

8 September 2022

Mr Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto Ontario
M5V 3H2
CANADA

Dear Ross

Consultation Paper: Advancing Public Sector Sustainability Reporting

Thank you for the opportunity to comment on the Consultation Paper: *Advancing Public Sector Sustainability Reporting* (the CP), as published by the International Public Sector Accounting Standards Board (IPSASB).

The External Reporting Board (XRB) is the independent Crown Entity responsible for developing and issuing financial and non-financial reporting, auditing, assurance, and ethical standards and guidance in New Zealand. The XRB as a national standard-setter has recent first-hand experience of the challenges involved in developing climate-related and broader sustainability-related reporting frameworks.

We are supportive of the IPSASB advancing this important discussion on how best to address the need for global public sector specific sustainability reporting guidance. Transparency and comparability in reporting on the progress made on sustainability-related issues is essential in holding the public sector accountable and to support the achievement of national sustainability goals. Users are demanding information that addresses both how public sector entities are ensuring their services are delivered in a sustainable manner and the impact of public policy across all sectors.

Many jurisdictions, like New Zealand, already have in place (or in development) different forms of reporting frameworks and initiatives across the public sector to advance their sustainability goals. For this reason, we feel that more time should be taken to fully understand the public sector context and user needs when developing global public sector-specific sustainability reporting guidance to support the reporting of general purpose information.

Our experience with sustainability reporting to date in New Zealand has shown us that we needed to engage with a significantly wider stakeholder base in contrast to stakeholders who traditionally have an interest in financial reporting. As a result, different expertise and a different standard-setting approach was required, which centred around a collaborative development approach.

Our work to date in New Zealand has mainly focused on the private for-profit sector and the importance of ensuring companies have a consistent reporting framework for identifying their sustainability related risks and opportunities. Given the size and broader user needs of the public sector in New Zealand, we recognise the need for public sector-specific reporting guidance. It is important that the public sector is held accountable for the advancement of sustainability development goals established at national and international levels. We are likely to issue guidance for the public sector specifically on climate-related risks and opportunities and will pay attention to the work of the IPSASB to inform this guidance.

Key points in response to the CP

We have two main points:

- We support, in principle, the need for global public sector-specific sustainability reporting guidance.
- The CP does not address several foundational questions which require further analysis and public consultation. These questions centre around the need for greater clarity on the intended scope, primary users, and the desired outcomes from the development of public sector specific guidance. We recommend that the IPSASB consider these questions further before commencing standard-setting activity on particular topics.

Support in principle

In principle, we agree that there is a need for global public sector specific sustainability reporting guidance (or standards). The activities, policies, and sustainability-related initiatives of the public sector at both central and local government levels have a significant impact and influence on whether a country will achieve its sustainability goals. We agree that there is a need for consistent and transparent reporting at different levels of the public sector concerning:

- (a) the strategy which provides a roadmap for achieving long term environmental, social and economic prosperity goals, within environmental, human and social constraints;
- (b) the transition plan for managing sustainability risks that incorporates sustainability development goals and targets; and
- (c) information needed to assess the progress made against sustainability goals that will provide information that is useful for decision-making and will promote accountability to its citizens.

The development of global public sector-specific guidance will promote the provision of consistent and transparent information between different jurisdictions, which will allow for a more accurate and reliable assessment of global efforts in response to the many urgent sustainability challenges which are demanding a collective global response. However, the guidance will need to be flexible enough to

pull together the most relevant information from the reporting requirements already established through the multitude of existing national and international sustainability frameworks.

Foundational questions need to be addressed

While acknowledging our broad support for the development of global public sector-specific sustainability reporting guidance, we are concerned that the CP does not fully discuss the following foundational questions.

- (a) Defining what is meant by “sustainability” in the public sector context?
- (c) Who are the intended primary users and what are their different information needs in relation to each of the different levels of public sector reporting — all-of-country, all-of-government and individual public sector entity reporting?

These questions are raised to achieve greater clarity concerning, what is the problem the development of global public sector specific sustainability reporting guidance is seeking resolve and what are the intended outcomes.

We also highlight the importance of considering the indigenous peoples’ perspective on sustainability if the IPSASB are to take this initiative forward.

We describe our concerns on these issues further in **Appendix A**.

We consider that these key matters will require analysis and public consultation. We would be concerned if the IPSASB were to make decisions about whether to enter the sustainability standards-setting arena before these foundational questions have been appropriately considered.

Our responses to the specific questions in the CP are provided in **Appendix B**.

If you have any queries or require clarification of any matters in this letter, please contact Anthony Heffernan (anthony.heffernan@xrb.org.nz) or me (april.mackenzie@xrb.org.nz).

Yours sincerely

A handwritten signature in black ink, appearing to read 'April Mackenzie', with a long horizontal line extending to the right.

April Mackenzie
Chief Executive

Appendix A: Foundational questions which require further consideration

We are concerned that several foundational questions were not fully discussed in the CP. These key foundational issues relate to:

- (a) defining “sustainability” in the public sector context;
- (b) identifying primary users and their differing information needs in relation to each of the following three levels of reporting: all-of-country, all-of-government and individual public sector entity reporting; and
- (c) the incorporation of indigenous peoples’ perspective on sustainability.

Defining “sustainability” in the public sector context

The *Consultation Overview* section of the CP adopts the 1987 Brundtland report definition of sustainable development, i.e., “*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*”. The CP then refers to the 17 United Nations Sustainable Development Goals (UN SDGs).

We consider that the Brundtland report definition provides a good starting point. However, we are concerned that, although the CP refers to the UN SDGs, they are not used as a basis for any analysis and nor do they underpin any of the IPSASB’s preliminary views. UN member countries have committed themselves to achieving the UN SDGs. It follows that sustainability, in a public sector context, should focus on countries’ progress towards achieving the UN SDGs. We consider that public sector-specific guidance on sustainability reporting will only meet users’ needs if the guidance adopts a definition of sustainability that is anchored to the UN SDGs and consistently applies that definition throughout the guidance material.

Conclusions

We recommend that the IPSASB adopts a definition of sustainability that is founded on the UN SDGs.

Identifying primary users and their information needs

We agree in principle that there is a need for an international response to the “*growing demand from stakeholders for global sustainability reporting guidance for the public sector in order to contribute to the delivery of sustainable development and to address climate change.*”

That said, we consider that the CP does not clearly describe the main purpose of public sector-specific sustainability reporting or why there might be a need to publish guidance material.

Paragraphs 2.4 and 2.5 of the IPSASB’s Public Sector Conceptual Framework provide a useful starting point for considering this issue.

Paragraph 2.4 states that “*GPFRs of public sector entities should respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.*”

Paragraph 2.5 states that “*citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs.*”

Citizens are also the primary users of sustainability disclosures. Their sustainability information needs can be viewed from three distinct perspectives.

1. Individual public sector entity reporting – This reporting should relate to the risks and opportunities arising from climate change and other sustainability-related matters which impact how a public sector entity operates, where it invests its resources and how it can continue to provide public services sustainably for future generations. Users also need service delivery-related information in relation to such matters as the entity’s impact on the environment.
2. All-of-government reporting – This reporting should provide information about the impact of the whole of the public sector’s activities on the advancement of a jurisdiction’s sustainable development objectives, along with information about the government’s contribution in relation to climate risks and opportunities and other sustainability related issues. This should include reporting on the full range of impacts that the government’s activities, resources, and relationships have across the economy and in terms of impact on the natural environment.
3. All-of-country reporting (and state or provincial-level reporting for countries with federal structures) – This reporting should provide the public with consistent and easily accessible information about how a country is tracking against its global and national sustainability targets, performance measures and reporting obligations. It should provide a sound basis for all-of-country reporting in relation to:
 - (a) the UN SDGs;
 - (b) national climate-related commitments made under the Paris Agreement;
 - (c) any other sustainability-related international commitments; and
 - (d) national sustainability and climate-related strategies, transition plans and programmes.

All three relate to the advancement of sustainability goals. However, the types of information that needs to be disclosed will differ depending on which of the three perspectives is being taken. The first perspective relates to accountability to citizens at a micro level. The second relates to the same things, but at a macro level. Public sector entities and the public sector collectively should disclose information about the contributions they are making to the achievement of the government’s sustainability goals and their environmental and other sustainability impacts.

The third perspective is much broader. It is also about whether public policies and initiatives are in place to meet global and national sustainability goals and targets. In our experience, users want to see information that explains the timeframes and forecasts for a country’s sustainability development goals (established through public policy), and how the country is currently tracking against these forecasts. At an international level, users would like to see a unified platform of agreed measures for assessing global efforts in response to meeting sustainability development goals. The public sector is in the unique position of having the ability to report at an all-of-country perspective.

Conclusions

The CP is incomplete because the three-tier framework for considering public sector sustainability reporting outlined above is not fully identified or discussed. It is difficult to provide support for this initiative without having first increased clarity on its scope and whether the guidance will seek to address the user-needs of all three perspectives.

The IPSASB should also be mindful that there are already frameworks and guidance in place (or in development) for sustainability reporting. As the CP notes, the United Nations and other organisations, such as GRI, have invested significant resources into the development of sustainability development frameworks and standards. Therefore, a much stronger case needs to be made to justify entry by the IPSASB into this area. The IPSASB would need to clearly articulate the problem that public sector-specific sustainability reporting guidance is seeking to resolve from a user-needs and public accountability perspective.

We recommend that the IPSASB should research these issues and publish a second consultation paper before making any decisions about whether to enter the sustainability standards-making arena.

An indigenous peoples' perspective on sustainability

In our experience, indigenous people put the long-term, intergenerational wellbeing of nature and people at the forefront of their core values. We are acutely aware of this in Aotearoa New Zealand because of the public sector's obligations under the Treaty of Waitangi (Te Tiriti o Waitangi), which establishes a constitutional relationship between Māori and the Crown. Indigenous people are a key stakeholder in taking sustainability reporting forward. As the original guardians of the land, their unique perspective and values formed from many years of practising sustainability-like values are invaluable.

Conclusions

We encourage the IPSASB, if it takes this initiative forward, to develop a roadmap explaining the basis for development for public sector specific sustainability reporting guidance. A key aspect of this should be the consideration of the indigenous people perspective throughout each development phase.

Appendix B – Responses to specific questions raised in the Consultation Paper

IPSASB 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?

In principle, we agree there is a need for global public sector-specific sustainability reporting guidance (or standards). The activities, policies and sustainability-related initiatives of the public sector at both central and local government levels have a significant impact and influence on whether sustainability development goals are achieved.

The public sector has a critical role in showing leadership to support the achievement of sustainability development goals at national and international levels. This leadership will be demonstrated through reporting that illustrates the transition plans and progress made towards delivering its services to the public in a sustainable manner, and the success of public policy to support the collective sustainability-related efforts required by all sectors and citizens.

The development of global public sector specific sustainability reporting guidance will promote the provision of consistent and transparent information between different jurisdictions. This will allow for a more accurate and reliable assessment of global efforts in response to the many urgent sustainability issues which are demanding a collective global response. However, the guidance will need to be flexible enough to pull together the most relevant information from the multitude of existing national and international sustainability frameworks.

We consider that consistent and transparent accounting by governments and other public sector entities across the globe is best achieved by having one board that is responsible for developing and issuing applicable guidance and/or standards. Whether this is best taken forward by the IPSASB or another international organisation will be contingent upon the IPSASB addressing the *foundational questions* that are discussed in **Appendix A**.

IPSASB 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?

We have not yet reached a conclusion on IPSASB Preliminary View 2. The IPSASB's public sector standard-setting experience has to date been focused on financial reporting. It is unclear whether it has the necessary skills and experience to develop high quality global public sector specific sustainability reporting guidance. This financial reporting experience is only one part of what is needed to effectively develop guidance or standards for this new area of reporting.

The XRB, as the national accounting, auditing, and assurance standard-setter, commenced work on the development of a Climate-related Disclosure Framework for Aotearoa New Zealand following the enactment of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021. This Act introduced mandatory climate-related reporting for large listed and financial sector entities and tasked the XRB with issuing climate reporting standards to support the new reporting regime. A significant increase in appropriation was provided.

We learned that while our accounting, auditing and assurance standard-setting experience was very useful, the nature of climate reporting and the expertise required meant the development could not be led by accountants alone and required a multi-disciplinary approach. This required building a new staff team with expertise in the natural environment, climate change, greenhouse gas emissions, emissions trading, scenario analysis and broader sustainability-related topics. It also required employing staff with experience in sustainability reporting frameworks, such as the TCFD's recommendations and guidance and the UN SDGs.

Based on our experience, it would be essential for the IPSASB:

- (a) to add sustainability expertise to the Board and staff;
- (b) to apply the same focus on high quality (including the same level of Board deliberation and public consultation) as it applies to the development of public sector accounting standards – very likely more effort (and time) will be required because the IPSASB does not have a sustainability-focused reporting conceptual framework from which to inform its decisions; and
- (c) to ensure it has an enduring and sufficient base of funding and other resources to be able to meet the demand for guidance and standards in this area.

If the IPSASB were to take this project forward, we would encourage it to establish a separate team of staff and a separate Board to ensure the appropriate mixture of expertise and focus is given to this new area of reporting.

Specific Matter for Comment 1 – Chapter 3

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?

We have three main points.

1. Climate change is the top priority.
2. The IPSASB should clarify the scope and purpose of guidance before attempting to prioritise work on other sustainability topics.
3. Prioritisation decisions should be demand-driven.

We discuss these points below.

Climate change is the top priority

There is general agreement among New Zealand stakeholders that the way the public sector is responding to the climate emergency is the most pressing sustainability issue.

Many respondents noted that climate-related reporting by the public sector should address both the impact of public policy on a country achieving its national and international climate-change development goals and the impact of climate change on the public sector reporting entity (including the entity's adaptation plans).

Other responders questioned whether global public sector-specific climate-related disclosures would be useful, given that there are already reporting obligations at a country-level based on national and international frameworks such as the UN Convention Framework on Climate Change, the Kyoto Protocol, and the Paris Agreement.

If the IPSASB takes this initiative forward, we appreciate the pressing need to start with climate-related disclosures as its first topic. However, we would encourage the IPSASB to first consider the three different public sector reporting perspectives we refer to in Appendix A of this submission. The IPSASB should also be clear about what will and will not be within the scope of global public sector-specific sustainability guidance and why.

Clarifying the scope and purpose of guidance should come first

We consider that the IPSASB should thoroughly consider the foundational issues described in **Appendix A** of our submission before attempting to develop guidance on particular topics. It is critical to first acknowledge that public sector primary users (citizens) and for-profit primary users (investors) are different and that they consequentially have very different information needs. This will help address the question of whether other international and national sustainability frameworks, standards and guidance (both private and public sector-focused) can be used as a starting point for developing global public sector-specific reporting guidance on specific topics.

Prioritisation decisions should be demand-driven

Sustainability reporting potentially covers a wide range of environmental, social and governance topics. All are individually important, but we agree that some form of prioritisation will be required. We suggest taking user-needs focused approach based on the information demanded by citizens to hold governments to account, and the information needed by policymakers to encourage improved public sector sustainability management.

We are unsure whether the IPSASB targeted its usual circle of stakeholders in relation to the CP, or whether it made efforts to reach out to a wider group of stakeholders. Regardless, if the IPSASB decides to take this initiative forward, we would recommend that it consult broadly, first on the foundational issues, and then on prioritisation. We would emphasise the need to consult with indigenous peoples to obtain a broader perspective on what sustainability means and how to achieve it.

IPSASB Preliminary View 3

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

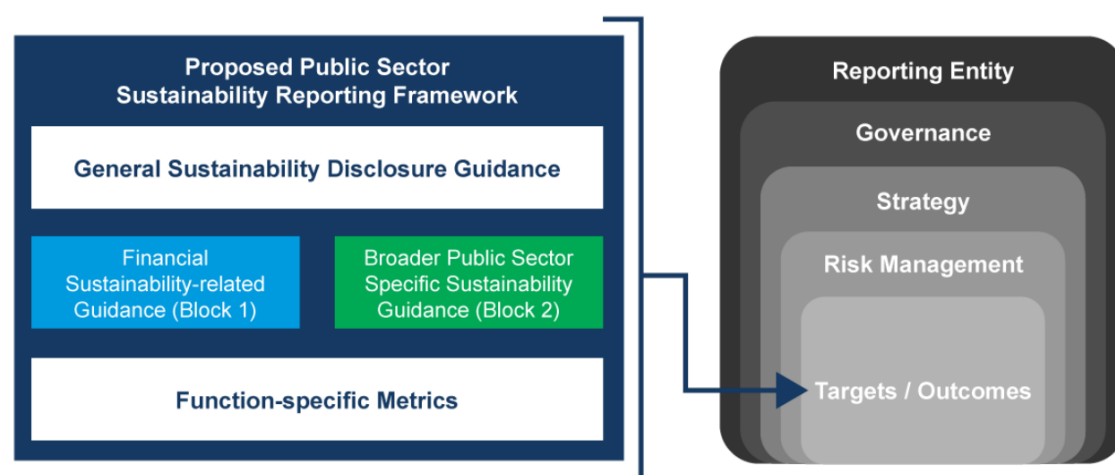
In developing such guidance, the IPSASB would work in collaboration with other international bodies, where appropriate, through the application of its current processes.

Do you agree with the IPSASB's Preliminary View?

Figure 5

The resulting proposed public sector specific sustainability reporting framework is shown in Figure 5 below. The proposed framework would be consistent with the [Task Force on Climate-related Financial Disclosures \(TCFD\) recommendations](#) by enabling the reporting entity to disclose the governance, strategy and risk management arrangements it adopts to manage and monitor delivery of its defined targets / outcomes. It would also support implementation of the [International Framework: Good Governance in the Public Sector](#).

Figure 5: Potential Framework for Public Sector Specific Sustainability Reporting Guidance



The Figure 5 framework is largely modelled on the TCFD framework. We do not support this approach. TCFD is not fit for public sector sustainability reporting purposes because:

1. the TCFD framework was designed for a fundamentally different purpose. The purpose of TCFD reporting is to help identify the information needed by investors, lenders and insurance underwriters to appropriately assess and price climate-related risks and opportunities¹;
2. the enterprise value concept has little, if any relevance to most public sector entities, particularly those that are focused on delivering services that improve the wellbeing of its citizens; and

¹ Recommendations of the Task Force on Climate-related Disclosures, June 2017, iii.

3. as noted elsewhere in our submission:

- (a) primary users are different (citizens, not investors); and
- (b) primary users' information needs are different. TCFD reporting is largely aimed at disclosing the risk and opportunity-related impacts that climate change has on the entity. Although this is a secondary objective of reporting by public sector entities, the main emphasis of the disclosures should be on the manner in which the entity is contributing to national and international sustainability development goals.

In addition, any framework developed by the IPSASB should take account of citizens' different information needs for the three tiers of public sector reporting, i.e., individual entity reporting, all-of-government reporting and all-of-country reporting – see Appendix A of our submission.

We recommend the IPSASB carries out an analysis of public sector user needs in the area of sustainability, develop a revised framework reflecting those needs, and consult with stakeholders on the revised framework.

IPSASB Preliminary View 4

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

Do you agree with the IPSASB's Preliminary View?

We agree that if the necessary enablers to take this initiative forward are achieved, the IPSAB should address general sustainability-related information and climate-related disclosures as its first topics. This approach appears appropriate given the urgent need to make major changes in response to the global climate crisis.

However, we emphasise the need to first achieve greater clarity concerning the intended scope, purpose, user perspective and intended outcomes of public sector specific sustainability guidance before commencing the development of guidance material (as discussed in **Appendix A** and in response to **SMC 1**).

IPSASB 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?

The key enablers outlined in paragraph 4.2 of the CP comprise:

- (a) appropriate resourcing;
- (b) an 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 standards; and
- (e) dialogue with national standard setters.

We agree that all five enablers identified in paragraph 4.2 are required for the IPSASB to be successful in the development of global public sector specific sustainability reporting guidance. In particular, it would be essential for the IPSASB to have Board and staff members with specific experience and knowledge in sustainability reporting.

Separate board

We would be concerned if the development of sustainability guidance was taken forward by the current Board which already has a heavy workload over the next two to three years completing major ongoing financial reporting related projects – revenue, transfer, expenses, measurement, and concessionary leases.

If the IPSASB takes this initiative forward, we strongly encourage the consideration of establishing a separate board. It will be essential to prioritise funding from the outset, to ensure the IPSASB can deliver quality standards in a timely manner, particularly given the urgent need in relation to climate change.

International credibility

We consider that there is an additional key enabler: sustainability-related guidance should have international credibility. There are significant risks that the guidance will not be widely adopted should there be credibility issues. The IPSASB is internationally recognised for issuing high-quality accounting standards mainly focused on financial reporting. However, it will need to build credibility in developing sustainability reporting guidance.

The success of the IPSASB in achieving international credibility will largely depend on its ability to bring various international organisations together that are currently focused on the efforts of governments to achieve global sustainability development goals and climate-change targets. It will be critical for the IPSASB to bring organisations together such as the United Nations, OECD, World Bank, and IMF to form a consistent view on the general purpose information that should be reported by the public sector. We

note the IPSASB already has a close relationship with these global organisations. Their ongoing public support of the IPSASB taking this initiative forward will be critical.

Guidance or standards

Connected to the enabler of achieving international credibility, is whether the advancement of consistent, transparent, useful, and reliable reporting on sustainability by the public sector, that are internationally adopted, can be best achieved through the issuance of guidance or standards.

Respondents to the CP in New Zealand pointed to other guidance issued by the IPSASB in the form of Recommended Practice Guides (RPGs) on reporting service performance information, long term sustainability of a public sector's finances, and financial statement discussion and analysis. Significant effort was made in developing these guides and they are useful documents, but they have not been broadly adopted globally by the public sector.

We appreciate the IPSASB has not made any final decisions regarding what format public sector specific sustainability reporting guidance might take, but we highly recommend the development of standards given their increased authority.

Specific Matter for Comment 2

To what extent would you be willing to contribute financial or other support to the IPSASB for the development of global public sector specific sustainability reporting guidance?

We currently provide financial support to the IPSASB to advance its existing work programme, which is primarily focused on developing and maintaining accounting standards and other high-quality financial reporting guidance for the public sector. We also provide other support through sponsoring board member and technical advisor representation on the IPSASB. In addition, we provide technical support through staff-to-staff contact and membership on IPSASB task forces.

If the IPSASB were to receive global stakeholder support to commence the development of public sector specific sustainability reporting guidance, we would consider what additional financial or other support we could provide. Any additional support would be contingent upon the IPSASB first developing a clear purpose, scope and framework for the development of global public sector specific sustainability reporting guidance.

We are supportive of the IPSASB taking forward the discussion on advancing the development of global public sector-specific sustainability reporting. We would be pleased to share our learnings from the development of a climate-related disclosure framework in New Zealand, which was issued for public consultation in July 2022.

We also anticipate that the XRB, as a national-standard setter, will gain further knowledge and experience because we have been empowered to issue non-binding guidance on non-financial reporting, including sustainability reporting. We intend to start using this power in 2023.

In New Zealand, we also have public sector experience reporting against sustainability development goals and experience developing sustainability-related standards.

Given our knowledge and experience, we would welcome the opportunity to contribute to and be part of the IPSASB's Sustainability Project Reference Group.