

Sustainability Reporting and the Charities SORP - Discussion Briefing

Prepared by: CCEW and reviewed by the Charities SORP-making body, November 2021

Purpose of the briefing paper

To assist the engagement strands and the Charities SORP Committee in their reflections on the current approach to sustainability reporting within the SORP and to undertake a problem-solving exercise to identify:

- To what extent, if any, elements of sustainability reporting should be introduced to the contents of the trustees' annual report and/ or the accounts or notes to the accounts
- A preferred option with a recommendation as to what the change to the SORP should be, if any.

What is sustainability and environmental reporting?

Environmental reporting is the public disclosure by an entity of its environmental performance information, similar to the publication of its financial performance information.

Sustainability reporting¹ incorporates environmental reporting but has a wider scope to cover topics such as social, economic and governance performance.

Although there is no formal worldwide definition of sustainability reporting, a number of definitions reference the 1987 United Nations World Commission on Environment and Development description of sustainable development as meeting “*the needs of the present without compromising the ability of future generations to meet their own needs*” (From what is commonly known as the Brundtland Report).²

The three elements of sustainability were defined at the World Economic Summit in 2005, these were: the environmental element, the economic element and the social element (otherwise known as the 3 P's People, Planet and Profit).

Why consider sustainability reporting?

Climate change is now a very high-profile subject and, as many of you may know, in the UK certain companies already have to report on aspects of climate change in terms of energy and carbon

¹ <https://app.croneri.co.uk/topics/environmental-reporting/indepth>

² [ACCA sustainability reporting matter \(2010\)](#), & [The current state of sustainability reporting CPA journal](#) (accessed through ICAEW library).

reporting- see SORP Information Sheet 5: <https://www.charitySORP.org/about-the-sorp/helpsheets/>

Following the COP26 announcement of the creation of international sustainability standards (discussed later in the paper) it appears the landscape of sustainability reporting is moving further away from voluntary disclosures, with multiple frameworks to choose from, to more harmonised approach enabling comparability and elements of a mandated requirement.

With many stakeholders caring about not only what charities do but how they do it, is this an opportunity for charities to be more transparent about the impact of their work on the environment and society?

Reflection - what current opportunities does the SORP offer for reporting on sustainability?

The current SORP sets of the minimum requirements which must be followed in order to comply with the SORP as well as other recommendations which charities can opt to follow when preparing the trustees' annual report and accounts. Although not addressing sustainability issues directly the scope of some of the content for the trustees' annual report potentially allows for an opportunity to bring in sustainability related content.

SORP paragraph 1.20 (under achievements and performance) states *"The report must contain a summary of the main achievements of the charity. The report should identify the difference the charity's work has made to the circumstances of its beneficiaries and, if practicable, explain any wider benefits to society as a whole."*

Note this requirement asks only for the benefits to society.

What is the reporting difference between 'all' and 'larger' charities?

There are the following additional requirements for larger charities to adopt within the current SORP:

SORP paragraph 1.46 states that for large charities³, their trustee annual report must explain *"a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks;"* as well as *"any factors that are likely to affect the financial performance or position going forward."*

The SORP (paragraph 1.47) also sets out that larger charities should explain in their financial report *"where the charity holds material financial investments, the extent (if any) to which it takes social, environmental or ethical considerations into account in its investment policy"*.

SORP paragraph 1.45 states that larger charities, in their trustee annual report, *"should comment on those significant positive and negative factors both within and outside the charity's control which have affected the achievement of its objectives and, where relevant, explain how this has affected future plans. These factors might include relationships with employees, service users, beneficiaries and funders and the charity's position in the wider community."*

³ Larger charities is a term used in the 2019 SORP to identify those charities with a gross income exceeding £500,000 (UK) or 500,000 euros (Republic of Ireland) in the reporting period.

FRS 102

The FRC have released a [factsheet](#) (Appendix 1) to inform preparers of annual reports under FRS 102 of climate-related matters they may need to consider when preparing financial statements and associated narrative reporting. They have said “*This is a fast-moving agenda that has the potential to impact corporate reporting significantly in the future*”.

Voluntary disclosure

The SORP does not limit the amount of disclosure in charity accounts and so charities may report further on their sustainability on a voluntary basis.

An [appendix paper to the SORP committee meeting 9/11/2020](#) gives some examples of sustainability reporting frameworks and links to further information.

Reflection - The future of sustainability reporting?

The effects of human activity on our climate are becoming increasingly visible. As the climate crisis has worsened, the topic has also emerged as a leading priority for most governments, organisations and individuals.

The sustainability reporting landscape is fast moving with an announcement being made about the new International sustainability disclosure standards this month (November 2021).

International Sustainability Standards Board Standards

At the COP26 conference, the International Financial Reporting Standards (IFRS) Foundation Trustees announced the creation of the International Sustainability Standards Board (ISSB) with the purpose to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors’ information needs.

This appears to be a welcome initiative by many and a milestone announcement as companies and stakeholders have struggled with the myriad of sustainability standards, frameworks and metrics.

The ISSB standards will provide the foundation for consistent and global – environmental, social and governance (ESG) reporting standards that will enable companies to report on ESG factors affecting their business. The ISSB’s standards should help provide globally consistent, trusted, non-financial reporting that is as robust as financial reporting today.

The IFRS Foundation will complete consolidation of the Climate Disclosure Standards Board (CDSB—an initiative of CDP) and the Value Reporting Foundation (VRF—which houses the Integrated Reporting Framework and the SASB Standards) by June 2022 which should strengthen the impact of the new proposed standards.

Preparatory work has already been completed to assist with the drive for this work to be progressed quickly. The Technical Readiness Working Group (TRWG) has published a prototype of general disclosure requirements and has focused on procuring the ‘climate prototype’ as a priority thematic issue enabling the first standards to be published expeditiously whilst setting out a potential basis for future standard setting on other sustainability matters.

TRWG is a group formed by the IFRS Foundation Trustees to undertake preparatory work for the ISSB made up of leading organisations with expertise in sustainability and integrated reporting standard-setting focused on meeting investors’ needs.

This can be found attached in Appendix 2 or through this link: [Summary of the Technical Readiness Working Group's Programme of Work \(ifrs.org\)](#)

The Board's proposals on its presentation approach, based on the prototypes, is likely to be published by the end of the year. These will cover the general approach for disclosure of material information and a hierarchy of the guidance to use if an ISSB Standard is not yet in place for a material ESG topic. It will be based around the four pillars used in the recommendations by the Task Force on Climate-Related Financial Disclosures (TCFD): Governance, Strategy, Risk Management, and Metrics and Targets.

There will also be an exposure draft standard on climate reporting, which will establish narrative-based disclosures linked to the four pillars and cross-industry metrics including greenhouse gas (GHG) emissions. Proposals on industry-specific disclosure and metrics are also promised.

What might other topics of sustainability reporting be for the ISSB's standards?

As mentioned, climate reporting is an area of priority but the standards are envisioned to cover more than just climate. Deliverable 5 for the TRWG involves suggesting areas for the ISSB's broader research and agenda consultation. In the summary released it states:

"the ISSB should consider including in its consultation, so that they can be prioritised through market feedback for potential addition to its work plan (including for example, human capital, water, biodiversity and ecosystems.)"

The FRC have said in response to the question 'how will the standards impact UK companies?': *"As with the adoption of International Accounting Standards (IAS/IFRS), it will be for individual jurisdictions to determine whether these standards are mandated for use, the scope of companies affected and the timeframe over which this might take place. This will be something for the UK to consider over the next few months"*

They have released a [FAQs on International Sustainability Standard Setting](#) earlier this year (Oct 2021).

With the pace and breadth of the announced initiatives focusing on for-profit reporting it is potentially anomalous that a sector established for the public benefit has no elements of sustainability reporting within its framework. The SORP is a reporting framework capable of addressing this potential reporting gap.

FRC's current view

For accounting periods beginning on or after 1 January 2021, UK premium listed companies are required to provide TCFD disclosures on a 'comply or explain' basis as part of the Financial Conduct Authority's Listing Rules. The FCA has recently consulted on whether to expand this requirement to companies with a standard listing.

The government plans to set requirements for certain companies to provide TCFD disclosures in the Strategic Report. These are expected to take effect from 2022.

The FRC encourages companies to use the TCFD and SASB frameworks.

Observations from the SORP Committee:

9 November 2020 SORP Committee Meeting

The minutes⁴ note the following comments from the Committee on Sustainability Reporting:

Sustainability and carbon reporting – exempt charities are already experienced in this. Could this be extended?

The Committee wanted to identify whether any support would be needed for additional reporting requirements. This would also require the committee to lead on this and to provide reassurance to trustees that they can comment on areas beyond their charity's objectives

The Committee considered it also needs to remain mindful that there are still so many challenges that are to be faced.

Recognising where the current position and what is achievable in the next SORP revision is important.

A concern regarding sustainability is that some of the documents flagged are very detailed with substantial reporting requirements.

A committee member referred to these as 'Large, loose, baggy monsters'.

The reporting requirements may be intriguing, but their extent is very wide-reaching. Other bodies may be better placed to lead on this. There would be an impact of not doing this well.

Substantial amounts of work would be required to get this right. There was a lot of criticism of the current SORP that it was too long. The great danger of introducing sustainability reporting is that it may take the SORP Committee 'down a rabbit hole' with reporting requirements heading into different directions.

The Committee might wish to consider doing some awareness work or signposting but needs to be careful with this. The committee would need to consider whether it was creating a to-do list or priority list of areas for SORP development. It would need to consider where would sustainability or environmental reporting fit into that list? There was a long way to go yet to get progress on this. This is not to undermine the importance of sustainability, but the committee needs to be very careful regarding what they recommend if this is a priority.

23 February 2021 SORP Committee Meeting

At the second February 2021 meeting when SORP Committee members were invited to share their key conclusions on topics that had arisen during the exploration stage and that should inform the reflection stage, the Committee considered sustainability reporting should be included in the list of topics:

"It agreed to take forward sustainability reporting commenting at the meeting that this was the future direction of reporting and many charities were engaging with the issues that arise. It was noted that sustainability reporting might be more difficult for smaller charities and again that this would need to be considered from the perspective of tiered reporting"

Engagement Strand Feedback During the Exploration Stage

⁴ https://www.charitySORP.org/media/649753/minutes_091120.pdf

Specific comments from the following engagement strands are:

Professional and Technical Strand (A)

The question was asked whether some of the requirements applicable to medium and large charitable companies should be brought into charity accounts e.g. environmental reports. (PTS(A))

What needs to be done now?

Step 1- Making the case for change - a 'basis for conclusions'

The SORP committee agreed for the engagement strands to consider Sustainability Reporting.

At this stage, there is a need to decide:

- (i) whether any changes to the recognition requirements specified in the Charities SORP are needed; and
- (ii) what those changes might be to either improve the understanding of the users of the accounts or to assist accounts preparers with the decisions and judgements required to recognise how charities are addressing sustainability matters in their operations and activities.

Step 2 - Advising the change required to the SORP

Having made the case for change, the detailed changes required to the SORP need to be specified. Consideration should be given in as much detail as possible for the reporting requirements. If no detail is given, the conclusion drawn is that the detail is left wholly to the discretion of the SORP Committee and SORP-making body.

Undertaking an assessment of the impact (savings or costs on the preparer and benefits or disadvantages to the reader)

The FRC will require an impact assessment but until the implications of change are worked through the SORP framework, the impact is unlikely to be clear and so this will be considered at the drafting stage of the process.

Step 3 - Recommendation

The case made by each engagement strand or combination of strands will inform the deliberations of the SORP Committee and so there needs to be a clear recommendation from the engagement strands and the SORP Committee.

Following evidence provided by the engagement strands the SORP Committee will have its own discussion about what needs to be done and taking the evidence and views from the process, the Committee will settle on a recommended approach for drafting the SORP based on the evidence presented.

The Charities SORP Committee will also meet on 12 January SORP 2022 for a presentation on the anticipated direction of climate change reporting in the UK by BEIS to inform their consideration of the feedback from the engagement strands.

Sustainability reporting is clearly an area of growing importance in particular with climate change being an area of increasing concern for the public. The sustainability reporting landscape is fast moving and the SORP strands should consider in their discussion additional burden to charities and whether their recommendations would be different for different tiers. Additionally the SORP risks becoming out of step if its requirements are at odds with changes/developments to wider reporting requirements.

To facilitate discussion within the engagement strands three potential options relating to sustainability reporting for charities as included in the SORP are:

No change (voluntary sustainability reporting): No changes are made to the SORP with regards to sustainability reporting. Charities can choose to voluntarily make disclosures relating to sustainability. The only mandated requirements would be those affecting certain charitable companies due to company law reporting requirements in the UK and Ireland.

Mandatory sustainability reporting: The SORP includes requirements for charities to follow voluntary external sustainability reporting frameworks/requirements or legal requirements currently applicable to some charities are extended to all / a wider group of charities. The requirements might be high level, detailed or a combination of these.

Blended approach: For example this could include mandatory disclosures in the Trustee Annual Report but which are not designed to be a full and comprehensive sustainability report. Other legal requirements for reporting could be outlined in an Information Sheet (as is currently done in Information Sheet 5) as advisory practice.

Information sheets or guidance from the charity Regulators could also provide information on voluntary sustainability reporting frameworks.

To assist discussion certain options are set out as a catalyst for discussion:

In terms of potential changes to the existing SORP's requirements, the disclosures in the TAR could:

- Expand on the current disclosure requirements of the SORP paragraph 1.20 for all charities on the wider benefits to society;
- Expand on the requirements for large charities paragraph 1.45 to 1.47 by incorporating the sustainability of the charity into the disclosures; or
- Include additional disclosure points under an existing or additional heading.

Content of TAR sustainability disclosures could follow the three elements of sustainability reporting:

- Environmental,
- Social and
- Governance

Alternatively it could consider the four pillars of the TCFD recommendations (which it appears the ISSAB standards could be based on and the FRC currently recommend). See further detail on these pillars in Appendix 3:

- Governance
- Strategy
- Risk management
- Metrics and targets

As previously stated, it appears that the ISSBS will first release their climate thematic issue before considering other areas. Currently they have not confirmed which areas but in the summary document released (03.11.21) they give examples of other thematic issues as:

- Human capital
- Water
- Biodiversity
- Ecosystems

Otherwise it could mirror the GRI Sustainability Reporting Standards (GRI Standards) from the Global Reporting Initiative (GRI). They have identified critical sustainability issues as the following areas:

- Economic measures
- Environmental measures;
- Labour Practices and decent work;
- Human rights;
- Society; and
- Product responsibility measures guidelines.

Sources / further information

Below is a selection of resources which may provide additional information:

[FRC International Sustainability Standard Setting FAQs September 2021](#)

[FRS 102 Factsheet 8 \(frc.org.uk\)](#)

[What is the big news at COP26 for ESG reporting? - PwC at COP26](#)

[IFRS - IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements](#)

[Summary of the Technical Readiness Working Group's Programme of Work \(ifrs.org\)](#)

[IFRS - Technical Readiness Working Group](#)

[091120_paper_2_sustainability.pdf \(charitySORP.org\)](#) (Sustainability paper as presented to the SORP Committee November 2020)

[Sustainability reporting examples | ICAS](#) ICAS have listed examples of sustainability reporting (not charity specific).

[GRI - Standards \(globalreporting.org\)](#)

[Reporting-on-enterprise-value climate-prototype Dec20.pdf \(netdna-ssl.com\)](#)

TCFD Recommendations on climate-related financial disclosures

The TCFD are participants of TRWG

The TCFD has developed a framework to help public companies and other organisations more effectively disclose climate-related risks and opportunities through their existing reporting processes.

Their core recommendations are split into four sub-headings:

Governance - Disclose the organization's governance around climate-related risks and opportunities. Recommended disclosures

- a. Describe the organization's governance around climate-related risks and opportunities.
- b. Describe management's role in assessing and managing climate-related risks and opportunities.

Strategy - Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material. Recommended disclosures:

- a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.
- b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.
- c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Risk Management - Disclose how the organization identifies, assesses, and manages climate-related risks. Recommended disclosures:

- a. Describe the organization's processes for identifying and assessing climate-related risks.
- b. Describe the organization's processes for managing climate-related risks.
- c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Metrics and Targets - Disclose the metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material. Recommended disclosures

- a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
- b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.
- c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets