Grant Thornton

Environmental reporting guidance for Not-for-Profit entities

Introduction

Environmental reporting continues to be a hot topic. The requirements for organisations to report on their emissions and energy saving activities are increasingly considered to be an expectation of the financial statements, if not a legal obligation.

Whilst Not-for-Profit (NFP) organisations are deemed to be a key player in the race to net zero, there is limited clarity as to what exactly those entities should be reporting. Aside from the array of acronyms (TCFD, SECR, S172, to name a few), limited best practice examples in the sector to date mean that environmental reporting in NFPs is often sporadic.

This document provides guidance on the context for reporting; the environmental reporting requirements of NFP organisations and emerging issues in the environmental space along with links to sources of further information where applicable.

There are a number of environmental reporting frameworks. Some are mandatory, others voluntary. It is not always clear which frameworks, if any, apply to NFP organisations, however. The list below highlights they key reporting frameworks:

- SECR - Streamlined Energy and Carbon Reporting
- TCFD - Task Force on Climate-Related Financial Disclosures
- TCFD aligned reporting
- S172
- Charity Information Sheet 5
- Charity governance code
- Sustainability reporting standard
- SCEF - Standardised Carbon Emissions Framework

We summarise all of these requirements below.

NFP reporting requirements

NFP organisations that are registered as companies and are classed as large, may need to report under SECR, TCFD and produce a S172 statement.

Charities may choose to follow the guidance in Information Sheet 5, and/or the Charity Governance Code.

Housing Associations are encouraged to adopt the Sustainability Reporting Standard, but this is not mandatory.

Higher Education Institutions (HEIs) are expected to be subject to mandatory reporting from 2024, as confirmed by the Department for Education.

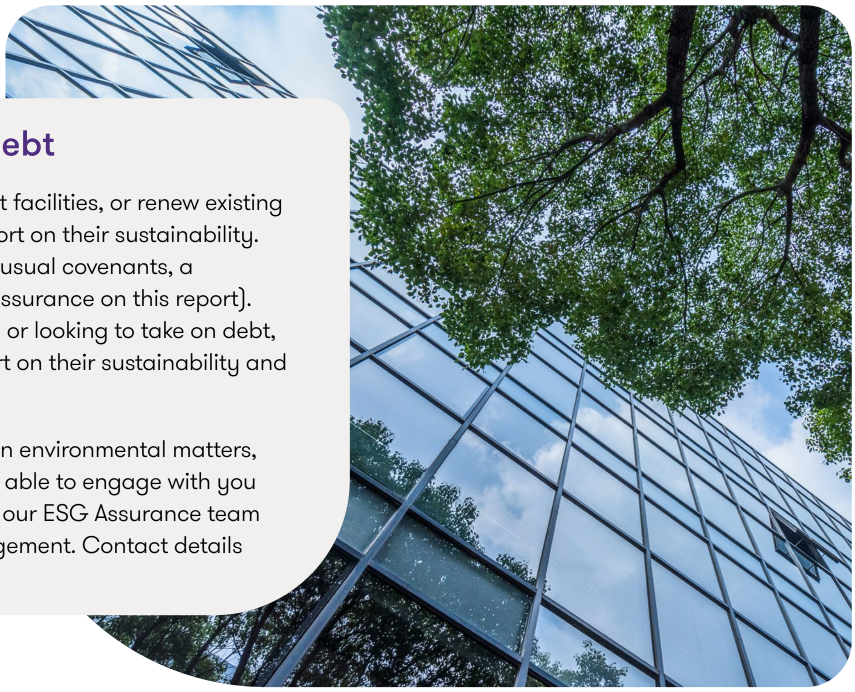
Some NFP organisations have begun to voluntarily include environmental disclosures in their annual reports. For example, large universities (which are often NOT companies) have been including SECR reporting. The UK has a target to achieve net zero by 2050 and the increase in reporting requirements in recent years suggests that this topic is being taken very seriously. NFP bodies should be encouraged to consider making disclosures in respect to the environment, even if they are not currently captured by the guidelines.

As such, we refer to some 'good practice' and guidance below to help NFP entities make environmental disclosures, even when this is not mandatory.

Emerging issue: environmental debt

Organisations that are looking to take out new debt facilities, or renew existing arrangements, are increasingly being asked to report on their sustainability. Several major banks are requiring, along with their usual covenants, a sustainability report (and in some cases, external assurance on this report). It is therefore important that NFP entities with debt, or looking to take on debt, are giving due consideration to how they can report on their sustainability and positive environmental practices.

If your organisation is asked by its bank to report on environmental matters, they may require formal assurance. Our teams are able to engage with you to produce the required assurance. Please contact our ESG Assurance team if you would like to discuss an environmental engagement. Contact details are available on the final page of this guidance.



Frameworks

As well as the Charity Governance Code which we summarise below, charities can make use of other frameworks to help with environmental reporting:

- The United Nations Global Compact consists of 10 principles which cover the key topic areas of human rights, labour, environment and anti-corruption. NFPs could use the principles to determine that their current policies are in line with the UN strategy.
- The Global Reporting Initiative has several standards which can be used to improve 'quality and consistency' of sustainability reporting. The standards include general items such as governance and structure, along with sector specific standards which cover areas such as oil and gas, agriculture and coal, and topic standards which cover areas such as health and safety, energy use and training.

Higher Education Institution (HEI) and Universities can also make use of the following resources to guide their reporting:

- At the start of 2023, The Royal Anniversary Trust launched an ambitious roadmap for carbon reduction in the further and higher education sectors. The report, 'Accelerating the UK Tertiary Education Sector towards Net Zero,' was produced by 21 Higher Education (HE) and Further Education (FE) organisations in the UK and lists the key target areas for the education sector. These priorities include:
  - Built environment: the sector should invest in adaptation to protect estates from climate change and embrace new sustainable construction standards and materials.
  - Travel and transport: non-essential travel should be replaced with 'purposeful travel' and low carbon means prioritised.
  - Sustainable supply chain: procurement standards which allow for reduction of scope 3 emissions should be adopted.
  - Internal skills and resources: the sector should define key skills and policies that will allow institutions to speed up their Net Zero journey.
  - Finance and investment: a long-term investment approach should be taken to decarbonisation of estates and sustainability financing, which should include new and novel sources of financing.
- The Environmental Association for Universities and Colleges (EAUC) now known as the Alliance for Sustainability Leadership in Education supports the education sector to promote sustainability at the heart of their organisations. As part of the Royal Anniversary Trust report in January 2023, EAUC launched the Standardised Carbon Emissions Framework (SCEF).
  - At present, there is no education-specific reporting framework. Although there are requirements for NFP entities which are also companies (see section below), there is no clear direction for education entities. The SCEF is based on the Greenhouse Gas (GHG) Protocol and so allows for comparisons between education and other sectors.
  - At present, this reporting is not mandatory, however the Department for Education has stated that they will require emissions reporting in the 2024/25 academic year. The framework offers three levels of reporting - basic, intermediate and advanced – with the hope that institutions will be able to build on basic reporting and move through the stages to more advanced reporting. The framework covers direct GHG emissions, indirect GHG emissions from purchased energy, and other indirect GFH emissions (such as those from supply chains). Suggested calculations and methodology are given for each reportable criterion.

Summary of different environmental reporting requirements

This section outlines in brief the different types of environmental reporting as at October 2023.

SECR – Streamlined Energy and Carbon Reporting Environmental Reporting

Applies from	1 April 2019
Applies to	Quoted companies, large unquoted companies* (including charitable companies) and large LLPs
Issuing body	HM Government
Summary of key points	Large unquoted companies (including charitable companies) and LLPs have to disclose: • UK energy use (as a minimum, gas, electricity and transport, including UK offshore area) • Associated greenhouse gas emissions • At least 1 intensity ratio (the guidance gives examples of which ratios are suitable) • Energy efficiency action taken • Methodology used • Prior year figures for energy use and GHG emissions (except in the first year of adoption)

Does it apply to NFP organisations? NFP entities which are also registered companies and are large will need to report on SECR (note that there are very few higher education institutions (HEIs) which are also companies). Some subsidiary companies may also meet reporting thresholds.

Chapter 2 of the guidance provides more detail.

*For SECR, 'large' means two or more of the following:

- Turnover of £36m or more
- Balance sheet total of £18m or more
- 250 or more employees

TCFD – Task Force on Climate-Related Financial Disclosures (TCFD)

Applies from	For accounting periods beginning on or after 6 April 2022 (premium listed companies were required to apply the standards in 2021)
Applies to	Listed and AIM companies, and all companies and LLPs with more than 500 employees and £500m turnover
Issuing body	Financial Stability Board and the Department of Business, Energy and Industrial Strategy (BEIS)
Summary of key points	Large unquoted companies (including charitable companies) and LLPs have to include disclosures on: • Governance • Strategy • Risk Management • Metrics and Targets The premium-listed and standard-listed rules now reflect the most up to date TCFD guidance released in October 2021 – this means that listed companies MUST comply with the TCFD recommendations. For everyone else, the recommendations were just that – recommendations. However, in April 2022 the UK Government introduced new legislation which means that 1,300 other companies will need to report on TCFD. By 2025, this is expected to be mandated across the UK economy.

Does it apply to NFP organisations? NFP entities which are also registered companies and have more than 500 employees and £500m turnover will need to report on TCFD (note that there are very few HEIs which are also companies). Some subsidiary companies may also meet reporting thresholds.

The Financial Stability Board produces an annual update report which includes good practice. The October 2022 report is available here.

The 11 recommendations are detailed here.

The ICAEW produced a good summary of recommendations, here.

TCFD aligned reporting refers to the process of bringing the recommendations into force for those companies and LLPs which are not listed but have more than 500 employees and £500m turnover.

S172 - Section 172 of the Companies Act 2006

Applies from	For accounting periods beginning on or after 1 January 2019
Applies to	Companies that are required to produce a strategic report (i.e., large companies)
Issuing body	HM Government (via the Companies Act 2006)
Summary of key points	A strategic report for a financial year of a company must include a statement (a "section 172(1) statement") which describes how the directors have had regard to the following matters: • The likely consequences of any decision in the long term; • The interests of the company's employees • The need to foster the company's business relationships with suppliers, customers and others; • The impact of the company's operations on the community and the environment; • the desirability of the company to maintain a reputation for high standards of business conduct; and • The need to act fairly between members of the company. The FRC has produced guidance on strategic reports. Section 8 of the guidance is helpful for S172 disclosures.

Does it apply to NFP organisations? NFP entities which are also registered companies and are considered to be large, will need to produce a S172 statement (note that there are very few HEIs which are also companies). Some subsidiary companies may also meet reporting thresholds.

Charity Information Sheet 5

Applies from	1 April 2019
Applies to	Charities which are also registered companies and classed as large
Issuing body	Charity Commission
Summary of key points	This is additional application guidance for charitable companies which apply the Charities SORP and relates to the SECR requirements. The guidance covers the following areas: • Background to the SECR and definitions of turnover and applicable years • Summary of SECR • Impact on the annual report, including explanation of exemptions for low energy users

Charitable companies applying the Charities SORP 2019 should review this guidance in line with SECR requirements.

Charity Governance Code

Applies from	2020
Applies to	Charities which have adopted the Charity Governance Code (this is not mandatory or legal requirement). Other not-for-profit organisations may find principles of the Code helpful
Issuing body	Charity steering group and Charity Commission
Summary of key points on environmental reporting	Section 1.5: As part of determining organisational purpose, boards should analyse the external environment and plan for sustainability (that is, environmental, operational, and financial sustainability). Section 1.5.3: The board recognises its broader responsibilities towards communities, stakeholders, wider society and the environment, and acts on them in a manner consistent with the charity's purposes, values and available resources.

This is limited guidance aimed at those charities which have adopted the Charity Governance Code.

Sustainability Reporting Standard

Applies from	November 2020
Applies to	Registered providers of social housing – on a voluntary basis only
Issuing body	The ESG Social Housing Working Group

Summary of key points

Over 100 housing providers have adopted the standard on a voluntary basis. There are 12 core themes and 48 criteria for ESG reporting by housing associations. These are aligned to relevant international reporting frameworks. The criteria relating to environmental reporting are highlighted here:

- Climate change:
  - Distribution of EPC ratings of existing homes and new homes
  - Scope 1, Scope 2 and Scope 3 greenhouse gas emissions (see SECR guidance)
  - Energy efficiency actions undertaken (see SECR guidance)
  - Mitigating activities to address flood risk and risk of homes overheating
  - Distribution of information to residents about ventilation, heating, recycling (etc.)
- Ecology:
  - Promotion of green space and biodiversity on or near new homes
  - Strategy to actively manage and reduce pollutants
  - Resource management:
  - Strategy for good water management
  - Strategy for waste management

Providers of social housing should consider adopting the SRS, either in addition to existing requirements (for example, if the association is a large company and meets SECR/TCFD thresholds), or as a standalone requirement. However, this is not mandatory and larger housing associations which are companies may already be reporting under SECR/TCFD.

Standardised Carbon Emissions Framework

Applies from	TBC (not currently mandatory)
Applies to	Further and Higher Education providers
Issuing body	The Alliance for Sustainability Leadership in Action (EAUC)

Summary of key points

- The SCEF allows for three levels of reporting - basic, intermediate and advanced - to allow for a range of reporting, appropriate for different sized organisations.
- The SCEF will allow for better comparisons across the sector and increase transparency and accuracy of reporting.
- It is expected that the SCEF (or a framework very similar to SCEF) will be implemented by the Department for Education from 2024.

Education providers should consider adopting the SCEF, either in addition to exisiting requirements, or as a standalone disclosure. It is anticipated that mandatory reporting for the sector will apply from 2024 and the SCEF is expected to feature in the requirements.

Contact us

Please contact our ESG Assurance team if you would like to discuss an environmental engagement.

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