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Dear Sir

Consultation on Reporting Guidance for Business on Environmental Key Performance Indicators

We welcome the opportunity to comment on the draft of *Reporting Guidance for Business on Environmental Key Performance Indicators: a consultation on Guidance for UK Businesses*. This Guidance would complement the proposed regulation requiring reporting of greenhouse gas emissions by UK quoted companies announced by the UK Government at the Rio+20 Summit. Taken together, they represent part of a wider effort to ensure that UK corporate reporting remains responsive to demands for information about the environmental impact of a company's activities. We believe the Guidance will provide a useful tool to support companies in reporting and managing their impact on the environment.

Our responses to the detailed questions set out in Section 8 of the consultation document are in the Appendix to this letter. In addition to those responses, we offer some more general observations for your consideration.

- **Setting out clear objectives** – the Guidance could usefully start with a statement as to what it intends to achieve and, more importantly, what it expects a business to achieve after reading the guidance.
- **Language/ audience** - in some sections, the guidance assumes the reader has knowledge or experience of the topic, evidenced by regular use of acronyms without clarification. We would suggest that an introduction be provided written in a form that, for example, a non-executive director without a detailed knowledge of environmental matters could read and understand.
- **Including a flowchart/ process diagram** – a roadmap to identifying types of business and legal environmental requirements would make the Guidance more accessible to preparers. It may be useful to provide information about considerations such as identification of relevant environmental aspects and impacts, scope and boundary for measurement, determining materiality and 'how to' guidelines for reporting. The existing DECC/ Defra guidance on reporting GHG emissions appears to do this comprehensively, and we recommend that the Guidance follow a similar approach.

- **Defining the boundaries** – clarity is needed in terms of establishing boundaries for measuring and reporting, in order to understand better where business responsibility is expected to begin and end. Our comment letter on the draft Greenhouse Gas Emissions (Directors' Reports) Regulations 2013 provides more commentary on this issue and proposes possible ways to resolve some of the difficulties we had identified.
- **Structure and style** - differences in style and structure between sections of the Guidance make it hard to follow. For example, the chapter on water includes sections on "risks" and "tools to assess supply chain/global use", whereas some other chapters address these issues in a different way or not at all. We recommend that a consistent structure is adopted for each subject specific chapter, with a consistent use of main and subheadings. For example, each section could be structured to include background, legal requirements, what to do, what to report (distinguishing between mandatory and non-mandatory obligations), and evidence required and record-keeping.

All sources of information should be clearly identified with a short description. Finally, some of the main headings and subheadings are unclear. For example, the chapter on materials shows "metals and minerals" as a subheading while "aggregates", "fossil fuels", "oil and gas" "peat", "biomass" and "forestry" appear as main headings; forestry is discussed both as a sub-section of biomass and as a key section in its own right.

- **Reference to other reporting standards & initiatives** - references are made to other sources (e.g. GHG Guidance, Integrated Reporting, Defra's website) for additional guidance and regulations. However, these are not always comprehensively described and in some cases an explanation of why a business might want or need to refer to the material in question would be helpful to allow management and non-executives concentrate on what is most relevant to their particular circumstances. In view of the evolving nature of many of these sources of guidance, Defra might consider a web-enabled version of the Guidance containing working links to external publications.
- **Year on year progress** - a recommendation should be made for continual improvement and businesses to report on year-on-year progress against KPIs.

If you have any questions regarding our comments, please contact Veronica Poole on 020 7007 6069 or Guy Battle on 020 7007 7537.

Yours faithfully,



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Appendix – Responses to detailed consultation questions

Our response to each question consists of our substantive points followed by, where relevant, suggestions that may improve the drafting.

Q1 Is the guidance easy to understand and practical to use?

The guidance does not set out a clear rationale for recording and reporting the suggested KPIs in terms of how this data helps management to:

- manage compliance with legislation;
- control / minimise costs; or
- demonstrate to stakeholders that they understand the business issues - for example those associated with production and management of waste or other resources - and are managing these accordingly.

The practicality of the material could be improved by:

- Including a separate chapter dedicated to discussing the scope and setting of boundaries for the identification and measurement of environmental KPIs before the guidance continues into individual chapters on key environmental aspects. Boundary setting is a key issue in both consistency and clarity of reporting of such non-financial information.
- Addressing the issue of comparability of KPI data reported. The Guidance could suggest normalising parameters for each industry to help address this. For example, construction companies typically report tonnes of waste per m³ floor space built, whereas manufacturers typically report tonnes of waste per tonne of product produced.
- Giving more practical hints as to how to collect data. For example the waste chapter could suggest how organisations can contractually establish reporting duties with contractors and gain a better understanding of the issues around data accuracy and completeness.

Q2 Was section 1 clear on why and where you should report on environmental impacts? Do you have any comments to improve this section? What more would you find helpful in developing your environmental strategy?

This section is relatively clear to follow. However, as set out in our covering letter, it could be made better with the use of process diagrams or flowcharts. The seven step approach in section 2 is comprehensive and will be very useful for SMEs as well as larger businesses as a guide to reporting and could form the basis of such a chart or diagram.

Q3 Is it clear in section 2 how an organisation should go about identifying the environmental issues and KPIs most material to its operations? How could it be improved?

Section 2 forms the backbone of the guidance. Its usefulness would be improved if it were to be expanded to include:

- support on identifying and categorising risks including physical, regulatory and reputational risks, considering respective relevance to the business and stakeholders and therefore helping to identify the relevant KPIs and how they should be measured and reported; and

- references to Environmental Management Systems (EMS) other than ISO 14001, EMAS and BS8555. These standards are quite prescriptive and may be daunting for SMEs. It would also be helpful to mention some of the other step-by-step systems that exist, such as the Green Dragon Environmental Standard, Steps to Environmental Management Systems (STEM), IEMA Acorn Scheme and EcoCampus. These systems can help a business to complete compliance with the standards currently referred to in the Guidance.

We welcome the recommendation that a business should report on negatives (e.g. reporting fines / expenditures, non-compliances, possible increase in emissions) as well as positives to maintain transparency. This is consistent with the approach taken by the Financial Reporting Council when determining whether it believes that a business review is fair, balanced and reasonable.

Drafting points

The section could be laid out more clearly and greater attention could be paid to the potential audience for the document, who may not always be familiar with the terminology (e.g. 'KPI' should be defined prior to its first use). More clarity could be provided through better and more consistent use of headings, including numbers and sub-sections. For example, 'Step 3' includes sections number 3.1, 3.2, etc. (but there is no 'section 3'; whereas under 'Step 1', there are two bolded headings, but these are not numbered). It is important that the guidance is readable to users, and 'signposting' through numbering, consistent heading use, etc. will make the document clearer and easier to follow.

Q4 Did you find the references to legislation in the different subject chapters helpful?

References to legislation in chapters are helpful to set the Guidance in a wider context and to give businesses a clear idea of their responsibilities. However, the provision of legislative references is inconsistent throughout the guidance. For example:

- some references to legislation are provided in the chapter for air;
- none are provided for water or biodiversity (e.g. EU Water Framework Directive; The Water Environment Environment (Water Framework Directive) (England and Wales) Regulations 2003; The Conservation (Natural Habitats &c.) Regulations 1994); and
- those provided for materials and waste are not comprehensive – the 'waste hierarchy' is mentioned and briefly explained, but the EU Waste Directive that it comes from (EU Directive 2008/98/EC) is not referenced.

The linkage between suggested KPIs and legal requirements could be made clearer. Much of the narrative on legislation (e.g. in Section 3 of Chapter 5) seems superfluous to the issue of selecting and reporting against KPIs.

It would be extremely useful if key legislation and regulations were briefly introduced, followed by a link or reference to other source material provided which contains more information. This could be summarised in table form within each section. In the current drafting, it is possible that a business may assume that there is no regulatory requirement unless one is mentioned in the relevant part of the Guidance.

Q5 Does table 1 at Annex C (Environmental Impacts and ICB and ISIC classifications) help you identify which are the main environmental impacts of your organisation? How to use table 1 is set out in the guidance in section two on page 13 under “Your Key Performance Indicators”.

Table 1 in Annex C is a good place to start when identifying key risks to business and then establish relevant KPIs to report. This list is not exhaustive for any given industry type (for example, water impacts have not been mentioned for forestry and paper products), and it should therefore be made clear that it is only indicative. Businesses will need to populate this table further to make it more specific to their organisation / industry. There could also be some more comprehensive guidance text regarding how Table 1 can be used.

Table 1 could also be presented in a simpler way, since waste (and some of the other KPIs) applies to nearly all sectors. It may be beneficial to define a core set of KPIs for all sectors and then some examples of supplementary KPIs for specific sectors where required. This would be consistent with the approach adopted by the Global Reporting Initiative.

There does not appear to be any linkage to the Global Reporting Initiative or other reporting frameworks already used by companies. Articulating this linkage / overlap would assist reporters.

Q6 Do you agree with the categories of pollutants in chapter 1 on Air Pollution and Other Emissions? If not what do you consider to be a more sensible or realistic approach?

Yes, however the types of pollutants could be better defined – a separate text box for each type would make the guidance more readable. There is also no mention of PM₁₀ specifically, which is the type of particulate category most heavily regulated (only particulate matter generally and PM_{2.5}).

Drafting points

- ‘Eutrophication’ is mentioned several times, and is written in italics on more than one occasion, but is not referenced / defined in the Glossary or anywhere else in the text. ‘Acidification’ is also not defined. Both terms may be unfamiliar to a director reading the guidance.
- The terminology used is inconsistent – the first category is referred to as ‘pollutants’ and ‘air pollutions’ and ‘air pollution’; the second as ‘other emissions’. As these are all pollutants, it would be better to use more consistent terminology – i.e. ‘air pollutants’ and ‘other pollutants’ or similar. It is also not clear why ‘VOCs’ or ‘metal emissions to air’ are not considered air pollutants.
- Section 4 & 6 have a significant overlap and could be combined for clarity and usability. This point is true of other chapters of the Guidance.

Q7 Have you any suggestions on how reporting of the pollutants could be improved?

See response to Q6 above.

Q8 Do you think the sample reporting tables in chapter 2 (water) are helpful? Do you have any other proposals for water reporting?

The scope of this section is ambitious. In our view, the section would benefit from separating the four key areas of water reporting:

i. *Water Use Reporting (water use / efficiency / waste water)*

- Information should be provided on what to do if there is no access to water use data (i.e. for many businesses without metered water), or how assumptions can be made, including what is the best practice/hierarchy for data collection.
- We believe the tables are a helpful tool, but they would benefit from associated guidance/glossary (what is abstracted water, what is water used, how to calculate recycled water).
- Reporting on water use should be split between mains, recycled, abstracted and rainwater.
- There needs to be clarity regarding metals discharge, as all of this should be regulated within discharge consents.
- There are some omissions within the data required for reporting, for instance:
 - BOD5 is the usual measurement which assesses the amount of oxygen used over 5 days, this should be linked to the tables for reporting water effluent
 - TSS: the definition is not correct, the organic content may lead to eutrophication, but is not always correlated
 - It would be good practice to indicate where water samples should be measured from i.e. outlet pipes
 - For spills it is good practice to record the number of events and the costs incurred e.g. through fines associated with breaches of compliance, or remediation. It is also good practice to include Environmental near misses
 - It is also good practice to be able to compare year on year performance. This could be detailed within this section
 - There also needs to be reference to water consumption, and the difference between that and water use.

ii. *Water Footprinting: Identification of two main methodologies – Water Footprint Network WFN) and ISO is commendable, although the ISO methodology will not be released until 2014. This could include supply chain water consumption, but it depends on the boundary.*

iii. *Water Risk Assessment: The guidance covers a good number of water risk tools – WBCSD, GEMI, CERES. It is recommended to include WWF water risk filter as well. The WBCSD has recently completed a review of each of the tools available and a link to this would be a good addition to the guidance:*

- <http://www.wbcd.org/Pages/eNews/eNewsDetails.aspx?ID=14884&NoSearchContextKey=true>

iv. *Water Stewardship: Good references have been made to EU Water Stewardship Partnership & Alliance for Water Stewardship. It would be useful to include the CEO Water Mandate and the work that this group are doing on the Water Action Hub.*

Overall, we consider that there is a need both to provide a rationale as to why a company would adopt any one of the above approaches over another, and to offer greater clarity through a process driven approach which clearly stipulates what and how to report.

For discharges and effluents, it is important to report on the number of spills specific to pollutants and costs associated with fines and expenditures. Additionally, near misses should also be reported on.

Reporting should take place on a regular basis – weekly / monthly rather than annually, with each pollutant of concern detailed independently since combined reporting is not meaningful.

Drafting points

- Showing how the reporting tables could be laid out is useful for standardisation, but the tables need to be better linked in with the objectives.
- The section on “Why this matters to business” and “risks” should be the same section, as both identify the business case for action.

Q9 Does the new chapter on biodiversity / ecosystem services adequately address the issues involved? What additional information would you find it more helpful to include?

We welcome the inclusion of this new chapter and believe that the response / pressures / state / benefits cycle is a very interesting and relevant concept. In our view, however, the material focuses too much on impacts and not enough on dependencies; both aspects are relevant to businesses. The initial introductions in the chapter could be structured as follows:

- Impacts (direct / indirect)
- Dependencies (risk / benefits)

Issues of scale-up / scale-down should also be addressed. For instance, dependencies can be identified at the “corporate level” (the same for most indirect impacts) but direct impacts are more likely to be measured at the local level. However, it is not made clear whether indicators should be quantitative or narrative / qualitative.

There is an overlap of information and reporting guidelines for forestry and biodiversity related KPIs and these should be discussed in the same section, hence making more sense to report on issues of illegal logging, sustainably managed forests and FSC and PEFC certifications etc.

Drafting point

In terms of clarity, boxes could be created to give an outlook of what the different references used (GRI, BIP National, etc.) relate to.

Q10 Does the chapter on materials adequately address the issues involved? What could improve it?

Our comments are set out by sub-section:

Metals and Minerals

- The definitions for 'metals and 'minerals' could be made clearer, firstly by providing a definition of what each of these terms are and secondly by providing the list of what these metals or minerals are. The term 'rare critical metal' needs to be clearly defined at this stage too.
- It is unclear if processing of metals and minerals is part of the 'metals and materials' section. Many metals and minerals are processed into more manageable ore, and this has not been covered in the section. Processing should be referred to in addition to text that describes materials extraction and mining activity, as these all have potentially serious environmental consequences.
- Examples of the environment related principles under the ten sustainability principles of the International Council on Mining and Metals can be used to help the reader grasp the wider environmental issues associated with mining. This may also apply to the next bullet point on GRI. This will set the tone for what the main identified key environmental performance indicators in metals and mining are.
- The information provided is focused more on extraction. This should be changed to reporting KPIs from use of metals and minerals. The section on aggregates should be removed as it is out of scope for the chapter.

Biomass

- The forestry and biodiversity sections overlap and this should be clarified.
- The definitions used for biomass, biofuels and bio-energy are not clear – for example, the guidance states that biomass is defined as “*the total dry organic matter or stored energy content of living organisms*” and also that “*biomass is the resource that is grown or collected...*”, and finally that biomass is: “*the total mass of living matter*”. These varying definitions do not provide the appropriate level of clarity required by guidance such as this.
- The list of regulations in the footnote on page 58 should include Renewables Obligation orders and associated guidance. The sustainability criteria for claiming renewable obligation certificates are specific and covered within other government guidance, and should be referenced here.

Forestry

- The issue of illegal logging / unsustainable forestry is raised, yet only the UK Forestry Standard is discussed in any detail. There is only mention of the globally recognised forest certification scheme by the Forest Stewardship Council ('FSC') at the very end after a sentence on 'further guidance' and there is no mention of the PEFC standard.

Drafting points

Biomass

- The document states that there are five categories of biomass resource classified according to the supply sector. The document then lists five but immediately after, provides a table (pages 58-59) with only four headings under the 'supply sector category', and these also differ from the five previously listed. This makes the list followed by the table confusing. There is also no explanation as to who / where such categories are defined, just that they can be classified.

- The section states biomass is usually measured by dry weight, and then further down, recommends that “*amount used in metric tonnes per annum*” should be the metric that is reported – it does not say however that this should be dry weight.
- The text states that for sustainability of biomass says “*you should refer to the GHG Guidance for how you should measure and report emissions from biomass combustion*” – but does not have a footnote identifying which guidance this is referring to – the Defra/DECC GHG Guidance or the biofuels and bioliquids guidance produced by OFGEM.

Forestry

- ‘Forestry’ is included as a separate section (Section 9), yet immediately is referred to as ‘biomass’. There are several other areas where there is overlap between sections (such as biodiversity, peat, forestry, and biomass). We therefore recommend that there should be some form of cross-reference included or better links made between sections on biomass, forestry, and biodiversity etc. to avoid any confusion to the reader and to improve the flow of the guidance.
- This section is difficult to follow, and at times, due to sentence construction, is not easy to understand. For example: “*Defra has also published guidance to help organisations report reductions in greenhouse gas (GHG) emissions resulting from investment in UK woodland creation projects and how organisations should account for the carbon savings associated with newly created woodland absorbing additional carbon from the atmosphere*”.
- The ‘what to measure and report’ section could therefore be more clearly outlined as a list, including the likes of FSC / PEFC certification, waste certificates etc.

Q11 Does the chapter on waste adequately address the issues involved? What additional information would you find helpful?

The chapter needs a clear definition of what waste is, linked to the legal definitions, and in particular should set out when certain waste can no longer be classified as waste, through material recovery processes. It also provides specific sections on hazardous and nuclear / radioactive waste but no description of the more common waste categories such as municipal / household, commercial and industrial, construction and demolition.

We also believe that there should be a clear linkage to the Government’s waste strategy and how reporting the suggested KPIs will assist organisations to measure and then manage waste in support of the policy aims.

Drafting points

There is also a range of errors we noted that should be amended (suggestions / comments are in [square brackets]), such as:

- A sentence starting with ‘Or’;
- “*At the end of this chapter are the details and relevant links of [to] this legislation*”.
- “*store and transport your waste appropriately and securely so it does not escape*”
- Bullets that don’t connect with the starting sentence:

- “You must ensure that **you**: ...
 - **any** hazardous waste is kept...”
 - **if** a waste carrier takes your waste...”
 - “**However** hazardous should always be kept separate from the general waste stream and from other types of hazardous waste” **[this sentence does not make sense]**.
- The majority of readers will not be clear as to the difference between a consignment note and a transfer note. This is important, considering Defra are advising the length of time they should be kept/
- ‘Producer Responsibility Scheme’ is not defined.
- The sections on hazardous waste and nuclear waste are very brief compared with the detail provided in other sections.
- There is a reference to ‘Annex XX’ – which Annex should is this referring to?
- There is reference to ‘WEEE’ without defining it (page 64).
- The terms “Radioactive Waste” and “Nuclear Waste” have been used in different places in the chapter and it is not clear whether this is supposed to be the same or not.
- The rationale for reporting waste tonnage by category (paper, glass, etc.) is not clear, although when combined with final destination (e.g. recycling, etc.) it is potentially more useful.
- Having set out in Section 2 that there is a cost benefit to managing waste, it seems odd that there is no recommended KPI to capture this.
- The guidance only suggests categories for KPI (e.g. reused / recycled / incinerated and paper / glass, etc.). The guidance would be more helpful if it defined these categories, as this would also improve the consistency of reporting.
- The EU Waste Directive is not referenced regarding the waste hierarchy.
- Eco-design is not defined as a concept.