Response to DEFRA consultation on measuring and reporting of greenhouse gas emissions by UK companies

T**he Local Authority Pension Fund Forum** (LAPFF) was set up in 1991 and is a voluntary association of 53 local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The Forum's members currently have combined assets of over £100 billion. The Forum has taken the opportunity below to provide our view on those issues which we consider relevant to our activities.

1. Do you support Option 1(enhanced voluntary reporting)?

The Forum is strongly supportive of mandatory carbon emission reporting. LAPFF has focussed on corporate carbon reporting since 2001, when it benchmarked FTSE 100 companies' carbon emissions against DEFRA's core guidelines on emission reporting. The Forum's response to the consultation on the draft Climate Change Bill in 2007 pushed for tougher targets on emissions and for mandatory carbon emission disclosure[1].

2. There are various ideas (outlined in Option 1) for increasing the number of companies reporting on a non-regulatory basis, which do you prefer? Have you any other proposals to increase the number of companies reporting and the quality and consistency of reports on a non-regulatory basis?

Voluntary reporting has had a high take-up in the larger listed companies, but is patchy below a certain level. The impact assessment itself notes that of the FTSE all-share, only one fifth of companies report quantified figures on climate change or energy use in accordance with Government guidance. The Forum has been supportive of voluntary initiatives to increase disclosure, for example, it has been a member of the Carbon Disclosure Project since its inception, and has engaged with 'non-reporters' to encourage reporting. However, voluntary reporting does not necessarily lead to the provision of useful comparative and consistent data for investors.

[1] See http://www.lapfforum.org/node/6

3. Should corporate reporting of GHG emissions be made mandatory for some companies? If so, please explain.

The Forum supports the implementation of the requirement set out in the Climate Change Act, to make regulations requiring that the directors' report includes information about GHG emissions, by 6 April 2012.

4. If mandatory reporting is introduced, which would be your preferred Option: 2, 3 or 4? It would be helpful if you could explain your reason. Have you any suggestions for improving any of the regulatory options?

LAPFF supports Option 3, which is based on existing Companies Act definitions of companies by type i.e. private or public or size as outlined in Sections 382, 383 465, 466 of the Companies Act 2006.

LAPFF is also aware that local authority pension funds may be expected by their members and the public to address the implications of climate change within their areas of influence. Although the pension fund is distinct from the local authority itself, regulation could support best practice in the public sector in emission reporting. This would ensure the largest emissions are necessarily captured, whether this is emissions such as from energy use and travel or from legacy areas such as ownership of former land-fill sites.

5. Do you have any comments on the economic analysis in the impact assessment? In particular, do you think the costs and benefits for the different options are reasonable? Can you provide any further information which would help in estimating costs and benefits for the different options?

As recognised in the economic analysis, there are a number of key benefits that cannot be monetised, such as reputational and branding benefits and reduced exposure to future legislation. Other issues that cannot be monetised are the benefits of increased transparency on emissions at board level and a greater understanding and positive incorporation of such metrics in supporting corporate strategy. From an investors' perspective, the benefits include an increased understanding of related company initiatives. Where such information provision is lacking, this understanding is poor, and companies may need to invest more resources in tackling shareholder concerns[2]. Thus the outcome is that the benefits could well be underestimated under this analysis.

6. Do you agree that a company should specify which approach it is using to set its organisational boundary?

The Forum believes that a financial control approach would provide the best way to ensure comparability and consistency.[3]

7. Do you agree that a company should (where possible), report on all their emissions within the chosen organisational boundary, including those that occur in their operations overseas? If you don't agree, can you explain which emissions you think a company should report?

If companies are reporting taking a financial control approach, they would report on both UK and non-UK emissions where relevant. It would be appropriate to distinguish these two elements.

[2] See also Response to EC Consultation on Disclosure of Non-Financial information at www.lapfforum.org/node/6
[3] For further details on this approach see Response to CDSB Reporting Framework at www.lapfforum.org/node/6

8. Do you agree that, if it isn't possible for a company to report on all emissions within their organisational boundary (because of data problems, etc), then a company should clearly state the extent to which it has been able to report?

Companies should state the basis on which they have identified and measured emissions. Where there are technical difficulties in accurately measuring emissions, there are modelling techniques that allow for estimations within a reasonable degree of error. The company should therefore clarify to what extent such measures have been applied.

9. Do you agree that companies should be required to measure and calculate emissions from the six GHGs covered by the Kyoto Protocol?

Yes, as the DEFRA published emission factors enable companies to report on their GHG emissions from the six Kyoto gases. If it is not seen as too complex, companies can report on separate green house gases where relevant, supplying the carbon dioxide equivalent.

10. Do you agree that companies should be required to measure, or calculate, and report on all their scope 1 and scope 2 emissions? If not, which emissions do you think a company should measure, calculate and report and why?

Yes, any less than this would not adequately capture the impact of companies in different sectors.

11. Do you think that companies should be required to measure and report on any of their scope 3 emissions (in addition to scope 1 and 2)? If so, can you specify which ones you think should be required?

Scope 1 and 2 emissions are most relevant for companies in high emission sectors. Other companies may have significant emissions embedded in their supply chains. Clear guidance should be provided for scope 3 reporting, and as with current DEFRA guidance it should be encouraged. The caveats would be that such reporting should be clearly differentiated from scopes 1 and 2 emissions. If any scope 3 emissions were to be a reporting requirement, it should be those which would require limited additional data collection, for example business travel or upstream indirect emissions from fuels.

12. Do you agree that companies should specify in their directors' reports, the company's total annual amount of GHG emissions in CO_2e broken down by direct emissions (scope 1) and indirect energy (scope 2)?

Emission reporting should be kept relatively simple, and the business review is the most appropriate place to report. Companies could also be encouraged to disclose both gross and net emissions, which takes into account the use of renewable or low carbon energy generation.

13. Do you agree that companies should specify an intensity ratio?

The Forum recognises the challenges that exist in keeping year on year data comparable with changes in the size of the company due to mergers, acquisitions or divestments as well as changes in production levels. Reporting emission intensity indicators enables better comparison of year on year emissions if a company is growing or shrinking. LAPFF considers reporting both on absolute and normalised emissions (for example against turnover) provides much more user-friendly information for investors.

14. Should companies specify a base year when they report their annual emissions?

A base year should be specified for consistent tracking of performance over time, and to enable the meaningful setting of targets.

15. Is there any other information which you think a company should report?

If emission reporting is to be mandated in the business review, this should be in the context of how companies are factoring the relevance of climate change into their business strategy. For certain sectors, the most important risks investors may wish information on, may not be captured in direct or indirect emission reporting. For example, the risk for Investment trusts will lie in the stance taken by companies in their portfolios, which would not be captured through this reporting framework.

In addition to emission reporting, a 'comply-or-explain' approach could be useful to include as part of the disclosure framework. This approach would allow for companies who do not include any consideration of climate change in their forward-looking reporting to note this and to explain why.

16. If reporting is made mandatory, should companies be obliged to seek some kind of assurance or verification on their emission report? If not, could you explain your thinking?

As a minimum, companies should be required to undertake internal verification of emissions, regardless of the level of emissions.

17. Is internal verification of greenhouse gas emissions sufficient, or should external third party assurance be sought? If the latter, should it be limited or reasonable?

Internal verification of data should be mandatory. Best practice would suggest that over a certain level of emissions, third party assurance should be sought, and this to a level of 'reasonable' assurance. However LAPFF is aware this should be balanced against the larger cost to businesses this would entail.