

Report

To: Charities SORP Committee

From: Sarah Sheen, CIPFA, Secretary

Date: 26 January 2022

Subject: Sustainability Reporting and the SORP

Purpose

The purpose of this report is to consider the views of the Engagement Strands on sustainability reporting

Report

1. Introduction

- 1.1 The Engagement Strands were sent a briefing on 22 November 2021 to consider whether a case can be made for changing the requirements in the SORP for sustainability reporting. At its last meeting the Charities SORP Committee also received a presentation from the Department for Business, Energy & Industrial Strategy on its proposed approach to sustainability reporting.
- 1.2 The joint SORP-making body received responses from all seven Engagement Strands:
- Academics and regulators and proxies for the public interest (ARPPi)
 - Trustees (T)
 - Larger charities (L)
 - Smaller charities and independent examiners (SCiE)
 - Professional and Technical (A) (PTA), and
 - Professional and Technical (B) (PTB)
 - Major Funders & Donors and Government & Public Bodies (MFDGPB).
- 1.3 This report summarises the responses received and seeks the SORP Committee's views on any potential approach to requirements for expenditure classification.
- 1.4 The briefing paper for the Engagement Strands considered:
- The current reporting provisions in the SORP on sustainability reporting where there is little direct prescription with the exception of larger charities reporting on social, environmental and

ethical prescriptions with regard to its investments. Though arguably, reporting on principal risks and uncertainties (Charities SORP paragraph 1.46) and for larger charities on the significant positive and negative factors which have affected the achievement of their objectives (Charities SORP paragraph 1.45) should include at least some commentary on environmental issues.

- The impact of COP 26 led to the creation of the International Sustainability Standards Board (ISSB) which has been established to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. The ISSB's proposals on its presentation approach, will cover the general approach for disclosure of material information. 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.
- The government plans to set requirements for certain companies to provide TCFD disclosures in their Strategic Report. These are expected to take effect from 2022.
- Three suggested options:
 - No change (voluntary sustainability reporting).
 - Mandatory sustainability reporting.
 - 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 [The Companies \(Directors' Report\) and Limited Liability Partnerships \(Energy and Carbon Report\) Regulations 2018, as applied to Charitable Companies - Update](#)) as advisory practice.
- Differing options were put forward for proposed changes.

1.5 The Secretariat would note that the default position of the SORP-making body is that if a case for change is not made for a particular topic, then the provisions of the SORP in relation to that topic will remain as they are at the drafting stage.

1.6 Annex 1 provides a summary of the responses of each of the Engagement Strands on the issue. Note that the original briefing paper was sent to Charities SORP Committee members alongside the Committee's papers for its 12 January 2022 meeting and due to its size it has not, as is usual practice, been attached to this summary report.

2. Options Considered Including Advantages and Disadvantages

Introduction

2.1 Not all the engagement strands appeared to be directly following the three suggested options outlined in the Briefing and in paragraph 1.4 above. The responses do not appear to coalesce around any favoured options, however, there appears to be consensus around the following:

- the importance of sustainability reporting and the impact of sustainability in the charity sector
- that the reporting is currently evolving across all sectors (but that there is considerable work underway, particularly highlighting the work of government, FRC and ISSB)
- that any reporting suggested must recognise the amount of work necessary to properly undertake sustainability reporting and that any approach should consider its impact on small charities.

2.2 Table 1 below summarises the variety of conclusions of the engagement strands, in addition to the headings below the engagement strands provided either explicit or implicit references to tiered reporting.

Table 1: Summary of Conclusions or Concluding Remarks on Sustainability Reporting

	Conclusions	Engagement Strands
1	<p>Consider the Impact on Smaller Charities</p> <ul style="list-style-type: none"> • The SORP should consider the impact on (and that it might be onerous for) smaller charities, particularly from a resource perspective. • It should avoid being mandatory for smaller charities. • Smaller charities could find it difficult to understand how to apply this to their organisation. • Problems associated with measurement and the effect of margins of error in small numbers. • In terms of a tiered reporting approach, the smallest charities could be asked to state whether they had a policy on climate change and, if so, what that policy is and what they are doing to achieve that policy. 	T, PTB, Regulator member of ARPPI, SCIE and MFDGPB
2	<p>A Measured Approach</p> <ul style="list-style-type: none"> • The SORP Committee should take a measured approach to change. 	T
3	<p>The Charities Sector Must Have a Focus on Sustainability Reporting</p> <ul style="list-style-type: none"> • An engagement strand commented that it was not conscionable that SORP/charity accounting would not make a significant effort as part of the current review to address sustainability reporting. Another commented on the potential social consequences of inaction on this topic are great. The sector should strive to lead best practice in this space. • To meet funder expectations charities do need to start to address the Environmental element of – environmental, social and governance (ESG) in their trustees’ annual report. • Trustees should consider the need to report the environmental aspect in the trustees’ annual report with a focus on the needs of stakeholders (funders, beneficiaries etc), their overriding charitable objects and proportionality, ie whether it is appropriate for the reporting charity. 	PTB, L, PTA, ARPPI
4	<p>Voluntary Approach</p> <ul style="list-style-type: none"> • The SORP should encourage voluntary sustainability reporting. 	T, PTA,

	Conclusions	Engagement Strands
	<ul style="list-style-type: none"> • One engagement strand (PTA) expressed general discomfort about sustainability requirements being included as a “must”. 	
5	<p>Sustainability Reporting is Still Developing/Evolving</p> <ul style="list-style-type: none"> • Climate change reporting is evolving across all sectors of the economy. Sustainability reporting is too much of a ‘movable feast’ for any meaningful application to the charity sector to be introduced wholesale. • There is not yet an agreed scope or definition for sustainability reporting (versus ESG reporting, for example). Without this there is a risk that any mandatory guidance could quickly become outdated. • Several new sources of guidance (not charity specific) are expected to be issued within the next 6-12 months, including from the International Sustainability Standards Board (ISSB) • A regulator noted concern that recent FRC and international developments on this topic will likely not have settled in time for the publication of the SORP in January 2024. • Some commentaries indicated that it would be better to progress when reporting is more ‘settled’. The alternative view was provided by the same engagement strand ie that sustainability reporting will become a requirement for many types of organisations, and it may be more beneficial for charities to be proactive in shaping requirements that suited charities circumstances. • One of the suggestions made under this theme was to add something that required disclosure but signposts to other guidance outside of SORP. Another suggestion was that SORP development should attempt to future proof the edition under development, so that when it is published, it is fit for purpose. An additional suggestion was that the SORP Committee leave drafting of this matter till the end of 2022, so that it can take a view on the latest developments. 	T, PTB, L, A proxy for the public interest member of ARPPI, A Regulator Member of ARPPI, MFDGPB
6	<p>Mandatory Reporting (for certain tiers only)</p> <ul style="list-style-type: none"> • There was support from an individual for a mandatory approach for environment reporting, at least for charities above a certain size. Suggestions included: <ul style="list-style-type: none"> ○ Extending the emission reporting requirements followed by the very largest charities to all charities above the SORP’s ‘small charity’ threshold. ○ Supplementing emissions reporting with narrative disclosure covering other aspects of environmental reporting. 	A proxy for the public interest member of ARPPI

	Conclusions	Engagement Strands
7	<p>Opposition to a Mandatory Approach</p> <ul style="list-style-type: none"> • Reasons given for not supporting a mandatory approach included: <ul style="list-style-type: none"> ○ Charities would be describing what sustainability means to them in a good trustees' annual report. Reporting may also be included in grant monitoring. ○ Mandatory reporting could lead to some charities having mission drift whereby they focus on their environmental and sustainability impact to the detriment of their own objectives. ○ Disclosures of this type could tend to become boilerplate for smaller charities. ○ 'Sustainability' covers a very wide, complex area. Smaller charities could find it difficult to understand how to apply this to their organisation. 	A regulator member of ARPPI, SCIE
8	<p>A Blended Approach</p> <ul style="list-style-type: none"> • There was support for the blended approach for wider sustainability reporting the Committee should: <ul style="list-style-type: none"> ○ Agree a review mechanism to enable timely evaluation of a blended approach. ○ Adopt a principles-based approach to any mandatory disclosures in the Trustee Annual Report. ○ Use of information sheets as a repository for other legal requirements and voluntary guidance that can be updated on a timely basis, outside of full SORP review cycle. • Broaden out the achievements and performance guidance in/alongside the SORP to mention sustainability issues specifically. • Refer to climate/environment effects in para 3.14 of the SORP as something to bear in mind when assessing the ability to continue as a going concern. 	A proxy for the public interest member of ARPPI, SCIE
9	<p>Use or Learn from (Other) Experience, Practice and Reporting Requirements</p> <ul style="list-style-type: none"> • A review of the sustainability reporting being produced by larger charities and commercial entities could provide insight into what would work best for the charitable sector. • Assess whether section 172 of the Companies Act 2006 could be more broadly applied to the sector in terms of encouraging trustees to take a balanced approach to decision making, framing decisions in terms of (charitable) purpose, people and planet and considering a range of stakeholder interests (as promoted in the Charity Governance Code). • Climate change reporting should not reinvent the wheel and should follow developments elsewhere. Currently it would make 	T, PTB

	Conclusions	Engagement Strands
	<p>sense for the larger charities to follow an adapted TCFD reporting approach</p> <ul style="list-style-type: none"> The largest charities could be required to report in a way that is consistent with the way other UK sectors are or will be reporting (i.e. TCFD reporting). 	
10	<p>Specific Recommendations</p> <ul style="list-style-type: none"> An Engagement Strand would like 'should' changed to 'must' in Paragraph 1.47. Provide good examples of relevant reporting in the SORP, with a checklist of matters that should be considered All charities should be required to state what they are doing regarding sustainability. A module in the SORP with examples/guidance on the kinds of things that are relevant will assist charities in understanding the reporting requirements. One Engagement Strand suggested a separate heading on sustainability in the trustees' annual report. Guidance which encourages trustees to tell their charity's story effectively is welcomed. SORP para 1.20 could be broadened in terms of adding a few examples of what 'wider benefits to society' could be referred to. Consideration of how the investment reporting already in place can be enhanced to draw out issues on sustainability ie what the charity is doing and why. The SORP could do more to encourage charities and their trustees to consider, act and report on how they can act more sustainably, in the widest sense. There was benefit in the SORP mirroring wider UK and global initiatives and accountancy frameworks where it is proportionate to do so and in keeping with the specifics of charity regulation. Caution against an approach that might drive tick-box compliance without influencing behaviour to the greatest effect. The SORP guidance can give examples and sign-posting to other sources of information. 	MFDGP, SCIE, two regulator members of ARPPI, L,

Concluding Remarks on the Possible Ways Forward

2.3 The table above demonstrates a significant range of views amongst the engagement strands and there are differing views as to which approach to take within the potential options available. There are several issues that arise relating to sustainability reporting. Although developments are in many ways still in their relatively early stages, particularly regarding how they might apply outside the corporate area, there is, however, practice currently available including within the sector for larger charities. There are also diverging views (including within the same Engagement Strand) as to

whether the Charities SORP should lead the way for the sector or wait to see where (best) practice develops.

- 2.4 There are some strong views that as a sector, charities cannot ignore the impact of sustainability reporting and that doing nothing is not an option.
- 2.5 The engagement strands are concerned about the burden of reporting on charities but particularly on smaller charities.
- 2.6 There is also a clear debate about whether sustainability reporting should be mandated and if so which tier of charities should be subject to that mandate. In amongst that debate some engagement strand members caution against mandating an approach while there are some arguments that all charities should have at least some interest in reporting their environmental impact.

Recommendation	
1	<p>The Charities SORP Committee is invited to consider the views of the Engagement Strands summarised in the table above and consider the case for change.</p> <p>If there is a case for change based on the suggestions and recommendations set out above, in Annex 1 to this report or in the original briefing paper should they be taken forward into the development programme for the SORP?</p> <p>In particular, the Charities SORP Committee is invited to consider the common themes identified in the analysis of feedback from the Engagement Strands:</p> <ul style="list-style-type: none"> i. What should the SORP Committee’s approach be to the evolving reporting requirements for sustainability reporting? ii. Should the SORP mandate sustainability reporting, if yes, what form or focus should this take, and if not, what alternative approach should be taken? iii. Should a tiered reporting approach be used? If so, where should the focus/direction be? iv. Should there be a voluntary approach for sustainability reporting in the next edition of the SORP? v. Should there be a blended approach to sustainability reporting in the next edition of the SORP? vi. What should the approach be for small charities? How should the reporting burden be balanced? vii. Does the Charities SORP Committee have any commentaries on the individual recommendations?

3. Other comments

3.1 In addition to the conclusions on the options addressed in the preceding section there were several additional comments made by the engagement strands. They have only been included in the list below if they are additional points to those provided in Table 1 above:

- A recent survey showed that 8/10 charities have not yet thought about the issue of net zero. The SORP could be used to nudge the vast majorities of charities along on this issue (L)

- Sustainability reporting is not just about the reporting, it is about practice and therefore it is what a charity is doing to ensure it is a well-run effective organisation. Reporting is not an end in itself but is a catalyst for change (PTB).
- After COP26, the public and funders, may expect to see something on sustainability in a set of accounts, the SORP can assist with this. This was augmented by the comment that funders must be seen to be leaders on environmental reporting (PTA, PTB, L, MFDGPB).
- The FRC published a thematic review on 'Climate' in November 2020. It was noted that this had been useful in discussions with charitable company clients about how to approach compliance with energy and carbon reporting requirements (PTB, MFDGPB).
- There is a need to work out how all these requirements could fit into charity accounts, remove clutter, and make the flow of the accounts work (PTA).
- A charity's 'policies and procedures', covering items like SECR, safeguarding, health and safety, whistle-blowing etc. could be made available on the charity's website rather than all issues being reported on in the trustees' annual report (PTA).
- Clarity is needed over what is meant by "sustainability"; this could include financial, environmental, human resources, intellectual property, for instance (T).
- Sustainability reporting should be more clearly linked to a charity's ability to deliver impact (T)
- Several constraints on charities' ability to reduce carbon emissions were noted as part of a discussion about avoiding making unfair comparisons e.g. the RNLI needs to choose the most effective fuel for lifeboats, it is not possible to heat a cathedral with heat pump technology etc. (PTB).
- Trustees may be concerned that they may have acted ultra vires if they spend funds on those things not linked to the delivery of the charity's aims, such as activities to tackle climate change (T).
- Consumers are becoming more demanding that businesses operate in ethical and environmentally sound ways and charities will be judged in a similar manner (T, L MFDGPB).
- There is a risk that any requirements or guidance within the Charities SORP could become obsolete very quickly. A staggered approach introducing some guidelines in the next SORP might be more beneficial for the sector (PTB, T).
- There is a mismatch between the anticipated reporting period – 12 months from publication of accounts – to the future viability period of any charity, following publication of their accounts. (MFDGPB).
- The threshold for tiered reporting suggested by the Engagement Strand (£1m) may be too low when it comes to following the strictest climate change reporting requirements which could be included in the SORP (PTB).
- A view was expressed in favour of suggesting that at a high level any reporting requirements would need to be framed as a 'must' in SORP eg, 'charities must report on their actions' (L).
- Separate from reporting, the regulators have a role in signposting trustees to existing agencies/frameworks/initiatives etc (SCIE).
- Numerous requests for education and guidance, including guidance within the SORP and information sheets. With one engagement strand commenting 'Bringing this issue to life and what it means will help hugely, what are other organisations thinking and doing'.

Recommendation

- 2 The Charities SORP Committee is invited to consider the additional comments provided by the engagement strands including any other views from Annex 1 and consider whether this might impact on their comments on the issues arising in recommendation 1, or whether any might be relevant for the drafting stages.**

Feedback from Engagement Strands on Sustainability Reporting

Engagement Strand: Professional and Technical Group A
A. Options considered and Conclusions
<p>The engagement strand generally agreed that the social, economic and governance aspects of sustainability were already addressed by the current SORP to a greater extent than environmental.</p> <p>On the environmental aspect, the Engagement Strand agreed that trustees should consider the need to report in the trustees' annual report with a focus on the needs of stakeholders (funders, beneficiaries etc), their overriding charitable objects and proportionality, ie whether it is appropriate for the reporting charity. For smaller charities with investments these issues also need to be considered in their investment policies.</p> <p>There was general agreement that there should be some consideration of the climate in the relevant sections of the Charities SORP. However, it was not considered necessary to mandate such reporting.</p> <p>There was general discomfort about sustainability requirements being included as a "must". The trustees annual report should be relevant to what the charities objectives are, and the reporting should be relevant to that. The group did not support a position which led a charity to including a boiler plate commentary in the trustees' annual report</p>
B. Other comments
<ul style="list-style-type: none"> • Sustainability is a topic that charities are very interested in. • Charities are in a better position to report on sustainability than other types of organisations as they already look at impact and outputs in the trustees' annual report. Sustainability is part of the message and story of the charity. • After COP26, people, including funders, may expect to see something on sustainability in a set of accounts. Some funders already require information on sustainability issues, e.g. how the charity is going to achieve net zero. • Including additional reporting requirements in a revised SORP could be onerous for charities who do not have sustainability as a focus, particularly if requirements were mandated. For charities who have sustainability as a main issue, they will already report on this under the current requirements and there is scope for other charities to also do this. • Smaller charities found guidance on Streamlined Energy and Carbon Reporting (SECR) that already exists for larger charities useful in terms of what they could report on in relation to these issues. • There is an increasing number of requirements for the trustees' annual report. This can make for very repetitious reporting. For example. section 172 reporting and SECR. There is a need to work out how all these requirements could fit into charity accounts, remove clutter, and make the flow of the accounts work. • A charity's 'policies and procedures', covering items like SECR, safeguarding, health and safety, whistle-blowing etc. could be made available on the charity's website rather than all issues being reported on in the trustees' annual report. Links to these policies/reports could be included. It was acknowledged that not all charities have websites or may not be so

digitally competent, so some requirements in the trustees' annual report would still be necessary.

- Clear guidance is needed to charities as to what they must report. This could be in the SORP or in separate guidance.

Engagement Strand: Trustees

A. Options Considered by the Engagement Strand

Option 1: Maintain a voluntary reporting approach. The only mandated requirements would be those affecting certain charitable companies due to company law reporting requirements in the UK and Ireland.

Option 2: Introduce mandatory sustainability reporting.

Option 3: Adopt a blended approach to sustainability reporting e.g. mandatory disclosures in the Trustees' Annual Report but which are not designed to be a full and comprehensive sustainability report.

B. Conclusions

There was no unanimous consensus on which option would be preferred. There was consensus in favour of the following recommendations:

- The SORP Committee is urged to take 'baby steps' in its approach to applying sustainability reporting requirements to charities. A review of the sustainability reporting being produced by larger charities and commercial entities could provide insight into what would work best for the charitable sector. The SORP should encourage voluntary sustainability reporting.
- The 'think small first' approach was recommended. As small charities may not have the resources and internal capacity to undertake sustainability reporting well without support. Currently, sustainability reporting is too much of a 'movable feast' for any meaningful application to the charity sector to be introduced wholesale.
- Assess whether section 172 of the Companies Act 2006 could be more broadly applied to the sector in terms of encouraging trustees to take a balanced approach to decision making, framing decisions in terms of (charitable) purpose, people and planet and considering a range of stakeholder interests (as promoted in the Charity Governance Code).

C. Other Comments

The following additional comments were made by the Trustees Engagement Strand:

- Reporting on sustainability may be overwhelming.
- Trustees are already overburdened and therefore may not meaningfully engage with sustainability reporting.
- It is keen to encourage a 'think small first' and 'think non-financial expert' approach.

- Clarity is needed over what is meant by “sustainability”; this could include financial, environmental, human resources, intellectual property, for instance.
- As other sectors are in the early stages of reporting on sustainability, it may be better for charities to wait to introduce sustainability reporting. Given the limited resources at the disposal of some charities, it may be better to introduce sustainability reporting later, when it is better understood. For now, charities should be encouraged to include comment on sustainability if it appears that there is demand from their supporters for such information.
- Alternatively, sustainability reporting will become a requirement for many types of organisations, and it may be more beneficial for charities to be proactive in shaping requirements that suited their situations rather than having established requirements for other sectors transposed to charities later.
- If sustainability reporting is to be introduced, it should be more clearly linked to a charity’s ability to deliver impact.
- Some larger charities will already be voluntarily reporting on various aspects of sustainability and ESG. The sector could learn from these charities before introducing anything in the SORP.
- Sustainability reporting may be likened to investment decisions. Trustees already struggle with ethical investment decisions and that without clearer regulatory guidance on the matter few trustees would embrace the activity and its reporting.
- The issue of charitable funds only being expended on the charitable purposes of the entity was also raised with associated fears that trustees may be deemed to have acted ultra vires if they spend funds on those things not linked to the delivery of the charity’s aims, such as activities to tackle climate change.
- Section 172 of the Companies Act 2006 requires directors of charitable companies to promote the success of the company taking into consideration a wide range of factors and stakeholder interests. This might be a more strategic approach to addressing sustainability issues.
- If sustainability reporting is to be included in the trustees’ annual report, other requirements may have to be omitted to ensure annual reports and accounts continued to be a reasonable size.
- Care would need to be taken to avoid boiler plate reports being produced.
- Reputational risks to charities not engaging with sustainability issues were highlighted.
- Consumers are becoming more demanding that businesses operate in ethical and environmentally sound ways and charities will be judged in a similar manner. People support institutions that align with their personal values.
- Unless charities are clear in differentiating themselves from non-charitable social purpose entities in a range of areas, including sustainability and ESG, they risk becoming seen as less important to society.
- The sector should be proactive in responding to ESG challenges.
- As the SORP is not due to be implemented until 2024, the next opportunity to introduce relevant reporting requirements that meet the needs of the sector, supporters and the government may be too late. A staggered approach introducing some guidelines in the next SORP might therefore be more beneficial for the sector.

Engagement Strand: **Professional and Technical Group B**

A. Options considered and Conclusions

Climate change reporting is evolving across all sectors of the economy. This is something which is not well developed in the charity sector. To meet funder expectations, the Engagement Strand is of the view that charities do need to start to address the Environmental element of ESG in their trustees' annual report. Climate change reporting should not reinvent the wheel and should follow developments elsewhere. Currently it would make sense for the larger charities to follow an adapted TCFD reporting approach.

The introduction of requirements to report on climate impact/climate change could create challenges for charities in relation to data collection and access to expertise along with additional related costs. This could be onerous for smaller charities. In terms of a tiered approach, the smallest charities could be asked to state whether they had a policy on climate change and, if so, what that policy is and what they are doing to achieve that policy. The largest charities could be required to report in a way that is consistent with the way other UK sectors are or will be reporting (i.e. TCFD reporting).

B. Other Comments

- Sustainability reporting is not just about the reporting, it is about practice and therefore it is what a charity is doing to ensure it is a well-run effective organisation. Reporting is not an end in itself and is a catalyst for change.
- Funders will increasingly be asking charities for information about their environmental impact so there is a role for the Charities SORP in providing some requirements and guidance on this topic.
- There is a risk that any requirements or guidance within the Charities SORP could become obsolete very quickly, so it is likely to be necessary for guidance, for example, in the form of Information Sheets, to be developed to support charity reporting on this topic.
- The threshold for tiered reporting suggested by the Engagement Strand (£1m) may be too low a threshold when it comes to following the strictest climate change reporting requirements which could be included in the SORP. For charities below £1m using the SORP it may be sufficient for them to make disclosures around their policy on climate change or to be excluded altogether from any new requirements.
- It is envisaged that any requirements or guidance 'branded' as sustainability reporting would largely fall within the trustees' annual report module of the Charities SORP. However, with broader financial sustainability issues impacting on both the report and financial statements, SORP guidance and requirements on this important topic would be relevant to other modules.
- There may be a need for the terminology used in trustees' annual reports to be amended so that users know that what is being reported by a charity falls within the scope of sustainability reporting. The Charities SORP should distinguish between ESG related matters and financial sustainability. One way of doing this could be to not use the term 'sustainability' in relation to both ESG related matters and financial sustainability related matters.
- An aspect of sustainability reporting which needs to be recognised is the sustainability of charity's income and therefore its ability to achieve its budgeted/ forecast income for 12 months and more beyond the date the financial statements are approved.
- Sustainability reporting includes consideration of how a charity has achieved its impacts. For example, whether a charity is delivering its purposes and its current strategic objectives in an environmentally sustainable way.
- The FRC published a thematic review on 'Climate' in November 2020. It was noted that this had been useful in discussions with charitable company clients about how to approach compliance with energy and carbon reporting requirements.

- Several constraints on charities' ability to reduce carbon emissions were noted as part of a discussion about avoiding making unfair comparisons e.g. the RNLI needs to choose the most effective fuel for lifeboats, it is not possible to heat a cathedral with heat pump technology etc.
- The Engagement Strand also discussed climate change reporting in the context of charities holding material investments.

Engagement Strand: Large Charities

A. Options considered and Conclusions

This is an important topic and the SORP should include something on the sustainability. It is not conscionable that SORP/charity accounting would not make a significant effort as part of the current review to address Sustainability Reporting.

All charities should be required to state what they are doing regarding sustainability. A module in the SORP with examples/guidance on the kinds of things that are relevant will guide charities. If they are doing nothing or there is very little they can do/influence, they should state this (very much following the reporting on reserves approach).

The SORP guidance can give examples and sign-posting to other sources of information

The Engagement Strand recommends consideration of how the investment reporting already in place can be enhanced to draw out issues on sustainability i.e. what the charity is doing and why.

All of this would find form in enhanced reporting in the trustees' annual report with a suggestion of a separate heading on sustainability.

B. Other Comments

The Larger Charities Engagement Strand made the following additional comments:

- ESG reporting is a very real issue especially considering COP26 and the direction of travel.
- The whole area is very fluid in terms of best practice, requirements, guidance etc. The SORP could take a lead in defining the issues.
- The potential for an additional reporting burden was acknowledged, but members of the Engagement Strand considered sustainability to be such a significant issue that it should be considered in the SORP.
- Charities with significant investments can put pressure on who they hold investment with to consider sustainability issues.
- Strict compliance with rules may not be the way to go at this moment in time; raising awareness may be the right approach at present.
- A recent survey showed that 8/10 charities have not yet thought about the issue of net zero. The SORP could be used to nudge the vast majorities of charities along on this issue.
- Charities, as public benefit entities, are looked upon to drive forward work on sustainability. This is an opportunity for charities to demonstrate what a positive difference they make to society.
- A tiered approach to reporting could be considered.

- There is a need to avoid the SORP becoming out of date and that this would be a risk as this topic is evolving. A suggestion was made to add something that required disclosure but signposts to other guidance outside of SORP.
- The aspiration space should not be to have this as another reporting burden but somewhere where the sector can get ahead of the game.
- A view was expressed in favour of suggesting that at a high level any reporting requirements would need to be framed as a 'must' in SORP eg, 'charities must report on their actions'.
- The question of how any reporting is framed was raised – is this to be called ESG reporting?
- Responsible investments should be part of reporting requirements, but not the focus.
- Bringing this issue to life and what it means will help hugely, what are other organisations thinking and doing. The SORP will only really come to life if there is education about it.

Engagement Strand: Academics and regulators and proxies for the public interest

A. Conclusions

Three separate submissions were forwarded, with no conclusions/consensus drawn.

B. Other Comments

- Sustainability reporting is central to the charity sector, striking the core of its existing public benefit mandate. The potential social consequences of inaction on this topic are great. The sector should strive to lead best practice in this space.
- A proxy for the public interest noted member support for a mandatory approach for environment reporting, at least for charities above a certain size. As a minimum starting point, the proxy for the public interest recommended:
 - Extending the emission reporting requirements already followed by the very largest charities to all charities above the SORP's 'small charity' threshold.
 - Supplementing emissions reporting with narrative disclosure covering other aspects of environmental reporting, which should (i) be scalable relative to the size and nature of individual charity activities; and (ii) build on existing UK government guidance.
- A proxy for the public interest member noted support for the blended approach for wider sustainability reporting as set out in the briefing note, recommending that the Committee should:
 - Agree a review mechanism to enable timely evaluation of a blended approach and accelerate progress towards mandatory guidance outside the full SORP review cycle.
 - Adopt a principles-based approach to any mandatory disclosures in the Trustee Annual Report to enable charities to scale the content and volume of disclosure relative to the scale and nature of their activities.
 - Continue to make use of Information Sheets as a repository for other legal requirements and voluntary guidance that can be updated on a timely basis, outside of full SORP review cycle.
- A proxy for the public interest member noted that the SORP may not be the appropriate repository for mandatory sustainability reporting currently because:

- There is not yet an agreed scope or definition for sustainability reporting (versus ESG reporting, for example). Without this there is a risk that any mandatory guidance could quickly become outdated.
- Several new sources of guidance (not charity specific) are expected to be issued within the next 6-12 months, including from the International Sustainability Standards Board (ISSB).
- A regulator welcomed the idea that SORP could do more to encourage charities and their trustees to consider, act and report on how they can act more sustainably, in the widest sense. The regulator saw benefit in the SORP mirroring wider UK and global initiatives and accountancy frameworks where it is proportionate to do so and in keeping with the specifics of charity regulation.
- A regulator noted concern that recent FRC and international developments on this topic will likely not have settled in time for the publication of the SORP in January 2024.
- A regulator cautioned against an approach that might drive tick-box compliance without influencing behaviour to the greatest effect.
- A regulator with a constituency of mainly smaller charities did not support mandatory reporting:
 - Disclosures of this type could tend to become boilerplate for smaller charities.
 - ‘Sustainability’ covers a very wide, complex area. Smaller charities could find it difficult to understand how to apply this to their organisation.
 - Charities would be describing what sustainability means to them in a good TAR anyway. They may also be reporting on sustainability as part of any grant monitoring.
 - Mandatory reporting could lead to some charities having mission drift whereby they focus on their environmental and sustainability impact to the detriment of their own objectives.

The regulator’s preference would be for voluntary reporting to remain but with increased encouragement of it within the existing framework.

Engagement Strand: Smaller Charities and Independent Examiners

A. Options considered and Conclusions

The Engagement Strand is not keen on mandating disclosure for smaller charities, partly due to the risk of creating boilerplate disclosure and partly due to the cost and potential problems associated with measurement and the effect of margins of error in small numbers.

However, guidance which encourages trustees to tell their charity’s story effectively is welcomed. SORP para 1.20 could be broadened in terms of adding a few examples of what ‘wider benefits to society’ could be referred to, ‘if practicable’, to encourage voluntary reporting.

Conclusions/suggestions:

- Avoid mandating standard disclosures about relevant policies
- Broaden out the achievements and performance guidance in/alongside the SORP to mention sustainability issues specifically.

- Refer to climate/environment effects in para 3.14 of the SORP as something to bear in mind when assessing the ability to continue as a going concern.

B. Other Comments

The Smaller Charities and Independent Examiners Engagement Strand made the following additional comments:

- Determining appropriate policies and approaches may be a process of continuous reflection and evaluation as new ideas develop. Disclosures relating to policies on climate, social or human rights, labour practices, ethical or other sustainability issues etc are therefore best placed on, for example, a charity's website rather than being fixed in a document on the public record once a year.
- It is generally against the mandating of boiler plate type disclosures.
- Separate from reporting, the regulators have a role in signposting trustees to existing agencies/frameworks/initiatives etc. and generally promoting awareness, understanding and consideration of sustainability issues in the context of planning the charity's activities.
- Information regarding a charity's impact on the environment or its approaches to staff and workforce development etc. will be of interest to funders.
- The SORP has to tread a fairly careful path in being clear about what is required as opposed to being an educational manual in how to write impactful reports.

Engagement Strand: Major Funders & Donors and Government & Public Bodies

A. Options considered and Conclusions

Paragraph 1.47 of the SORP makes it clear that where the charity holds material financial investments, the extent to which it takes social, environmental, or ethical considerations into account in its investment policy, should be reported.

Recommendation: The Engagement Strand would like 'should' changed to 'must' in Paragraph 1.47.

Not many charities are currently voluntarily making disclosures as to how any property stocks held as investments are being updated/made 'greener' and how this will help to achieve carbon neutral. The SORP guidance on Investments could be expanded, perhaps with worked examples, to help a charity explain how it is looking to achieve carbon neutral status. Charities should also be trying to quantify these costs to ensure that over the next 5 - 10 years, say, they remain viable financially. It would help funders and the public to understand the charities' positions more clearly if the new SORP, in a worked example, has a checklist of matters that require consideration in the trustees' annua; report and accounts.

Recommendation: Provide good examples of relevant reporting in the SORP, with a checklist of matters that should be considered.

Subject to the tiered reporting changes that are being considered, it was suggested that, to avoid a burden of reporting for smaller charities, only charities within the highest reporting tier be required to include environmental reporting (at this stage). Smaller charities can voluntarily adopt this type of reporting, especially if it helps to 'tell their story'.

Recommendation: Charities in the smaller tier 'may' should be adopted for sustainability reporting, whereas charities in the highest tier should fall in the 'must' category.

Charities are likely to incur costs to reach net zero/carbon neutrality. The Engagement Strand suggested a checklist be added to the SORP to assist charities estimate these costs and indicate the effects on the future viability of the charity. An example is included as Appendix 1 to this Annex. If a 'consideration table/decision plan' could be included in reporting specifications for the trustees' annual report it would help funders contemplate the level of funding that might be required, or changes that might be required to the charity's reserves policy.

Recommendation: Include narrative reporting regarding the pathway to carbon neutral in the TAR for charities falling within the largest reporting tier.

Regulators should ensure that sustainability reporting forms a key part of the educational programme for the sector, the Engagement Strand sincerely recommends, that sustainability reporting is adopted into the new SORP.

B. Other Comments

The Major Funders & Donors and Government & Public Bodies made the following additional comments

- It is not appropriate to use paragraph 1.20 of the SORP to cover sustainability/environmental reporting. When the paragraph was originally drafted, there would have been scant regard to 'Sustainability' in its current environmental definition. Paragraph 1.20 was designed to help a charity tell its story. It is not appropriate to use this paragraph as a 'coverall'.
- In writing its report, the Engagement Strand considered:
 - The recent introduction of requirements for some UK public interest entities to report on aspects of climate change in terms of energy and carbon reporting
 - Para 1.47 of the current SORP regarding the recommendations in respect of investments policies
 - The FRC FRS 102 Factsheet 8
- Boilerplate disclosure should be avoided.
- Now is an opportunity for the charity sector to be taking the lead on environmental reporting. The Charities SORP should not be 'kicking the can down the road' and thinking that it is too early for this iteration of the SORP to include recommendations.
- The source of funders' own funds will also be scrutinised, in a 'practice what you preach' way. Funders must therefore be seen to be leaders on environmental reporting.
- It is not known what future goals will be achieved over the next few years (including consideration of the rearranged COP26 meeting, the ISSB and environmental reporting in FRS 102), therefore SORP development should attempt to future proof this edition, so that when it is published, it is fit for purpose.
- All charities can adopt policies regarding their own purchasing policies, their inhouse attitudes to recycling, heating, printing etc. Narrative in the TAR about these changes would be helpful to astute donors.
- There is a mismatch between the anticipated reporting period – 12 months from publication of accounts – to the future viability period of any charity, following publication of their accounts. For example, if a charity knows that in 3 years' time they will be replacing their fossil fuelled vehicles and they know that cost, it would be good for a donor to see that the charity is forward thinking.

- There is a need for an education programme to be commenced to make all charities aware of the challenges ahead and their need to plan and have adequate reserves to fund the concomitant costs.
- It suggested that the SORP Committee leave drafting of this matter till the end of 2022, when sustainability reporting developments will be another year down the line, much closer to the end dates intimated by the UK Government, and everyone should be better and more fully informed following reports from the ISSB, and the rescheduled 2022 meetings arising from COP26.

Appendix 1

Suggested checklist for inclusion in the SORP

Suggested by the Major Funders & Donors and Government & Public Bodies Engagement Strand

<i>Matter requiring consideration</i>	Will costs be incurred?	Estimated Charity Costs	Timeframe	Disclose?
<i>Buildings Occupied</i>	Y/N – Owned by Charity or Landlord?			
	What requires updating/changing			
	Met in full or funding required?			
<i>Vehicles</i>	Y/N – Owned or Leased?			
	What requires updating/changing			
	Met in full or funding required?			
<i>Staff Travel</i>	Can changes be made?			
	Can this be met by carbon offset?			
	Does recruitment need reviewing?			
<i>Etc etc etc</i>				