School of Public Policy and Global Affairs

April 2023

Exploring ESG Reporting

In the Context of BC Local Governments

Executive Summary

The establishment of the CleanBC Roadmap to 2030 demonstrates that potential Municipal Finance Authority of BC (MFA) loans play a critical role in aiding all local governments to reach the ultimate goal of building a greener and low carbon British Columbia. With the increase in demand for capital, the need to have a systematic reporting system to assess the Environmental, Social, and Governance (ESG) aspects of projects becomes important for investors to screen potential investment opportunities efficiently. Local governments in BC currently vary in their capabilities and resources to collect, analyze and report ESG-related Key Performance Indicators (KPIs) to MFA when they seek infrastructure projects funding. Given that most of the projects focus on climate, it is difficult to assign an equal weight to each component in the reporting process. This lack of standardization in ESG reporting can further increase the complexity for investors to determine the results and sustainability impacts of their funding projects.

The 'diverse' ESG reporting ground is not just an issue for business communities. For public bodies and governments of different scales seeking to take on the sustainable initiative, their experiences reveal the highly differentiated lenses to which, for instance, larger governments handle mounting regulatory pressure on climate disclosure and ESG reporting much differently than their smaller municipal and provincial counterparts.

Climate-related disclosures are just one part of ESG reporting and some mandatory climate action disclosures are already on the rise for financial institutions and large public companies in the U.K., France, Switzerland and New Zealand. The Securities and Exchange Commission (SEC) in the U.S. also published draft rules that require public companies to disclose climate-related information in 2022.iii

This brief identifies current challenges around climate-related disclosures, and good practices from similar organizations and jurisdictions that already practice ESG reporting. Further, it provides recommendations for the Climate Action Secretariat (CAS) and the Municipal Finance Authority of BC (MFA) to advance the uptake of ESG reporting at the local government level in British Columbia (BC).

Prepared for

1. **The Climate Action Secretariat (CAS)**

(CAS) is a division within the Ministry of Environment and Climate Change Strategy of the Province of British Columbia (BC). CAS is responsible for introducing and implementing a variety of policies and programs that enhance BC's resilience in response to the threatening challenges posed by climate change.

2. **The Municipal Finance Authority of BC (MFA)**

(MFA) is a member of the Canadian Bonds Investors' Association (CBIA) which focuses on providing short to long-term financing, investment management, and other financial services for public institutions and communities in BC. Its global investors are now placing a stronger emphasis on financial products that better serve the cause of Environmental, Social and Governance (ESG) investing in response to climate change and call for building a fairer society.

Prepared by

This report was prepared by a student research team from the School of Public Policy and Global Affairs (SPPGA) at the University of British Columbia (UBC) in Vancouver, British Columbia, Canada.

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Contents

Contents

Acknowledgements

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Glossary - List of Abbreviations

A4S – Accounting for Sustainability

BC – British Columbia

CAS – Climate Action Secretariat

CBIA – The Canadian Bonds Investors' Association

CDP-ICLEI – The Carbon Disclosure Project-International Council for Local Environmental Initiatives

CPA Canada – The Chartered Professional Accountants Canada

CSA – The Canadian Securities Administrators

CSRD – The Corporate Social Responsibility Directive

CUSP – Canadian Urban Sustainability Practitioners

ESG – Environmental, Social and Governance

GHG – Greenhouse Gas

GRI – The Global Reporting Initiative

IFRS – The International Financial Reporting Standard

IIRC – The International Integrated Reporting Council

IRF – The Integrated Reporting Framework

ISSB – The International Sustainability Standards Board

KPI – Key Performance Indicator

LGCAP – The Local Government Climate Action Program

MFA – The Municipal Finance Authority of British Columbia

NFRD – Non-Financial Reporting Directive

OSFI – The Office of the Superintendent of Financial Institutions

PCAF – The Partnership for Global Accounting Financials

SASB – The Sustainability Accounting Standards Board

SEC – The Securities and Exchange Commission

SDG – Sustainable Development Goal

SDR – Sustainability Disclosure Requirement

SPPGA – School of Public Policy and Global Affairs

TCFD – The Task Force on Climate-related Financial Disclosures

TRWG – The Technical Readiness Working Group

UBC – The University of British Columbia

Introduction

An ESG framework contributes to building local governments' capacity to not only effectively communicate their sustainability efforts and achievements to the public, but also attract investment into BC by tapping into vast trade and investment networks that are placing a stronger emphasis on ESG disclosures and ESG investing when assessing risks of securities, e.g., those issued by sub-sovereign issuers which include local governments.

For asset managers, a deep understanding of investees' ESG performance, integration of ESG factors in valuation, and modelling and engagement with investees on sustainability issues allow asset managers to generate returns for managed funds. A standardized ESG reporting framework provides clarity to investors. Learnings across a vast range of ESG activities facilitate local governments in generating and communicating insights that assist asset managers in continuously adapting and improving their investment strategies, processes, and approaches.An elevated bar for reporting ESG performance could positively impact local governments' credit rating and cost of borrowing if they share a common language with different companies, sectors, industries, government departments and multiple levels of government within BC and across Canada.

Part 1: Background on ESG

1.1 What is ESG?

ESG broadly refers to the environmental, social and governance factors. It is a process (strategy) used to inform an organization's decision-making, where:

- The environment (E) component of ESG captures information on topics such as greenhouse gas emissions (GHG) and carbon footprint, waste management, air pollution and other environmental factors.

- The social (S) demonstrates an organization's relationship with people, both with its employees, customers, suppliers, and with its communities and host governments in the bigger picture. Some of the social metrics may include human rights, diversity, relationships with the indigenous communities and other social factors.

- The governance (G) criterion considers how an entity is governed, and values like transparency and kind of leadership.

The benefits from conducting ESG reporting include:

<u>For organizations</u>

- Identifying and managing risks and opportunities related to environmental and social impact

- Building trust and transparency with stakeholders, and

- Attracting potential sustainable investors

<u>For investors</u>

- Aligning investments with values, where climate change remains a priority for investors

- Screening investment opportunities with comparability and increased clarity

1.2 ESG Frameworks and Standards

[**Note***: The functionality of various ESG frameworks and standards is here provided but this brief focuses on the 'E' component as it relates to climate aspects of ESG reporting in the findings and recommendations section.]

There are multiple frameworks and standards currently available to conduct ESG reporting, a few dominant ones that are the global drivers of ESG are listed in this brief (See Appendix B). The difference between a framework and a standard is that an ESG framework guides an organization's ESG reporting strategy and helps identify which factors are of utmost importance, but a framework does not provide a methodology for the collection of information and data or the reporting itself. Standards, on the other hand, dictate how information and data are collected and how a report is produced. Therefore, standards make frameworks actionable. By integrating selected frameworks and standards, some BC municipalities are capable of conducting ESG reporting fully.

This integration is already in the process. International Financial Reporting Standards (IFRS) is the game changer for ESG reporting, with its formation of the International Sustainability Standards Board (ISSB) in November 2021. It aims to develop a global baseline of sustainability disclosure standards to provide user-friendly and consistent rules for reporting ESG information. It would bring together multiple ESG frameworks that are commonly being used, including the Task Force for Climate-related Financial Disclosures (TCFD), CDP, Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) frameworks and others.viiiTheir initial Standards S1 – *General Requirements for Disclosure of Sustainability-related Financial Information,* and S2 – *Climate-related Disclosures* will be released in June 2023.

1.3 Recent Developments in ESG Reporting in Canada

With increased awareness of double materiality in the face of climate change, ESG reporting in the form of climate-related disclosures is on the rise through coordinated efforts. Climate-related disclosures are just one part of ESG reporting and some mandatory climate action disclosures are already on the rise for financial institutions and large public companies in Canada.

The Government of Canada's *Budget 2022* outlined that federally regulated financial institutions are required to begin reporting on climate-related financial risks under the supervision of the Office of the Superintendent of Financial Institutions (OSFI). The Canadian Securities Administrators (CSA) recently extended their climate-related disclosure requirements applied to public companies in October 2021.

The Chartered Professional Accountants Canada (CPA) released a document titled 'Enhancing Climate-related Disclosure by Cities', which outlines the advantages that cities can reap by adhering to the TCFD recommendations and provides a manual for carrying it out.xiiIt is also conducting a multi-year initiative to support enhanced climate-related disclosures with a focus on TCFD. Working with the Canadian Urban Sustainability Practitioners (CUSP) and other partners, they developed recommendations for adapting TCFDs in the municipal context throughout the course of 2019. The aim is to encourage wide adoption by leveraging on the wide recognition TCFD framework has earned in the past few years. Moreover, new legislation this year will require that climate risk and vulnerability assessments be integrated with hazard risk and vulnerability assessments from the UNDRR's Sendai framework beginning as early as 2024.

1.4 ESG Reporting and Climate Action in BC

Extreme weather events such as wildfires, floods, landslides and others, have accelerated in BC over the past few years. Climate action thus becomes a top priority in BC, and BC recognizes that climate change is a central pillar of ESG. The establishment of the *CleanBC Roadmap to 2030* and the *Climate Preparedness and Adaptation Strategy* shows that BC is partnering with various industries, other levels of government and Indigenous Communities across the province to build a cleaner and stronger BC that works for everyone, and it also outlines various climate targets and goals. The publication of the *Climate Change Accountability Act* legislated sectoral climate targets as well as the reporting requirements on managing climate change risks for which *the Clean BC Roadmap* was developed to implement. It is the key driver in BC emphasizing on the 'E' component of ESG.

With the establishment of the Local Government Climate Action Program (LGCAP), BC provides local governments with stable funding to realize local climate actions that address the impacts of a changing climate, and also helps BC to reach its legislated climate targets and goals. As many investors are eager for information on economically sustainable, environmentally conscious and socially responsible practices to inform their investment decisions, there is potential for phasing in a standardized climate-related reporting that provides comparability and clarity for investors in the jurisdictions, taking the form of an ESG framework.

The findings below demonstrate in detail that the standardization of ESG is concerned with the concept of double materiality rather than a stand-alone reporting mechanism which solely incorporates climate-related disclosures and resiliency capacity into organizational operations. ESG examines the environmental and social materiality in terms of the potential impacts of organizational operations on climate change as well as the financial materiality in terms of the potential impacts of climate change on the financial health of an organization.

Part 2: Findings

This research involved exploring the feasibility of ESG reporting in the context of BC local governments. Interviews were conducted with eleven BC local government staff members in accounting, and sustainability sections with a population less than 10,000 people and eighteen subject matter experts working in organizations and academia. Selected academic and grey literature readings allowed the research team to acknowledge the local contexts and limitations of different local BC governments as well as present the rationale and benefits for encouraging local governments to make the shift to a standardized framework that might differ greatly from their usual practices.

The interviews generated five main insights:

i. **The significance of standardization**;
ii. **Standardized framework as an economically viable approach**;
iii. **'E' as the catalyst to enhancing local governance**;
iv. **One size doesn't fit all;**
v. **Connecting for an ESG future**.

While the first three takeaways focus on the merits of standardized ESG reporting, the final two are used for pointing out the barriers to the implementation of a standardized ESG framework for a foreseeable future.

These research findings have played an important role in identifying the potential challenges and informing recommendations and implementing strategies which are covered in later sections.

2.1 The Significance of Standardization

With efforts being made to roll out a global standardized framework to harmonize the ESG reporting ground, it is certainly time for municipalities to prepare for compulsory reporting of financial and non-financial risks, in particular climate-related risks exposure, in the future as the regulatory scene matures. Recognizing the rationale and benefits for local governments in BC to adopt a standardized ESG reporting allows for a better alignment of expectations and visions between local governments and CAS/MFA in arriving at a standardized framework in BC. More importantly, it sends a clear message that it is everybody's responsibility to work towards sustainable development – including through disclosures on relevant risks and exposures from local governments. Local governments stand at the forefront of integrating ESG considerations as a part of non-financial reporting with regards to environmental remediation, health, education and security.

A drive towards ESG reporting among local governments would help contribute to forming a baseline knowledge of what climate change and climate resiliency mean and why climate mitigation matters in a local governance setting and provide an opportunity for local governments to review their strategies and potentially transform their business models to get ahead of a rapidly changing regulatory environment.

2.2 Standardized Framework as An Economically Viable Approach

An ESG framework contributes to building local governments' capacity to not only effectively communicate their sustainability efforts and achievements to the public, but also attract investment into BC by tapping into vast trade and investment networks that are placing a stronger emphasis on ESG disclosures and ESG investing when assessing risks of securities, e.g., those issued by sub-sovereign issuers which include local governments.

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2.3 ‘E’ as the Catalyst to Enhancing Local Governance

Increasing transparency and accountability corresponds to the public’s consistent desire for deepening sustainability-related work. In doing so, embracing ESG priorities helps bring value to governance in talent acquisition and capital raising, build public trust – especially when the standardized framework enables citizens to also take part in building healthy governing practices in BC. The positive values of such a framework also enables local governments to better adopt measures to protect vulnerable communities through incorporating Indigenous values into the framework.

Interviewees across different sectors shared their opinions on the benefits of implementing a standardized framework for BC, mentioning the applicability of such a framework in facilitating cross-regional/provincial comparative study based on a set of fair, just, and proportional benchmarks to gauge the performance of cities and municipalities. The disclosure of quality data pertaining to financed emissions is at the core of the requirement of the Partnership for Global Accounting Financials (PCAF) and Global GHG Accounting and Reporting for Financial Institutions.xiv The value of a standardized framework lies in establishing a repository of consistent information for comparison and reference. This could include information such as transfer to local governments, as well as the theory of change at every level of government.

2.4 One Size Doesn't Fit All

Citing smaller local governments' limited capacity, a majority of interviewees worried additional reporting requirements would pose a huge challenge to their operation. Collecting consistent qualitative and quantitative data, e.g., data for carbon accounting, requires organizational efforts and could constraint local governments' administrative resources. Also, a local government representative expressed her concern that smaller municipalities might be required to make an additional investment in building capacity, thereby placing them at a disadvantageous position before acquiring the resources to report meaningfully.

The downloading of provincial responsibilities on local governments also works to stretch them thinner and thinner. This might result in repercussions when bringing local governments on board to come to terms with a standardized ESG reporting framework. Local government representatives emphasized that it is common for elected officials to disagree even on the most obvious things. Independence also matters a lot for local governments in that they expect the province to respect the uniqueness of each municipality. It would be challenging to overcome the inertia within the governance structure to establish the case for an ESG reporting standard.

In addition, a standardized framework introduced by MFA might carry limited impacts on existing climate disclosure practices. Local governments' infrastructure projects whose funding comes predominantly from the federal/provincial government already have metrics associated with the project. MFA funds play a comparatively smaller role in these projects and might affect the extent to which a standardized reporting framework could be incorporated for these kinds of projects.

2.5 Connecting for an ESG Future

The success of introducing an effective standardized ESG reporting framework in BC relies more on recognizing and mitigating the main barriers and challenges that might arise when local governments are required to report on their climate-related financial and non-financial risk disclosures. Mapping out local governments' concerns over the drive to standardization and existing organizational limitations in complying with the transformation offers a useful basis for addressing these perspectives in designing the proposed framework and contributes to enhancing the mutual understanding between provincial and local bodies.

ESG as an investment principle is not synonymous with sustainability. A standardized ESG reporting framework alone would be only part of local governments' efforts to achieve sustainable development in their jurisdictions. To navigate through the muddy ground when addressing the climate crisis requires a holistic approach that not only just reports on climate-related performance, but also facilitates the implementation of a systematic mindset that does not focus either on the 'E' or 'S' aspect so as to break through the tendency to silo and be fixated on one area.

Part 3: Recommendations

This section elaborates three main recommendations based on the findings. These recommendations are made keeping in mind the benefits of a standardized approach, while recognizing the challenges that it poses on local governments. These recommendations aim to suggest to the Province to begin exploring possible ways of reaching consensus on standardized reporting, while addressing the challenges of this on local governments. It also aims to address some steps that could be taken in the interim, between now and if/when standardization is implemented. The recommendations consider both, the views of local governments and other interviewees, as well the teams interpretation based on primary and secondary research.

The following criteria is applied to evaluate the recommendations:

	High	Medium	Low
Policy Effectiveness Effective in providing required support to local governments to pave the way for ESG reporting in the future	Provides adequate support	Provides some support	Provides no support
Cost Budget spent by the Province	New budget item	Existing funds supplemented by new funds	Use of existing funds
Difficulty of Implementation Level of coordination required between various levels of governments and agencies	If more than one level of government, plus numerous actors are needed for implementation	If relatively fewer number of actors needed for implementation	If one level of government can implement easily alone
Effort Resource or time intensive	> 5 years to implement	2-5 years to implement	< 2 years to implement

Recommendation 1: Facilitate Topic-Based ESG Framework Working Groups in a Tiered Approach

To whom: CAS

Recommendation: CAS to facilitate the formation of (i) a multi-stakeholder working group, and (ii) a local government peer to peer learning working group in a tiered approach.

The proposed aim of the multi-stakeholder working group is to reach a consensus on how standardized ESG reporting should be implemented in the Province. To achieve its aim, it is recommended CAS adopts the following as some of its objectives:

- To conduct widespread stakeholder/ rightsholder consultation to consider views of all impacted by this.
- To consider the challenges of local governments with respect to ESG reporting, such that the views of all categories (small/medium/large; rural/urban) are heard.
- To establish best practices and develop and share tools/resources with respect to ESG reporting.

It is proposed that the multi-stakeholders consist of actors that (i) are regional to BC, (ii) work on ESG or aspects of it with local governments, or (iii) impact local governments through reporting requirements. These include:

- CAS
- MFA
- BC Ministry of Municipal Affairs
- ESG Centre for Excellence
- Provincial Treasury
- Union of British Columbia Municipalities (UBCM)
- Asset Management BC (AMBC)
- Government Finance Officers Association of British Columbia
- Select local governments representing (small/medium/large; rural/urban) categories.

The next tier of this approach is to facilitate the formation of local government peer to peer learning working groups on ESG reporting. It is recommended that in addition to local governments, CAS also participate in these working groups.

Through LGCAP, CAS has committed to supporting the establishment or continuance of ‘peer learning networks and regional collaboration hubs. Many topic-based working groups already exist among local governments and are reported to be very effective at accelerating coordinated and collaborative action peer-to-peer learning may help avoid the sentiment of ‘Provincial downloading of responsibility’ on local governments by facilitating a locally driven, collaborative effort to build capacity and shared understanding across local and Provincial governments as well as the organizations that facilitate outreach between the two levels of government on ESG-related topics.

Recommendation 1: Facilitate Topic-Based ESG Framework Working Groups in a Tiered Approach

Rationale: Currently there is no consensus on how ESG reporting should be adopted in the Province. A multi-stakeholder group with actors that can take decisions on reporting requirements as well stakeholders that are impacted directly can quicken the consensus building process.
Once consensus is reached, the local government peer to peer learning groups will help scale up and advance ESG reporting in the Province.

This will also facilitate the coordination and cooperation among colleagues to deliver ESG reporting in their respective jurisdictions.
Collaborative ESG efforts, to form and strengthen partnerships, provide opportunities for learning, and share tools and resources between the Province, BC local governments and First Nations communities. These efforts have the potential to establish consistent and sustained regional resilience for ESG. CAS and MFA may gain insights into the different and common resource and capacity needs of local governments and the challenges both CAS and MFA may face in meeting their sustainability and climate-related ESG process, measurement, and accountability objectives.

Implementation:

- CAS to facilitate these groups using funds under LGCAP.
- Proposed that CAS formulate a timeline for regular meetings of the multistakeholder working group as well as a deadline to reach consensus on the matter.
- The timeline of meetings of the local government peer to peer learning groups to be finalized in future stages of this project in a manner that allows local governments to deep dive into training and strategic work planning and prioritization.

Recommendation 1: Facilitate Topic-Based ESG Framework Working Groups in a Tiered Approach

Evaluation based on criteria:

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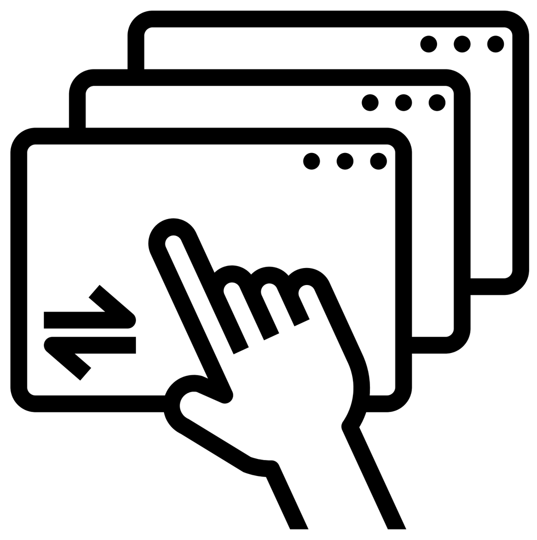
Policy Effectiveness Effective in providing required support to local governments to pave the way for ESG reporting in the future	Provides adequate support ✓	Provides some support	Provides no support
Cost Budget spent by the Province	New budget item	Existing funds supplemented by new funds	Use of existing funds ✓
Difficulty of Implementation Level of coordination required between various levels of governments and agencies	If more than one level of government, plus numerous actors are needed for implementation ✓	If relatively fewer number of actors needed for implementation	If one level of government can implement easily alone
Effort Resource or time intensive	> 5 years to implement	2-5 years to implement	< 2 years to implement ✓

The recommendation will be highly effective in providing adequate support to local governments and will help build consensus in the province amongst different stakeholders. The facilitation can be funded through existing funds and would be easily implementable in a short time. While it will require, coordination with different actors, its results will be effective.

Recommendation 2: To provide technical support while reporting, lead the creation of a centralized platform



To whom: CAS and MFA

Recommendation: To create or identify a centralized platform to support local governments with technical expertise in timely, accurate, and quality reporting of data with respect to ESG parameters. The centralized platform can be envisioned as a service that helps streamline data processing and analysis by mining data that may already be collected by various other agencies for other reporting requirements. For example, if data on GHG emissions is already collected under a particular reporting program, the platform could collect and consolidate these datasets rather than require the local government to locate this data to satisfy ESG reporting requirements.

Further, the centralized platform could also serve as a forum that helps provide training and orientation services to local government staff members regarding matters related to ESG.

Rationale: Local governments have numerous reporting requirements to provincial and federal governments on an annual and project/grant basis. While they differ in their capacity to take on additional reporting requirements, all local governments are burdened by current reporting requirements. Information and data already being reported by local governments need to be leveraged and used by multiple stakeholders for multiple purposes. Consolidation of relevant data on an ESG platform ensures that data reported for one purpose is consistent with that which is reported for ESG purposes, and it also saves time/capacity of local government practitioners.

A centralized platform for support in reporting can alleviate any additional administrative burden placed on local governments for ESG reporting and can also provide value to local governments looking to generate their own ESG publications and/or inclusion in annual reports.

Local governments currently differ in their expertise regarding ESG reporting, with some governments unaware of the concept of ESG. In this context, a service that orients local governments and provides training as per the local governments' requirements will be useful.

Implementation: Collaborate with partners such as AMBC, UBCM, Ministry of Municipal Affairs and academic institutions or NGOs to support the creation of a centralized platform that streamlines data reporting.
Assign staff to maintain and update the centralized platform, support local government users, and facilitate trainings/peer exchange. Staff should understand ESG in the context of local government.

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The recommendation as well will be highly effective in providing adequate support to local governments for data analysis and training. The facilitation can be funded through existing funds, supplemented by additional funds and would be easily implementable in a short time. While it will require, coordination with different actors, its results will be effective.

Recommendation 3: Encourage voluntary adoption of ESG reporting to develop thought leaders

To whom: CAS

Recommendation: In the absence of mandatory ESG Reporting, it is proposed the Province takes measures to incentivize and support voluntary ESG Reporting and in the process develop thought leaders. LGCAP and future infrastructure programs could require an ESG reporting component.

Rationale: Currently local governments are constrained by their capacity to take on additional reporting for ESG. Some interviewees expressed the inability to consider ESG Reporting unless required by legislation and/or tied to a financial incentive. If the Province were to firstly incentivize early voluntary adopters, they could develop thought leaders and supporters for ESG as well as important tools, resources and examples to facilitate adoption by others when or if ESG reporting becomes required by legislation or professional accounting standards. Thought leaders could present their experiences in forums such as the working groups referred to in the first recommendation.

Implementation:
An outreach program can be undertaken to communicate to local governments the benefits of ESG Reporting. ESG is important for local governments to consider because:

i) It is tied to their core purposes;
ii) It attracts investors;
iii) It can serve to improve reputation; and
iv) It can help with climate-related risk management.

Recruit early, voluntary adopters by pointing out in the outreach that LGCAP funds can be utilized for funding additional staff members, and connecting them via a facilitated network or cohort as described in the first recommendation. It also includes targeted recruitment of local governments in different regions across the Province and communities of different sizes and types (urban, suburban, rural, remote).

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The recommendation as well will be effective in providing support to local governments for a rollout of ESG. The facilitation can be funded through existing funds and would be easily implementable in a short time. This will not require coordination between many actors, as CAS will be reach out to local governments individually. While the focus of this recommendation is not to provide training, in conjunction with the other recommendations, it will encourage the voluntary adoption of ESG reporting in the Province.

Conclusion

Monitoring the progress of lowering GHG emissions, providing residents and Council with increased transparency, and improving local government's decision-making could be bolstered by annual ESG reporting. Monitoring and evaluation are essential to meeting the Province's legislated climate action targets. Climate-related disclosures through ESG reporting at the level of local government could support this process.

With the opportunities and challenges presented by standardizing ESG reporting for BC local governments, on top of existing measures in place, CAS and MFA have an important role in supporting local governments to strengthen their climate change responses and contribute to the Province's climate resilience. Early adoption of harmonized ESG reporting in the Province could be a strategic foresight to prepare for a potentially more rigorous reporting legislated by the Federal Government. Given a globally converging ESG reporting landscape, it presents an optimal window for CAS and MFA to assist BC local governments in overcoming existing barriers and making strides in climate mitigation and adaptation.

Appendices

Appendix A: Policy Research Context and Approach

Scope

1. The project is limited to local governments in BC which includes municipalities and regional districts. It did not include Modern Treaty Nations in BC.

2. The project is limited to including only the 'E' component of the ESG reporting system, i.e., the environmental aspect of ESG. This is further narrowed down to climate aspects of reporting as directed by the clients

3. The primary research only considered a small sample of local government representatives as directed by the clients. The gap left over could be flagged for future inquiry to establish a better understanding.

4. Since the outreach window is small, the output of the project also depends on the shortlisted interviewees depending on their availability.

5. While conducting a comparative review of best practices, the project is limited to providing recommendations that consider the capacity constraints of small local governments.

6. The detailed 'How' to implement ESG reporting at the BC municipal level has been left out and flagged as future work for MFA and CAS.

Methods

For this project, a mix of primary and secondary research methods was used.

Interviews
The interview approach was tiered. The team first started by interviewing ESG experts in academia. Second, by interviewing BC organizations already using ESG reporting. Third, by interviewing selected local and provincial government officials primarily working on environment-related issues. In addition, the team simultaneously interviewed other experts to inform our research as needed. These interviews were held either in person or online via Zoom or Microsoft Teams based on the interviewee's availability and residing location. Audio-visual content from interview sessions was recorded upon taking consent from the participants.

Environment scan, literature review
Secondary research included a document review and analysis of key literature, involving existing transcribed interviews, grey literature, government documents, journal articles, media reports, as well as foreign policy reports focusing on ESG.

Events
Team members also attended industry events, i.e., webinars, and made further efforts in order to gain a more well-rounded understanding of the issues related to ESG reporting from industry professionals.

Interview Structure

Within the tiered approach, the team:

- Began by utilizing the UBC network, thus by first interviewing ESG experts in academia/ student body (mostly law);
- Sought out BC organizations already using ESG reporting;
- Conducted a thorough review of local government reporting standards, of which they were already compliant and aware of.

The flow of the interview is as follows.

Introduction

Brief introduction of team profiles and related clients.

Brief presentation of research context, key concepts and aim.

Teaser: standardization of ESG reporting

Global standardization related to ESG reporting is taking place with new requirements expected over the next few years across various regulated industries. In the Budget 20221, the federal government outlined plans for financial institutions to start reporting on environmental-related financial risks in 2024.

Interview Questions

In line with the government's mandates of disclosing climate-related risks and exposures, we seek to gain your insights on the following:

The What – What is the current practice of ESG (or elements of ESG) performance reporting in your organization and sector?

The Why – What are the rationale and benefits for BC local governments to adopt a standardized process and set of metrics for ESG performance reporting?

The Why Not – What are the main barriers or challenges to local governments adopting ESG reporting standards, particularly climate-related financial risk disclosure requirements?

The How - Which capacity-building initiatives (i.e., training, tools, resources, staff funding, regional network coordination) are required to support local governments in adopting ESG reporting?

Appendix B: ESG Framework and Standards

Frameworks/ Standards	Description	Priorities
Task Force on Climate-related Financial Disclosures (TCFD)	A widely adopted framework that helps organizations effectively disclose climate-related risks and opportunities through 4 pillars: (1) governance – how management establishes goals that support the organization's sustainability, (2) strategy - how business model and strategy could be affected by climate-related risks or opportunities by using climate-related scenario analysis, (3) risk management - how climate-related risks or opportunities are identified, and (4) metrics and targets that are used to assess climate-related risks and opportunities (Co-operators, 2021).	
CDP	Global-leading platform is considered a global standard for cities' climate-action reporting. In 2022, nearly 20,000 organizations disclosed environmental data through CDP, making it the gold standard. Its scoring system is fully aligned with TCFD and other major environmental standards so that it provides a comparable dataset across the market (CUSP, n.d.).	
Global Reporting Initiative (GRI)	Earliest sustainability standards linking SDGs to an entity's impact on individuals, environment and economic prosperity with the broadest stakeholder audience. It also allows organizations to focus only on specific topics, such as climate change. The GRI Standards allow an organization to be transparent about its impacts (GRI, n.d.).	
Sustainability Accounting Standards Board (SASB)	Industry-based sustainability accounting standards which help public organizations in disclosing decision-useful information. It provides an industry-specific set of climate-related disclosure topics and associated metrics that align with TCFD recommendations. It also helps connect businesses and investors on the financial impacts of sustainability (SASB, 2022).	

Appendix C: Good Practices - Local and International Governments

Governmental efforts to address climate change and consider ESG factors in decision making is on the rise in Canada and globally. Here we share three examples of this emerging field from the local governments that are already using some of the existing standards and frameworks within Canada.

City of Toronto

The City of Toronto became the first government in Canada to release a yearly ESG performance report in 2021. Committing to an actions-based approach, this performance report exemplifies the City's dedication by highlighting ESG risks and opportunities through a series of planned strategies and activities. It is available to all individuals and groups with a vested interest in the City of Toronto, such as existing and potential residents, investors, staff, suppliers, other levels of government, similar municipalities, regulators, and community organizations. The format and substance of the report were formulated in accordance with applicable standards and frameworks which include SASB, GRI, IIRC, IRF, SDGs and the MSCI ESG Government Ratings Methodology. Aside from these frameworks, the city is also committed to adhering to ISO 37120 data and results.

City of Vancouver

The City of Vancouver has also been evaluating climate-related risks in a comprehensive and strategic manner, making gradual advancements in the prioritization and funding procedures. In 2017, the Chief Financial Officer endorsed an Accounting for Sustainability (A4S) statement, advocating for financial disclosure related to climate change and pledging the City's dedication to endorse the voluntary suggestions put forth by the Taskforce for Climate-related Financial Disclosure (TCFD).

The IFRS Foundation announced the formation of an ISSB in November 2021 and also published early climate and general disclosure requisites, which were created by the Technical Readiness Working Group (TRWG) to carry out preliminary groundwork for the ISSB. The ISSB finalized all technical content of its first Standards in February 2023. Subsequently, the ISSB has initiated the process of drafting and balloting the Standards, which are anticipated to be released by the end of Q2 2023.

City of Surrey

The Sustainability Dashboard introduced by the City of Surrey helps track and share the City's progress on sustainability indicators.This dashboard also supports the implementation of the Sustainability Charter, an all-encompassing 50-year strategy aimed at fostering a prosperous, eco-friendly, and equitable city. Sustainability Charter 2.0 was put in place to ensure the community's long-term vision of achieving outcomes that are measurable and impactful.

Among the international jurisdictions, there are certain players that are ahead of the curve on ESG reporting namely:

North Ameirca

Within the US, the Oregon State Treasury is striving to enhance and systematize the factual reporting of ESG and related risk factors. This initiative aims to help investors, including those from Oregon, obtain consistent and superior data on all companies in their portfolio. The Oregon Investment Council modified its investment policy to incorporate a group of environmental, social, and governance principles into its statement of investment and management beliefs. However, the revised directive stated that sustainable investment must not impede the system's obligation to act in the best interests of its beneficiaries.

In 2022, there were also three bills that were proposed to the California state regarding ESG financial disclosures and investing. According to the proposed legislation, corporations operating in California and producing over $1 billion in gross annual revenue must report their emissions yearly. This report must encompass emissions from all sources, such as direct emissions (Scope 1), emissions from purchased and utilized electricity (Scope 2), as well as indirect emissions, including those from the business's supply chain (Scope 3). To scrutinize the proposals that are promoting best practices, a Republican ESG Working Group has also been formed. Following in the footsteps of Europe, the legislation may be broadening California's prior mandate for public companies to submit emission reports, however, the obligations for reporting are expected to begin in 2026.

Australia

Recently, legislation was passed by the Government of New Zealand to mandate climate-related disclosures for large financial corporations. As of now, this obligation is applicable to major publicly traded companies, insurers, and banks, among others.

According to the Fourth ESG reporting maturity assessment report published by EY in September 2022, nearly 20 companies reported against the GRI framework in FY21, making it the most preferred reporting framework, followed by the TCFD framework with over 15 companies. At the governmental level, the country has an Emissions Reduction Plan which prioritizes actions targeted toward various sectors of the economy, such as transportation, energy, construction, waste management, agriculture, and forestry.

In comparison, there has been a notable surge in the adoption of sustainability reporting assurance by Australian companies in the past four years – a 29% rise from the previous year.

Moreover, the Australian government published a consultation paper in January 2023, proposing a framework for disclosing climate risks by companies and financial institutions. The government intends to introduce mandatory reporting of sustainability and ESG factors for significant Australian entities in the coming years. The implementation of these regulations will follow a gradual 'phased' approach, starting as early as 2024.

Europe

Prior to assuming the presidency of COP26, the UK positioned itself as a pioneer in ESG matters. Starting April 2022, all UK businesses that are listed, have over 500 employees and generate a turnover of over £500 million, are required to provide reports that comply with TCFD standards.

While non-financial information has always been a mandatory component of annual reports, the Companies Act of 2006 has been broadened in 2022 to incorporate sustainability issues. The updated regulations conform to the guidelines proposed by the TCFD. Starting 2023, ESG reporting in the UK will be subjected to additional formalization through the implementation of Sustainability Disclosure Requirements (SDRs). The SDRs will establish a structure for companies to oversee sustainability-related hazards, prospects, and impacts, and establish suitable metrics and objectives.

Like the UK, since 2017, sizable firms (listed entities having more than 500 employees) are obligated to conform to the EU Non-Financial Reporting Directive (NFRD), which necessitates the declaration of social and environmental problems in annual reports. The NFRD will be extended with the addition of the Corporate Social Responsibility Directive (CSRD) by 2023. The CSRD is an essential aspect of the European Union's ambitious efforts to emphasize corporate sustainability, and it aligns with other significant legislative and regulatory actions in Europe aimed at advancing the green economy. Taking a phased approach, the companies that fall within the designated scope will need to reveal how they have incorporated sustainability considerations into their operations and how they identify and handle significant ESG impacts, risks, and opportunities, based on disclosure standards.

The CSRD will mandate disclosures related to various ESG topics, which will encompass:

Environmental disclosures that encompass the EU Taxonomy environmental objectives, comprising climate change mitigation (including greenhouse gas emissions across Scope 1, Scope 2, and Scope 3), climate change adaptation, water and marine resources, resource use and circular economy, pollution, and biodiversity and ecosystems.

Social and human rights disclosures that provide details on gender equality, working conditions, and adherence to fundamental human rights as outlined by core conventions of the United Nations and the EU.

Governance disclosures furnish information regarding how the company's administrative, management and supervisory bodies oversee sustainability matters, risk management, and internal controls concerning sustainability reporting procedures, business ethics, and lobbying activities.

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