



Streamlined Energy and Carbon Reporting summary

March 2020



Streamlined Energy and Carbon Reporting (SECR) introduces new annual reporting requirements for large companies. We have summarised information in the regulations and accompanying guidance and added our own insights to aid those preparing and reviewing the new disclosures.



What is it?

SECR is a mandatory reporting requirement for large companies which is designed to:

- Increase internal awareness of energy usage and cost
- Drive adoption of energy efficiency measures
- Standardise external reporting
- Provide greater transparency for stakeholders on energy efficiency and emissions.

Requirements have existed for quoted companies to report on Greenhouse Gas emissions since 2013. These have been updated by the new regulations, but are not considered here.

What are the new regulations?

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the regulations")¹.

The accompanying government guidance is 'Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance March 2019' ("the guidance")².

When does reporting begin?

Reporting starts with periods commencing on or after 1 April 2019. So for companies reporting on a standard financial year the first reports affected will be for the year ending 31 March 2020.

Who does it affect?

All large companies, on the Companies act definition, being those with two out of three from:

- Turnover: £36 million or more
- Balance sheet total: £18 million or more
- Number of employees: 250 or more.

This includes charities, other non-profits and LLPs.

Exemption is available for entities with under 40,000 kWh of emissions per annum. There is also a 'seriously prejudicial' exemption, although this is expected to be used in exceptional circumstances only, for example in the lead up to a major restructuring or acquisition.

If financial reporting is on a group basis, reporting of emissions will also be on a group basis, unless any of the subsidiaries fall under the 40,000 kWh per annum threshold, in which case their figures can be excluded.

The guidance encourages all other private entities to include disclosures on a voluntary basis.

Where is this reported?

The new disclosures will be included in the annual report, within the Directors' report (or for charitable companies the combined Trustees' and Directors' report), unless it is considered of strategic importance to the company, in which case it should be included in the Strategic report, with a note explaining this in the Directors' report.

What must be disclosed?

- Total UK energy use
- Greenhouse gas emissions due to UK energy use
- A relevant ratio of emissions against a factor associated with the company's activities ("intensity ratio")
- Comparative figures (these can be excluded for the first year of disclosure)
- Energy efficiency action taken in the reporting period.
- Statement of methodologies used in the calculations of these disclosures.

Energy use includes:

- Electricity – Total quantity of purchases by the company for its own use
- Gas – Total quantity of consumption of gas as fuel
- Transport – Consumption of fuel for business travel, where the organisation is directly supplied with fuel. See appendix 4 for details.



How should energy usage data be collected?

The guidance states that "organisations must use verifiable data where reasonably practicable". This means:

- Meter data
- Invoices from suppliers
- Annual statements from suppliers.

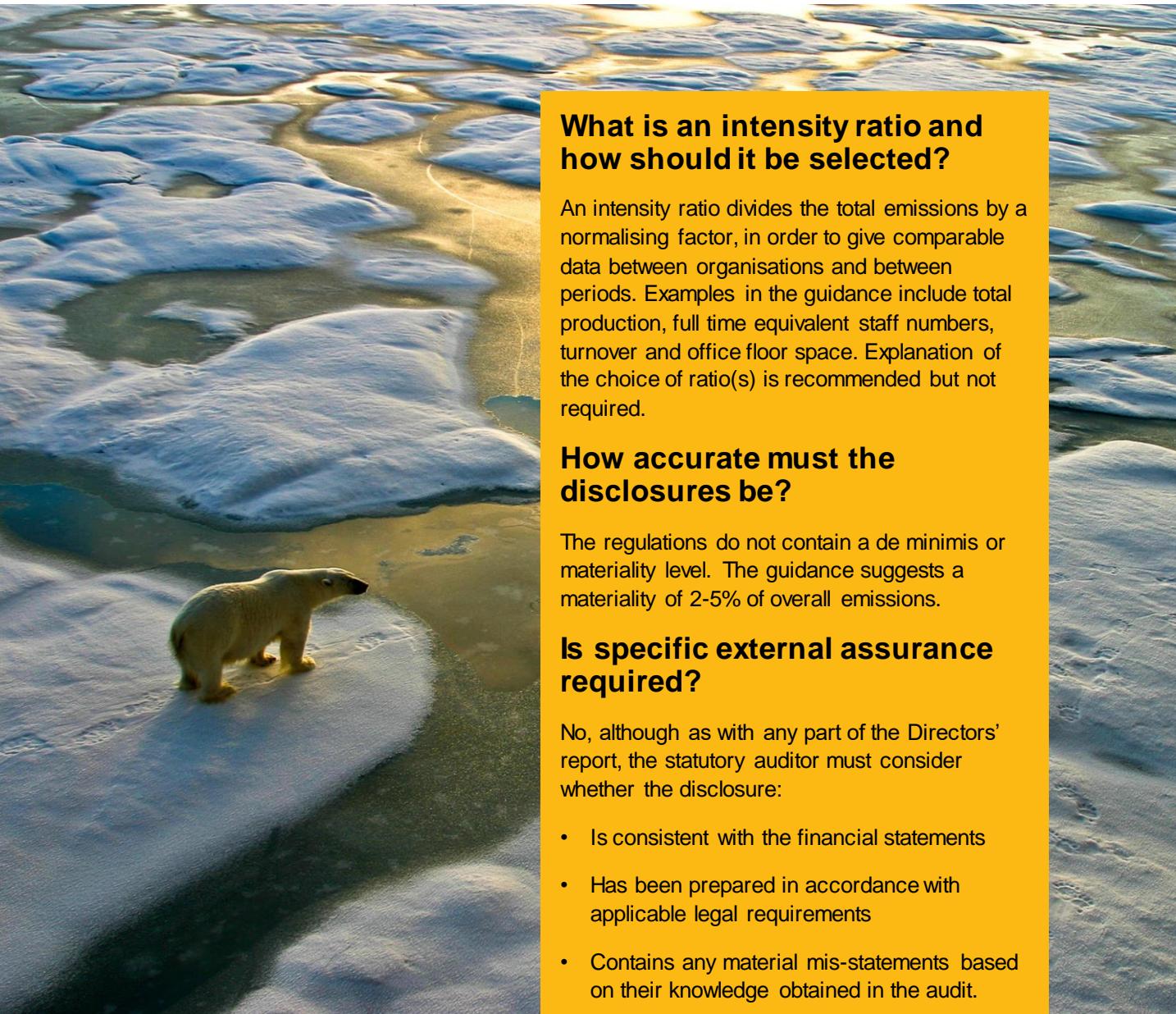
If this cannot be obtained, a reasonable estimate should be provided based on one or more of:

- Direct comparison (for example the same month in another year)
- Pro-rata extrapolation (using verifiable data for part of a period and extrapolating across another, similar part of the period)
- Benchmarking (e.g. taking verifiable data for one site and applying it to a similar site).

What methodology should be used to calculate Greenhouse gas emissions?

There is no required method, but the method used must be disclosed and it is expected to be robust. The guidance suggests the following widely recognised independent standards:

- GHG Reporting Protocol - Corporate Standard
- International Organisation for Standardization, ISO (ISO 14064-1:2018)
- Climate Disclosure Standards Board, CDSB
- The Global Reporting Initiative Sustainability Reporting Guidelines.



What is an intensity ratio and how should it be selected?

An intensity ratio divides the total emissions by a normalising factor, in order to give comparable data between organisations and between periods. Examples in the guidance include total production, full time equivalent staff numbers, turnover and office floor space. Explanation of the choice of ratio(s) is recommended but not required.

How accurate must the disclosures be?

The regulations do not contain a de minimis or materiality level. The guidance suggests a materiality of 2-5% of overall emissions.

Is specific external assurance required?

No, although as with any part of the Directors' report, the statutory auditor must consider whether the disclosure:

- Is consistent with the financial statements
- Has been prepared in accordance with applicable legal requirements
- Contains any material mis-statements based on their knowledge obtained in the audit.

Voluntary independent assurance on the accuracy, completeness and consistency of energy use, GHG emissions data and energy efficiency action is encouraged but not required.

Quoted companies have been reporting Greenhouse Gas Emissions since 2013, what lessons can we learn from them?

The previous listed company requirements were under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, SECR has also adjusted their reporting requirements, which are more detailed than those for large, unlisted companies.

Whilst the format used in historic listed company accounts is not going to be exactly transferable for SECR compliance, it is still beneficial to review a selection of FTSE 100/FTSE 250 accounts to see how this data has been presented. In particular we suggest that thought is given to how easy to understand the disclosures are for a non-expert, and whether there are lessons to be learnt to make the new SECR disclosures genuinely transparent.

The best in class for clarity open with a short narrative summary, explaining movements from the prior year and level of success against targets. After this the figures are shown in a table and then methodology and links to further information are included underneath. This is a format that can be applied to the new regulations.

What are the key next steps?

To be ready for your first SECR report you will need to:

- Establish what energy usage data you need to collect
- Set a process for reliable collection of data
- Select a methodology for calculating Greenhouse gas emissions
- Define an appropriate intensity metric for the organisation
- Draft accompanying narrative to the reporting requirements.

A template for minimum disclosure is included in appendix 1, with suggestions for additional disclosures in appendix 2. Appendix 3 shows suggested sources of information for energy usage.



References

¹The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, <http://www.legislation.gov.uk/uksi/2018/1155/contents/made>

²Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance March 2019 (Updated Introduction and Chapters 1 and 2),
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850130/Env-reporting-guidance_inc_SECR_31March.pdf

Appendices

- 1. Example minimum disclose template**
- 2. Optional additional disclosures**
- 3. Suggested source of information**
- 4. Transport requirements**

Appendix 1 – example minimum disclose template

Energy and emissions report

In the year we took the following energy efficiency actions...

	20xy	20xx (comparative)
UK energy use (1) kWh		
Associated Greenhouse gas emissions (2) Tonnes CO2 equivalent		
Intensity ratio Emissions per xxxx		

UK energy use covers x, y, z activities across a,b,c entities

Associated Greenhouse gases have been calculated using yyyy methodology

Appendix 2 – optional additional disclosures

Options for additional disclosure included in the guidance:

- Breakdown of energy use between transport, purchased electricity and other
- Breakdown of emissions on the same basis
- Presentation of both UK and global emissions
- Inclusion of energy used in employee commuting, business travel, outsourced activities, disposal of waste, production of material used by the entity and other relevant categories
- Reason for selection of intensity ratio based on activities and nature of the company
- Comparison to a target figure for energy use, emissions or both
- Plans for energy efficiency actions in the year ahead
- Target for energy use, emissions or both for the year ahead
- Statement of third party verification.
- Link to further information on the company website or other source

Appendix 3 – suggested source of information

Activity	Source of information
Electricity use	Total kilowatt hours used from electricity bills
Natural gas use	Total kilowatt hours used from gas bills
Fuel used in company owned vehicles	Litres of fuel purchased from invoices and receipts (more accurate); or Vehicle mileage from vehicle log books/odometers (less accurate)

Collected data are then converted into greenhouse gas emissions associated with each activity:

$$\text{Data} \times \text{Emmission Factor} = \text{Greenhouse gas emmissions}$$

Annually updated emission factors are available on:

<https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting>

Appendix 4 – transport requirements

	Included	Not included
Fuel in fleet cars	✓	
Fuel reimbursed to employees for own cars	✓	
Fuel in hire cars	✓	
Fuel in taxis		✓
Fuel in planes (not operated by entity)		✓
Fuel in trains		✓
Fuel in vehicles operated by sub-contracted entities or self-employed contractors		✓



Contact us

Naziar Hashemi

Partner and National Head of
Non Profits

+44 (0)20 7842 7229

naziar.hashemi@crowe.co.uk

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