techUK
FOR WHAT COMES NEXT

techUK response to the Call for Evidence on Scope 3 Emissions in the UK Reporting Landscape

Introduction

techUK is a leading technology membership organisation, with more than 1000 members spread across the UK. We are a network that enables our members to learn from each other and grow in a way which contributes to the country.

By working collaboratively with the Government and others, we provide expert guidance and insight for our members and stakeholders about how to prepare for the future, anticipate change and realise the positive potential of technology in a fast-moving world. techUK launched in 2013 to champion the technology sector and prepare and empower the UK for what comes next, delivering a better future for people, society, the economy, and the planet.

Executive summary and list of recommendations

For all technology businesses, whether telecoms providers, data centres, ICT manufacturers, digital platforms or software providers, Scope 3 represents the largest share of their emissions and is the hardest to address. Overcoming this challenge has become a core part of many techUK members' sustainability efforts, and the adage "you can't fix what you can't measure" is very applicable here.

Member firms mostly define Scope 3 using the GHG Protocol categories and use a mixture of tools, software and manual counting to estimate figures. However, this is extremely challenging and different techniques tend to yield different figures. This is why techUK believes standardisation and harmonised approaches would be very beneficial, and we encourage the Government to engage with other jurisdictions to ensure Scope 3 reporting and/or ISSB implementation is as practical and straightforward as possible.

More generally, techUK members support the introduction of Scope 3 disclosures in the UK, provided that they are designed and implemented in a way that aligns with established and emerging requirements around the world. Scope 3 reporting is a global challenge and most firms that will be in scope operate internationally, so governments in all jurisdictions must avoid unnecessary duplication of requirements or conflicting rules.

Basing disclosures on the ISSB framework is a positive first step and techUK supports the adoption of this standard. We believe that the Government should adopt it in full to avoid creating overly complex reporting rules, as well as actively promote pragmatic and flexible approaches that will accommodate the variations in individual company circumstances.

Flexibility also plays a crucial role in discerning the diverse intricacies within value chains across various sectors and industries. These variations contribute to distinct challenges and opportunities in the characterisation and reporting of Scope 3 emissions, highlighting the importance of adaptability in navigating the complexities inherent to each sector.

The Government needs to prioritise proportionality, particularly for SMEs, to reflect differing company types. Allowing businesses to not report against all categories will be important, as not all will apply. Furthermore, reporting is a costly process and only a small number of techUK members have expertise here, and many of the firms that do will have a centralised team that does it on a global level. To reduce the costs and administrative burdens, firms should have the ability to only report against relevant categories.

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Answers to questions in the Call for Evidence

General questions

1. What is your company number? If you work for an LLP, please state so here.

94110

2. Where applicable, what percentage of your supply chain is within the UK, within the EU, outside of the UK and the EU?

Not applicable as techUK is responding on behalf of the sector.

3. What is your role in relation to company reporting? For example, are you a reporting entity, a company within the supply chain of a reporting entity, an investor and/or a user of accounts, contracted to report on behalf of a reporting entity, part of a consultancy firm, or part of a voluntary reporting scheme?

techUK is not obligated to report and the below answers are on behalf of the tech sector. Our key role is to help tech firms, particularly those with little experience of reporting, understand the requirements and help them with implementation.

4. What role does Scope 3 emissions reporting currently play in your organisation? If your organisation does report its Scope 3 emissions, which Scope 3 emissions categories are you currently reporting on and why? Is this

on a voluntary or mandatory basis? Please state whether you have done so in the past and, if you no longer report Scope 3 data, why.

techUK is responding on behalf of the sector, not on its own. However, there are some internal reflections that are applicable to SMEs. Firstly, the use of 'spend based' is a crude but effective way to report, particularly for low emission based organisations. Reporting against a voluntary standard (in our case Race To Zero) has been more flexible, and as techUK has few internal resources, there has had to be outsourcing which is an additional cost to the organisation.

Scope 3 GHG reporting questions

5. Do you agree or disagree with the ISSB's assessment of the value of Scope 3 information?

techUK generally believes that there is value in reporting Scope 3 information. We agree that it would provide more companies with a fuller understanding of emissions, prevent incomplete information on transition risks and make comparisons easier (although still significantly challenging – these challenges are discussed in the latter part of our response).

6. In general, what is your view on the approach to Scope 3 reporting contained within IFRS S2? Please consider the ISSB's approach to materiality in your answer.

The GHG Protocol outlines 15 Scope 3 emissions categories. However, although these categories provide a helpful guideline on what companies should consider, the reality is that not all of them will apply to every firm. By way of example, we received feedback from one of our members noting that only three categories accounted for a significant 90% of their emissions.

techUK therefore agrees with the approach proposed within IFRS S2 and advocates for a degree of flexibility that will allow firms to focus on the most pertinent categories and avoid reporting on inconsequential ones.

7. What is your view on the use of the GHG Protocol for the purposes of Scope 3 reporting within IFRS S2? Will this lead to comparable and consistent reporting that is useful for investors and users of accounts?

Many of our members use or provide software that incorporates the GHG Protocol methodology, which is why we believe that they offer the best approach for consistency. This being said, while the Government's intention to enable comparisons is acknowledged, it is deemed extremely challenging due to variations in individual company circumstances as well as the availability and quality of Scope 3 emissions data. As this is something that will be very difficult to overcome regardless of the method used for measuring emissions (at least until data quality improves), as per IFRS S2, future regulations should allow flexibility for alternative science-based emissions accounting methodologies.

8. Would using the ISSB's approach to Scope 3 reporting have knock-on consequences for your organisation that the Government should be aware of? For instance, you may wish to consider the interaction between IFRS S2 and any EU regulations, or other energy/emissions reporting requirements that your organisation may be impacted by.

Navigating multiple regulatory frameworks always introduces a layer of intricacy that can impact day-to-day operations. This being said, by the time Scope 3 reporting is required in the UK, many of our multinational members with an EU presence will already have to comply with the CSRD which uses the European Sustainability Reporting Standards (ESRS). Given that the EU's framework is arguably broader than the ISSB, companies that operate in both jurisdictions will be, by default, well prepared for the new requirements in the UK.

It would be beneficial if the Government embraced an approach that recognises compliance with ESRS as meeting the future disclosure requirements in the UK. This is based on the understanding that ESRS fully encompasses the ISSB framework, meaning that adherence to ESRS inherently ensures compliance with the ISSB.

It is also important to note that under the Corporate Sustainability Reporting Directive (CSRD), many companies will report at the total company level (consolidated level), and techUK urges the UK Government (and other jurisdictions) to recognise compliance with their local country requirements if a consolidated report is issued, rather than requiring a company-specific report, which may present a limited or misleading view of the company's impacts.

Furthermore, the Government should also consider that the lack of alignment will have a more significant impact on smaller UK companies looking to expand their operations to the EU, rather than the reverse scenario.

9. Is there any additional emissions or energy-consumption related data that is not required within IFRS S2 that you believe is valuable for investors, users of accounts and other stakeholders?

There may be additional metrics specific to company type. For instance, while Power Usage Effectiveness (PUE) is a widely recognised sustainability metric for data centre investors, it holds little relevance for a cybersecurity vendor or television manufacturer. Granting firms the flexibility to employ other relevant metrics well understood within their ecosystems will prove to be a valuable resource for investors.

Questions for reporting entities

10. What further guidance and support might be needed for your organisation, and organisations in your value chain, to report Scope 3 information in accordance with IFRS S2?

In order to increase businesses' confidence in making Scope 3 disclosures, we propose the implementation of a broad safe harbour from liability, at least for an initial period if mandatory reporting of Scope 3 emissions is introduced. This would apply to both third parties providing GHG emissions data and the companies relying on and reporting that data. Almost all organisations will base their Scope 3 emissions data on information received from external sources, whether that is a supplier, data provider or business partner.

Although techUK acknowledges that the ISSB framework recognises the challenges associated with obtaining and verifying Scope 3 information and allows the use of secondary data where primary data is not available, a safe harbour provision would foster transparency, reinforce confidence, help prevent reputational damage and potentially encourage voluntary Scope 3 reporting.

Once well established, the Government should reevaluate the safe harbour provision and support the industry with gradually transitioning to increased liability. This can include providing robust guidance, ensuring companies have ample resources and understanding of the reporting requirements.

Any enforcement that the Government is considering should start with warnings in the initial period of implementation and be progressively tightened in subsequent years, instilling a sense of regulatory pressure while allowing companies to adapt and improve their reporting practices over time.

Another consideration that the Government must make is the fact that, while mandatory reporting of Scope 3 emissions promises the positive outcome of making data more accessible and of higher quality, it also means that reporting entities will have to take responsibility for a broader range of emissions than they may have focused on previously, creating an illusion of a 'surge' in CO2 emissions. This, in turn, poses a challenge to established carbon targets and has the potential to generate confusion among businesses. The industry would welcome guidance from the Government on this matter.

11. If your organisation does not already prepare Scope 3 information, how long would you need to build the capacity and capability to do so?

Drawing inspiration from successful practices, we recommend a staged phasing-in approach, similar to the one adopted under the EU's CSRD where large business must do more sooner and smaller firms have longer to do less. This would provide businesses with the necessary time and support to adapt to the reporting requirements, as well as reflect the resources (and overall carbon footprint) of the different businesses in the economy.

Questions for investors and other users of accounts

12. How, if at all, do you expect to use the Scope 3 information that could be disclosed by businesses in accordance with IFRS S2? If you are an investor, how will this information influence your decision-making?

techUK cannot speak on behalf of the investment community. However, some members expressed concerns that Scope 3 emissions data provides limited value to investors. The industry's view is that it is a fair indication of risks associated with a company's value chain but, due to its estimative nature and the fact that emissions factors are often dated, an unreliable metric when compared to Scope 1 or 2.

13. If you are a user of annual reports, which of the Scope 3 GHG emissions categories do you most value information on and why?

One of our members disclosed that they tend to look most closely at annual changes in purchased goods and services, as well as capital goods categories. These categories are most material within Scope 3 of their key suppliers as, in many cases, they capture the impact of upstream manufacturing and material sourcing operations.

However, techUK's view is that it is not possible to decide which categories are most valuable on a general level due to the diverse nature of businesses and the varying accuracy in their emissions calculations.

14.When making investment decisions, does the usefulness of Scope 3 data vary depending on the sector and the size of the reporting organisation?

N/A

Costs and benefits of Scope 3 reporting questions

15. What are your views on the overall costs and benefits of Scope 3 reporting? Please be as specific as possible.

In principle, an all-encompassing Scope 3 reporting framework should equip companies with more robust information to effectively implement their decarbonisation and related strategies, as well as assist with comparisons among vendors. Despite the current limitation in the accuracy of Scope 3 data, the introduction of mandatory reporting stands as a crucial initial step towards achieving broad-based adoption.

16. What benefits could Scope 3 reporting bring to your organisation? Please be as precise as possible when explaining the basis of any benefits you provide. If you currently produce Scope 3 data voluntarily under SECR, please explain the benefits you have received and how they have changed over time.

Some benefits that members highlighted include becoming more aware of where their emissions sit, demonstrating real commitment to their climate commitments and facilitating productive discussions about sustainability with suppliers.

17. What costs could Scope 3 reporting bring to your organisation? Where possible, please give a breakdown of each element of cost. Please be as precise as possible when explaining the basis of any costings you provide. If you do currently produce Scope 3 data voluntarily under SECR, please explain the costs you have incurred and how they have changed over time.

A larger techUK member that voluntarily reports their Scope 3 emissions disclosed that their annual cost to 3rd parties such as accounting firms and consultants is around £30,000. Additionally, they allocate 0.2 full-time equivalent (FTE) to specialised sustainability roles and another cumulative 0.2 FTE spread across other functions.

Other members reported that their Scope 3 reporting costs are also predominantly related to dedicating internal resource to reporting. More specifically, 10-40% of their costs related to voluntary Scope 3 reporting are allocated to a full-time environmental/sustainability manager. Tools and systems that assist them with calculations are in the region of £10,000 – 15,000 per year, and 3rd party assurance costs an additional £10,000 per year.

Compared to Scope 1 and 2 costs, these are significantly higher figures that are likely to rise further as the expectation for more precise Scope 3 reporting inevitably grows.

It is also worth noting that the above members do not provide Scope 3 figures under SECR. One member explained that this is not practical because SECR requires entity-specific reporting which is difficult to apply to Scope 3 where value chains are across entities.

Questions for reporting entities

18. How are you approaching the issues around data availability in relation to Scope 3 reporting? Are you aware of any useful data sources, reporting tools, or resources (such as emissions factors) to help UK organisations report their Scope 3 emissions, and how are you tackling them?

There are several specialised sustainability reporting platforms that include supplier engagement tools designed to calculate emissions from activity data. However, these can be costly and it is often challenging for companies to find the right fit. Businesses have to make sure their chosen platform is compatible with Scope 3 categories that they consider material. A member within the transport industry, for example, will have to find a provider that is able to source granular transport emissions data.

19. What are, or do you anticipate being, the greatest barriers to producing consistent Scope 3 data?

Many emissions occur deep within supply chains where companies have no direct contractual relationships with suppliers and typically have little ability to obtain information from them. Even a willing supplier would need to allocate their emissions to hundreds or even thousands of clients and upload them to different platforms, which means that companies, no matter their size, will likely find themselves having to persuade their supply chains to agree to cooperate. We anticipate they will be unsuccessful in most cases.

Another barrier to producing consistent Scope 3 data lies in its inherent coarseness and reliance on industry averages, creating a natural challenge for companies to report accurate information. Members also reported that they currently receive diverse formats of data and information from their suppliers and customers, making Scope 3 reporting an intricate task.

We advocate for the Government to standardise the approach so that data is presented in the same way across different providers, starting with large Scope 3 emitters such as waste disposal entities. This would significantly ease the burden on businesses (especially SMEs), as well as streamline the process of making Scope 3 data structurally homogenous and therefore comparable.

20. If you currently voluntarily report your Scope 3 emissions, including through non governmental frameworks such as CDP and SBTi, what effect has this had on your relationships with businesses in your supply chain?

Voluntarily reporting Scope 3 emissions has had a positive impact on relationships with businesses in the supply chain, according to feedback from members that are reporting entities. Some members mentioned that it motivated them to initiate conversations with suppliers, fostering discussions on sustainability programmes and aligning expectations. Additionally, others reported a mutually beneficial scenario, where suppliers utilised CDP data provided by the reporting entity, and in turn, the reporting entity incorporated supplier CDP submissions into their own sustainability programmes.

A reporting entity member emphasised that their voluntary reporting of Scope 3 emissions has not impacted their relationships with suppliers because they have maintained a degree of flexibility in terms of what they require. They adopted an approach where they selectively report on chosen categories, eliminating the necessity for suppliers to collect and report on emissions other than Scope 1 and Scope 2. This approach recognises the significant challenges associated with Scope 3 reporting, particularly for smaller companies with limited resources.

Questions for smaller businesses in the supply chains

21. What impact could an increase in Scope 3 reporting by a larger reporting entity have on your organisation? What are the costs and benefits of Scope 3 reporting on smaller organisations within their supply chain? Please provide any evidence you have of these.

As acknowledged in the call for evidence, although most SMEs are not legally required to disclose their emissions, mandatory reporting of Scope 3 information for large organisations within their supply chains will inevitably increase their administrative costs. This is because they will effectively be facilitating Scope 3 information by providing their Scope 1 and 2 emissions and, in some cases, upstream Scope 3 data.

The Government must also take into consideration how mandatory Scope 3 reporting will impact SMEs ability to retain and win business, given that large organisations are increasingly asking about SMEs own sustainability journeys during procurement.

An SME member reported that there have been instances where non-reporting of their Scope 3 emissions resulted in downgrades in retailer surveys. The concern here is that retailers may opt to collaborate only with businesses capable of Scope 3 reporting, potentially limiting the success of SMEs and reducing consumer choice. This will be an ongoing challenge for SMEs because their influence over their suppliers is even more limited than that of reporting entities, making it extremely difficult to obtain data.

22. If you currently supply data to a reporting entity to enable it to voluntarily report its Scope 3 emissions, has the cost to you of doing so reduced, stayed the same or increased over time? What effect has this had on your relationship with the reporting entity?

N/A

23.What could the Government do to reduce the costs or increase the benefits of reporting for smaller businesses in the supply chains of entities that report on Scope 3?

The Government could explore providing funding for a low-cost and verified GHG calculator or introduce financial incentives (e.g. tax credits) for companies that purchase one.

What is also important to note here is that, while the “Table 13” created by Defra is a valuable tool, especially for smaller businesses, it has not been updated since 2014. Given the technological advancements, as well as better understanding and changing nature of the economy since then, the industry needs new tools. More generally, if the Government wants companies to rely on any of their tools, it will have to ensure that they are regularly updated and maintain a good standard.

Additionally, best practice guidance for SMEs would also be of benefit.

24.If you supply data to a larger entity, what effect (including financial impacts) has this had on your organisation? We are particularly keen here to receive views from SMEs.

The Government should not underestimate the very high cost associated with carbon emissions reporting. Mandating Scope 3 reporting will result in additional costs and policy needs to ensure that these are proportionate and can be minimised.

One of our SME members reported that they had to create two new roles (Manager and Assistant) to supply ESG-related data to larger reporting entities. They anticipate the need for an Administrator to help manage the workload by the end of 2024, necessitating a budget of circa £120,000 per annum for salaries. Furthermore, employees dealing with sustainability reporting require access to special software (e.g. a calculator incorporating a verification service that aligns with their customers' expectations), increasing costs by a further £10,000 a year.

The member also noted the growing difficulty in recruiting specialists in this field, making it necessary to engage external consultants at an approximate annual cost of £100,000 or assign additional responsibilities to existing employees, which necessitates the provision of appropriate training.

SMEs often do not use consulting services on a regular basis, which also means that the upfront costs can be disproportionately high compared to larger entities.

Questions for investors and other users of accounts

25.What benefits does robust Scope 3 reporting provide to stakeholders outside of the investment community?

Although there are environmentally conscious consumers, there is no evidence that the general public is familiar with terminology specific to the climate change discourse (e.g. scopes) or would engage with company reports on sustainability efforts before making a purchase. Corporate reporting for most firms, including techUK members, is aimed mostly at investors, NGOs, potential supply chain partners or customers who may require sustainability or financial information as part of the tender or procurement process. Additionally, corporate reporting (including Scope 3) provides confidence for current and future employees about the company’s ESG practices.

Post-Implementation Review of SECR

26. Overall, do you think the SECR regulations are achieving their original objectives? If you do not think they are achieving the original objectives, or are partially achieving the objectives, please explain why.

Members have expressed concerns that SECR is perceived as an expensive, consultant-led report that lacks the recognition and utility associated with a typical corporate report or annual sustainability report. We have also been told that clients do not ask to see SECR reports, especially given that quality of reports varies, so the assumption is that they are not of benefit to our members’ business or stakeholder relationships.

Generally speaking, the perception is that the current format and nature of SECR reporting may not align with the broader objectives of providing meaningful insights and fostering a positive perception among stakeholders. This is especially felt by companies whose energy consumption is not a significant emissions driver.

27. Have there been any unintended effects of the SECR regulations that you think Government should consider? Please include whether there are any equality impacts to be taken into consideration.

Companies that do not directly control their energy consumption, as it occurs at the landlord level, face challenges in obtaining the necessary data due to a lack of enforcement options. Members suggested that reporting of energy consumption could be considerably streamlined if the Government mandated commercial landlords to provide figures to their tenants that are in scope of SECR.

28. Are the current SECR requirements targeted at the correct population of businesses (including LLPs)? If not, which types of businesses and of which size do you think the requirements should apply to? If you think that different requirements should apply to different populations of businesses, please specify.

Some members expressed a view that SECR should be amended so that commercial landlords are required to provide energy consumption data to tenants that are in scope of the regulations.

29. SECR reporting is currently required within a company's annual report. Would it be more appropriate to report on SECR in another document or format?

N/A

30. How can the government streamline current energy and emissions reporting requirements for organisations in scope of SECR while still meeting the SECR objectives?

The Government should ensure interoperability with requirements in other jurisdictions.

One member also suggested that the Energy Savings Opportunity Scheme (ESOS) should be integrated in any upcoming revisions of SECR, rather than remain a standalone requirement.

31. Under the existing SECR framework, there are different reporting requirements for quoted companies and unquoted companies/LLPs. Are these differing requirements appropriate? If not, what reforms would you suggest?

N/A

32. What resources do you currently use to comply with SECR (e.g., ERG guidance, conversion factors, the GHG Protocol, etc) and do you feel these are sufficient? If these aren't sufficient, what do you think is missing?

Many of our members heavily rely on consultants and accounting firms to facilitate SECR reporting, making it a costly process.

Questions for reporting entities

33. What benefits has compliance with the current SECR regulations had for your organisation?

Members have indicated that there are no visible benefits of compliance with SECR regulations.

34. What are the costs (monetised costs and FTE equivalent) of reporting under the current SECR framework for your organisation? Please provide quantitative costs or estimates if possible.

N/A

35.If your organisation reports under SECR, has the information that you have collected and reported led you to, or helped you to, reduce your energy consumption and/or carbon emissions? If so, how? Please provide energy and emissions reductions data where that is possible.

N/A

Feedback from members suggests that reporting under SECR has not resulted in any noticeable changes in their energy consumption or carbon emissions, namely because they were already working on this prior to the introduction of the regulations.

36. Are you aware of the option to use SECR taxonomy for your reports? If so, please provide information on whether you have used the taxonomy or plan to.

Members have reported that they do not use SECR taxonomy for their reports as they follow guidance from external consultants.

37.Have you experienced any overlap between the SECR regulations and other Government-led reporting requirements? Please include details of any additional voluntary or regulatory schemes you are in scope of, and the extent in which you consider the data and evidence being reported to be a duplication.

N/A

Questions for investors and other users of accounts

38. If you are an investor, has the information businesses report or will report under SECR affected your investment decisions? If so, how?

N/A

39. Have you used the information businesses report under SECR to hold those businesses to account for their emissions or energy consumption? If so, how?

N/A