



National Audit Office

Briefing

for the House of Commons
Environmental Audit Committee

Sustainability reporting in central government: An update

FEBRUARY 2015

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Summary

1 Sustainability reporting is about ensuring that an organisation's annual report reflects its environmental, social and economic performance. It is about reporting on an organisation's contribution to sustainable development – development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

2 HM Treasury first introduced requirements for central government organisations to report on sustainability issues in their annual reports for the 2011-12 financial year. We reviewed the new reporting arrangements in 2012 and highlighted that introducing the requirements was a significant step. We found good compliance with many of the requirements though not all. In its 2013 report on embedding sustainable development, the Environmental Audit Committee recommended that the Department for Environment, Food & Rural Affairs (Defra) and HM Treasury needed to take ownership of sustainability reporting and that reporting on sustainable procurement in particular needed to improve. The government response noted this recommendation but reiterated that individual departments were responsible for compliance with the sustainability reporting requirements and that time was needed for departments to make the necessary improvements to their reporting.

3 This briefing assesses the quality of sustainability reporting by central government departments in 2013-14. It reviews the current and planned requirements set by HM Treasury (Part One) and assesses the quality of the 16 departments' reports published by December 2014 for the 2013-14 financial year (Part Two),¹ focusing on departmental annual reports and associated and linked reporting. In reviewing annual reports we have sought to highlight potentially material omissions and good practice rather than relying solely on Treasury requirements as a compliance check list. We have reviewed departments' annual reports and any reports on sustainability issues that the annual report linked to, or referred to by name, as we recognise that doing so can be a good way for departments to set out aspects of their approach and performance on sustainability in more detail. Our review of sustainability in annual reports was not limited to sections headed as such, as we recognise that integrating sustainability issues into the main body of the report can be a good way of showing how it is embedded. We therefore refer in the following to departments' 'reports' and 'reporting' by which we mean the annual report and linked information.

¹ This did not include the Department for Education, which had not published its annual report and accounts for 2013-14 at the time of our analysis.

Key findings

4 All departments reported on performance against the Greening Government Commitments for reducing greenhouse gas emissions, waste and water from government buildings and business travel. This is a valuable set of information for stakeholders interested in the direct environmental impacts of government. Collecting and monitoring this data should help departments manage and reduce their impacts, and reporting on progress against these targets should draw public attention to performance.

5 Reporting also includes useful information on departments' wider contribution to sustainability. For example, the Department for International Development (DFID) reported on progress against the Millennium Development Goal 7 on environmental sustainability, on climate change and in supporting UK action on tackling the illegal wildlife trade in its annual report, and the Department for Transport reported on progress on tackling greenhouse gas emissions from cars. Most departments make a commitment to embedding sustainability in policy-making and decision-making.

6 Most departments' reporting has improved since we last reviewed the issue and there are some strong good practice examples. DFID's report was highly commended in the Building Public Trust Awards for sustainability reporting, judged by an independent panel of experts, supported by the National Audit Office and PwC. The Home Office published its sustainability report as a separate document for the first time in 2013; this was described as thorough and transparent in our 2014 review of sustainability at the Home Office.

7 However, there is room for further improvement. Reporting on the following issues could be improved:

- **Strategy and materiality:** Departments could do more to articulate how they have identified the sustainability issues that are most relevant to them, and how this informs how they prioritise their efforts. Some make a very good start, but we consider all could go further as this is an important factor in building a coherent narrative on sustainability performance.
- **Long-term targets and benchmarking:** Reporting against long-term targets helps put annual performance in a broader context. However, most departments have focused their reporting of their direct environmental impacts on the Greening Government Commitments, which are ambitions for 2015. Reporting data on a per m² or per person basis (normalised data) helps benchmarking. Most departments report normalised data for water consumption (m³ per full-time equivalent (FTE) employee), but only 5 departments provide normalised data for greenhouse gas emissions and waste.

- **Departments' wider influence on sustainability:** the quality and depth of departments' reporting on their sectoral influence on sustainability issues through policy, and on sustainable procurement, is very varied. Our analysis highlighted some potentially key policy areas for sustainability which have little or no mention in departments' annual reports or linked information. We recognise that reporting may occur elsewhere, though we would expect annual reports to reflect the most material sustainability issues for that department. For example, Defra's annual reporting does not discuss its role in supporting the farming sector and waste management services in reducing carbon dioxide emissions. All reports include a section on sustainable procurement, but only the Home Office reported quantitative data on their suppliers' environmental impacts such as carbon emissions. Without metrics it is hard to judge the extent of progress. The annual Greening Government Commitments report provides more detailed information on sustainable procurement; however, there could be clearer referencing to this and other reports in annual reporting.
- **Governance and assurance:** Excellent sustainability reporting sets out clearly who is responsible for the issue, including those at senior levels. While 13 of the 16 departments' reports we reviewed included or linked to information on governance arrangements for sustainability, only 3 linked responsibility to an individual board member or senior sustainability champion, which is one way of providing impetus for inclusion of sustainability in mainstream decision-making. Five of the 16 reports explain external assurance arrangements to assess the quality and completeness of sustainability information, and 3 explicitly state that internal audit has reviewed the data.

8 HM Treasury has proposed changes to streamline annual reports which could encourage further improvements to sustainability reporting. The proposals are that sustainability will be embedded in departments' performance metrics and therefore reported on primarily through reporting on those metrics. This should give departments a greater sense of ownership over their reporting, by encouraging them to articulate and focus on the sustainability issues that are most material for their organisation. It will be important that sustainability is embedded in performance metrics in a meaningful and transparent way, to avoid the risk of it being inappropriately marginalised. Departments will still be required to report on a minimum set of data associated with the Greening Government Commitments or its successors. HM Treasury told us that it is committed to ensuring that information that Parliamentary select committees find useful is not lost through the changes, with other reporting mechanisms being put in place if necessary; and that it is looking to use the changes as an opportunity to continue to build departments' capability on sustainability reporting, working closely with Defra.

Areas of Interest to the Committee

9 The Committee may wish to consider the following issues regarding sustainability in central government.

10 The support that departments will need to improve their sustainability reporting, including the scope for, and merits of, better reporting on:

- long-term sustainability targets beyond GGC;
- benchmarking;
- departments' wider influence on sustainability in their sector;
- senior-level responsibilities for sustainability; and
- arrangements to assess the quality and completeness of sustainability data.

11 The safeguards needed to ensure that proposed changes to streamline annual reports improve rather than dilute the quality of sustainability reporting from government:

- The support that departments will need to ensure that sustainability is embedded in performance metrics in a meaningful way and whether there should be formal arrangements to review and critique how this is done and whether there is sufficient transparency on how they have embedded sustainability into the performance metrics.
- Whether there is a need for additional reporting on aspects of sustainability in government that departments' annual reports could link to or draw from, for example periodic reports on cross-government progress against key areas of sustainability, such as those associated with the sustainable development indicators or other national measures.

Part One

Good practice in sustainability reporting

Introduction

1.1 Sustainability reporting is about ensuring that an organisation's reports on its environmental, social and economic performance. It is about reporting on an organisation's contribution to sustainable development – development that “meets the needs of the present without compromising the ability of future generations to meet their own needs.”²

1.2 The coalition government has stated its commitment to sustainable development, including in its 2011 vision for sustainable development,³ which set an ambition that government departments would embed sustainable development so that it is central to all decision-making, including policy development. Government has also set Greening Government Commitments, a set of targets for reducing the environmental impact of government estate and operations through targets to 2015, and for embedding sustainability in procurement processes. The government is also subject to international commitments related to sustainable development, and is participating through the European Union in the negotiation of a set of global sustainable development goals to be agreed by the United Nations General Assembly in 2015.⁴ The UK contributes to international conferences on tackling climate change, such as the negotiations in Lima, Peru in December 2014.

² This is a common definition of sustainable development, given prominence in 1987 by the United Nations World Commission on Environment and Development (the Brundtland Commission). See World Commission on Environment and Development, *Our Common Future*, 1987. Available at: www.un-documents.net/our-common-future.pdf

³ Department for Environment, Food & Rural Affairs, *Mainstreaming sustainable development: The Government's vision and what this means in practice*, February 2011. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/183409/mainstreaming-sustainable-development.pdf

⁴ Environmental Audit Committee, *Connected world, agreeing ambitious Sustainable Development Goals in 2015*, Seventh Report of Session 2014-15, HC 452, December 2014. Available at: www.publications.parliament.uk/pa/cm201415/cmselect/cmenvaud/452/452.pdf

1.3 Annual reports are an important mechanism for government departments to report on progress on sustainable development. HM Treasury first introduced requirements for central government organisations to report on sustainability issues in their annual reports for the 2011-12 financial year. This was in line with calls from the Environmental Audit Committee (the Committee) for government to do so in a 2006 report.⁵ Departmental annual reports are important but they are not the only mechanism for government to report on progress on sustainability; they are part of a wider set of reporting by government on sustainability issues (**Figure 1**).

Figure 1
UK government reporting on sustainability issues

Report	Responsibility	Scope
Annual sustainability reports	Departments	A range of requirements, including progress against Greening Government Commitments.
Greening Government Commitments report	Department for Environment, Food & Rural Affairs (Defra) and Cabinet Office	Annual report describing progress for the whole of government against these commitments for reducing the environmental impact of the government's estates and operations including business travel and the sustainability of procurement.
Greening ICT strategy	Cabinet Office	Annual report on government progress against its Greening ICT strategy. It includes reports of progress against the green IT maturity model and roadmap. Last published in July 2013.
Sustainable development indicators	Office for National Statistics	Annual report on English progress towards sustainable economy, society and environment.
National well-being measures	Office for National Statistics	6-monthly reporting on quality of life in the UK, including how sustainable this is for the future.
Government response to Committee on Climate Change Progress reports	Central government	Sectoral and policy progress on carbon emissions and adaptation to climate change. ¹
Annual statement of emissions	Department of Energy & Climate Change	Annual assessment of UK's greenhouse gas emissions.
Adaptation to climate change	Defra	Progress of key public and private sector organisations on adaptation to climate change.
Other reporting	Departments	Other reporting on aspects of sustainability, either on a one-off basis or a regular cycle. Examples include <i>Embedding Sustainable Development: An update</i> and the data set <i>Greenhouse gas emissions from agriculture indicators</i> , both published by Defra.

Note

¹ Reports on adaptation are made to the Adaptation Subcommittee.

Source: National Audit Office review of reporting

⁵ Environmental Audit Committee, *Sustainable Development Reporting by Government Departments*, Session 2005-06, HC 1322, June 2006. Available at: www.publications.parliament.uk/pa/cm200506/cmselect/cmenvaud/cmenvaud.htm

1.4 We reviewed the arrangements for sustainability reporting in 2012 and highlighted that introducing the requirements had been a significant step. We found good compliance with many of the requirements though not all.⁶ In its 2013 report on embedding sustainable development, the Committee recommended that the Department for Environment, Food & Rural Affairs (Defra) and HM Treasury needed to take ownership of sustainability reporting and that reporting on sustainable procurement in particular needed to improve.⁷ The government response noted this recommendation but reiterated that individual departments were responsible for meeting compliance with the sustainability reporting requirements and that time was needed for departments to make the necessary improvements to their reporting.⁸

1.5 This part of the briefing provides an update on current thinking on good practice in sustainability reporting and assesses the appropriateness of the current and proposed requirements set by HM Treasury.

Developments in good practice

1.6 A range of organisations in the public and private sectors continue to recognise and promote the benefits of sustainability reporting. Key developments since we last briefed the Committee on sustainability reporting include:

- updated guidance on sustainability reporting from the Global Reporting Initiative;
- the initiation of a public sector pioneer network on integrated reporting;
- the introduction of mandatory reporting on greenhouse gas emissions for quoted UK companies;
- continued recognition of good practice through the Building Public Trust Awards for sustainability reporting; and
- a proposal in the Well-Being of Future Generations Bill to strengthen sustainability reporting requirements for public sector organisations in Wales.

The following sections consider each of these developments in turn, followed by a summary of our perspective on good practice. We then discuss the requirements set by HM Treasury for departments' sustainability reporting and its proposals to amend these in order to help streamline annual reports and accounts.

6 National Audit Office, *Sustainability reporting in government*, December 2012. Available at: www.nao.org.uk/report/nao-briefing-sustainability-reporting-in-government/

7 Environmental Audit Committee, *Embedding sustainable development: An update*, First Report of Session 2013-14, HC 202, June 2013. Available at: www.parliament.uk/business/committees/committees-a-z/commons-select/environmental-audit-committee/inquiries/parliament-2010/embedding-sustainable-development-an-update/

8 Environmental Audit Committee, *Embedding sustainable development and the outcomes of the UN Rio+20 Earth Summit: Government responses to the Committee's First and Second Reports of Session 2013-14*, Fourth Special Report of Session 2013-14, HC 633, September 2013. Available at: www.publications.parliament.uk/pa/cm201314/cmselect/cmenvaud/633/63302.htm

The Global Reporting Initiative

1.7 In 2013 the Global Reporting Initiative (GRI) published the fourth iteration of its reporting framework. The GRI is an international not-for-profit organisation that promotes sustainability reporting. It is funded by a number of governments and their agencies, including from Norway and Australia, and also through corporate sponsorships and revenue from GRI products and services.

1.8 The latest iteration of GRI's framework seeks to put the concept of materiality at the heart of sustainability reporting. It encourages organisations to only provide information on the issues that are really critical, in order that reports are strategic and focused. GRI's reporting guidelines establish principles and disclosures for a good sustainability report. The principles span: stakeholder inclusiveness, sustainability context, materiality, completeness, balance, comparability, accuracy, timeliness, clarity and reliability. The standard disclosures cover: strategy and analysis, organisational profile, identified material aspects and boundaries, stakeholder engagement, report profile, governance, and ethics and integrity.

Integrated reporting

1.9 Integrated reporting is an approach advocated by the International Integrated Reporting Council (IIRC). Key concepts in integrated reporting are that:

- Reports should explain how an organisation creates value over time.
- Value is not created by or within an organisation alone, but instead is influenced by the external environment, created through relationships with stakeholders and dependent on resources.
- Value is about more than money. IIRC's framework identifies 7 types of capital that organisations draw on and create through their business: financial, manufactured, intellectual, human, social, relationship and natural.

IIRC's aim is that integrated reporting leads to "better reporting not more reporting".

1.10 IIRC published the International Integrated Reporting Framework in 2014, to set out the principles and elements of an integrated report. Also in 2014 the IIRC and the Chartered Institute of Public Finance and Accountancy (CIPFA) launched the Integrated Reporting public sector pioneer network to share views and experience on applying integrated reporting in the public sector. The network is expected to be a 3-year programme, with no fixed obligation for participants to prepare an integrated report, but an expectation that they will work towards doing so. HM Treasury has agreed to take part in the network in order to examine the appropriateness of integrated reporting for the public sector context.

Mandatory greenhouse gas emissions reporting for quoted companies

1.11 The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 require quoted UK companies to report on greenhouse gas (GHG) emissions for which they are responsible. Quoted companies are also required to report on environmental matters "to the extent it is necessary for an understanding of the company's business within their annual report".⁹ The Conduct Committee of the Financial Reporting Council is responsible for monitoring compliance with the Companies Act. It has the power to enquire into cases where relevant disclosures may not have been provided, and can apply to court for an order requiring company directors to prepare a revised report and/or set of accounts.

1.12 In April 2014 the European Parliament agreed a Directive to set a minimum standard of non-financial disclosure across member states. The companies or groups concerned will need to disclose information on policies, risks and results as regards environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity on boards of directors. The definition of a public interest entity covers listed companies, banks and insurance companies. Member states can also choose to designate companies as public interest entities because of their activities, size or number of employees.

1.13 The new rules are expected to be brought into force in the UK by December 2016. The Department for Business, Innovation & Skills has stated that it has no current plans to designate additional companies as public interest entities in the UK.

Building Public Trust Awards for sustainability reporting

1.14 The Building Public Trust Awards (BPTA) were established by PwC to recognise good practice in corporate reporting. In 2014 Kingfisher, a home improvement retailer, won the award for sustainability reporting in the FTSE 100, while Carillion, a support services company, won the award for sustainability reporting in the FTSE 250. Both reports were praised for their explanations of their sustainability strategy, and for reporting on sustainability issues 'upstream' and 'downstream' in the value chain associated with their business – such as Kingfisher's reporting on timber procurement and promoting energy efficiency among customers. Aegon, a Netherlands-based financial services company was awarded the BPTA 2014 International award: towards integrated reporting.

⁹ The companies required to report include UK incorporated companies whose equity share capital is listed on the main market of the London Stock Exchange UK, in a European Economic Area state or traded on the New York Stock Exchange or NASDAQ. See Department for Environment, Food & Rural Affairs, *Environmental Reporting Guidelines, including mandatory greenhouse gas emissions reporting guidance*, June 2013. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/206392/pb13944-env-reporting-guidance.pdf

1.15 The National Audit Office assesses the public sector awards jointly with PwC, with an independent judging panel making the final decision on the winners. In 2014 the Crown Estate won the public sector sustainability reporting award. The Department for International Development (DFID) and NHS Business Services Authority were highly commended. The Crown Estate's annual report has been produced following the principles of integrated reporting and includes particularly good information on how it has identified the issues, including sustainability issues, that are most material to its business. Part Two of this report notes the valuable information in DFID's carbon management plan, as well as its presentation of progress against sustainability issues associated with its policy work, as part of its reporting on the Millennium Development Goals. The NHS Business Services Authority had shown sustained improvement, with good information on its sustainability strategy and governance arrangements.

Sustainability reporting in the devolved nations

1.16 The most significant changes have been in Wales, where the Well-Being of Future Generations Bill, introduced to the National Assembly for Wales in July 2014, has implications for sustainability reporting for certain public bodies. The Bill is intended to improve the governance arrangements of specified public bodies to improve the economic, social and environmental well-being of Wales.¹⁰ It seeks to require these public bodies to contribute to the achievement of a set of well-being goals, and includes provisions for them to:

- set and publish well-being objectives;
- take all reasonable steps to meet these objectives; and
- to act in ways that accord with the sustainable development principle.¹¹

1.17 In terms of reporting, the Bill includes requirements for specified public bodies to:

- report annually on progress against their well-being objectives; and
- in preparing their reports, to review their objectives to assess whether they are effective and relevant, and to revise them if they find that they are not.

¹⁰ Well-being of future generations (Wales) Bill, [as introduced]. Available at: [www.assembly.wales/laid%20documents/pri-Id9831%20-%20well-being%20of%20future%20generations%20\(wales\)%20bill/pri-Id9831-e.pdf](http://www.assembly.wales/laid%20documents/pri-Id9831%20-%20well-being%20of%20future%20generations%20(wales)%20bill/pri-Id9831-e.pdf)

¹¹ The sustainable development principle is defined in terms of: balancing short term with long term needs; taking an integrated approach; taking into account the importance of involving those with an interest in the well-being goals; collaboration; and taking a preventative approach.

1.18 In addition, the Bill seeks to establish a new Future Generations Commissioner, with a duty to produce a five yearly Future Generations Report to assess how public bodies should better safeguard the ability of future generations to meet their needs, and take greater account of the long-term impact of the things that they do. It allows for this Commissioner to undertake separate research and to make recommendations to the specified public bodies.

1.19 The Welsh government already produces a *Sustainable Development Annual Report*, under the Government of Wales Act 2006. This includes a commentary from the Commissioner for Sustainable Futures, Peter Davies, aimed at improving the report's content and the arrangements that support it. In the 2014 Sustainable Development report the Commissioner has recommended that in future reporting on sustainable development:

- The Welsh Government should ensure that the Welsh Sustainable Development Indicators are more central to the structure of its future annual reports.
- The Welsh Ministers' Annual Report should continue to include an independent commentary from the Commissioner.
- The Welsh Government should set out a clear timetable and route map for achieving best practice standards in integrated reporting.¹²

1.20 Voluntary guidance for sustainability reporting for Scottish public sector organisations was updated in 2013. This did not involve major changes, but included advice on the use of a new method for measuring the carbon impact of waste.¹³ There remain no requirements for Northern Ireland public authorities to report on sustainability in annual reports, but relevant organisations have reported to the Office of the First Minister and Deputy First Minister on compliance with the statutory duty to promote the achievement of sustainable development. These returns were used to produce a good practice report, published in October 2014.¹⁴

¹² National Assembly for Wales, *One Wales: One Planet, The Sustainable Development Annual Report 2013-14*, June 2014. Available at: wales.gov.uk/docs/dsjlg/publications/140623-sustainable-develop-annual-report-13-14-en.pdf

¹³ The Scottish government, *Public Sector Sustainability Reporting Guidance on the preparation of Annual Sustainability Reports 2012-13*, July 2013. Available at: www.scotland.gov.uk/Publications/2013/07/4721

¹⁴ Office of the First Minister and Deputy First Minister Northern Ireland, *Sustainable Development Statutory Duty: Report on Implementation in the Public Sector*, October 2014. Available at: www.ofmndfmrni.gov.uk/statutory-duty-good-practice-report.pdf

Our perspective on good practice

1.21 Drawing on these developments, and on our annual reviews of public sector sustainability reports as part of the Building Public Trust Awards, we consider that the best sustainability reports address the following key elements:¹⁵

- **Strategy:** A strong report explains an organisation's approach to sustainability, so as to give a reader contextual information to understand the business and its performance. This may be through outlining a distinct strategy for sustainability or by explaining how sustainability is integrated into the organisation's wider strategy, and decision-making.
- **Materiality:** Organisations have a wide range of potential sustainability impacts. A good report explains which of these are most significant to the organisation's business and focuses its reporting on these.
- **Key performance indicators and targets:** As well as presenting progress against centrally set targets (such as the Greening Government Commitments), organisations should consider what other targets and performance measures they need to help improve their business sustainably. The best reports explain their performance in relation to their targets both in the short term and the long term.
- **Balance:** Sustainability reports should highlight both good and bad performance in a transparent fashion, to allow readers to form a view of performance in the round. They should recognise challenges as well as achievements. Where there is poor performance against a particular target or key performance indicator the report should identify how the situation will be addressed in the future, and provide an update on progress towards addressing previous poor performance. Where targets have been met reports should identify next steps.
- **Presentation:** Sustainability reporting should be concise, accessible and engaging.

1.22 A good report covers an organisation's direct impacts and its wider influence. For a government department, direct impacts include the environmental impact of energy and water use in its buildings, waste generated and business travel.

1.23 Indirect impacts arise from procurement, an organisation's influence over the wider public sector estate (such as police, schools or hospitals) and its policy influencing behaviour in the UK economy. Pension investment funds are also an area of potential indirect sustainability impact, akin to procurement. Most central government employees' pensions are 'unfunded', in that benefits are paid directly out of current revenue, rather than through returns on a fund of investments. The Environment Agency is the only central government organisation with its own pension schemes funded through investments.

¹⁵ National Audit Office, *Sustainability Reporting Fact Sheet*, March 2014. Available at: www.nao.org.uk/report/sustainability-reporting-factsheet/

1.24 A good report also articulates the **governance** and **assurance** arrangements in place to help improve and monitor sustainability issues in an organisation and ensure accurate and fair information. Where sustainability concerns are integrated into wider arrangements a good report would explain how this has been achieved.

The quality of HM Treasury guidance on sustainability reporting

Requirements for the 2013-14 financial reporting year

1.25 HM Treasury has issued valuable guidance for departments on sustainability reporting. Its guidance for 2013-14 on sustainability reporting (**Figure 2**) includes many of the elements that we consider important for best practice. In particular, the guidance:

- asks departments to explain their approach to embedding sustainable development in governance and decision-making as an important part of explaining an organisation's overall approach or **strategy** for sustainable development;
- refers to the sustainable development commitments in the annex of a department's business plan, which should be an expression of the most **material** sustainability issues for that department;
- requires information on financial and non-financial indicators related to the Greening Government Commitments, which means reporting against a wide range of **key performance indicators and targets**; and
- asks organisations to report data on a per person or per m² basis (normalised), such as water consumption per person, which facilitates benchmarking and so makes for a more **balanced** report.

1.26 The guidance could be improved. In particular, we consider it could be more coherent and concise. Guidance is spread across 3 separate documents, and some requirements overlap but are expressed differently in each. The FReM supplementary guidance on sustainability reporting is 37 pages long and is a mix of minimum requirements, good practice principles, suggestions for additional reporting, and technical advice.¹⁶

¹⁶ HM Treasury, *Public sector annual reports: sustainability reporting guidance*, February 2014. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/279330/PU1632_Sustainability_Reporting_Guidance.pdf

Figure 2

Sustainability reporting requirements for 2013-14 for central government departments

HM Treasury includes minimum requirements for reporting on sustainability in departments' annual reports in its Financial Reporting Manual (FRM).¹ It has issued more detailed guidance on interpreting these requirements,² and there are also requirements on sustainability issues in its Public Expenditure System (PES) paper.³

The FRM requirements on sustainability reports apply to all entities falling within the scope of reporting under the Greening Government Commitments (departments, non-ministerial departments, agencies and non-departmental public bodies). It does not apply to organisations exempted from those commitments, for example due to the *de minimus* limit. The PES guidance applies to government departments only.

In setting requirements and issuing guidance it acts with advice from the Department for Environment, Food & Rural Affairs (Defra), which has lead responsibility for sustainable development in government, although each department is responsible for its own performance. The latest requirements for central government departments are very similar to those first established for the 2011-12 reporting year, with some extensions in terms of requirements to report on the mainstreaming of sustainability.

Requirements include to report on:

- performance against Greening Government Commitments (GGC) sustainability targets for greenhouse gas emissions, waste minimisation and management and the use of finite resources. Information provided should include related expenditure, 3 prior years of data, and should be normalised, for example by providing data on a per full-time equivalent (FTE) employee or per m² basis;
- progress against the sustainable development commitments set out in departments' business plans;
- assessing and managing social and environmental impacts and opportunities in policy development and decision-making;
- progress on procuring from small businesses with the aspiration that 25% of contracts should be awarded to small and medium-sized enterprises;
- progress on policies or projects making a significant contribution to sustainable development; and
- progress on climate change adaptation.

Notes

- 1 HM Treasury, *Government financial reporting manual 2014 to 2014*, February 2014. Available at: www.gov.uk/government/collections/government-financial-reporting-manual-frem
- 2 HM Treasury, *Public sector annual reports: sustainability reporting guidance*, February 2014. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/279330/PU1632_Sustainability_Reporting_Guidance.pdf
- 3 HM Treasury, PES (2014) 02, March 2014. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/289316/PES__2014__02_-_Guidance_on_Annual_Reports_and_Accounts_2013-14_-_Revise...pdf

Source: National Audit Office analysis of HM Treasury Guidance for 2013-14

1.27 In our opinion the guidance could do more to help departments identify and articulate the most material issues, in order to assess what needs to be included in the annual report and what can be reported elsewhere. Government departments contribute to a wide range of reports intended to give users an understanding of the progress that the UK is making towards a sustainable future (Figure 1) and it could be more clear how these link to annual reports. In particular, the sustainability reporting guidance asks for most of the same information as that reported separately under the Greening Government Commitments. Our expectation is that the annual reporting of departments should present a high-level summary of significant issues for their business, and include appropriate links to more detailed reporting for those readers who wish to explore an issue in more detail.

1.28 The guidance does not require organisations to report comprehensively on their direct impacts as the requirements are consistent with reporting on the Greening Government Commitments, which do not include international air or rail travel, overseas offices and construction waste. These can be significant for some departments. The guidance does, however, encourage departments to go beyond minimum requirements and offers advice on reporting on wider issues, including on waste from construction and demolition.

Proposed future requirements

1.29 In July 2014 HM Treasury published a consultation on simplifying and streamlining the presentation of central government annual reports and accounts which included consideration of the requirements on sustainability reporting.¹⁷ This consultation set out proposed changes to the reporting framework for government departments designed to improve annual reports so that they better meet the needs of users, recognising that the primary user of departments' annual reports and accounts is Parliament.

1.30 The consultation included an argument that the current reporting framework for sustainable development is onerous and leads to departments focusing on meeting disclosure requirements rather than embedding sustainable development. It proposed that sustainability issues should be integrated into a department's performance metrics rather than reported on separately in a stand-alone sustainability report. Departments would still be required to report in their annual reports on certain high-level indicators that form the basis of the Greening Government Commitments or successor requirements.

1.31 We consider that if implemented well, with the right safeguards, the changes could improve sustainability reporting in central government. The focus on embedding sustainability into performance metrics could encourage departments to demonstrate greater ownership of sustainability issues by encouraging them to articulate more clearly what their material issues are and how they link with their wider organisational strategy. The emphasis on streamlining more generally could also encourage departments to give a more concise and engaging analysis of materiality and their sustainability performance.

¹⁷ HM Treasury, *Consultation on simplifying and streamlining the presentation of annual reports and accounts*, July 2014. Available at: www.gov.uk/government/consultations/central-government-annual-reports-and-accounts-consultation-on-simplifying-and-streamlining-the-presentation-of-annual-reports-and-accounts

1.32 There are risks associated with this more integrated approach, which need to be addressed. Embedding sustainability issues in performance metrics in a meaningful way is dependent on a good level of understanding of sustainability issues within departments. This requires clear ownership of the issues, and if this is not in place there is a risk that departments will lose sight of sustainable development. Our assessment of current reporting in Part Two raises some concerns over the level of ownership and understanding of sustainability issues.

1.33 There is also a risk that the proposals lead to a reduction in the extent of publicly available information on sustainability performance. The extent of minimum requirements for annual reports in future is not clear and will in part depend on the extent and coverage of the successor to the Greening Government Commitments, which are targets to 2015. Departments may not be required to include information in their annual reports on their strategy for sustainability or governance arrangements for sustainability. They may also not be required to report on issues such as progress on biodiversity action plans or the vulnerability of their estate to climate change, so will determine for themselves whether to report on them as part of their wider performance metrics. Biodiversity and adaptation to climate change are included in 2013-14 guidance on sustainability reporting because they are matters of national import, although they are not the most material issues for all organisations.

Part Two

The extent and quality of sustainability reporting in government

2.1 This part of the report reviews government departments' sustainability reports for 2013-14. Our analysis covers the annual reports of 16 departments plus any relevant linked documents.¹⁸ We focused on the following 4 aspects, which we see as fundamental components of a good report (see Part One, paragraphs 1.21 to 1.24):

- strategy and materiality;
- direct impacts (in terms of reporting on key performance indicators (KPIs) and targets, and issues of balance and presentation);
- wider influence (also covering KPIs and targets, balance and presentation); and
- governance and assurance.

2.2 In summary, most departments' reports provide more comprehensive and detailed information on sustainability issues than when we last reviewed sustainability reports for 2011-12, although most changes are not transformative. Reports do not yet consistently include a well-developed articulation of how a department has decided on its material issues and hence its priorities and overarching approach to sustainability. All give valuable information on the organisation's progress against the Greening Government Commitments targets, and some explanation of the reasons behind performance. All say something about sustainable procurement, an important aspect of a department's sustainability impact. The coverage of departments' wider influence on sustainability of the UK as a whole through policy is still patchy: annual reporting is not the only means of tracking progress on this, but is an important component.

¹⁸ The Department for Education's annual report for 2013-14 was not available at the time of our analysis, and no separate sustainability report had been published. As well as annual reports we reviewed any relevant documents that the annual report linked to. We included documents referenced by name and easily found by an internet search.

Strategy and materiality

2.3 The Environmental Audit Committee has previously recommended development of a single sustainable development strategy for government, to set milestones and link sustainable development into other overarching policy themes. However, the government did not agree that development of this would be the right method to revitalise government engagement on sustainable development, and instead has put the emphasis on embedding sustainable development throughout government.¹⁹

2.4 Most departments include an explanation of why sustainability is relevant in the specific context of their business in their reports. This is a critical starting point for explaining the department's strategy for sustainability and makes for a much more engaging report than launching straight into a list of actions or issues. For example, the Department for Business, Innovation & Skills (BIS) highlights its commitment to economic growth and describes how this needs to be sustainable in the long term by incorporating social and environmental issues. The Department of Energy & Climate Change (DECC) explains that sustainable development is fundamental to its remit; its policies are beneficial for the environment (through 'decarbonisation' – reducing greenhouse gas emissions), the economy (by ensuring a secure and affordable supply of energy) and people (through targeted interventions on fuel poverty, for example). It highlights that its own sustainability performance is important in order to show leadership and support its policy objectives.

2.5 The best corporate sustainability reports often refer to a separate overarching sustainability strategy document in order to give a more detailed explanation of the organisation's approach to sustainability. Two departments do this, although each could make more of it in their reporting:

- The Department of Health (DoH) refers to the strategy for the health, public health and social care system but this is only mentioned on the final page of the report in the context of the work of the Sustainable Development Unit, and the implications of this strategy for DoH are not discussed.²⁰
- The Ministry of Defence (MoD) has also produced a sustainability sub-strategy document, but this is only referred to as a footnote in their sustainability report.²¹

¹⁹ Environmental Audit Committee, *Embedding sustainable development: the Government's response*, Fourth Report of Session 2010–2012, HC 877, May 2011. Available at: www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/877/877.pdf

²⁰ Department of Health, *The Sustainable Development Strategy for the Health, Public Health and Social Care System 2014–2020*, January 2014. Available at: www.sduhealth.org.uk/policy-strategy/engagement-resources.aspx

²¹ Ministry of Defence, *Sustainable Development Strategy and delivery plan 2011–2030*, May 2011. Available at: www.gov.uk/government/publications/sustainable-development-strategy

2.6 Many departments do refer to other documents that set out aspects of their approach to sustainability. Ten reports referred to sustainability within the departmental business plan, which should summarise their priorities for sustainability, a key component of an organisation's sustainability strategy. Others refer to a separate carbon management plan, which in effect sets out the department's strategy for reducing carbon dioxide emissions.

2.7 No reports explain how departments identify which sustainability issues are most important to them, but instead state relevant sustainability areas as fact. The best corporate reports include an explanation of the process the organisation has gone through to identify its material issues, and how often this is reviewed. Including such an explanation helps the reader understand the rationale behind the department's priorities for action and reporting, and acts as reassurance that these are appropriate.

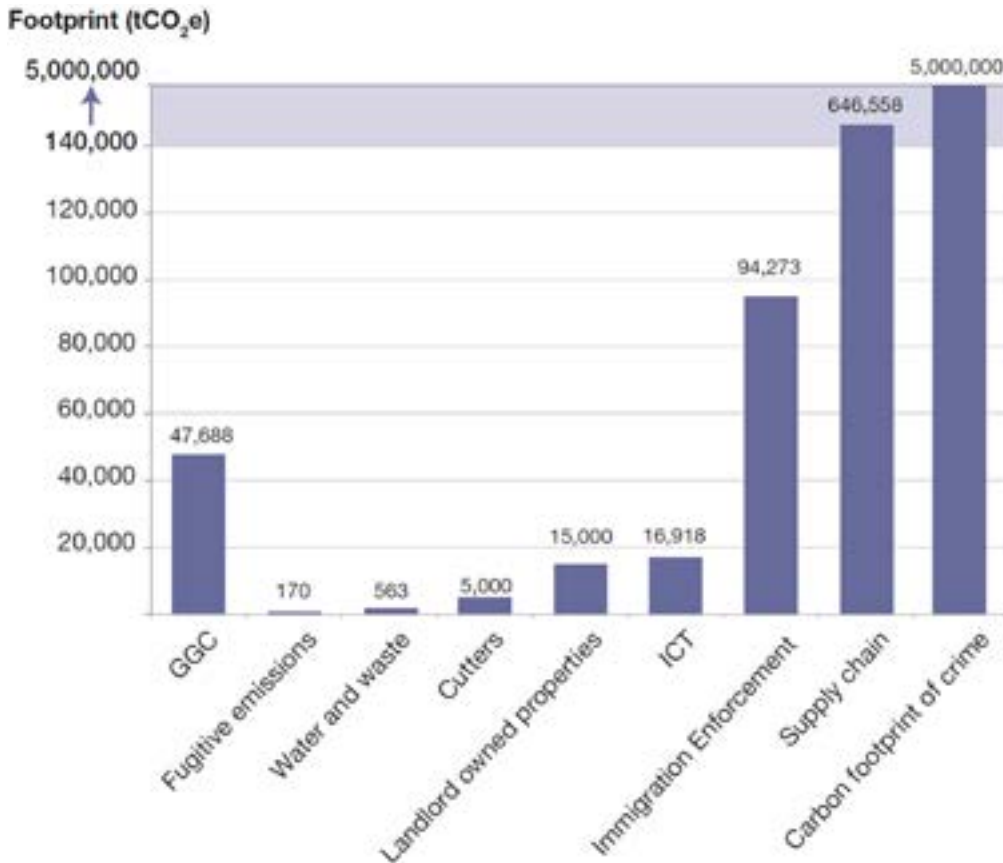
2.8 Some departments come close to providing this kind of analysis. In particular, the Home Office's sustainability report maps its key sustainability impacts against its areas of work, such as visas and immigration and crime and policing, drawing on the analysis in our briefing for the Environmental Audit Committee on sustainability at the Home Office. This gives some confidence that the breadth of the Home Office's work has been considered in identifying priorities for action. The report states that this mapping is regularly reviewed to ensure the most important issues are addressed; it would be improved if there was detail as to how this review takes place, and who has responsibility for it. The Home Office also gives an overview of its total carbon footprint, which serves to illustrate the relative materiality of different issues discussed in the report in terms of the department's contribution to tackling climate change (**Figure 3**). The sustainable development strategy for the health and social care system, mentioned in the sustainability section of the DoH's report, explains that the strategy was developed following extensive consultation.

Reporting of direct impacts

2.9 All departments report on progress against the Greening Government Commitments targets for greenhouse gas emissions, water and waste in their annual reports. This provides a strong foundation for reporting of the direct sustainability impacts of their estates and business travel. All departments also include information on associated expenditure on energy use and water to help relate resource used with environmental impacts to the financial costs for the business.

Figure 3

Extract from the Home Office's sustainability report: Home Office carbon footprint



Source: Home Office sustainability report 2013-14

2.10 Only the Foreign & Commonwealth Office (FCO) and the Department for Environment, Food & Rural Affairs (Defra) provide a full breakdown of both activity and expenditure to the level required under HM Treasury guidance. In some cases reports explain that this is due to the difficulty of collecting appropriate data to report on these issues. DECC, for example, notes that waste disposal is managed as part of wider contracts with their estates management services and landlords. This means that it cannot analyse the separate costs of waste to landfill and recycling, and although a figure for overall waste spend is provided in the report it is an estimate. The MoD and the Cabinet Office record waste spend by category as 'not known', but they do provide a total tonnage figure. The Cabinet Office told us that it does not hold a breakdown of waste data as it pays a set total cost irrespective of the total amount of waste or the proportion recycled.

2.11 All reports include some commentary on progress against the Greening Government Commitments to allow the reader to understand the reasons behind their performance. The level of detail of explanation of performance varies. **Figure 4** illustrates some of the best commentaries on performance. All reports provide a comparison against the baseline and most include at least 3 years of data so that the reader can understand performance over time.²²

2.12 Few departments provide data on a per person or per m² basis (normalised data) for all measures. Departments vary widely in size and activity, so without normalised data it is difficult to compare progress across government. There is, however, a risk that readers make simplistic comparisons, but with appropriate selection of operational units covered by normalised data and explanation and analysis, these kind of data can aid benchmarking from year to year and between organisations. The Greening Government Commitments require meeting a best-practice benchmark of water use per full-time equivalent employee, so all but 2 departments provide this figure; however, only 5 departments provide a similar measure for greenhouse gas emissions and waste. The current Greening Government Commitments targets are set to 2014-15; no department has discussed longer-term targets for carbon, waste or water beyond this date.

Figure 4 Examples of commentary on performance against the Greening Government Commitments

The Department of Energy & Climate Change (DECC) presents financial and non-financial indicators in a table format, with figures from 2009-10 to 2013-14. It goes beyond many reports by providing graphical analysis of this information, allowing users to understand the data more easily. DECC also has extensive narrative of performance against targets. This explains the contributors to both good (such as technical interventions) and poor performance (such as faulty equipment) and highlights activities to be undertaken in the coming year, especially to address poor performance. A separate table summarises each section against the Greening Government Commitments targets, disclosing a target for each area and percentage change against the baseline.

Defra divides its Commitments reporting into sections such as greenhouse gas emissions and domestic flights, each of which includes headline figures showing percentage change against the 2009-10 baselines and comparing it to targets. This is supplemented by detailed commentary: for example, the greenhouse gas emissions section reports measures taken during the year, factors limiting further reduction in energy use and initiatives planned for 2014-15. Full figures are then provided as a single table at the end of the report. Defra also directs users to its quarterly updates on Commitments performance; these provide a dashboard showing the state of the headline targets and reporting against transparency commitments. Defra is unique in providing a quarterly report in this way, which greatly improves the timeliness of data available to users.

Source: National Audit Office analysis of reports

²² Cabinet Office reports against the baseline of 2009-10, and the Department for Culture, Media & Sport (DCMS) provides a comparison against the prior year and a summary of movements against the baseline. While these are the most essential pieces of information, including or linking to all interim-year data would give a more thorough picture of trends.

2.13 We would expect a good report to include information on all significant areas of impact, including from activities excluded from the Greening Government Commitments where these are material. A particularly notable area excluded from the Commitments is international activity. Most departments will not have significant international activity; however, both the Department for International Development (DFID) and FCO operate on a global scale. The two departments have taken very different approaches to this material issue:

- DFID has extended its Greening Government Commitments to cover its international estate and has set internal targets for reducing international air travel. Due to difficulty of data collection it does not provide specific figures for these, but highlights strong progress in countries such as India, Bangladesh and Ethiopia and reports that data will be published online when these are available.
- FCO highlights that overseas operations and international travel are out of scope for Greening Government Commitments; however, it does not extend its reporting to incorporate these. The significance of this exclusion is indicated by FCO's disclosure of the carbon emissions as measured in 2008-09: international air travel was responsible for 71% of FCO's total emissions, and the UK estate and vehicles accounted for one-third of FCO's global estate and vehicles emissions. FCO told us that providing consistent and comprehensive annual data on its overseas operations would be a significant undertaking, and it does not expect to be able to prioritise sufficient resources to do so.

2.14 Materiality is specific to each department, so it is important that users understand why potentially significant impacts are not included. For example, no departments provide data on construction waste.²³ Seven departments include or link to information on sustainable construction more broadly. Three of these explain the extent of construction taking place in order that a reader can judge whether construction waste is a material omission. For example, Defra links to its quarterly reporting against the Commitments and explains that only 2 construction projects took place in 2013-14. The Ministry of Justice (MoJ) reports that 4 new builds and 2 refurbishments took place. The Cabinet Office states that no qualifying refurbishments took place, and therefore no reporting was required.

²³ Provision of quantitative data on construction waste is not a Greening Government Commitments requirement; however, the transparency commitment indicates that departments should be transparent about steps taken to address the impact of construction waste.

2.15 We would also expect a good report to include a description of the scope of reporting in terms of which organisations in the departmental group are and are not included in the targets. Eleven reports did so. Some reports simply list the bodies their sustainability reporting covers. The better reports explain why this is the case. For example, the MoD includes an annex of explanatory notes describing the scope of its reporting. This explains that non-departmental public bodies and other MoD-funded bodies have been excluded due to falling below *de minimus* levels and also explains that the size of its estate and insufficient manpower means that sustainable development baselines include 75% to 90% of their total estate.

2.16 Under the Greening Government Commitments departments are expected to be “open and transparent” about the steps they are taking on biodiversity. Eleven departments included some discussion of the biodiversity impacts associated with their estate in their annual reporting; this includes 4 that effectively gave a nil response to say that they had no need for biodiversity action plans, 4 that reported progress on action plans and 3 that gave more general information on their biodiversity approach.

2.17 HM Treasury guidance also requires departments to report on climate change adaptation. Fifteen departments included some reference to climate change adaptation in their annual reports. BIS did not, but its report does reference its role in protecting the supply chain from future volatility in resource availability and price more generally. The FCO included only a brief mention of adaptation, limited to highlighting the Warsaw Mechanism to cover loss and damage as a result of climate change agreed through the UN. This is despite the FCO having stressed the importance of the issue to its business in its 2011-12 report.²⁴ The government’s National Adaptation Programme also includes 4 actions for the FCO, covering its role in international liaison.²⁵ For example, it has an action to work with DFID to better understand the risks from climate change to UK interests overseas. It also includes 8 actions for BIS, covering the resilience of supply chains and potential business opportunities from adaptation.

²⁴ FCO’s 2011-12 report stated that “Adapting to climate change, and incorporating low carbon, green growth into broader growth policies are central to the FCO prosperity agenda, which informs policy-making throughout the organisation”.

²⁵ Department for Environment, Food & Rural Affairs and Department for Health, *National Adaptation Programme, Making the country resilient to a changing climate*, July 2013. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/209866/pb13942-nap-20130701.pdf This sets out what government, businesses and other groups in society are doing to increase their resilience to climate change.

Reporting of wider influence

Procurement

2.18 All departments now provide commentary on sustainable procurement, normally through a dedicated sub-section of their sustainability report.²⁶ This is an improvement on 2011-12 when our analysis found that one department did not report on sustainable procurement. This reporting varies significantly in terms of the quality and depth of information provided (**Figure 5** overleaf).

2.19 Few reports included information on progress against key performance indicators and targets related to sustainable procurement:

- Eight departments reiterated the goal from their business plan sustainability annex to award 25% of contracts to small and medium-sized companies (SMEs) but only 4 reported on how close they were to achieving it.
- Only the Home Office report includes data on the department's supplier emissions, despite improvement and publication of data on supply chain impacts being a Greening Government Commitment,²⁷ although some other departments point to the roll-out of a self-assessment tool for suppliers (CAESER) as a means to collect this data. The aim of CAESER is to collect data from the top 500 suppliers against indicators on carbon, water and waste.

2.20 As mentioned in Part One, pension investment funds are also an area of potential indirect impact akin to procurement. The Environment Agency, an agency of Defra, has a funded pension scheme. The Environment Agency's annual report explains the steps it is taking to manage this in an environmentally responsible way. In addition, the Environment Agency pension fund annual report and financial statements details its overall approach to responsible investment; this is not covered in Defra's reporting.

²⁶ Departments provide additional reporting on sustainable procurement as part of the annual Greening Government Commitments report, although this was not always clear within their sustainability reporting. The report includes reporting on the use of the Government Buying Service in relation to 6 product groups as well as organisational systems to embed sustainability into their procurement practice.

²⁷ The relevant commitment is to: Improve and publish data on supply chain impacts, initially focusing on carbon, but also water and waste – setting detailed baselines for reducing these impacts.

Figure 5

Examples of reporting on sustainable procurement

Department of Health

The Department of Health provides minimal detail on sustainable procurement in comparison to other departments. It states that it has a good level of compliance with Government Buying Standards (government standards for sustainable procurement), and that its facilities management contract and a new ICT contract are supporting energy efficiency and carbon reduction, but gives no further detail or data to support these conclusions.

It does not report on the percentage of contracts awarded to SMEs.

Ministry of Justice

The Ministry of Justice does not have a discrete sustainable procurement section in its report, instead linking to the procurement page on its website. This allows it to showcase a greater level of detail than would otherwise be practical in the sustainability report. It includes detailed information on actions the department has taken to increase the percentage of contracts awarded to SMEs (such as appointing an SME lead and splitting larger contracts to allow SMEs to bid for them). It also includes copies of the SME departmental action plan and an assessment of the effectiveness of SME engagement.

However, it is unclear if the data provided are up to date, with performance against the target shown for 2012-13 but not for 2013-14. The page is focused on the engagement with SMEs: there is no information on wider aspects of sustainable procurement.

Ministry of Defence

Sustainable procurement is a substantive section of the Ministry of Defence's sustainability report. The report describes how it works with suppliers to embed sustainable procurement principles and clearly articulates its priorities on this issue (to understand and address the risks affecting its supply chain, such as resource scarcity and climate change, and to develop the scope for mitigation and adaptation strategies). It also highlights the main activities undertaken during 2013-14, and future plans (for a sustainable procurement industry day).

Although it does not provide quantitative data on supply chain impacts or the extent of compliance with Government Buying Standards it does detail the work it has done towards these. This includes establishing a working group for the MoD and its suppliers to discuss embedding of sustainable procurement in the supply chain. It also mentions efforts to raise awareness of the Government Buying Standards through inclusion in relevant guidance. It does not report on progress against the 25% ambition for procurement from SMEs.

Source: National Audit Office analysis of departments' 2013-14 reports

Wider public sector influence

2.21 A number of departments have influence over sections of the wider public sector estate not covered by the Greening Government Commitments, such as the DoH (hospitals), the Department for Communities and Local Government (DCLG) (local government), the Home Office (police), and the Department for Education (DfE) (schools). We would expect a good sustainability report to explain how a department seeks to influence the sustainability of this wider estate:

- DoH's report explains that it supports the NHS Sustainable Development Unit, which works across the health and social care system.
- The Home Office's 2013-14 sustainability report highlights police procurement and responsibilities within the Crime and Policing Group as key areas of the department's work, listing associated work-streams alongside corresponding sustainable impacts.
- DCLG's report does not mention the environmental impacts of local government buildings or how it seeks to influence these. DCLG does not require local authorities to report the sustainability of their estate to the department, and does not consider that it has influence over the local government estate.
- DfE's annual report was not available at the time of our analysis, but its 2012-13 report included valuable information on its activities to influence the sustainability of school buildings (**Figure 6** overleaf).

2.22 A really strong report would go further and report or link to information on the scale of associated impacts and progress on relevant key performance indicators or targets. The Home Office's 2012-13 sustainability report includes an estimate of the carbon cost of crime, covering the activities of police, health and justice services responding to crime. DoH's report also has strengths in this respect in that it highlights the publication of the sustainable development strategy for the health and care system 2014–2020, which is informed by analysis on carbon footprints and sets sustainability goals for the sector. We would like to see these aspects more clearly signposted from the annual report itself.

Figure 6

Reporting on departments' influence over the sustainability of the wider public sector estate: extracts from the Department for Education's 2012-13 annual report

The Department for Education's annual report for 2012-13 includes valuable information on how it seeks to influence the sustainability of school buildings as the following extracts illustrate. We consider this could be strengthened by including quantitative explanations of performance against key performance indicators and targets, for example for the energy efficiency of new school buildings.

"The Department [for Education] makes specific help available on sustainability for schools through the Departmental website. For example, the Top Tips on Sustainability in Schools suggests practical ways for schools to become more sustainable, should they choose to, whilst at the same time saving money. This help complements the work of organisations, including the Sustainable Schools Alliance, to encourage the take up of sustainable development in schools."

"School energy bills currently average over £86,000 a year for secondary schools and £13,000 a year for primary schools. The Department has injected £8 million for schools through the Salix Finance energy efficiency loans scheme, which allows public sector bodies to apply for an interest free loan to finance up to 100% of the costs of energy saving projects. Officials are also working with energy services companies, who have the skills and expertise to identify and deliver ways that can help deliver significant energy use and cost savings for schools."

"The Department remains committed to ensuring that new schools reflect the best environmental practice. In May 2012, the Secretary of State announced that 261 schools would be rebuilt, or have their condition needs met, through the Priority School Building Programme. The school building designs aim to create simple and robust school buildings which are cost-effective and resource-efficient to run."

Source: Department for Education Annual Report 2012-13

Sectoral influence

2.23 A good report would also include appropriate coverage of a department's influence on sectoral sustainability issues through policies influencing behaviour in the UK economy. We assessed coverage of this in two ways: by reviewing departments' reporting on policies and policy areas they identified as priorities in the sustainability annex of their business plan, and by reviewing coverage of issues associated with government's headline Sustainable Development Indicators. We used this analysis as a starting point to help identify potential strengths and weaknesses of each report. We would not expect every department to report on every issue associated with the Sustainable Development Indicators, or necessarily to refer to the indicators directly; instead, we expect departments to report on those areas that are material to their business. We would also not expect departments to list progress against each action mentioned in its Business Plan annex, but instead to give an overview of progress on key issues. As we explain in the earlier section on strategy and materiality, strong reports would justify and explain the department's assessment of materiality, and explain any significant omissions.

2.24 Our analysis highlighted the following as the strongest examples of reporting on departments' sectoral influence:

- DFID's annual report makes good use of key performance indicators to report progress. This is based on a results framework that covers environmental, social and economic indicators and as such incorporates consideration of sustainability (**Figure 7** overleaf). The analysis is clearly structured and presented, including graphics, tables and red/amber/green ratings. Interestingly, this analysis is not particularly clearly referenced from the sustainability section of the report itself; we consider the link between the two could be made more clearly.
- The sustainability section of the Department for Transport's (DfT) 2013-14 annual report reiterates its commitment to ensuring that the transport sector plays a full part in delivering emissions reductions needed to meet the UK's Climate Change Act targets. It gives a range of examples of actions taken with this aim in mind, including investment in rail electrification schemes and support for low-emissions vehicles. In another section of the annual report it gives quantitative data on total greenhouse gas emissions from transport for 2012 and compares these with 2011. Again, this could be more clearly referenced from the sustainability section.

2.25 Our analysis also highlighted the following areas of potentially key sectoral influence which departments have not reported on in much detail in their annual report or linked sources.

- **Environmental taxes:** The Trust Statement in HM Revenue and Customs' (HMRC) annual report and accounts acknowledges its role in collecting environmental taxes. However, the sustainability section does not include or provide links to where readers can find information on the wider government strategy and performance in taking forward the business plan commitment that the administration and collection of environmental taxes can encourage environmental sustainability by influencing the behaviour of individuals and businesses.
- **HM Treasury's role in supporting other departments on sustainable development:** HM Treasury's sustainability report restates its commitment to supporting other departments on sustainable development and states that it asks all departments to adhere to *Green Book* guidance for business cases, which includes valuation of environmental impacts. It gives no further information on how it supports departments on sustainable development.
- **Farming and waste management:** Defra's annual report and sustainability report does not discuss emissions or natural resource use relating to the farming sector or relating to waste management.
- **Planning system reform:** DCLG's Business Plan highlights planning system reform as a sustainable development action; however, the sustainable perspective is not discussed within the planning reform sections of the annual report.

We recognise that reporting may occur elsewhere as Figure 1 (page 9) illustrates, though we would expect annual reports to reflect the most material sustainability issues for that department.

Figure 7

Extracts from the Department for International Development’s reporting on sectoral progress on sustainability

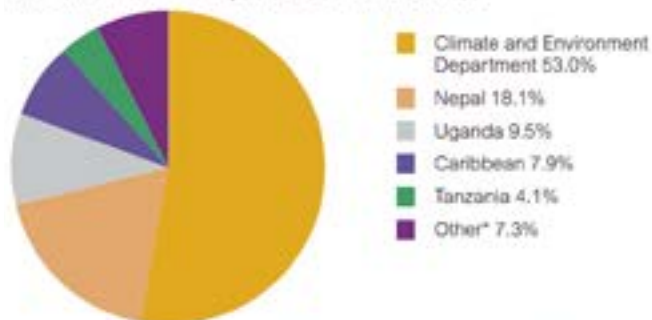
The Department for International Development (DFID) uses a results framework to report on a range of outcomes and outputs from its work. These cover environmental, social and economic issues such as wealth creation, poverty, climate change and health

Its reporting includes tables and graphics to illustrate performance, such as the following extracts from its reporting on progress on climate change issues:

Indicator	Indicator type	Results achieved up to 2013-14 inclusive			
		Male	Female	Not identified	Total
Number of people supported by DFID funding to cope with the effects of climate change	Cumulative	709,000	738,000	1,949,000	3,396,000
Number of people with improved access to clean energy as a result of DFID funding	Cumulative	1,090,000	1,060,000	243,000	2,393,000
Number of hectares where deforestation and degradation have been avoided	Cumulative	N/A	N/A	N/A	5,000

The number of people supported to cope with the effects of climate change

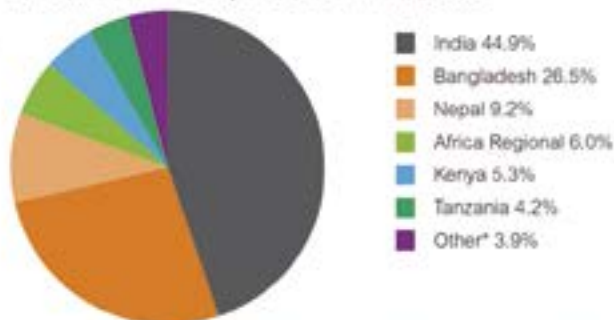
Results achieved up to 2013–14 inclusive



*Other refers to departments which contribute <4% of results, and includes Kenya, Malawi and Africa Regional.

The number of people with improved access to clean energy

Results achieved up to 2013–14 inclusive



*Other refers to departments which contribute <4% of results, and includes Malawi, Climate and Environment Department, Caribbean and Research and Evidence Division.

Source: Extracts from the Department for International Development’s *Annual Report and Accounts 2013-14*

2.26 All departments make some commitment in their reporting that sustainability issues are considered in policy or decision-making or both. Some simply make a statement to that effect, but others give a flavour of what this means in practice. For example, FCO makes a statement that its “prosperity objectives have sustainable growth at their core and government commitments on sustainable development are part of [its] Departmental Business Plan”. Defra goes further and describes the role of their senior scientists and economists in ensuring that sustainability evidence is robust and properly considered in policy development, while the Department for Work & Pensions (DWP) discusses the role of sustainable development tools in supporting decision-makers’ consideration of a wide range of impacts.

2.27 No departments referred directly to the sustainable development indicators or any contributions they may have made to improving the results of the measures, although Defra highlighted the indicators as a means of support provided to wider government. As previously discussed, we would not necessarily expect departments to refer to the indicators; however, referring to national data is one way of providing useful context.

Governance and assurance

2.28 Thirteen of the 16 sustainability reports we reviewed included or linked to information on sustainability governance arrangements, to allow the reader to understand how the department ensures ownership of sustainability issues, and how it monitors progress. The information provided varied: 7 annual reports discussed the role of a sustainability team or similar in the day-to-day operation of sustainability and collection of data for reporting, whereas 9 gave details of the way sustainability data were reported to senior leadership, typically at board level. DFID did not include any governance details within its annual reporting, but the carbon management plan mentioned in its report includes detailed information on these arrangements.

2.29 Three departments reported or provided a link to identify their specific board member with responsibility for sustainability or their senior sustainability champion. A named sustainability champion at a high level in the organisation is one way of providing the necessary impetus to ensure that sustainability is regularly and consistently considered in decision-making.

2.30 Five of the 16 reports explain external assurance arrangements associated with their sustainability information, and 3 explicitly state that internal audit has reviewed the data. Assurance of data is not required under HM Treasury guidance, but helps reassure users that the data are robust and have been subject to challenge. For example, FCO's report explains that its Environmental Management System reaches the ISO14001 standard and has been certified to an independent organisation's (Carbon Trust) standards for waste and greenhouse gas emissions. DCLG gives information about Internal Audit's review of its sustainability information, which included verifying the accuracy of automatically collected data through sampling and audits of data-gathering processes.

2.31 These data provided in departmental annual reports are similar in scope to that provided through departmental Greening Government Commitments returns. Commitments data are assessed through quality reviews carried out by an external provider, Carbon Smart, through a contract with DECC. These reviews include tracing the source of a sample of data used in the returns to Defra and highlighting areas with particularly robust or poor data quality for the department examined.

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