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Measuring and reporting of greenhouse gas emissions by UK companies

Summary of Consultation Responses

June 2012

Llywodraeth Cymru
Welsh Government

DOE
Department of
the Environment
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The Scottish
Government

defra
Department for Environment
Food and Rural Affairs

This document/publication is also available on our website at:
http://www.defra.gov.uk/consult/2011/05/11/ghg-emissions

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Background

1.1. A consultation on the options for measuring and reporting of greenhouse gas (GHG) emissions by UK companies was held between 11 May 2011 and 5 July 2011 (http://www.defra.gov.uk/consult/2011/05/11/ghg-emissions). Section 85 of the Climate Change Act requires the Government to make regulations, under the Companies Act 2006, by 6 April 2012, requiring the directors' report of a company to include information about GHG emissions as is specified in regulations, or to lay a report before Parliament explaining why no such regulations have been made. The purpose of the consultation was to inform the decision by Ministers on whether regulations should be introduced, or reporting should be encouraged through voluntary measures.

1.2. The consultation proposed four options to promote more widespread and consistent reporting by companies of GHG emissions: a voluntary approach and three mandatory approaches. Views were sought on the different options and, if a mandatory option was chosen, what regulations should require companies to disclose. The list of consultation questions is shown below.

1.3. A draft Impact Assessment was published alongside the consultation which gave detailed costs and benefits analysis of each of the four options. The impact assessment has now been updated. Information on the wider benefits of measuring and reporting emissions is included in the Defra report to Parliament in 2010[1].

Table 1: Main Consultation Questions

Consultation Questions	
Q1	Do you support Option 1 (enhanced voluntary reporting?
Q2	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?
Q3	Should corporate reporting of GHG emissions be made mandatory for some companies? If so, please explain.
Q4	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?
Q5	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?
Q6	Do you agree that a company should specify which approach it is using to set its organisational boundary?

[1] *The report can be found at: http://archive.defra.gov.uk/environment/business/reporting/pdf/corporate-reporting101130.pdf*

Q7	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?
Q8	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?
Q9	Do you agree that companies should be required to measure and calculate emissions from the six GHGs covered by the Kyoto Protocol?
Q10	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?
Q11	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 reported?
Q12	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 direction emissions (scope 1) and indirect energy (scope 2)?
Q13	Do you agree that companies should specify an intensity ratio?
Q14	Should companies specify a base year when they report their annual emissions?
Q15	Is there any other information which you think a company should report?
Q16	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?
Q17	Is internal verification of GHG emissions sufficient, or should external third party assurance be sought? If the latter, should it be limited or reasonable?

Analysis of Responses

Number of Responses

The consultation was available on the Defra website, and was emailed directly to a large number of contacts who have previously expressed an interest in this issue. Officials held or spoke at 25 events, meetings or workshops during the consultation period involving the CBI, the Freight Transport Association, Water UK, the British Retail Consortium, EEF (the manufacturers association), Carbon Connect, the Institute of Environmental Management and Assessment, Carbon Smart, Climate Disclosure Standards Board, GC100, the Emissions Trading Group and Intellect Technology Association, as well as Defra-run events open to a range of companies and stakeholders. Events were held in London, Leeds, Birmingham, Edinburgh and Cardiff.

A total of 2018 written responses were received: 1707 were from individuals, 210 companies, 59 trade associations, 10 not for profit organisations, 8 campaigning organisations, 6 business and voluntary sector fora, 6 investors, 5 local authorities, 3 regulators, 2 investor fora and 2 Members of Parliament.

Questions 1 to 4: Responses on the options

Consultation questions 1, 2, 3 and 4 asked respondents whether they supported voluntary or mandatory reporting and which of the four main options they preferred. The results of these questions are summarised in the table below.

Table 2. Summary of responses in support of each of the four options

Support for each of the four options						
Group of Respondents	**Option 1**	**Option 2**	**Option 3**	**Option 4**	**Other Views**	**TOTAL**
Business and voluntary sector fora	1	0	4	0	No view as members split (1)	**6**
Campaigning/not for profit organisations	2	2	11	2	No view (1)	**18**
Companies (excluding investors)	41	7	142	5	Mandatory (7) Options 2+3 (1) Options 3+4 (1) Options 2+4 (1) No view (5)	**210**

Support for each of the four options						
Group of Respondents	**Option 1**	**Option 2**	**Option 3**	**Option 4**	**Other Views**	**TOTAL**
Individuals	1	4	1672	1	No view (29)	**1707**
Investor fora	1	0	1[2]	0		**2**
Investors	1	1	2	1[3]	Options 2 or 3 or carbon-intensive companies with emissions over a threshold (1)	**6**
Local authorities	0	0	4	1		**5**
Members of Parliament	0	0	2	0		**2**
Regulators	0	0	3	0		**3**
Trade associations/professional bodies	33	3	15	4	No view (2) Version of Option 3 with exemptions for companies in EU ETS, CRC and CCAs (1) Version of Option 4 without using CRC organisational boundaries (1)	**59**
TOTAL	**80**	**17**	**1853**	**14**		**2018**

[2] The Forum represents 53 Local Authority pension funds based in the UK.

[3] Hermes Equity Ownership Services responded on behalf of their clients: The BBC Pension Trust, HESTA, Super Fund (Australia), Lothian Pension Fund, The National Pension Reserve Fund of Ireland, PNO Media (Netherlands), Canada's Public Sector Pension Investment Board, VicSuper of Australia. Other fund managers did not disclose whether they were responding on behalf of their clients.

There was clear support in the consultation for some form of mandatory reporting of GHG emissions, particularly for Option 3. However, the majority of trade associations/professional bodies and a sizeable minority of companies supported voluntary reporting rather than regulation.

Advantages and disadvantages of Option 1

Consultation respondents raised the following advantages for Option1:

- No increased regulatory burden
- Flexibility for companies to decide how to report
- Doesn't require reporting in directors' reports. Concerns that:
    - Directors' reports are already overcrowded
    - Risk of increasing liability for companies
    - The timeframe for reporting would be tighter than for a separate sustainability report
    - Increases verification costs
- Other schemes (Carbon Reduction Commitment Energy Efficiency Scheme and the EU Emissions Trading System) already provide an impetus to reduce emissions
- Companies Act makes reporting mandatory already for those companies for whom it is a material issue
- Allows Government to focus efforts on companies not already involved in other schemes
- Can return to question of regulation in future, if voluntary measures turned out to be insufficient

Respondents suggested the following disadvantages for Option 1:

- Will not level the playing field between those companies reporting and those not reporting
- Will not improve consistency in reporting
- Will not increase the amount of company reporting

Advantages and disadvantages of Option 2

Respondents suggested the following advantages of Option 2:

- Quoted companies should be publicly accountable and so public disclosure of emissions was logical
- Lower administrative burden as fewer additional companies reporting compared to other mandatory options

Respondents suggested the following disadvantages of Option 2:

- Too few companies
- Some large emitters would be missed
- Within a sector, quoted companies would be unfairly penalised compared to large private (unquoted) competitors
- Targets those who are already more likely to report

Advantages and disadvantages of Option 3

Respondents suggested the following advantages of Option 3:

- More companies covered
- Includes private companies with potentially large emissions
- Level playing field
- The more companies report, the easier it will be for other companies to monitor and manage their supply chain emissions
- Trickle-down effect to smaller companies

Respondents suggested the following disadvantages of Option 3:

- May create disproportionate administrative burdens
- Greatest cost burden as largest number of new reporters

Advantages and disadvantages of Option 4

Respondents suggested the following advantages of Option 4:

- Consistent with existing regulation and so had the potential to reduce burdens
- Focuses on energy intensive companies – therefore ones where emissions are material

Respondents suggested the following disadvantages of Option 4:

- Focuses only on those already reporting and so no additional benefit
- CRC criteria are complex
- CRC qualification is based on 2008 energy usage rather than last financial year and so would not be relevant to what is reported in directors' reports
- Criteria excludes transport, waste management and international emissions
- Does not necessarily represent highest emitters
- Not consistent with Companies Act
- Excludes companies without half hourly meter

Ways to Increase Voluntary Reporting

The consultation sought views on ways for enhancing the current level of GHG reporting. Some suggestions were mentioned in the consultation paper and respondents were asked which idea they preferred, and if they had any other proposals to increase the number of companies reporting and/or to improve the quality and consistency of voluntary reports.

There was a lot of support for increasing awareness of the benefits of reporting, with a couple of respondents suggesting sector specific guidance and greater promotion of the Defra guidance. A few responses mentioned that additional guidance relevant to SMEs would be beneficial (although SME guidance does already exist, this comment does suggest that further awareness raising is needed).

There was some preference from respondents for increasing support for, and collaboration with, the Carbon Disclosure Project (CDP) and other Non-Governmental Organisations (NGOs). It was suggested that more engagement with CDP would give greater exposure to reporting and in turn increase uptake.

There was most support from companies and Trade Associations for sector specific voluntary agreements. It was felt that this would be a useful way to engage different sectors and also that it would make reporting easier, more meaningful and reports could be comparable.

There was not much support for bilateral voluntary agreements between Government and companies, one respondent mention that this would have to be incentivised somehow as otherwise the burden of an agreement with Government could be seen as a barrier.

A key message that came through was that a combination of the voluntary options presented in the consultation document was preferred. Sector specific agreements were greatly supported but many respondents stated this and also mentioned another option that they favoured. These options were either more guidance to support business and promotion of the benefits of reporting or more collaboration with CDP and other Non-Governmental Organisations (NGOs).

Some proposals to increase the number of companies reporting included publishing good examples of reporting, awards/incentives given to recognise good practice, e.g. a brand or ‘mark’, a package of simple and inexpensive reporting tools or templates provided to make reports comparable, and working with a reduced number of emissions intensive companies, on a voluntary basis first, followed by phased implementation programme of mandatory reporting.

Q5. Comments on the economic analysis in the impact assessment?

Respondents were asked for their comments on the impact assessment. **5%** of respondents answered this question or made comments on the impact assessment. However, this was an issue that was raised frequently at the various stakeholder events that were held.

Of these respondents, a smaller number commented on whether the benefits and costs in the impact assessment were reasonable. On benefits, both companies and other respondents gave similar results: around 4% felt that the costs and benefits stated were reasonable; one third felt that the benefits noted were too high, while almost two thirds felt they were too low. For costs, there was a slight divergence in views between companies and other organisations: 40% of responding companies felt that the stated costs were too high, while 46% felt that they were too low, with 14% believing the costs to be reasonable. Amongst organisations: 65% felt that the stated costs were too high, with just 35% believing the stated costs to be too low.

More information on the impact assessment can be found on page 22.

Defra Response to Questions 1- 4

Following consideration of the responses to consultation, and the updated impact assessment, which takes account of new information obtained during the consultation, the Government has decided to introduce regulations to require quoted companies to report their GHG emissions in the directors' report (option 2).

This reflects the majority view in the consultation to introduce regulation. The decision was taken not to introduce the regulation for all large companies (Option 3) due to the level of uncertainty around the expected costs and benefits. Further information on these uncertainties can be found in the final impact assessment which accompanies the consultation. In the Low benefits scenario modelled, Option 2 had the smallest net cost (-£28m compared to -£903m for Option 3 and -£145m for Option 4) while in the High benefits scenario, its net benefit was close to that for Option 3 (Option 2 was £712m, Option 3 £771m and Option 4 £486m). From this economic analysis Option 2 is likely to produce the greatest benefits for the least costs.

The Government is committed to further increasing the number of companies reporting and improving the consistency of reporting. The Government will therefore gather data on the costs and benefits experienced by companies and others during the implementation of mandatory reporting for quoted companies and will decide in 2016 whether to extend mandatory reporting to all large companies (Option 3).

Other issues

Views were sought on a number of issues that would be relevant in considering the introduction of regulations in this area.

Question 6: Approach to setting organisational boundary

93% (148) of respondents to this question agreed that companies should state their organisational boundary.

Comments from respondents included:

- Regulations should specify a single approach to defining that boundary – either financial control, operational or the CRC organisational boundaries
- Importance of flexibility in organisational boundaries
- Concern that that use of different organisational boundaries may reduce the comparability of emissions reports
- Proposal that companies should include a boundary map to illustrate how the company’s GHG footprint relates to the totality of its interests.
- Request for sector specific guidance on setting organisational boundaries.

Question 7: Emissions to be reported within organisational boundary, including overseas operations

72% (116) of respondents to this question, on whether overseas emissions should be reported, agreed that companies should report on all the emissions within their organisational boundary, including those which occurred overseas. Many agreed that this was important so that the report gave a full picture of the company’s activities, and to prevent ‘off shoring’ of emissions.

Comments in response to this question included the proposal that Defra should provide appropriate international emission factors (some are already provided). Some respondents thought that companies should be required to separate out their emissions by UK and non-UK sources, whereas as others thought that companies should report globally and not separate out emissions by country. Some respondents proposed that companies could be encouraged to report overseas emissions voluntarily, or that overseas reporting could be phased in over time. Some respondents suggested that this phase in could be dependent on the achievement of greater international consensus on reporting methodologies.

Other points included:

- Reporting overseas emissions added significant cost and complexity
- There is less awareness of international reporting standards in some countries making data collection difficult

- UK subsidiaries, with overseas parent companies, would not be able to report global emissions

Question 8: State the extent to which it has been able to report

95% (140) of respondents agreed that, where a company has not been able to report on all the emissions within their organisational boundary, the company should state the extent to which it has been able to report.

Respondents supporting the proposal also suggested that companies:

- should have to state a plan for how the information would be collected in future years
- should include an estimation of the size of the emissions gap to aid understanding of it
- should include a statement of their confidence in the accuracy and robustness of their data to further increase clarity for readers.

Whilst supporting the proposal, some respondents were concerned to minimise its use, where possible, and proposals to achieve this included: limiting exclusions to immaterial emissions; setting a de minimis level above which emissions should be reported; requiring the Government to state what exclusions would be acceptable; requiring the reasons for exclusion to be signed off by an independent auditor.

Those that disagreed with the proposal suggested that if accurate emissions information was unavailable, or not cost effective to procure, companies should use modelling or estimation techniques to fulfil this data gap rather than leaving a gap. In each case, it was suggested that companies should have to explain what modelling or estimation methods they had used. Some respondents also suggested that Government should outline what modelling or estimation methods would be acceptable.

Defra response to Question 6, 7 and 8

The Climate Change Act 2008 requires that regulations are introduced to require reporting in the directors' report of company annual reports. Company law requires that the company described in the directors' report is the same as that in the financial portion of the annual report. This means that companies will not be able to choose what organisational boundaries to apply to the GHG emissions information in their directors' report but will be required to report their emissions on the same organisational basis as for their financial report.

The Government agrees with the majority of respondents that companies should include information on their emissions within their organisational boundary, including from their overseas activities, where appropriate. This will reflect the approach used in financial reporting and will ensure that investors and stakeholders see a true picture of the company's emissions.

Many UK multinational companies already report their emissions on a global basis and so separating out their UK only emissions would represent an additional administrative burden. The Government proposes that emissions should be reported on a global basis where appropriate. Companies would continue to be able to voluntarily provide breakdowns of their emissions by geographical area if they wished.

The Government agrees with the majority of respondents that, where it has not been possible to collect the information required, the regulation should allow the company to state the extent to which it has been able to report through a ‘comply or explain’ clause.

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

The majority of respondents to Question 9 (**89% - 152 respondents)** agreed that all six Kyoto[4] GHGs should be reported.

Supporters of reporting the six Kyoto gases made the following comments:

- Companies should only report those gases which were material to their GHG report so that very insignificant emissions of particular gases need not be reported
- In addition to the Kyoto six gases, companies should also report emissions from Montreal Protocol gases, as well as any other gases which are later proved to contribute to climate change
- Companies should only have to report their emissions in CO_2e rather than report individually for each GHG
- Emissions should be reported separately rather than as CO_2e because of uncertainty in the scientific community over the accuracy of global warming potentials.

Respondents who opposed reporting on the six Kyoto gases, primarily supported reporting on just CO_2 on the basis that reporting on the other GHGs could increase costs, and because of concerns over data collection and calculation of some of the other GHGs. There were also proposals for a transition period to allow organisations to reporting all Kyoto gases and the development of sector guidance on which GHGs would be relevant for each sector.

Defra response to Question 9

The Government agrees that the regulation should require companies to report on all six GHGs covered in the Kyoto Protocol in CO_2e where these are material. The use of the Defra/DECC emissions conversion factors means that in many cases calculating emissions in CO_2e, is no more onerous than reporting just for CO_2.

[4] Carbon dioxide, methane, hydrofluorocarbons, nitrous oxide, perfluorocarbons and sulphur hexafluoride.

Question 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 no, which emissions do you think a company should measure, calculate and report and why?

90% (1829) of respondents answered Question 10. **99% (1813)** of these respondents agreed that companies should be required to measure or calculate and report on all of their scope 1 and scope 2 emissions.

Many respondents supporting reporting of scopes 1 and 2, suggested that only material emissions should be reported or that there should be a de minimis threshold. There was also a request for Government to provide additional guidance and tools to reduce the administrative burden of reporting.

Those who did not agree with the proposal suggested that:

- Reporting should align with the requirements of existing schemes such as the CRC and EU ETS or proposed that it should be limited to scope 1
- Companies should determine which scopes were most relevant for them to report – so that for some companies it would be scopes 1 and 2, while for others scope 3 would be the most appropriate
- Those scope 1 and 2 emissions which would need to be modelled rather than being measurable should excluded
- Process emissions should be excluded for the reason that there were other pieces of legislation that were targeting these emissions
- Regulation should begin by requiring scope 1 and then phase in both scope 2 and 3 over time.

Defra response to Question 10

The Government agrees with respondents that the regulation should require companies to report their material scope 1 and scope 2 emissions. This is in line with the current guidance which recommends that as a minimum companies report their scope 1 and 2 emissions and encourages the reporting of significant scope 3 emissions.

Question 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?

86% (1730) of respondents supported the mandatory inclusion of some scope 3 emissions. However, this figure is heavily determined by the fact that more than 1600 individuals, prompted by the Christian Aid campaign supported this option. Of other respondents (companies, investors, trade associations and other organisations), only **20%** supported the inclusion of at least some scope 3 emissions in regulation.

The table below shows the aspects of Scope 3 emissions which respondents proposed should be required in any regulation.

	Support in some form	Entire Scope 3	Business Travel	Significant/ material scope 3	Outsourced activities	Waste	Other
Companies	43	0	17	9	4	2	5
Individuals	1666	1664	0	0	0	0	0
Investors and Investor Groups	2	0	1	1		0	0
Other Organisations	13	2	7	1	3	3	1
Trade Associations	6	0	0	1	0	1	2
TOTAL	**1730**	**1666**	**25**	**12**	**7**	**6**	**8**

Table 3. Aspects of Scope 3 emissions which respondents proposed should be included in regulation.

Respondents who opposed the inclusion of scope 3 cited the following concerns:

- Inconsistent methodologies
- Costly to collate
- Inaccurate data
- Difficulty in gathering information from contractors and rest of supply chain
- Double counting

- Specifying individual parts of scope 3 (e.g. business travel) could focus attention on immaterial emissions

Those who supported scope 3's inclusion, made the following points:

- Necessary to understand company activities
- Prevent companies reducing their emissions by outsourcing
- Some scope 3 were easily quantified

Respondents also supported voluntary reporting of scope 3 emissions and made the following suggestions:

- Scope 3 emissions could be phased into regulation
- Scope 3 could be included once the World Resources Institute's scope 3 guidance was in place
- Sector specific guidance should be produced to aid voluntary reporting
- Clear guidance on leasing should be included
- Product emissions (and benefits) should be considered
- Companies could include a narrative explanation of their scope 3 emissions

Defra response to Question 11

The inclusion of scope 3 emissions gives investors and other stakeholders a complete picture of a company's climate change impact and gives the company itself a full picture upon which to judge where to concentrate GHG reduction activities. However, there are significant logistical difficulties in gathering some of the information required for scope 3 reporting including gathering information from the supply chain. In line with the Government's aim to reduce the regulatory burden on companies, the Government has decided that requiring even some Scope 3 reporting would be an excessive cost on business, especially when the methodologies for scope 3 are still relatively new.

The Government has decided not to include reporting of scope 3 emissions in the regulations but will continue to encourage voluntary reporting of significant scope 3 emissions.

Question 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)?

5% (104) of respondents answered Question 12. **55% (58)** of respondents to Question 12 ***disagreed*** that companies should specify total annual amount of GHG CO_2e broken down by direction emissions (scope 1) and indirect energy (scope 2) in their directors' report. Those who disagreed with the proposal largely believed that it should be for companies to determine where this information should be displayed, citing sustainability reports and websites as other possibilities. The following comments were made:

- Inclusion in the directors' report would require a higher level of audit, resulting in greater costs
- Inclusion in the annual report would mean that the data would need to be prepared to annual report timescales which could be challenging for some companies
- Companies and their directors are potentially liable to investors for loss arising from untrue/misleading statements or material omissions in their annual report. Requiring GHG emissions to be included in the annual report means that directors will face a similar liability in relation to this reporting.
- Concern that the directors' report was already overcrowded with information
- Concern that GHG emissions were commercially sensitive information

Those who supported the proposal felt that the information should be readily accessible and that the directors' report was an appropriate forum for it. Many highlighted the recent BIS consultation on narrative reporting and suggested that it would be important that any proposals on GHG reporting should be consistent with the proposals for narrative reporting.

A couple of respondents disagreed that scope 1 and scope 2 emissions should be reported separately and a further couple of respondents disagreed with reporting in CO_2e, preferring reporting separately for each GHG.

Defra response to Question 12

As discussed in response to Question 10, the Government agrees that companies should report their scope 1 and 2 emissions. As stated in Question 9, the Government proposes that emissions should be reported in CO_2e in line with current guidance.

With respect to whether the GHG report should be included in the directors' report of the annual report, the Government has decided that the regulation should require reporting in the directors' report. This issue is determined by the requirements of the Climate Change Act which specifies that regulations should be made under section 416 (4) of the Companies Act – referring to the content of the directors' report and links to the primary question of whether regulations should be introduced.

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

68% (102) of respondents to Question 13 agreed that companies should specify an intensity ratio as it would enable better analysis of emissions against business growth or decline. Supporters made the following comments:

- Clear guidance must be issued on how to interpret and use intensity ratios, with additional sector specific guidance made available
- Companies should be able to choose their own intensity ratios
- Regulation should specific that ratios should be financial and linked to turnover
- There is a need for European agreement on an appropriate intensity ratio
- Ratios should be accompanied by explanation to avoid misinterpretation
- Ratios should be considered complementary to, rather than at the expense of, absolute emissions data.

Respondents who opposed the use of mandatory intensity ratios were primarily concerned that:

- Ratios could be misleading for companies producing a range of products and where the reader did not know the industry well
- It would be difficult to agree an appropriate intensity ratio for all companies, even within individual sectors
- Companies should have flexibility to decide their use and that they should be able to choose whether or not to use them in order to reflect their different businesses and different approaches to managing and reporting their data

Defra response to Question 13

The Government agrees with the majority of respondents to this question and proposes that the regulation should require companies to include an intensity ratio of their choice. The existing guidance provides advice on intensity ratios.

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

81% (121) of respondents to question 14 agreed that companies should have to report a base year. In general, those in favour thought it would be useful for companies to specify a base year to enable comparisons, whereas those opposing preferred this to be a voluntary decision.

Respondents who agreed made the following comments:

- The first year of reporting should be the base year
- Use of a base year allows progress to be tracked over time

However, many companies were concerned about the effect of changes in organisations or the nature of variations each year, making it difficult to ensure suitable comparisons between years. Possible solutions suggested included:

- Data being placed in context about how an organisations activity has changed over time
- Flexible option to account for any changes by adopting different baselines
- Clear Government guidance on the recalculation of base years.

These respondents did support the need for a mechanism to monitor improvements or set reduction targets.

In contrast, most of the 19% opposing thought this should be optional as this approach might not be relevant or valuable to all companies. The following comments were made:

- Could be an additional administrative burden
- May be sensible to only introduce a base year once organisations have experienced reporting emissions
- Year-on- year comparison as a more appropriate means or to use data developed over time to illustrate the direction of travel or trend.

Defra response to Question 14

The Government has agreed that the regulation should require companies to report the emissions from a base year of their choice and that they should report if the base year has been recalculated. The current guidance (http://www.defra.gov.uk/environment/economy/business-efficiency/reporting) suggests that companies should set a base year recalculation policy and provides guidance on how to determine if the base year should be recalculated. This recalculation should ensure that appropriate comparisons can be made between different years despite changes in company structure.

Question 15: If there any other information which you think a company should report?

3% (69) of respondents answered this question by proposing some additional reporting requirements.

Respondents proposed the following requirements.

- Financial cost and benefit of reporting
- Emissions targets and progress towards them
- Company approach to managing emissions and governance of sustainability
- Narrative explanation for emissions/context
- Methods, tools and assumptions used
- Limitations to the scope of the report and the extent to which the calculations are based on estimates
- Explanation of organisational boundary and details of outsourcing
- At least two years' information to show a trend
- An accuracy rating for the data
- Climate change risks and opportunities and what has been done to address them
- Extent to which direct emissions have been covered by allowances purchased, allocated free or offset through the purchase of verified emissions reductions
- Amount organisation invests to reduce emissions
- Future plans for reporting, including with respect to scope 3
- All mitigation activities
- Amount of renewable energy generated
- Amount of energy used
- Embodied emissions in buildings and plant
- Product footprints
- Water use
- Waste
- Other social and environmental impacts
- Emissions from activities that may have ceased but where emissions continue after many years e.g. land filling of biodegradable waste
- Display Energy Certificate ratings for buildings

It is worth noting that some respondents proposed additional information that could be included voluntarily by companies in their directors' report. There were also several respondents who stated that the directors' report was already crowded with information and who did not support the inclusion of many other requirements.

Defra response to Question 15

Several respondents proposed that companies should state that method and tools they have used to calculate their emissions. The Government agrees and proposes that companies should state the methodology used, i.e. Guidance or another recognised standard or framework.

Questions 16 and 17: 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? 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?

8% (161) of respondents answered questions 16 and 17. Of these respondents, **42% (68)** opposed the inclusion of an assurance or verification requirement in regulation and **58% (93)** supported its inclusion.

Respondents who supported the introduction of a mandatory assurance or verification requirement felt that:

- Verification or assurance was key to obtaining reliable and accurate data
- It was important to allow investors to use the data to make investment decisions
- It would protect companies from the risk of reporting inaccurate figures
- It should mimic the requirement for financial information
- Internal verification is insufficient to create accurate accounts

Those who opposed its inclusion stated that:

- A requirement would increase costs substantially with little additional benefit
- Companies could already be relied upon to carry out due diligence on their figures
- Inclusion of data in the Director's Report already creates an existing audit requirement
- The market would drive transparency and quality of disclosures
- Company resources should be focused on reducing emissions rather than on verification and assurance requirements
- There are existing assurance and verification requirements through the EU ETS and CRC and an additional requirement would add complexity and duplicate effort
- Any information that companies place in the public domain already undergoes strict internal scrutiny and so that should be considered sufficient

- A requirement for anything more than limited assurance would make it difficult for companies to meet annual report deadlines
- Risk that external verification requirements will limit the scope and appeal of GHG reporting for many companies

Respondents who supported the inclusion of a regulatory verification or assurance requirement proposed the following requirements:

- Internal verification by the company
- Reasonable third party assurance
- Limited third party assurance
- Spot checks by Government agencies
- Tiered assurance requirement with the largest companies/largest emitters required to gain reasonable external assurance with limited external or internal assurance required for smaller companies/smaller emitters
- Phasing in assurance requirements, either from internal verification at the start moving to limited external assurance in the future or moving from limited external to reasonable external assurance over a few years
- Requirement for internal verification of emissions not already verified by other schemes
- Verification and auditing required every two or three years
- An external verification requirement once within the first three years to aid establishment of internal systems
- A requirement to follow ISAE 3000 and ISO 14064
- Companies should nominate a Senior Accounting Officer to certify the underlying financial accounting systems in use are appropriate
- Defra could specify criteria for verification and could work with consultancies to define an agreed cost for the process
- Defra should provide a list of accredited verifiers
- Verification should be required but should be limited to ensuring data quality in order to ensure costs remain reasonable
- Mandatory requirements should not favour a particular verification provider or group of providers
- Verification should be limited to the validity of the methodology used and the original inventory
- No duplication of the verification already in place for some emissions
- Certification to existing accredited schemes should be accepted as providing appropriate verification

- Possible need to draw distinction in the level of verification required for UK based emissions and emissions from overseas operations because of the costs and practical challenges associated with verifying data from overseas operations

Some of who opposed an assurance requirement suggested that assurance and verification could be encouraged through guidance and some proposed a requirement for companies to state whether assurance or verification has been achieved, for companies to be required to provide a confidence grade for their data and for the Statement of Internal Control to include a statement explaining how directors have put in place controls to manage the risk of inappropriate or inaccurate reporting. There was also a call for a voluntary code to permit a separate assurance engagement – rather than an 'audit' engagement and for reports to clearly distinguish between the opinion of the auditor on the financial statements and the opinion on the GHG emissions data. There were also calls for additional guidance from Defra on the subject of verification and assurance.

Defra response to Questions 16 and 17

As several of the respondents noted, there are existing audit requirements set out in the Companies Act. Section 496 of the Companies Act provides that the auditor must state in his report on the company's annual accounts whether in his opinion the information given in the directors' report for the financial year for which the accounts are prepared is consistent with those accounts. As the regulation will require GHG emissions to be reported in the directors' report, they will be included in the scope of this audit requirement. The Companies Act legislation, which provides the framework for this regulation, does not permit us to include a further assurance or verification requirement specifically on the GHG emissions data within the report.

In addition, setting specific assurance or verification requirements for GHG data risks creating unnecessary administrative burdens for companies already required to carry out assurance or verification on some of their data for the EU ETS or CRC. This was a point which several respondents made during the consultation. Assurance and verification can have a role to play in improving the quality of data published and for that reason; many companies choose to carry out some level of assurance or verification for their own benefit and that of their stakeholders. This will continue to be possible under the new regulations.

Next Steps

Following the public consultation, the Government has agreed with the majority of respondents to introduce regulation to require some companies to report their GHG emissions in the directors' report of their annual report. The Government is committed to reducing the regulatory burden on companies and so has decided to introduce Option 2 (regulation for all quoted companies) which has the lowest regulatory cost of the regulatory options. Experience of this introduction will be used to update the cost and benefit information contained in the final impact assessment. In 2016, the Government will take a decision, based on this updated information, whether to extend the requirement to all large companies.

Consultation on Regulations

Defra will launch a public consultation on a draft statutory instrument to implement the policy set out in this response.

One In One Out

As part of the Government's commitment to control and reduce the burden of regulation, a 'one in one out' approach has been adopted which requires that all new regulatory burdens are matched by a corresponding reduction in the regulatory burden on business. Defra has identified a regulatory 'out' which corresponds to the burden on business created by this regulation.

Final Impact Assessment

The public consultation invited comments on the assumptions made in the impact assessment and sought further information from companies and other respondents to allow the ranges of costs and benefits provided in the consultation impact assessment to be narrowed. The Freight Transport Association (FTA) and the Institute of Environmental Management and Assessment (IEMA) carried out surveys of their members to help provide some of this information. A number of businesses also provided information. In addition, the Aldersgate Group, the Co-operative Group and WWF-UK commissioned Adelphi Consulting to examine and comment on the consultation impact assessment and presented their findings to Defra.

Following the consultation and the receipt of this additional information, a final version of the impact assessment was produced and has been published on the Defra website (http://www.defra.gov.uk/consult/2011/05/11/ghg-emissions)

Annex A – Summary of Respondents' Views on the Four Options

This annex provides a list of the business and organisations which supported the four main options in the consultation. It does not include responses from named individuals. (A summary of individual responses is included in table 2.) Not all respondents provided a view on one of these four options.

Copies of consultation responses can be made available to the public. For more information contact the Information Resource Centre, c/o 17 Smith Square, London, SW1P 3JR (telephone 020 7238 6575).

Option 1	
3M	Confederation of UK Coal Producers
ADS Group	Construction Products Association
Associated British Foods	Cplan
Associated British Ports	Cross River Partnership
Association of Electricity Producers	Dairy UK
Association of Manufacturers of Domestic Applicances	Deloitte LLP
BOC Ltd	Doncasters Group
Bovis Homes	EDF Energy
BP	EEF, the Manufacturers' Organisation
British Airways	Energy Networks Association
British Beer and Pub Association	Food and Drink Federation
British Ceramic Confederation	Forth Ports Ltd
British Chamber of Commerce	Freight Transport Association
British Glass Manufacturers Confederation	General Motors UK
British Soft Drinks Association	GrowHow
BVCA (British Private Equity and Venture Capital Association)	Hanson UK
CE Electric	Home Builds Federation
Celtic Energy	IBM
Cemex UK Operations Ltd	Institute of Chartered Accountants in England and Wales
Chemical Business Association	Intellect UK
Chemical Industries Association	Law Society

CNR International (UK) Ltd	Metal Packaging Manufacturers Association
Confederation of Paper Industries Ltd	Society of Motor Manufacturers and Traders
Millenium Inorganic	Springfields Fuels UK
Miller Argent (South Wales)	Swiss Reinsurance Company
Mineral Products Association	Tarmac
National Association of British and Irish Millers	Tata Chemicals Europe
National Farmers' Union	TATA Steel
Neath Port Talbot Council for Voluntary Service	Tesco
Network Rail Infrastructure Ltd	The Packaging Federation
Northumbrian Water	The Rice Association
NSG Group (Pilkington Glass) Ltd	Titan Steel Wheels
Panasonic	UK Petroleum Industry Association
Severn Trent Water	UPS
Shell	Professional Publishers Association (PPA)

Option 2	
BAE Systems	Commercial Group
Bolt and Heeks	ConocoPhilips
British Property Federation	Environmental Investment Organisation
Camco	ESTA Energy Services and Technology Association
Carbon Disclosure Project	Scottish Widows Investment Partnership
Chartered Institute of Management Accountants	WDS
CMG Consultancy	

Option 3	
4th World Ecological Design	J.P. Garrett Electrical Ltd
51% Studios	Jeremy's Soups
10:10 Campaign	John Lewis Partnership
A E Surcouf and Sons Ltd	Jones Lang LaSalle

Achilles Group	Julie's Bicycle
ADAS	Jupiter Asset Management
Aldersgate Group	Kelda Group
Alder Tree Ltd	Kendlebell (Swindon) Ltd
Anglian Water Services	Land Securities PLC
Appetite	Landmark Information Group
Arts Factory	Laurel Farm
Association for the Conservation of Energy	Lend Lease
Association of Chartered Certified Accountants	Lifeshare.com Ltd
Atkins	Ligna
Atlantic Energy	Litenow Ltd
Atria Associates Ltd	Lloyds Register Quality Assurance Ltd
Aviva	Local Authority Pension Fund Forum
Aztec Arts	Loop Management Services
BDO LLP	Make Hay Ethical E-media
Bespoke Training and Development Ltd	Marks and Spencer
Black Architecture	Media4Change
Blue Carbon	Millipedia
Breed Media	Minesco
Brightsource	Muiryhill Arts
British Retail Consortium	National Audit Office
British Vehicle Rental and Leasing Association	National Grid
Broad Street Mall	NBM Distribution Ltd
BSA – The Business Services Association	Northern Ireland Environment Link
BT	Ofwat
Business in the Community	Our Agency
Cable and Wireless	Pasiography
Carbon Control Ltd	PeopleProfitPlanet
Carbon Footprint Investments	Phelan Architects Ltd
Carbon Masters	Policy Exchange
Carbon Smart	Professor Fiddlesticks
Caroline Lucas MP	Reflex Marine ltd
Centrica	Regional Comms

CGL Business Solutions	Rolls Royce
Chapter Cardiff Ltd	Scotland's Secret Bunker
Chartered Institute of Environmental Health	Scottish Environment Protection Agency
Chartered Institute of Environmental Health Northern Ireland	Scottish Power and Scottish Power Renewables
Chartered Institute of Public Finance and Accountancy	Scottish Water
Chartered Institution of Water and Environmental Management	Seasons Catering Ltd
Christian Aid	SecondNature Partnership
Clear about Carbon (Cornwall Development Company)	SGS United Kingdom Ltd
Clikyz.com	Shimu Ltd
Climate Works Ltd	South West Water
Coast Project	Southern Water
Colchester Borough Council	Step Ahead Services
Colliers International	Stove Shop
Community Renewable Energy North West	Success Photography
Cooperative Group	SustainIT Solutions
CREES Expeditions	SWIIS Foster Care Newcastle
Crew Architects	Thames Water
Dartpoint Ltd	The Art House
Dragonfly Solutions Ltd	The Creativity Works
Dwr Cymrus Welsh Water	The Hemp Shop
Ecometrica	The Missing Horse Consultancy
Ecostruct	The Usual Suspects
EEVS Insight Ltd	TheGreatBritishTeaParty.co.uk
Elektronics Europe Ltd	Thomas Cook Group
Elementus	Toggle Labs
Enjaybee Associations	Total Eco Management Ltd
Environmental Industries Commission	Transport for London
Environmental Services Associations	TUI Travel PLC
EnviroScience	UBM
ENWORKS	UK Contractors Group

E.ON UK	UK Green Building Council
Ethical Work Wear	United Utilities PLC
Eurostar	UPPERCASE/media
Excitation Ltd	Valpak Ltd
FairPensions	Vegware
Furnished Homes	Veolia Water
GHG/BMI healthcare	Vertigo Sustainable Development Consultants
Good Energy	wat
Graeme Morrice MP	Water UK
Greater London Authority	Wayne McGregor/Random Dance
Greater London Authority Group	WDAD Communications
Greater Manchester Chamber of Commerce	Weaverfish
Green Grid UK	Wessex Water
Greenstone Carbon Management	Willmott Dixon
Heath Avery Architects	Wolseley UK
Heating and Ventilating Contractors' Association	Woodland Trust
Ideal World Ltd	Wooler Heating
Impact Plants	World Accent
Inca Design Ltd	WOWO Campsite
Infinergy	Wrc PLC
Inspired Solutions (Software) Ltd	Wrekin Windows
Institute of Environmental Management and Assessment	WSP Group
Intercept IT	WWF-UK
J E Turner	

Option 4	
Albian Stone PLC	Food Storage and Distribution Federation
Atos Origin UK	Hermes Equity Ownership Services
British Safety Council	Horticultural Trades Association
Caleb Management Services Ltd	Hundred Group of Finance Directors

Chartered Institute of Building[5]	InterContinental Hotels Group
Confederation of British Industry[6]	Merseytravel
Electrical Contractors' Association	Pfsenergy

Did not support one of the four options	
BSI Group	Kier Regional[7]
Business and Enterprise Group	KPMG[8]
cuttingthecarbon[9]	Lichen Renewal[10]
ENDS Carbon[11]	Manchester Airports Group[12]
Environmental Packaging Solutions[13]	NPS Stockport Ltd
ETG	O2i Design Ltd[14]
Generation Investment Management[15]	Pearson[16]
Grant Thornton[17]	Scottish Enterprise
Non-Ferrous Alliance	UK PLC[18]
The Quoted Companies Alliance	UK Power Networks
INEOS[19]	Whyte

[5] Supported a combination of Option 1 and Option 4.

[6] Supported a variation on Option 4.

[7] Support mandatory reporting.

[8] Propose widening Section 417 of the Companies Act beyond quoted companies and specifically highlight GHG emissions.

[9] Supported the introduction of regulation.

[10] Support mandatory reporting but does not support the options provided because they fail to include the public sector.

[11] Supported a combination of options 2 and 3.

[12] Has no objection to reporting being made mandatory.

[13] Supported a combination of options 3 and 4.

[14] Supports mandatory reporting for companies over a certain size.

[15] Supported an option involving quoted and unquoted companies within identified carbon-intensive industries with expected scope 1 and scope 2 emissions over a threshold.

[16] Supports mandatory reporting

[17] Supported a combination of options 2 and 4.

[18] Supports mandatory reporting for all organisations

[19] Do not support mandatory reporting of emissions because INEOS is already required to report through the Scottish Pollutant Release Inventory. Do not support the introduction of another voluntary reporting mechanism either.