

28 August 2009

**GOVERNMENT FINANCIAL REPORTING
MANUAL (FReM) EXPOSURE DRAFT No:**

(09)07

EXPOSURE DRAFT OF PROPOSED
AMENDMENTS TO THE FReM
SUSTAINABILITY REPORTING

Comments to be received by 12 November 2009



HM TREASURY

ASSURANCE AND FINANCIAL REPORTING POLICY TEAM HM TREASURY

This exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) is published by HM Treasury for comment only. The proposals may be modified in the light of comments received in this consultation process before being presented to the Financial Reporting Advisory Board for its approval. Final proposals approved by the Financial Reporting Advisory Board will be published as amendments to the FReM from the proposed effective date.

Comments on this exposure draft should be submitted in writing so as to be received by 12 November 2009. Respondents are asked to send their comments electronically to FReM.consultation@hm-treasury.gov.uk.

In responding, finance practitioners are requested to seek out and incorporate the views of sustainability practitioners working within their organisations. In responding it would also be helpful for a single point of contact to be provided for each organisation, to facilitate any follow up communications with HM Treasury related to the proposals.

All responses will be published on the FReM website unless the respondent requests confidentiality.



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Proposed amendments to the FReM

Introduction

Assurance and Financial Reporting Policy team, HM Treasury, has published this exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) as part of its ongoing work in ensuring that the Manual reflects the latest developments in government financial reporting.

Structure of exposure draft

The exposure draft includes a section for each FReM chapter for which an amendment is proposed. Each section includes:

- (a) An explanation of why the amendment is proposed;
- (b) When necessary, any specific additional question unique to that proposed amendment;
- (c) The paragraphs of the FReM chapter that are affected by the proposed amendment;
- (d) The proposed effective date of each proposed amendment.

Invitation to comment

HM Treasury invites comments on the proposed amendments. It would particularly welcome answers to the questions set out below. Comments are most helpful if they:

- (a) Answer the question as stated;
- (b) Indicate the specific paragraph or paragraphs to which they relate;
- (c) Contain a clear rationale; and
- (d) Describe any alternative HM Treasury should consider.

HM Treasury will consider all comments received in writing by 12 November 2009. In considering the comments, HM Treasury will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

SUSTAINABILITY REPORTING – PROPOSED FREM AMENDMENTS FROM 2011-12

Why the amendments are proposed	To introduce a requirement for reporting entities to include within their annual report and accounts, a sustainability report, reporting performance against their sustainability targets for: (a) Greenhouse gas emissions; (b) Waste minimisation and management; and (c) Use of finite resources.
Paragraph(s) affected by the amendment	5.2.9 (to be deleted); Re-number paragraphs 5.2.10/5.2.11; Sub-paragraph 5.2.10p (to be inserted).
Proposed date	2011-12 (with dry-run from 2010-11).

Background

1. Finance Director letter (MS FD (08) 32) dated 18 December 2008 informed reporting entities of the work of the Treasury led Sustainability Reporting Working Group (Working Group), tasked with developing and testing a methodology for reporting performance against sustainable development targets, and for developing a reporting model for reporting sustainability by the public sector from 2010-11. The FD letter also provided a brief background to the project work, and provided copies of the Working Group Commissioning Paper and Terms of Reference.

2. The Working Group is conducting its task in a number of discrete phases under the direction of the Sustainability Reporting Steering Group (Steering Group). The first phase of the project involved several members of the Working Group, using the Connected Reporting Framework developed by the Prince of Wales's Accounting for Sustainability project (to the extent they were able), in reporting performance against their organisation's sustainable development targets for 2007-08. On completion of this phase of the work a progress report was provided to the Financial Reporting Advisory Board (FRAB) in March 2009.

3. The second phase of the project involved the Working Group, using information gained from its earlier work, in developing a proposed methodology for measuring performance against sustainable development targets, and a proposed reporting model that can be applied across the public sector. This work is now complete and the Working Group has developed resultant draft sustainability reporting guidance. It provides information on the proposed sustainability reporting methodology to be

adopted by reporting entities, and provides a proposed sustainability reporting model, to facilitate reporting entities in producing a sustainability report for inclusion within their Annual Report and Accounts. The FRAB strongly supports this initiative.

4. The draft sustainability reporting guidance, together with an Executive Summary, is forwarded with this Exposure Draft and included on the ‘Open to Comment’ tab on the FReM website at www.financial-reporting.gov.uk

Reporting scope and model

5. The FReM amendment and the developed draft sustainability reporting guidance proposes a challenging but achievable minimum level of sustainability reporting that may be achieved by all reporting entities from 2010-11, recognising that some reporting entities are more advanced than others in the areas of sustainability they may be able to report against. From its own work and research, the Working Group concluded that reporting entities, as a minimum, should aim to report in absolute volume or consumption terms, together with information on related financial costs¹, against their set sustainability targets for:

- a. Greenhouse gas emissions (in CO2 equivalents);
- b. Waste minimisation and management; and
- c. Use of finite resources, i.e. energy and water.

6. Whilst the proposed guidance and reporting model are designed to ensure that the scope and level of initial reporting is achievable by all reporting entities, it encourages and facilitates more advanced reporting in a consistent way by those reporting entities able and wishing to report further. The relatively compact reporting model is designed to minimise, as far as possible, the additional reporting burden within the Annual Report and Accounts, yet convey a minimum level of meaningful information to stakeholders. Reporting entities not producing combined annual reports and accounts should include the sustainability reports within the management commentary published with the accounts.

Timing of reporting – influence of other projects and factors

7. In proposing the introduction of a sustainability reporting requirement within the Annual Report, the Working Group was mindful of other projects and factors that may influence reporting entities’ capacity to introduce new reporting requirements, that includes but is not necessarily restricted to work related to the:

- a. Move to IFRS. Reporting entities in central government and the NHS are in the process of reporting under IFRS, effective from 2009-10. WGA will also be produced for the first time, and on an IFRS-basis, from 2009-10;

¹ For emissions, related to gross expenditure on Carbon Reduction Commitment, any accredited offset purchases and total expenditure on official business travel; for waste, expenditure on waste disposal; and for finite resources, expenditure on purchases and consumption.

- b. Alignment project. Alignment proposals are planned to be introduced from 2011-12 (with a proposed dry-run from 2010-11), but with some mainly budgetary related changes from 2010-11;
- c. Date capture and reporting systems. Some reporting entities may have more developed data and information collection processes than others for sustainability reporting purposes. There may also be a requirement for some system changes, e.g. to charts of accounts, that would involve a lead time to introduce; and
- d. Changes in sustainable development reporting. Significant changes are imminent in the area of sustainable development reporting. These include proposed revised Sustainable Operations on Government Estate (SOGE) targets and measures for sustainable procurement, to come into place for central government with an extended scope including NDPBs from 2010-11; the Carbon Reduction Commitment, and Carbon Budgets, all of which will impact on departments in the next 18 months. In proposing the sustainability reporting requirement the Working Group has worked with Defra and DECC to ensure that as far as possible reporting is aligned with that required under the revised SOGE proposals.

8. The influences of the above projects and factors have potential consequences for the proposed timing for the introduction of sustainability reporting. In considering this, the Working Group considered several options regarding the timing of implementation and subsequently reduced these to three main options. These are detailed below.

Options on timing for introducing sustainability reports

9. Three main options were considered by the Working Group, depicted in Table 1 below.

Table 1 – Table of Options

OPTION	CENTRAL GOVERNMENT AND WIDER PUBLIC SECTOR REPORTING
1	Public sector wide mandatory reporting from 2010-11. (Mandatory – all together and no dry-run reporting).
2	Public sector wide dry-run reporting from 2010-11, with mandatory reporting from 2011-12. (Mandatory – all together preceded by dry-run reporting).
3	Central government dry-run reporting from 2010-11 with mandatory reporting from 2011-12; And Rest of public sector dry-run reporting from 2011-12 with mandatory reporting from 2012-13.

	(Staged approach to implementation – mandatory, preceded by dry-run reporting).
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10. Option 1 is the mandatory introduction of sustainability reports within Annual Reports by public sector reporting entities from 2010-11, with no prior dry-run.

11. Whilst this option has the advantage of meeting the timetable as originally conceived by the Steering Group, it has several disadvantages. These include the relatively tight timetable for implementation without a dry-run to tease out any initial reporting issues; the relatively short time in which to resolve assurance issues; and not least; the impact on reporting entities of the projects and factors described in paragraph 7 above.

12. Option 2 is the mandatory introduction of sustainability reports within Annual Report by all public sector reporting entities from 2011-12, but with a dry-run from 2010-11.

13. This option has the advantage of providing reporting entities with an opportunity to refine and perfect their reporting processes before reporting in 2011-12, but would also permit them to place sustainability reporting information in the public domain at an earlier stage, e.g. via websites. This option would partly mitigate the impact on reporting entities of the projects and factors described in paragraph 7 above.

14. Option 3 represents a staged approach to the mandatory introduction of sustainability reports within Annual Reports. This option proposes that central government entities report from 2011-12, with a dry-run from 2010-11, followed by reporting by the rest of the public sector from 2012-13, with a dry-run from 2011-12.

15. Preferred option. It is proposed that Option 3 represents the more pragmatic option in implementing sustainability reports across the public sector, given the impact on reporting entities as a result of the projects and factors described in paragraph 7 above. This option, that proposes that central government lead the introduction of sustainability reports within Annual Reports and Accounts, would permit lessons learned on implementation to be passed onto reporting entities in the wider public sector, as they report a year later. HM Treasury is consulting CIPFA on the proposal for public sector wide reporting.

Assurance

16. To enable users to have confidence in the integrity of sustainability information provided this draft proposes that reporting entities obtain external assurance on sustainability reports included within Annual Reports. There are a range of possible options for assurance, including full substantive assurance on the data (financial and non-financial) and assurance on the adequacy of the underlying data systems.

Summary

17. This Exposure Draft proposes the introduction of a requirement for reporting entities to include within their Annual Report and Accounts a sustainability report, reporting performance against their set sustainability targets for:

- a. Green house gas emissions;
- b. Waste minimisation and management; and
- c. Use of finite resources

General and specific questions

Question 1

Do you agree with HM Treasury's proposal to amend the FReM as described in the exposure draft? If not, why not, and what alternative do you propose?

Question 2

Do you agree with the proposed effective date, and any proposed transition provisions, for the issue as described in the exposure draft? If not, why not, and what alternative do you propose?

Question 3

Do you agree with the proposed (minimum) sustainability reporting scope? If not, why not, and what alternatives do you propose?

Question 4

Do you agree with the proposed model sustainability report? If not, why not, and what alternatives do you propose?

Question 5

Do you agree with the preferred option for introducing sustainability reports in Annual Reports, i.e. option 3? If not, please state your reasons and any alternative option you support or propose.

Question 6

Do you agree with the proposed content and coverage of the draft sustainability reporting guidance? If not, why not, and what changes do you propose?

Question 7

Does the proposed draft sustainability reporting guidance provide you with sufficient information to facilitate your completion of a sustainability report for inclusion within your Annual Report? If not, what additional information would you require?

Question 8

Do you agree the proposal that external assurance be required on sustainability reports included within Annual Reports? If you agree do you have a view on the level of assurance required? If you do not agree, please state your reasons.

Question 9

Do you have any further comments or suggestions related to the proposals?

FReM chapters addressed

The following table shows the topics addressed by these proposed amendments.

FReM Chapter	Subject of amendment
Chapter 5, Form and Content of Annual Report and Accounts	Paragraph 5.2.9 (to be deleted); Renumber paragraphs 5.2.10/5.2.11 Sub-paragraph 5.2.10p (to be inserted).

Proposed amendments to Government Financial Reporting Manual Chapter 5 *Form and Content of Annual Report and Accounts*

Introduction

Amendments to Chapter 5 *Form and Content of Annual Reports and Accounts* are proposed.

Why the amendments are proposed

To require mandatory inclusion of a sustainability report within Annual Reports.

Proposed amendments

~~5.2.9 The preparation of Sustainability Reports to complement the Annual Report and Accounts is encouraged and where such a Report is already produced, the Management Commentary should cross refer to it. Further information on the kinds of information to be provided in the Management Commentary in respect of environmental and social and community issues can be found in the Practical Examples and Pro forma section of the FrEM website (www.financial-reporting.gov.uk).~~

Renumber existing paragraph 5.2.10 to 5.2.9

Renumber existing paragraph 5.2.11 to 5.2.10

5.2.10 p Within a sustainability report to be included within the Management Commentary, performance against sustainability targets for greenhouse gas emissions, waste minimisation and management and the use of finite resources. (Guidance on the reporting methodology and reporting model to be adopted in preparing the sustainability report can be found in the Sustainability and Environmental section of the FReM website (www.financial-reporting.gov.uk).

Effective date of amendments

The effective date for the proposed amendments is 1 April 2011.