ACCOUNTANCY EUROPE.

Ian Carruthers
Chair
IPSASB

Submitted online

Brussels, 6 September 2022

Consultation Response - Advancing Public Sector Sustainability Reporting

Dear Mr Carruthers,

Accountancy Europe is pleased to provide you with our comments on the IPSASB's public consultation, *Advancing Public Sector Sustainability Reporting*.

As we stated in our response to the IPSASB's Strategy and Work Program 2019-2023 - Mid-Period Work Program Consultation, we believe that the public sector has an enormous, yet still underdeveloped, role in sustainability issues. The public sector must also be far more active in promoting sustainability-aware behaviour, and reporting thereof, if the economy is to be decarbonised and if nations are to fulfil the objectives of the Sustainable Development Goals (SDGs).

The public sector is a major source of greenhouse gas (GHG) emissions and has a responsibility to ensure that its operations are undertaken in the most sustainable way and to report on the environmental impacts of its operations. We believe that the first phase of the IPSASB's work should be to adopt and adapt existing private sector sustainability reporting standards for use by public sector entities. This should include not just looking at the impact of environmental, social and governance (ESG) issues on the entity but also the impact of the entity on its environment and society, utilising the concept of 'double materiality.'

We also support increasing the connectivity of financial and sustainability information to provide a holistic view of an entity's operations, of its externalities and fiscal sustainability. In relation to this, we believe that the *Natural Resources* project is an ideal opportunity for the IPSASB to be at the forefront of connecting financial reporting with broader sustainability issues.

With its involvement in infrastructure, the public sector in many jurisdictions is vulnerable to stranded assets, which will have a direct impact on governments' balance sheets. The IPSASB should review its existing financial reporting standards and Recommended Practice Guidelines (RPGs) to ensure that they adequately deal with these emerging issues.

The public sector must play a vital role in transitioning to net zero emissions and needs to invest in this transition. Green finance is a fast-moving topic, but IPSASB should ensure that their suite of literature provides the necessary disclosures to enable users of general-purpose financial reports of public sector entities to hold to account those making investments for sustainability purposes.

Beyond the entity-level, the public sector has a multi-faceted role, and, indeed, responsibility in respect of sustainability. It has the powers to regulate and, through subsidies and incentives, to encourage

private sector businesses and individual citizens to change their behaviours. Once the IPSASB has made progress on entity-level sustainability reporting guidance, we believe that it has a significant role to play in developing guidance for reporting of broader sustainability issues, linked to the issue of long-term fiscal sustainability.

The IPSASB's role in public sector sustainability reporting, of course, is partly constrained by the resources available to it – both financial and in terms of technical expertise. Therefore, we think it is important that the IPSASB manages expectations and, in the initial phase, concentrates on leveraging its links with other sustainability standard setters – both in the private sector and at a governmental or regional level – and bases its work on existing standards where available.

We have pleasure in responding to the specific matters for comment in the following section.

Preliminary View 1

The IPSASB's view is that there is a need for global public sector specific sustainability reporting guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

1. As mentioned in the cover letter above, Accountancy Europe believes that the increased involvement in sustainability reporting by the public sector is vital if the worst impacts of climate change, and its consequent social impacts, are to be mitigated.

2. Although many public sector entities can, and should, draw upon existing private sector guidance and standards in respect of sustainability reporting, there are certain public sector specificities that mean that the private sector standards may not be applicable in their entirety for all public sector entities.

3. In this context, we agree that the public sector specificities summarised in the IPSASB's Conceptual Framework, and reproduced in paragraph 1.14 of this consultation, are also relevant for sustainability reporting. However, there are also broader differences that particularly impact on sustainability reporting in the public sector.

4. Governments have considerable power to change behaviour – through regulation, taxation and incentives and public procurement, for example. These sovereign powers are the key difference between the public and private sector.

5. Many private sector sustainability standards assume a narrow base of stakeholders – typically providers of capital. The public sector has a broader range of stakeholders that includes investors but also includes others, such as its own citizens.

6. Part of governments' responsibilities is to protect their citizens. Sustainability reporting provides an opportunity for governments to focus on assets with a social value, to improve the welfare of their citizens and to contribute to the long-term fiscal sustainability of their nation.

7. Another important role for the public sector is regulation and monitoring of sustainability efforts and reporting in the private sector.

8. Also, in respect of regulation, certain public sector entities and *whole of government* are in the unique position of regulating themselves and setting their own sustainability targets.

9. In summary, we strongly support the IPSASB's Preliminary View that there is a need for global **public sector specific** sustainability reporting guidance.

Preliminary View 2

The IPSASB's experience, processes and relationships would enable it to develop global public sector specific sustainability reporting guidance effectively.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

10. We absolutely agree with the IPSASB about the urgency of improving sustainability and sustainability reporting in the public sector. Consequently, the inevitable delay that would arise from the establishment of a new standard setting organisation specifically for public sector sustainability reporting is undesirable.

11. In our view, the IPSASB is an international body that has both a public sector specific focus and experience in, and a robust and appropriate due process for, setting high quality standards and guidance.

12. The due process for setting high quality public sector financial reporting standards and guidance can, in our opinion also be applied to developing high-quality public-sector guidance for sustainability reporting. This is especially relevant as the connectivity between sustainability reporting and financial reporting is, in our view, essential to provide a complete picture of an entity's activities and their impact on its fiscal sustainability and on its stakeholders.

13. Additionally, the IPSASB's due process in endorsing or adapting existing private sector financial reporting standards will assist it in doing so for sustainability standards developed for the private sector.

14. More jurisdictions have decided that urgent action is needed and are either moving ahead with their own sustainability reporting requirements or will only wait for a short period of time for international agreement before going their own way. This will also occur at a regional level, as we are seeing with the initiatives for the private sector by the European Union. Consequently, the IPSASB may only have a small window of opportunity to develop key public sector specific guidance and faces a difficult balancing act between speed of development and comprehensiveness.

15. One of the largest problems will be incorporating the views of many different stakeholders who are likely to have very divergent viewpoints on this matter. Even within a 'category' of stakeholders, such as national governments, there are likely to be very strong differences of views between countries trying to reduce current high levels of emissions and those seeking to exploit carbon intensive natural resources for fiscal reasons.

16. In this respect, the IPSASB's existing relationships with these stakeholders will be a considerable benefit in building consensus.

17. However, the IPSASB does not currently have the resources available, particularly in terms of dedicated technical expertise, to be experts in the field of sustainability. This will be assisted

by the formation of an effective Sustainability Reference Group to advise the IPSASB. However, given the large potential scope of sustainability reporting in the public sector, it will be necessary for the IPSASB to grow into the role. This is one reason why we believe that the first priority should be to develop public sector guidance on sustainability reporting for public sector entities, using existing standards and guidance adapted for public sector specificities. This will give the IPSASB time to increase its resources to deal with other public sector subject matters.

18. In summary, we believe that the IPSASB has the potential to effectively develop global public sector specific sustainability reporting guidance.

Specific Matter for Comment 1

If the IPSASB were to develop global public sector specific sustainability reporting guidance, please tell us what topics you see as most pressing in your jurisdiction and why these should be prioritized by the IPSASB.

19. Dealing with, and reporting progress on, GHG emissions is the most urgent issue. Governments should disclose their progress towards meeting their Paris Agreement targets.

20. Inextricably linked to GHG emissions is the issue of climate transition\adaptation and stranded assets. We have already highlighted that we believe that this a significant issue for many public sector entities, particularly those that control infrastructure.

21. It could be possible to adopt the Recommended Practice Guidelines (RPGs) to address the issue of climate transition. Issues in respect of stranded assets could be dealt with by amending IPSAS 17, *Property, Plant and Equipment* and / or IPSAS 21 *Impairment of non-cash-generating assets*.

22. We believe that enhancing the connection between the *Natural Resources* project and sustainability reporting is an urgent issue – particularly considering the extended development period of *Natural Resources* project.

COMPLETE SECTOR VS ENTITY

23. From the IPSASB's webinar on 13 July, we understand this to mean whether the IPSASB should concentrate on the environment's impact on the entity versus the entity's impact on the environment, society, and the economy.

24. In our view, the primary role of the IPSASB is to provide guidance for the sustainability information connected to, and supporting, the general-purpose financial reports produced by public sector entities. Such guidance should incorporate disclosures of ESG impacts on the entity and the entity's ESG impacts on the environment, its workforce, society etc. - incorporating the concept of 'double materiality[1].'

25. In many countries the public sector lags the private sector in respect of sustainability, and this cannot continue if countries are to meet their Paris Agreement targets and the SDGs. Although public sector entities have their own specificities, public sector entities should have at least the same depth of obligations as those placed on private sector entities - not least to ensure a level playing field where public and private sector entities operate a similar business model.

26. Consequently, we believe that the IPSASB's sustainability reporting activities should initially be focused on adopting, and adapting where necessary, the private sector sustainability

[1] Please refer to paragraph 25 of the *Proposal for a Directive of the European Parliament and the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting*, see: https://eurlex.europa.eu/legalcontent/EN/TXT/?uri=CELEX:52021PC0189

standards for public sector entities. Given the IPSASB's relationship with the International Sustainability Standards Board (ISSB), this means that the IPSASB's workplan will be somewhat driven by the ISSB's workplan, as the ISSB introduces draft standards covering other environmental aspects, and social and governance aspects.

27. The first stage of the IPSASB's work was to ensure that concepts and terminology derived from these standards is consistent with those prevalent in the public sector. It would then be necessary to refocus the emphasis of the ISSB standards from value creation and the providers of finance towards service provision and the broader population of stakeholders interested in public sector general purpose financial reports. We believe that given their specific responsibilities, all public sector entities should report on their key impacts on society for their most material 'ESG' topics as well as reporting on the impacts from sustainability issues on the value of their assets.

28. The SDGs, the GRI standards and the European Sustainability Reporting Standards could serve as a source of guidance for public sector entities to report on their ESG impacts on society.

29. The IPSASB will need to include in the guidance advice on how to assess double materiality, which could also be based on existing material. It should also consider how the sustainability standards can be connected to financial reporting standards and the Recommended Practice Guidelines (RPGs) that deal with fiscal sustainability.

30. In respect of ESG impacts, for local government and other local public sector entities the impacts on society will also tend to be at a local level. As the powers and scope of the public sector entity increases, so does its impact on the environment, society, and the economy as a whole. By the time that that *whole of region* or *whole of government* is reached, there will be more emphasis on the complete sector and the question of disclosing policies that affect the entire nation, or transnational area, becomes an issue.

31. The impact that the public sector can have on making the whole economy more sustainable is vital to achieve the SDGs and Paris Agreement targets. This includes using regulation, taxation, and incentives to promote sustainable behaviour. This is a vital element of sustainability that would undoubtedly benefit from international agreement and from guidance on how to report such policies. However, this is likely to take some time to develop and we suggest that these matters should only be given priority when sustainability reporting for public sector entities is more developed.

NATURAL RESOURCES

32. Accountancy Europe will endeavour to respond to the IPSASB public consultation on *Natural Resources*. However, as this topic is mentioned in this consultation, we share below our first thoughts on the relationship between sustainability reporting in the public sector and the more specific issue of the accounting treatment of natural resources.

33. We agree with the IPSASB's decision to hold back the *Natural Resources* consultation to link it to broader sustainability issues and to incorporate into it elements of sustainability. We believe this project is urgent because of the importance of the topic, the amount of time it has been in development and its potential as a bridge between financial reporting and broader sustainability issues.

34. However, we believe that the IPSASB could be more ambitious.

35. There are clear links with accounting for natural resources and *Carbon Accounting and Reporting* - particularly in respect of the stored carbon inherent in many subsoil resources (and that generated in their extraction and processing) and the potential for forests and rivers to act as carbon sinks, for example.

36. For *whole of government* accounts, it can be argued that it is difficult to make sense of financial statements without considering and reporting on fiscal sustainability.

37. Consequently, there is some support for making the RPGs mandatory in respect of *Natural Resources*. This is especially the case for jurisdictions that are heavily dependent on natural resources for fiscal sustainability. We are aware that some countries that have publicly reported on the exploitation of their natural resources have seen such exploitation decrease.

38. However, as they currently stand, the RPGs are principle-based and high level. Consequently, they are not ideally suited to generate information that is relevant and comparable and that can be adequately assured. Making them fit for this particular purpose could be a priority project for the IPSASB.

39. However, there is also a counter argument that the many of the organisations that use IPSAS for their accounting will gain little benefit from preparing such statements – such as international organisations and lower levels of government. Making the RPGs mandatory for all public sector organisations, is, therefore, not supported by Accountancy Europe at this time. There is also the issue of whether making one or more RPG's mandatory (even in limited circumstances) would change their status to that of a standard, which would imply a different due process.

40. Land Use, Land-Use Change and Forestry (LULUCF) is an important element of GHG emission reductions and will be part of a global reporting framework. However, this is not often included in *whole of government* reports so the IPSASB should consider the degree to which this could be incorporated in the *Natural Resources* project.

DIFFERENTIAL REPORTING

41. As sustainability reporting trickles down from *whole of government* to other public sector entities this topic will become more urgent. The public sector is not homogenous. In many countries, it runs the full scope of *whole of government* to very small local schools, for example. It includes policy setting organisations, to not-for-profit service providers and 'for-profit' entities that are analogous to private sector companies. The sustainability issues, risks and opportunities are very different for these different public sector entities.

42. Sustainability reporting is still in its infancy for smaller entities in the private sector. It is difficult and costly for most private sector SMEs to implement the current sustainability reporting guidelines and standards, which are predominantly designed for multi-national entities.

43. We believe that this will be, at least, an equal challenge for smaller public sector entities. Consequently, differential sustainability reporting of public sector entities (perhaps based on factors such as entities' activities, size and/or complexity) is likely to be a very important area that the IPSASB could consider working on. The workplan of the European Financial Reporting Advisory Group (EFRAG) includes a sector specific sustainability reporting standard for smaller entities, although SMEs are not currently within the scope of the EU's Corporate Sustainability Reporting Directive. Assuming that the eventual standard is appropriate and proportionate, this could be a useful basis for IPSASB to base its work on.

44. The ability of local entities to accurately report their sustainability information is essential for the *whole of government* to accurately report and to measure its performance against targets. We would expect, for example, that a local official in charge of energy procurement will have comprehensive knowledge of their entity's (whether own-consumed or as part of provision of public services) energy consumption (and by extension, GHG emissions) and to ultimately be able to report on the entity's own carbon emissions.

45. However, another issue that is particularly prevalent in the public sector is the communication of information held at local level up the chain to ensure that it is accurately reflected in *whole of government* reports. This is likely to be a considerable issue with sustainability reporting, where local entities have the detailed information, but may not be aware of the need, and of the systems available, to pass this information up the chain. This may be an area where the IPSASB may be able to contribute, based on existing best practice collected via its stakeholder network.

SUSTAINABLE DEVELOPMENT GOALS

46. As mentioned above, we believe that public sector involvement is essential if nations are to achieve the SDGs. The policy and targets to support this must be determined at the highest levels of government and successfully communicated throughout the public sector. We would support guidance as to how governments should report, to improve comparability.

47. However, we note that there are obstacles in using the SDGs as a basis for the IPSASB's future work on sustainability. There are a lot of SDGs, they are very high-level, and implementation is likely to only be of importance to *whole of government* and other selected government agencies.

48. As they are very high-level, there is a lot of leeway for the preparers to report selectively. Other existing private sector standards contain practical guidance for entity-level sustainability reporting and integrating SDGs into sustainability reporting.

49. Consequently, we would recommend concentrating on entity level sustainability reporting guidelines before moving to the question of how to report the broader economic policy elements of sustainability.

OTHER MATTERS

50. Tax transparency has been an issue for private companies for several years. Especially, in respect of GHG emissions, national tax policy can have great impact on behaviour. Consequently, if governments and regional tax setting bodies were to disclose, for example, tax incentives and disincentives to promote sustainable behaviour and the cost of subsidies given to fossil fuel and green energy providers this would give an indication of a government's willingness to meet its Paris Agreement targets. We are seeing an increasing number of countries looking towards energy taxes and energy trading schemes as essential components of both reducing GHG emissions and for providing funds for achieving the SDGs.

51. Providing independent assurance over sustainability reports is very important to build trust in the information reported by public sector entities. This is also an issue in the private sector – with issues over scope and the lack of agreed international standards. Whilst we accept that this is not the IPSASB's responsibility, we would recommend that the Board keeps abreast of current developments in this area, with the IAASB for example, to help determine whether the guidance the IPSASB produces can be externally assured.

If the IPSASB were to develop global public sector specific sustainability reporting guidance it proposes applying the framework in Figure 5.

In developing such guidance, the IPSASB would work in collaboration with other international bodies, where appropriate, through the application of its current processes

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons explaining what alternatives you would propose, and why.

52. Sustainability reporting is an important part of changing behaviour, providing transparency, and enhancing public accountability.

53. Given the urgency of dealing with climate change, we see significant advantages in leveraging existing guidance given the time that it would take to develop a complete set of guidelines for the public sector. Also, particularly at an operational level, the differences between the private sector and the public sector are not always as pronounced as some claim.

54. Consequently, we agree with the IPSASB preliminary view that it should work in collaboration with other international bodies, where appropriate, through the application of its current processes.

55. An issue with this approach has been the competing sustainability standards in the private sector, often having different focuses. With the introduction of the ISSB matters have improved somewhat. Adding a complete suite of sustainability reporting standards suitable only for public sector entities would make this situation worse.

56. However, the ISSB's work is still in its initial phase and the existing draft standards have certain issues that directly impact on their suitability for the public sector – such as the emphasis on the investors' perspective. There are also gaps in the draft standards that could be covered by, for example, the GRI's standards. The draft European Sustainability Reporting Standards, which will become mandatory in the European Union in due course, could be another resource to draw upon, particularly as they are based on the concept of double materiality.

57. As discussed in points 24 to 29, we believe that looking at ESG issues through a 'double-materiality' lens is important for both the public and private sectors. Consequently, we are not convinced that that the ISSB's draft standards are automatically applicable to all public sector bodies. This is particularly because they primarily focus on investors rather than broader stakeholders as the end users, and they emphasise sustainability as part of long-term value creation rather than as an element of service provision. However, the ISSB standards are a good starting point, providing insight into the financial risks that public sector entities face.

58. It is important that the public sector doesn't end up with lower quality standards than the private sector, especially considering the potentially positive impact that the public sector could have, for example, in making public procurement more sustainable.

Preliminary View 4

If the IPSASB were to develop global public sector specific sustainability reporting guidance, it would address general requirements for sustainability-related information and climate-related disclosures as its first topics. Subsequent priority topics would be determined in the light of responses to this Consultation Paper as part of the development of its 2024-2028 Strategy.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, explaining which topics the IPSASB should prioritize instead, and why.

59. As mentioned above, we believe that climate change is one of the most urgent global issues, and it also impacts other crucial areas- such as water resources, pollution, biodiversity and social issues. Consequently, we agree with the IPSASB's preliminary view that its initial focus should be on addressing general requirements for sustainability-related information and climate-related disclosures as the first topics.

60. We then believe that the IPSASB should concentrate on adapting private sector standards for use by public sector entities. This would include guidance on assessing materiality for reporting on sustainability related matters.

61. Once this is well progressed, we agree that the next phase of IPSASB's work on sustainability reporting should be based on those public sector specific issues identified as most important and urgent by respondents. However, this must be carefully road-mapped as there could be too many public sector specific issues identified from this consultation to be worked on simultaneously.

Preliminary View 5

The key enablers identified in paragraph 4.2 are needed in order for the IPSASB to take forward the development of global public sector specific sustainability reporting guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, identifying which of the proposed key enablers you disagree with, and why.

62. We believe that the IPSASB has correctly identified the key enablers to take forward the development of global public sector specific sustainability reporting guidance, namely:

    a. Appropriate resourcing

    b. Experienced and active Sustainability Reference Group to advise the IPSASB

    c. Effective and efficient use of IPSASB Member time

    d. Coordination with other international sustainability reporting standard setters, and

    e. Dialogue with national standard setters.

63. The availability of adequate financial resources and experts in sustainability reporting are obviously of key importance. The IPSASB can make a better assessment of the resources that it may have available than we are able to do. However, as the resources required to endorse existing entity-level private sector standards into public sector guidelines are less than for developing public sector specific guidelines on completely new topics, we would recommend

concentrating on this work in the earlier stages whilst capacity is built up to start work on public sector specific sustainability reporting issues.

64. There are currently great demands being placed on the small pool of experts in the field of sustainability reporting. Sustainability reporting (and assurance) is a rapidly developing topic and better practices will inevitably emerge. It will be important for the IPSASB to devote resources to monitor developments and update their guidance as necessary.

Sincerely,

Myles Thompson
President

Olivier Boutellis-Taft
Chief Executive

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