Practical steps for reporting on greenhouse gas emissions

by *Practical Law Environment* and *Carbon Trust*

Practice notes | **Maintained** | United Kingdom

This note sets out practical steps for organisations to disclose their greenhouse gas (GHG) emissions and energy use in line with legislative requirements and best practice on carbon and energy reporting.

Scope of this note

This note sets out guidance on practical steps for organisations to report on their greenhouse gas (GHG) emissions and energy use. It provides a high-level introduction to this type of reporting.

For information on more detailed guidance from the government and other organisations, see Practice notes:

- *Guidance on climate-related and environmental disclosures: quick reference guide*.

- *Climate-related and environmental disclosures: guidance and voluntary reporting frameworks*.

For information on mandatory reporting on GHG emissions and energy use in annual company reports, see Practice notes:

- *Narrative reporting: duties to report on environmental matters and greenhouse gas emissions in annual company reports*.
- *Energy and carbon reporting (including under SECR) for quoted companies, large unquoted companies and LLPs*.

For links to other Practical Law resources on reporting, see *Climate-related and environmental disclosures toolkit*.

Identify the organisation's reporting obligations

Mandatory GHG emissions reporting

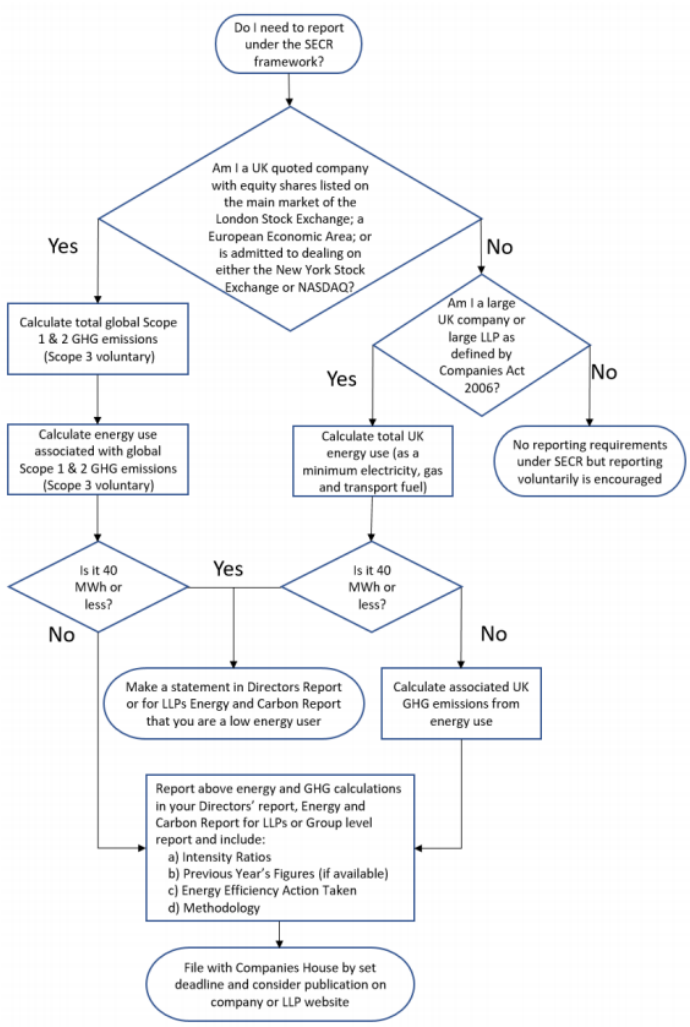
What mandatory GHG emissions reporting obligations apply?

Many companies in England and Wales are required to report their GHG emissions and energy use through their annual corporate reports. Different reporting obligations apply depending on the size and type of company and whether it is quoted or unquoted. The streamlined energy and carbon reporting (SECR) regime extended and increased requirements to report GHG emissions and energy use in respect of financial years beginning on or after 1 April 2019.

Companies carrying out certain types of activities are subject to specific reporting requirements (for example, under the EU Emissions Trading System (EU ETS) and its potential successor schemes that emerge at the end of the Brexit transition period (see *Practice note, EU Emissions Trading System (EU ETS): implementation in the UK*)).

Diagram summarising reporting obligations in annual corporate reports

The following diagram summarises which businesses are required to report in their annual corporate reports on GHG emissions and energy use, and their reporting obligations.



(*Defra: Environmental reporting guidelines: including Streamlined Energy and Carbon Reporting requirements*.)

Identify other drivers for reporting

Identify any drivers for going beyond mandatory reporting requirements, for example:

- If the organisation has set any carbon reduction targets or made other commitments on climate change.
- If there is pressure from institutional investors, shareholders or other stakeholders to increase climate change reporting or to align reporting with best practice frameworks such as the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (see *Practice note, Task Force on Climate-related Financial Disclosures (TCFD): recommendations for disclosing climate-related financial information: overview*).

When it comes to climate risk and opportunities, a survey conducted by IPSOS Mori in 2019 as part of its Captains of Industry research study revealed UK business leaders expect disclosure to have multiple benefits, including reputational and financial benefits, reduced shareholder activism and increased company value (see *Carbon Trust: Two-thirds of major UK companies to incorporate climate change risks and opportunities in this year's annual reporting (23 January 2019)*).

Understand the reporting obligation fully

It is important to identify the reporting scope required.

Different reporting obligations require organisations to report different information. For example, the organisation might be required to report on its energy use, an energy intensity metric and GHG emissions.

It is important to ensure that all material emissions sources are included within reporting as defined in *section 92* of the Climate Change Act 2008 (see *Practice note, Climate Change Act 2008*). Any emissions source that accounts for 5% or more of an organisation's carbon footprint would generally be considered material.

What about the company structure? Will the company be covered by parent company reporting? Does it need to report on the GHG emissions of its subsidiaries?

Does the organisation need to report on global emissions or UK only?

Identify additional reporting that the organisation has committed to carrying out on a voluntary basis (see *Identify other drivers for reporting* above).

Understand the compliance timetable. Set up data collection and reporting systems promptly (see *Data collection* below), especially if the organisation has not reported before, is increasing the scope of its reporting or is reporting against a new framework for the first time.

Identify and become familiar with relevant guidance, including government guidance and other reporting frameworks that support mandatory or voluntary reporting.

GHG emissions sources defined

Generally, emissions sources are defined under three "Scopes", with Scope 1 and 2 emissions being the most relevant to mandatory company reporting under current regulation.

Scope 1 emissions: direct emissions that result from activities within an organisation's control (for example, fuel combustion, company vehicles, process emissions and fugitive emissions).

Scope 2 emissions: indirect emissions associated with procured energy (for example, electricity, heat, or steam purchased and used).

Scope 3 emissions: all other indirect emissions across an organisation's value chain. There are currently 15 categories of Scope 3 emissions defined by the GHG Protocol (including, for example, purchased goods and services, business travel and end-of-life treatment of sold products) (see *GHG Protocol: Corporate Value Chain (Scope 3) Standard*).

Staffing and responsibility

Consider who needs to be involved and at what level in the organisation. Allocating responsibility at a senior level to someone who is empowered to make the necessary decisions and requisition resources and people will make the reporting more effective.

Several parts of the organisation may need to be involved (for example, operations and facilities and energy management, the legal team, the finance team and the company secretary team).

The organisation may need to appoint external advisers (for example, lawyers or environmental consultants). Consider external support if the organisation is reporting for the first time, significantly extending its reporting activity, or has very complex group structures.

Data collection

Use existing data collection processes

Identify existing data collection processes, for example, under mandatory frameworks that apply to the organisation, such as:

- The Abolished CRC Energy Efficiency Scheme (see *Practice note, CRC Energy Efficiency Scheme: overview*).
- The Energy Savings Opportunity Scheme (ESOS) (see *Practice note, Energy Savings Opportunity Scheme (ESOS)*).
- The EU ETS and its potential successor schemes that emerge at the end of the Brexit transition period (see *Practice note, EU Emissions Trading System (EU ETS): implementation in the UK*).

Does the organisation already report its GHG emissions under a voluntary scheme, such as the *CDP* (see *Practice notes, Guidance on climate-related and environmental disclosures: quick reference guide* and *Climate-related and environmental disclosures: guidance and voluntary reporting frameworks*)?

Look carefully at the different information requirements under any existing reporting activities and compare them to what is needed:

- Are there opportunities to centralise the process?
- Are there gaps that need filling and what resources are available for filling any gaps?
- Can the additional data collection be carried out by existing teams or is staff recruitment required?
- What additional employee training is needed?

Frameworks for GHG accounting

There are several methodologies for calculating an organisation's carbon footprint. Following an established carbon accounting methodology helps to ensure that the footprint reported is comprehensive and robust. Additionally, these methodologies often provide guidance on establishing the boundary of the footprint.

Key frameworks include:

- The GHG Protocol, which is one of the most widely used accounting tools used by companies. In 2016, 92% of Fortune 500 companies used the GHG Protocol in responding to the CDP (see *GHG Protocol: Standards*).
- *ISO 14064-1:2018: Greenhouse gases – Part 1: Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals*.
- The *Climate Disclosure Standards Board (CDSB) Framework for reporting environmental and climate change information*.
- The *Global Reporting Initiative (GRI) standards*.

For more information on these and other frameworks, see *Practice notes, Guidance on climate-related and environmental disclosures: quick reference guide* and *Climate-related and environmental disclosures: guidance and voluntary reporting frameworks*.

For more information on calculating an organisation's carbon footprint, see *Carbon Trust: Carbon footprinting guide*.

Establish data collection processes

If the organisation does not currently collect any information on GHG emissions, new processes will need to be established. The organisation may need to recruit new staff or retrain and allocate additional duties to existing staff. Consider budget implications and how long it will take to set up these processes and gather the data.

An organisation often includes individuals with existing responsibility for specific emissions sources such as electricity or gas data. They could be facilities managers, energy managers, fleet managers, the finance department, or service providers such as a third-party fleet manager or energy services company.

Manage data collection

Centralising data collection processes may make it easier to manage.

Regular data collection (monthly or quarterly) is more manageable than a single annual exercise gathering data for the whole year. It also allows systems to be checked and improved throughout the year, and helps prevent gaps.

It may be challenging to obtain primary data. In this instance, estimates can be used to calculate consumption data. However, it is important that any estimation methods used are transparent and disclosed in the communication of an organisation's carbon footprint.

The hierarchy of data that should be used is:

- **Primary data.** This is activity data that directly reflects the amount of a resource consumed, for example, the kWh of electricity consumed at a site or the litres of fuel consumed by the vehicle fleet. In a rented space, acquiring this data may involve installing a submeter. Primary data should be collected and provided wherever practically possible.

- **Estimates based on proxy data.** Where primary data is not available, estimates should be made based on proxy data that reflects the actual consumption as closely as possible, for example, the cost of fuel consumed at a site or vehicle miles.
- **Estimates based on similarities.** Where no direct data is available, estimates should be made based on best available comparisons, for example, by using consumption figures from a comparable site or using benchmark figures (such as energy consumption per square metre).

Data sources to consider

Scope	Emissions source	Data source
Scope 1	Fleet (petrol and diesel consumption)	Fuel cards Purchased fuel consumption records Expense data
Scope 2	Refrigerant gases	F-Gas Log as required under the *Fluorinated Greenhouse Gases Regulations 2015 (SI 2015/310)*
Scope 3	Gas consumption	Invoices Automatic meter readings Manual meter readings

Write the report

The report should be written clearly, concisely and accurately.

Consider engaging consultants to review the structure of the report, including how to incorporate climate change reporting into discussions of risks, strategy, culture and governance.

Consider including case studies and specific examples of how the company is addressing climate change issues.

When reporting on the organisation's carbon emissions, it is best practice to include a definition of the boundary of the footprint, including any excluded emissions sources or estimated data. Similarly, disclosing the organisation's progress against any carbon reduction targets set by the company enhances the transparency of the action the organisation is taking.

The SECR framework requires that if an organisation has not taken any steps to reduce their energy consumption during the reporting year, this must be clearly stated within reporting.

Do not minimise the risks to the organisation or its impacts and do not exaggerate any successes. Untrue or misleading statements or omissions could have a severe impact on the organisation's reputation and value. A company and its directors may also incur liability under statute (see *Practice note, Statutory liability for false or misleading statements, omissions and dishonest delay: company reports and published information relating to securities*).

Seek verification

It is not mandatory in the UK for GHG emissions data disclosed in the annual company report to be independently verified or assured. However, verification is mandatory for the EU ETS and is recommended good practice for annual company reporting. Additionally, the process of verification can identify opportunities for improvement within an organisation's GHG accounting methodology, which can inform next steps and areas of data weakness for improvement in future accounting years.

As with GHG accounting methodologies, there are numerous verification bodies. For example, ISO 14064-3:2019 is an internationally recognised standard for the verification of GHG reporting (see *ISO 14064-3:2019: Greenhouse gases – Part 3: Specification with guidance for the verification and validation of greenhouse gas statements*). The requirements to achieve verification are stringent and vary between verification standards.

A broad overview of the steps for verification is:

- Data request for carbon footprint model, including supporting data and a sample of primary consumption data.
- Evaluation of GHG collection processes and controls.
- Document and data review.
- Review findings and corrective actions taken.
- Prepare and issue final verification report or statement.

Review and refine

Review the organisation's data collection and reporting processes and consider whether they can be improved for future years. It can be useful to develop a centralised non-conformities log for each emission source. This means that any anomalies in consumption can be explained and recorded for future reference. These central records can be used to:

- Address future queries that could arise during the verification process.
- Highlight areas of poor data quality.
- Inform the development of efficiency improvements.

Consider whether the exercise revealed any internal inconsistencies or inefficiencies in operating procedures that can be improved. Look at implementing energy efficiency measures to improve reporting results for future years. Following the completion of the first phase of ESOS, the Carbon Trust found that organisations implementing energy efficiency measures could reduce energy costs in buildings, transport fleets and industrial processes by around 20% (see *ESOS Phase 2 has arrived – start planning for how to get maximum value from going through the compliance process, Carbon Trust, 21 June 2017*).

Should the organisation adjust any climate change or environmental policy or targets in light of the reporting results? Organisations wishing to progress further with carbon reduction may wish to set science-based targets.

Consider benchmarking the report against other comparable organisations. Look at the reputational impacts and whether the organisation's relationships with stakeholders are affected.

It is good practice to engage with marketing and communications colleagues. This can enable accurate and robust external and internal communication of the steps the organisation is taking to reduce its carbon footprint.

Beyond reporting on an organisation's GHG emissions, companies are now assessing their climate change-related opportunities and risks and disclosing the potential financial risks in annual accounts. The TCFD recommendations provide a framework for conducting this assessment (see *Practice note, Task Force on Climate-related Financial Disclosures (TCFD): recommendations for disclosing climate-related financial information: overview*).

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