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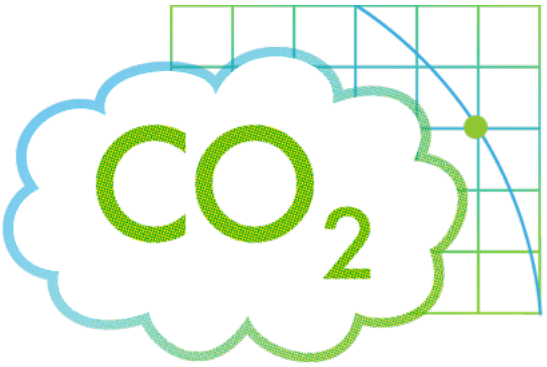
What do the new energy and carbon reporting requirements mean for UK businesses?



A briefing by Bioregional
December 2018

From April 2019 the Government will more than double the number of large, UK-based businesses that must publicly report on their energy use and greenhouse gas (GHG) emissions.

Climate change is moving up the global agenda, changing from a future risk to a clear and present danger. Bioregional works with businesses that are serious about sustainability. We see these streamlined energy and carbon reporting requirements as an important opportunity for businesses to tell stakeholders what they are doing to combat climate change – and to think afresh about what more they can do while benefitting the bottom line.

This briefing summarises the impending changes in Government reporting requirements on energy and GHGs for large companies.

These requirements affect annual reports and accounts which must be filed at Companies House. About 7,000 more companies will be in scope. The changes cover quoted (or public) companies (whose shares are traded on a stock exchange), large unquoted (or private) companies and large limited liability partnerships (eg law firms and consultancies). They will apply on a UK-wide basis.

Background to this change

Getting business to focus on energy use and greenhouse gas (GHG) emissions

The government's aim is to make senior managers focus more on energy use and greenhouse gas emissions, not only within their own businesses but among suppliers.

Given that energy is responsible for only 3% of the average business' total costs, it gets too little attention from business leaders. The Government's thinking is that 'what gets measured, gets managed', and if companies must report data for emissions and energy consumption then, clearly, they must also measure it. Increasingly green-minded investors and lenders will also use these disclosures in deciding where to put their money.

Simplifying reporting

The new reporting requirements will also help simplify the energy and carbon reporting requirements placed on businesses while increasing the pressure on companies to make energy and carbon savings. This will help it to comply with its own UK carbon budgets under the Climate Change Act (2008).

As part of the streamlining, the Government is closing its CRC energy efficiency scheme, a carbon reporting and pricing scheme which covered about 5,200 large businesses and public sector organisations. It will shut next April, with the new reporting regime taking over. Proposals and options for Streamlined Energy & Carbon Reporting were issued for public consultation in October 2017. In July 2018 Government **published its response** to that consultation. Many details remain to be fleshed out but the main changes are now clear.

Boosting the green economy

Commerce and industry account for about a quarter of total UK emissions. Increased energy efficiency in business should also raise productivity, boost the cleantech sector, the wider economy and jobs, contribute to UK green leadership globally and to security of UK energy supplies.

Quoted companies – what is changing?

These are UK incorporated companies whose shares are listed on the London Stock Exchange's main market or a European Economic Area state's stock exchange, or whose shares can be dealt on the New York Stock Exchange or the US-based Nasdaq exchange. There are about 1,200 of them.

Since 2013, regulations have compelled quoted companies to report on their total GHG emissions in their annual mandatory Directors' Report, covering Scope 1 and 2 emissions[1]. They must state what methodologies they use to make the calculation, the previous year's figure and an 'intensity metric' – a measure of a company's total emissions per £ of turnover/employee/unit of product/ square metre of retail floorspace etc.

From April 2019 they will also have to disclose their total annual global energy consumption. They need this data to calculate their GHG emissions, but do not currently have to disclose it.

Large, unquoted companies – what is changing?

This is where the biggest change happens. Currently, about 4,000 large companies – quoted and unquoted – have to report their energy and GHG emissions under the soon-to-be abolished CRC Energy Efficiency (see above).

In addition, under the 2014 Energy Savings Opportunity Scheme (ESOS) about 12,000 large companies (quoted and unquoted) must audit their energy usage every four years and identify cost-effective energy saving measures – but they do not have to report publicly on these. Unlike the CRC Energy Efficiency Scheme, ESOS is continuing.

What is now changing is that all large unquoted companies will have to report their GHG emissions and energy consumption from April 2019 in their mandatory annual reports. 'Large' is defined as any two of these three things:

- Employing at least 250 people
- Annual turnover more than £36m
- Annual balance sheet total greater than £18m

[1] **Scope 1**: Emissions directly controlled by the business, generally arising from its own buildings, plant and vehicles. This would include gas it burns on its own premises and fuel used in its own vehicle fleet. **Scope 2**: Emissions arising from the electricity it purchased for its own operations. **Scope 3**: A broader category of emissions which are a consequence of the organisation's activities. This includes emissions arising from business travel and staff commuting, but can include emissions associated with its supply chain.

The number of large companies – both quoted and unquoted - that must disclose their GHG emissions and energy consumption each year will grow from about 5,200 to 12,000.

As with quoted companies, large unquoted companies will have to include in their annual reports:

- Their UK energy use
- Their Scope 1 and Scope 2 GHG emissions
- An intensity metric (see above)

This will also cover their energy consumption for transport (road, rail, air and shipping) – which is not currently covered by the CRC scheme.

Limited liability partnerships (LLPs)

The same mandatory reporting requirements will also apply to about 230 large LLPs who are currently covered by ESOS and may also be covered by the CRC.

Scope 3 emissions reporting remains voluntary....

...for both quoted and unquoted companies and LLPs covered by the new regulations. But the Government says it wants to encourage companies to estimate and publish their Scope 3 emissions.

Need to provide a 'narrative commentary on energy efficiency action'

Large companies, quoted and unquoted, and large LLPs will now have to provide a narrative commentary on energy efficiency action for the financial year of their annual reports. They will not have to disclose recommendations for energy-saving measures identified by ESOS (see above), and how those recommendations have been taken forward. Sustainability-minded companies will use this as an opportunity to set out their energy and carbon saving ambitions and achievements.

How must companies estimate their GHG emissions and energy consumption?

The Government says it will not write regulations requiring companies to use specific methodologies for calculating energy consumption and GHG emissions. But it will use written guidance to set out good practice – "in particular to improve transparency and consistency of reporting when considering issues such as on-site generation, green and renewable energy tariffs, business travel, carbon offsetting and the increasing prevalence of ultra-low emission vehicles."

Businesses can use published UK Government GHG conversion factors to convert energy consumed (eg kilowatt hours of gas and electricity, litres of diesel) into tonnes of CO2 equivalent, see **gov.uk/government/collections/government-conversion-factors-for-company-reporting.**

Exemptions from the requirements

There are some exemptions:

- Companies only have to obtain data on energy and emissions "to the extent that it is practical... but where it is not practical for the company to obtain some or all of that information, the report must state what information is not included and why."
- Organisations using less than 40,000 kWh per year of energy will not have to report. The Government estimates about 500 large companies will be taken out of scope by this exemption.
- UK quoted companies do not have to disclose energy and GHG emissions information which directors' think "would be seriously prejudicial to the interests of the company, which we consider should only be used in exceptional circumstances."

Carbon offsetting

The Government's **Clean Growth Strategy** of October 2017 promised that it would set up a stronger, more attractive UK-based carbon offset market. It wants more businesses to be able to purchase credible carbon offsets, achieved by emissions-reducing actions such as planting trees.

Businesses should always look to reduce their own emissions first. Even so, carbon offsets can sometimes offer a more cost-effective way for a business to reduce its overall climate impact or go all the way to being 'carbon neutral'.

The new mandatory carbon reporting requirements provide an opportunity for companies to re-examine their energy and emissions strategies and reconsider how they position themselves, including offsetting and carbon neutrality.

How we can help

Bioregional has extensive experience of working with large, international companies, helping them to report and improve their sustainability performance, including their GHG emissions, their energy consumption and other environmental impacts.

For example, we've been working closely with Europe's largest home improvement retailer, Kingfisher, since 2010 in analysing the impacts of its sales and operations and developing strategies for sustainability improvements. We're helping it to take these new Government energy and GHG reporting requirements into account.

The need to prevent runaway climate change is becoming ever-more pressing – as demonstrated by the global weather catastrophes and wildfires of 2018 and the latest UN IPCC report on keeping the rise in average temperatures to 1.5 degrees C. The need to reduce emissions to zero is becoming increasingly urgent.

If you think Bioregional could help you, please do get in touch.

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