor's NHS foundation trust Reporting Manual for 2011-12 encourages foundation trusts to include sustainability information in their Annual Reports and Accounts.[12]

3.5 The mandatory reporting requirements for NHS trusts are broadly similar to those in place for central government but include some additional reporting elements. For example, there is a requirement for organisations to provide the net present value of savings that are expected as a result of operating more sustainably to encourage the embedding of sustainability considerations into NHS trusts' finance processes and reinforce the link between financial and environmental performance. To encourage corporate and staff behaviour change, NHS trusts are also required to include a statement on whether their board has approved a Sustainable Development Plan in the last 12 months and to report on when they last had a staff energy awareness campaign.

3.6 There are currently no mandatory sustainability reporting requirements for local authorities, schools or academies. However, in April 2011, the Minister of State for Climate Change, Gregory Barker, requested that local authorities measure and report greenhouse gas emissions from their own estate and operations. Local authorities were requested to publish a summary of their greenhouse gas emissions on their authority's website, for both the 2009-10 and 2010-11 financial years, by July 2011, and annually thereafter. The change was introduced to support the Government's localism agenda by ensuring local authorities are accountable to their local people for their greenhouse gas emissions. Authorities are required to report emissions from sources owned by their organisations or that result from energy consumed by the organisation but that is supplied by another entity. Unlike central government, which are required to report on indirect travel emissions, local authorities have discretion over whether or not to report these emissions.

11 Department of Health website. Available at www.sdu.nhs.uk/sd_and_the_nhs/reporting.aspx, accessed November 2012.

12 NHS Foundation Trusts differ from other NHS Trusts in that they are independent legal entities that are free from central government control. NHS Foundation Trusts are overseen by Monitor, unlike other Trusts for which performance is managed by health authorities.

Sustainability reporting in the private sector

3.7 The European Union's Fourth Company Law Directive requires member states to secure annual reporting by companies on both financial and non-financial key performance indicators on environmental and employee matters, '…to the extent necessary for understanding their business'. Member states may, at their discretion, exempt small- and medium-sized companies from this disclosure.[13] In the UK, the 2006 Companies Act requires quoted companies to report annually, 'to the extent necessary for understanding the business' on:

- environmental matters (including the impact of their business on the environment);
- the company's employees; and
- social and community matters.[14]

Companies' reporting should include information about any policies of the company in relation to these matters and their effectiveness. Where appropriate,[15] organisations must also include analysis, using key performance indicators, on information relating to environmental and employee matters. Companies are required to include this information in the business review section of the directors' report, which is included in the Annual Report and Accounts.

3.8 In response to concerns over the transparency and quality of company reporting of non-financial information, the European Commission launched a consultation in November 2010 on the existing disclosure requirements. The European Commission's initial proposals included options to encourage voluntary reporting, introduce a 'comply or explain' requirement or introduce changes to the mandatory reporting requirements. The Commission is yet to determine the final choice of instrument, the scope of the initiative and the specific reporting requirements.

13 The European Union defines a company as small where, on their balance sheet date, they do not meet two or more of the following criteria: balance sheet total of more than EUR 4,400,000; net turnover of more than EUR 8,800,000; or more than 50 employees. The European Union defines a company as medium-sized, where on their balance sheet date, they do not meet two or more of the following criteria: balance sheet total of more than EUR 17,500,000; net turnover of more than EUR 35,000,000; or more than 250 or more employees. Fourth Council Directive 78/660/EEC of 25 July 1978, based on Article 54 (3) (g). Available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31978L0660:EN:NOT

14 The 2006 Companies Act, Chapter 5, 417(5). Available at: www.legislation.gov.uk/ukpga/2006/46/contents, accessed November 2012.

15 The 2006 Companies Act does not define when it might be considered appropriate to include this information.

3.9 In September 2011, the Department for Business, Innovation and Skills launched a consultation on changes to the structure of company reporting in response to concerns that reports are becoming longer, less useful to stakeholders and that strategic information is being diluted in reports.[16] The Department is proposing that large- and medium-sized companies[17] would include in their Annual Report a 'strategic report' replacing the business review and separate from the directors' report. The strategic report would be required to contain similar information to the business review but, for quoted companies, some additional requirements on human rights issues and the number of women in the company that are directors, in management positions[18] and employed by the organisation.

3.10 On 20 June 2012, the Government announced that it would introduce regulation requiring UK quoted companies to report their greenhouse gas emissions in their Annual Report. The aim is to improve company transparency, encourage investors to take account of climate change risks in investment decisions and encourage companies to better manage and reduce their emissions. The draft regulations provide for reporting of direct emissions; indirect emissions;[19] and the carbon intensity of the business of the company. The Government intends the statutory instrument to be made in Parliament by April 2013 but has not yet determined when the regulation will come into force. The Government intends to review the first two years of reporting by quoted companies in 2015, with the view to taking further decisions in 2016 on whether to extend the reporting requirement to all large companies.

3.11 From July 2012 to October 2012, the government held a consultation on revisions to the Department for Environment, Food and Rural Affairs' voluntary guidance for UK business, issued in part to help quoted companies meet the requirements for reporting on environmental issues under the 2006 Companies Act. The guidance aims to help companies identify and address their most significant environmental impacts. The current guidance, which was published in 2006, includes 22 environmental indicators which companies may use in the four key areas of emissions to air, emissions to water, emissions to land and resource use. The proposed new guidance includes advice on measuring and reporting some additional indicators, including water, biodiversity, ecosystem services and waste.

16 The Department for Business, Innovation and Skills. *The future of narrative reporting; consulting on a new narrative framework.* September 2011. Available at: www.bis.gov.uk/assets/biscore/business-law/docs/f/11-945-future-of-narrative-reporting-consulting-new-framework.pdf, accessed November 2012.

17 The 2006 Companies Act defines a company as medium-sized where two or more of the following conditions are met: annual turnover is £25.9 million or less; the balance sheet total is £12.9 million or less; or the average number of employees is 250 or fewer. The 2006 Companies Act, Chapter 12, 465(3). Available at: www.legislation.gov.uk/ukpga/2006/46/contents, accessed November 2012.

18 The draft regulation defines a 'manager' as a person who has responsibility for planning, directing or controlling the activities of the company

19 The Department for Environment, Food and Rural Affairs. *Draft Statutory Instrument: The Greenhouse Gas Emissions (Directors' Reports) Regulations 2013.* Available at: www.defra.gov.uk/consult/files/consult-ghg-regulations-20131.pdf, accessed November 2012.

Other voluntary sustainability reporting initiatives in the public and private sectors

Global Reporting Initiative

3.12 The Global Reporting Initiative voluntary framework for sustainability reporting is the most commonly used framework, used by some 2,300 organisations in 2011.[20] The Global Reporting Initiative is a non-profit organisation which aims to make organisation-level sustainability reporting standard practice across the public and private sector. The framework consists of principles for helping organisations determine the content and quality of their sustainability report; disclosure requirements to set the context for understanding the organisation's sustainability performance; and performance indicators that organisations can select to use, covering economic, environmental and social performance.[21] The disclosure requirements are wider than those in the Treasury reporting requirements, in requiring disclosure of the organisation's profile, sustainability governance structure, engagement with stakeholders on sustainability issues, key sustainability risks and opportunities and its commitment to external sustainability initiatives.

3.13 In June 2012, the Global Reporting Initiative published a consultation on planned changes to its framework, to improve its user-friendliness, and provide additional guidance on how to link sustainability reporting to the preparation of an integrated report and how to identify material sustainability issues. The proposals are for materiality to drive the criteria for organisations being able to state that their report is prepared in accordance with the framework.

3.14 In 2005, the Global Reporting Initiative published a pilot public sector supplement, to interpret the guidance for the public sector context and provide public sector disclosure requirements. It suggests that public agencies should report on the sustainability environment in which they operate; their policies related to sustainable development; and the sustainability performance of their own operations. It includes additional requirements to:

- report the agency's relationship with other government bodies and its position within its overall governmental structure;
- disclose the agency's definition of sustainable development; its processes for prioritising sustainable development policies; its sustainable development goals; how it monitors and measures progress, and its engagement with stakeholders on these issues; and
- report additional performance indicators on procurement and investment decisions; resource use; material direct and indirect impacts; and on the efficiency and effectiveness of the services the public agency provides.

20 The Global Reporting Initiative's website. Available at: www.globalreporting.org/information/news-and-press-center/press-resources/Pages/default.aspx, accessed November 2012.

21 The Global Reporting Initiative, Sustainability Reporting guidance, version 3.1. Available at: www.globalreporting.org/resourcelibrary/G3.1-Guidelines-Incl-Technical-Protocol.pdf, accessed November 2012.

3.15 In 2010, the Global Reporting Initiative published a review of sustainability reporting by public organisations worldwide, based on an analysis of literature and a review of ten reports written by public organisations using its framework.[22] It found that there had been an increase in public sector sustainability reporting, but there was still less than in the corporate sector. Use of the public sector supplement was fragmented, and public agencies had chosen to report on only some of the performance indicators. For example, few organisations reported on procurement practices related to sustainability, or on their assessment of the efficiency and effectiveness of the services they provided.

The United Nations Global Compact

3.16 The compact is a voluntary reporting initiative, with around 11,000 participants, which encourages organisations to issue an annual statement to stakeholders, on progress made in supporting United Nations principles in the areas of human rights, labour, the environment and anti-corruption. The annual disclosure should include a statement by the organisation's chief executive, expressing their ongoing commitment to the initiative and its principles; a description of actions taken to implement the UN principles; and a measure of performance against its commitments.

Integrated reporting

3.17 Traditionally, sustainability reports have been published separately, or alongside, an organisation's mandatory financial reports. The International Integrated Reporting Council, an international group of stakeholders, aims to create global agreement on an integrated reporting framework. The Council argues that traditional corporate reporting focuses too narrowly on historical financial performance; is compliance driven; and fails to take account of other forms of capital, including natural capital as well as intellectual, human and social capital. Its integrated reporting framework aims to help organisations show the linkage between strategy, governance and financial performance and the economic, social and environmental context in which they operate. It also aims to simplify the primary report so that it covers, more concisely, only the most material information about the organisation.

3.18 In 2012, the Council published a draft prototype framework for integrated reporting.[23] The draft framework is underpinned by guiding principles, covering strategic focus and future orientation; connectivity of information; responsiveness and stakeholder inclusiveness; and the conciseness, reliability, comparability and materiality of information.

22 The Global Reporting Initiative. *GRI Reporting in Government Agencies, 2010*. Available at: www.globalreporting.org/resourcelibrary/GRI-Reporting-in-Government-Agencies.pdf, accessed November 2012.

23 The International Integrated Reporting Council, Working draft prototype framework, 2012. Available at: www.theiirc.org/wp-content/uploads/2012/10/DraftPrototypeFramework.pdf, accessed November 2012.

3.19 In June 2012, the Rio +20 United Nations Conference on Sustainable Development acknowledged the importance of corporate sustainability reporting, and encouraged companies to consider integrating sustainability information into their reporting cycle, and called for the further development of models of best practice. A 'friends of clause 47' group comprising Brazil, Denmark, France and South Africa have agreed to meet to take this work forward.

Assurance arrangements

3.20 Increasingly, large private sector organisations are having their sustainability reports independently assured, as a way of increasing stakeholder confidence in the reliability of information. According to a KPMG survey, around half of the largest 250 global companies used independent assurance to verify their corporate responsibility information in 2011.[24]

3.21 There is no generally accepted sustainability reporting assurance standard in place. The two most commonly used professional assurance standards are:

- The International Standard on Assurance Engagements (ISAE) 3000 was developed in 2005 by the International Auditing and Assurance Standards Board (IAASB), which is part of the International Federation of Accountants (IFAC).[25] The standard was not specifically developed to provide assurance over sustainability information, but has been used for assurance reviews of sustainability reports. In 2012, the IAASB published a new standard under ISAE 3000, ISAE 3410, on assurance engagements on greenhouse gas statements, which provides more specific guidelines for assurance of greenhouse gas emissions reporting.

- The 'AA1000' was developed by AccountAbility in 2003 and then later revised in 2008, and provides a framework for the assurance of sustainability information.[26] The standard allows for assurance against AccountAbility's principles for the good management and reporting of sustainability performance; or wider assurance encompassing assurance against the principles as well as verification of the reliability of specified sustainability performance information in the sustainability report.

24 KPMG, International Survey of Corporate Responsibility Reporting 2011. Available at: www.kpmg.com/PT/pt/IssuesAndInsights/Documents/corporate-responsibility2011.pdf, accessed November 2012.

25 The International Audit and Assurance Standards Board, ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, www.ifac.org/sites/default/files/publications/exposure-drafts/IAASB_ISAE_3000_ED.pdf, accessed November 2012.

26 AccountAbility, AA1000 Assurance Standard, 2008. Available at www.accountability.org/images/content/0/5/056/AA1000AS%202008.pdf, accessed November 2012.

Appendix One

Methodology

The sources of evidence for our briefing were:

- A review of the Annual Reports and Accounts of the 14 UK ministerial departments for which Accounts were published at the time of our review, as well as HM Revenue & Customs (a major non-ministerial department) to assess the extent of compliance with the Public Expenditure System (PES) requirement;[27] and
- A review of 28 of the largest central government organisations' Annual Report and Accounts, to assess the extent of compliance with the Financial Reporting Manual (FReM) sustainability reporting requirements. The sample included the above 14 ministerial departments, as well as 14 of the five largest organisations from each of the categories of executive agencies, non-departmental public bodies and non-ministerial departments (based on gross expenditure in 2010-11) where the Annual Report and Accounts were published at the time of our review.[28]
- Interviews with officials in Defra, the Treasury, the Department of Health, the Scottish Government, the Welsh Government and the Northern Ireland Government.
- A literature review on sustainability reporting across the public and private sector.
- An informal discussion workshop held with representatives from 12 central government organisations (mostly sustainability practitioners along with two people working in finance), to explore their views of complying with the reporting requirements. Sustainability practitioners from all 16 ministerial departments were invited to attend the workshop and asked to extend the invitation to their colleagues working in finance as well as staff in their arm's-length bodies, although take-up from these groups was relatively low. Twelve participants attended the focus group, and discussed four different topics:
  - Overall perspectives on the first round of mandatory sustainability reporting.
  - Challenges of meeting the reporting requirements.

27 There are a total of 16 UK ministerial departments. We did not review the Annual Report and Accounts of the Ministry of Defence or the Department for Culture, Media and Sport, as they were not published at the time of our review.

28 We did not review the Annual Report and Accounts of the Ministry of Defence, the Department for Culture, Media and Sport, or National Savings and Investment (a non-ministerial department), as they were not published at the time of our review. The sample was drawn from the total population of all central government organisations, which in 2011-12 included 16 ministerial departments, 51 executive agencies, 168 non-departmental public bodies and 34 non-ministerial departments.

- The Treasury's reporting guidelines.
- The extent, if at all, to which the introduction of the new reporting requirements had changed the way organisations perceive and deal with sustainability issues.

In addition to the 12 participants that attended our workshop, two organisations added their views on the four different discussion points after the workshop. The 14 participants we spoke to came from nine (out of the 16) ministerial departments and five arm's-length bodies and non-departmental public bodies. When considering findings from the workshop, it should be noted that the views and experiences stated may not be typical of all sustainability practitioners and finance staff working across central government.

Appendix Two

Case study one: The Crown Estate

Reports on its social impact, including progress against targets on community investment projects

Targets

● Target achieved ● Target partially achieved ● Target on track for achievement ● Target not met

Current targets	*Status*
Apply our new community investment strategy to 80 per cent (by value) of our community activities (the remaining 20 per cent is to allow for the transition of activities).	All community investment projects have been assessed according to the new strategy.
Measure the outputs from significant community investment projects (with a value of over £10,000).	Outputs have been measured on all significant projects and some smaller ones.
Support and deliver 10 community events across The Crown Estate in liaison with third parties.	Over 20 community events have been delivered in liaison with third parties.
Contribute to the implementation of three public realm initiatives.	Contributed to the implementation of three public realm initiatives – two complete and one under development (work will start in 2013).
40 out-of-work London residents to be placed in full-time occupation by the workplace coordinator.	118 out-of-work residents have been placed into full-time occupation.

Explains how it has engaged with stakeholders on sustainability and the process that it uses to identify issues that are material to the organisation

Materiality and engagement

We undertake a formal process to determine the most material issues for our business. This is informed by our business goals, our corporate risk management process and through engagement with our stakeholders.

We are committed to ensuring that whenever we engage, we meet the highest standards of transparency with our stakeholders through the following commitments:

1. All relevant stakeholders will be consulted.
2. The information we provide will be accurate, accessible and written in clear language.
3. We will keep a clear record of all communications.
4. We will provide feedback so that the consultation is a genuine two-way process in clear language.
5. The views of stakeholders will be considered before coming to any final decisions.

In the past financial year we have engaged with our stakeholders on a wide range of issues including pre-planning of new developments and progress on the world's first commercial wave and tidal energy programme. These have taken place at locations ranging from Elsenham in Essex, to Fochabers and Pentland Firth in Scotland. We also sit on working groups to develop policy such as the Country Land and Business Association and the British Property Federation.

Our approach

We work to build open, transparent and mutually beneficial relationships with all of our stakeholders, including:

Employees
Creating a fulfilling work environment

Customers
Promoting quality service, choice and flexibility

Suppliers
Building relationships which create value for us and for the wider market

Wider stakeholders
Ensuring that we are good people to do business with

Our action

Employees
We have rolled out a new Code of Business Ethics and are working on a communication plan to embed this into our business. 91 per cent of managers completed three day management development training over the past year and we continued to achieve Investors in People (IIP).

Customers
We aim to deliver excellent service at all times and we measure this through surveys. Of the 197 urban and rural tenants surveyed, responses indicate that 84% are willing to recommend The Crown Estate as a landlord.

Suppliers
Our diverse portfolio is supported by a wide range of suppliers and through our new ethical supply chain policy we encourage them to meet the same high standards we set for ourselves. We engage on best practice and our urban business partners continue to perform against our Environmental Performance Index (EPI).

Wider stakeholders
We recognise that the success of our business depends on positive engagement with many different stakeholders. In addition to local communities, we also engaged with politicians at all levels of Government, including national, devolved, regional and local and other organisations with an interest in our activities.

Source: The Crown Estate, 2011-12 Annual Report, pp55, pp56 and ppy. Available at: http://ar2012.thecrownestate.co.uk/media/77673/thecrownestate_annualreport_2012.pdf

Appendix Three

Case study two: The Environment Agency

Uses internet reporting to supplement the information in its Annual Report, by providing more information on the environmental aspects of the Agency's strategy, performance and future plans

Reports on its non-office waste from in-house construction projects. The Agency estimates that its total in-house non-office waste (which includes waste produced from coastal and river dredging activities which is not currently reported) accounts for around 98 per cent of its total waste volume

The non-office waste volumes reported below currently only include waste derived from our construction projects. However, the costs reflect the full disposal costs of both our construction projects and our operational activities.

Office waste	Unit	2008-2009	2009-2010	2010-2011	2011-2012
Landfill	tonnes	140	80	70	50
	£'000	190	130	130	120
Reused or recycled	tonnes	710	450	590	410
	£'000	-	350	330	310
Incinerated to produce energy	tonnes	50	60	70	90
	£'000	-	-	-	-
Hazardous waste	tonnes	14	3	5	3
	£'000	-	-	-	20
Total waste	**tonnes**	**914**	**593**	**735**	**553**
	£'000	**190**	**480**	**460**	**450**
Waste intensity per FTE	kg	70	44	61	49

Non-office waste	Unit	2008-2009	2009-2010	2010-2011	2011-2012
Landfill	'000 tonnes	-	40	50	10
	£'000	-	1,160	700	770
Recycled	'000 tonnes	-	30	130	110
	£'000	-	240	310	340
Total waste	**'000 tonnes**	**-**	**70**	**180**	**120**
	£'000	**-**	**1,400**	**1,010**	**1,110**

Source: The Environment Agency website, available at: http://www.environment-agency.gov.uk/aboutus/122986.aspx; the Environment Agency, 2011-12 Annual Report and Accounts, pp110, available at: www.official-documents.gov.uk/document/hc1213/hc03/0360/0360.pdf

Appendix Four

Case study three: The Foreign and Commonealth Office

Explains how its sustainability governance system operates. Identifies the senior official responsible for sustainability and describes the policies that have been implemented to ensure the quality of data

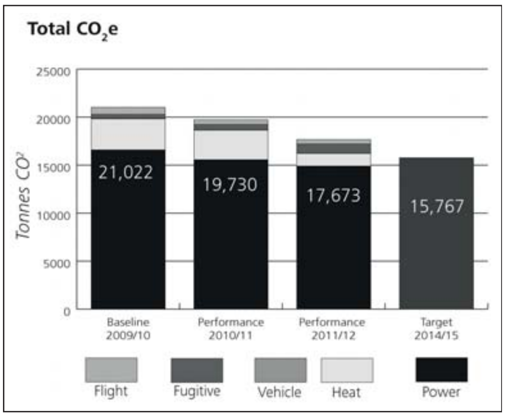
Governance

16. Sustainable Operations within the FCO was overseen in 2011/12 by the Director of the Facilities Management Client Unit with the support of key FCO business units with influence on sustainability impacts. The FCO manages its environmental impacts through an Environmental Management System (EMS). The FCO's EMS was externally accredited to ISO14001 in September 2011 by Lloyds Register Quality Assurance. Staff trained in environmental auditing audit data collection methods and controls annually.

Clear presentation of data using graphics to illustrate trends

Greenhouse Gas Emissions

Greenhouse gases:	2011-12		
	kWh/miles/no.	tCO2	GBP (£)
Electricity (Non-Renewable)	28,405,150 kWh	14,902	£2,859,952
Electricity (Renewable)	0	0	0
Gas	1,510,107 kWh	277	£43,893
Heating Oil	260,572 kWh	73	£4,619
Biodiesel	2,002,141 kWh	0	£253,146
Biomass (see notes 5)	595,697 kWh	0	0
District Heating	3,995,800 kWh	969	£495,078
Fugitive emissions	-	965	-
Domestic flights	177 flights	24	£20,173
Private mileage	711,752 miles	158	£57,347
Fleet (see note 5)	640,584 miles	135	0
Chauffeur Service	39,550 km	10	£248,612
Car hire	510,906 miles	105	£2,320
Taxis	370,095 miles	56	£161,491
Totals:	36,769,467 kWh 2,233,337 miles	17,673	£4,146,631



Source: The Foreign and Commonwealth Office, 2011-12 Annual Report and Accounts, pp39-40.
Available at: www.fco.gov.uk/resources/en/pdf/publications/annual-reports/annual-report-accounts-2011-12

Appendix Five

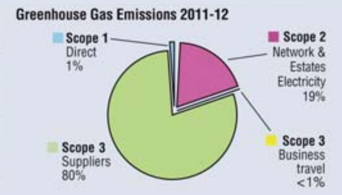
Case study four: The Highways Agency

Provides data on its indirect supply chain emissions, which account for 80 per cent of its overall greenhouse gas emissions

2011-12 Highways Agency Sustainability Report

	GREENHOUSE GAS (GHG) EMISSIONS	2009-10	2010-11	2011-12
Gross Emissions (tonne CO2e)	**Scope 1:** Direct traffic officer fuel and estates gas usage	7,000	7,110	5,971
	Scope 2: Indirect emissions from network and estates electricity consumption	124,000	119,000	107,891
	Scope 3 item: Business Travel	1,500	1,200	1,202
	Scope 3 items: Suppliers' emissions	561,236	507,000	411,124
	Total	**693,876**	**634,310**	**526,188**

Graphical Analysis



Explains the relationship between its sustainability strategy and its corporate strategy

Introduction

Whilst our key role is to support the sustainability of the UK's economy by operating, maintaining and improving the strategic road network in England, we recognise that we also need to develop and implement more sustainable ways of doing this.

We champion the need to be more transparent about both our impacts and the work we are doing to mitigate them where they have an adverse effect on the environment. We have had a published Business Plan measure related to our carbon emissions for the last three years and will be continuing to monitor our impact in 2012-13. We also monitor and report on progress against the Cabinet Office's cross-government Greening Government Commitments.

We have published a Sustainable Development Plan on our website each year since 2007. So far these have delivered 105 actions across the Agency's business, contributing to the embedment of sustainability as a part of our corporate culture. We have also made progress in improving our understanding of the impacts of our work and brought a greater focus on the need to minimise social and environmental harm. Our new Sustainable Development Plan takes a longer view, aligning with the corporate planning cycle over the period 2012 to 2015, with the overarching aim of mainstreaming sustainable development in the Agency and its supply chain. In particular:

- Strengthening our contribution to a sustainable transport system.
- Supporting national economic recovery.
- Meeting the diverse needs of all our customers.
- Promoting national wellbeing.
- Continuing to develop our sustainable approach.

We support the delivery of the DfT Carbon Reduction Strategy for Transport and its Climate Change Adaptation Plan which contributes to the achievement of the DfT's strategic objectives to deliver economic, social and environmental benefits.

Summary of performance

In 2011-12 we have made strong progress in delivering our sustainability commitments. We have monitored progress against our Business Plan measures and reduced our greenhouse gas emissions. We are also on track to contribute to the requirement of the Greening Government Commitments to reduce greenhouse gas emissions across Government by 25 per cent by 2014-15, but it should be noted that road safety considerations in relation to lighting the strategic road network must take precedence over greenhouse gas reduction.

References to a more detailed sustainable development plan on their website

Describes the priority given to sustainability relative to other corporate objectives

Source: The Highways Agency, 2011-12 Annual Report and Accounts, pp40 and pp34; available at: http://assets.highways.gov.uk/about-us/corporate-documents-annual-reports/Annual_Report_2011-12_Single_pages_for_Web.pdf

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