

City of Mississauga  
**Corporate Report**



<p>Date: November 15, 2023</p> <p>To: Chair and Members of Audit Committee</p>	<p>Originator's files:</p>
<p>From: Shari Lichterman, CPA, CMA, City Manager and Chief Administrative Officer</p>	<p>Meeting date: December 4, 2023</p>

## Subject

**Sustainability Accounting and Reporting Update**

## Recommendation

That the report entitled "Sustainability Accounting and Reporting Update" dated November 15, 2023, from the City Manager and Chief Administrative Officer be received for information.

## Executive Summary

- There has been a growing demand for sustainability reporting and disclosures due to increased global awareness around broader sustainability issues that affect decision-making.
- Financial statement disclosures and external auditing of sustainability measures will become mandatory for some private sector organizations in 2024 and this will extend to public sector bodies, such as municipalities, soon after.
- The City has implemented voluntary sustainability-related disclosures in its financial statements and sustainability accomplishments in its Annual Financial and Sustainability Report since 2020.
- In order to prepare for future mandatory disclosures, the City and KPMG LLP have developed a roadmap to expand its sustainability reporting capabilities over the next 4 years.

## Background

### History of Sustainability Reporting

Public and private sector organizations have traditionally relied upon financial reporting to communicate their performance to stakeholders. Over the last number of years, in response to the effects of climate change and other issues, organizations have been incorporating broader non-financial considerations into their decision-making. These considerations include

sustainability, and specifically the environmental, social and governance (ESG) factors that support conducting business without negatively impacting the environment, community, or society. Businesses and public sector organizations are now routinely preparing public-facing reports that highlight sustainability-related initiatives and successes to their stakeholders, who in general, also support these initiatives.

Organizations have developed voluntary sustainability reporting standards to help develop a consistent basis of reporting and allow entities to be assessed on a common ground. The major reporting frameworks have included:

- **Task Force on Climate Related Financial Disclosures (TCFD):** Created in 2017 to promote transparency leading to better climate-risk management and identify the information needed by investors, lenders, and others to appropriately assess climate-related risks and opportunities for organizations. TCFD has subsequently been adopted by several Canadian Municipalities in their sustainability reporting, including the City.
- **United Nations Sustainable Development Goals (UN SDG):** Adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.
- **Integrated Reporting (IR):** Developed by the International Financial Reporting Standards foundation, integrated reporting intends to communicate how value is created from various sources over time.
- **Task Force on Nature Related Financial Disclosures (TNFD):** Designed to help organizations to report and act on evolving nature and natural resource-related issues.
- **ISO 37125:** Environmental, social and governance (ESG) indicators for Cities currently under development.

With the increase in voluntary reporting, there has been increased pressure from investors and other stakeholders to provide a level of assurance that the sustainability-related initiatives and outcomes reported by these organizations have in fact occurred. Unlike financial reporting standards, there are no reporting standards for sustainability disclosures, which could allow organizations to report misleading sustainability-related claims, known as greenwashing.

### **The City's Sustainability Reporting to Date**

Recognizing a need to expand the City's sustainability reporting capabilities, the Finance division completed an internal project in 2020 to identify the actions needed to improve outcome reporting for sustainability-related initiatives. This culminated in a revamp of the City's Annual Financial Report being renamed the "Annual Financial and Sustainability Report" and introduced a new section for sustainability-related accomplishments. The City, like other large Canadian municipalities, also incorporated these voluntary frameworks into its reporting, adopting a

blended framework that incorporated TCFD, UN SDG and IR to report its accomplishments. This reporting has been completed for the last three years and has been well received by the City's external auditors, credit rating agencies, other public sector agencies in Canada and the United States, and the accounting standard setters.

## Comments

### Changes in Accounting Standards

The growth of sustainability related reporting across the private sector and demand from investors and other stakeholders culminated in November 2021, when the International Financial Reporting Standards (IFRS) Foundation announced the formation of the International Sustainability Standards Board (ISSB). The ISSB was mandated to develop new financial reporting standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets for publicly traded private companies.

In June 2023, the ISSB released the first two of its disclosure standards (IFRS S1 and S2), creating a framework for private sector entities to disclose material information on sustainability and exposure to sustainability-related risks and opportunities. Understanding that private sector organizations would now need to report on sustainability-related disclosures, public sector accounting standards (PSAS) would soon follow with mandatory disclosures.

In July 2023, the International Public Sector Accounting Standards Board (IPSASB) announced the development of a public sector specific Climate-Related Disclosures standard, intending to address the public sector's need for sustainability reporting standards and responds to stakeholder calls to prioritize climate first. It is expected that IPSASB's standards will follow closely to the ISSB standards for private organizations, with additional standards for recognizing natural capital, given the importance of public sector entities in the management and conservation of trees, natural areas, water, and other natural resources. City Finance staff have been in contact with IPSASB and will be providing feedback on the proposed standards in 2024.

### Expanding Sustainability Reporting

To respond to these emerging reporting requirements, Finance staff worked with KPMG LLP (KPMG) over the last year to develop an implementation roadmap that identifies the reporting frameworks and infrastructure needed to improve sustainability-related disclosures, in anticipation of formal public sector accounting standards sustainability disclosures. Appendix 1 contains KPMG's final report that supports improvements in the City's sustainability reporting over the next 4 years.

With these developments in place, Finance and other service areas across the City have been working to identify changes to sustainability reporting to align with these new accounting standards and particularly the ISSB standards and the Task Force on Nature Related Financial Disclosures. The benefits to aligning the City's sustainability reporting to these new standards

would go beyond the City's annual report alone. Some of the other benefits of enhancing sustainability reporting include:

- Alignment in the information collected with progress reporting of other plans, including the Climate Change Action Plan and the Strategic Plan.
- Early adoption and audit of sustainability disclosures, and to provide greater assurance to stakeholders on the information provided in the City's sustainability reporting.
- Alignment with private sector sustainability reporting will be viewed favourably by investors, and will help support debt issuance and reporting requirements for Green or Social bond programs.
- Improved reporting on the non-financial benefits that the City provides to the community.

Work on implementing these new disclosures, based on the ISSB and TNFD standards in the City's financial statements is targeted to be completed for the 2024 year-end financial reporting cycle. As public sector specific standards are released and mandated, the City will be well positioned to adopt these standards quickly.

## Financial Impact

There are no financial impacts resulting from the recommendations of this report.

## Conclusion

The sustainability reporting landscape for all organizations, private and public, has led to increased attention on the financial reporting and disclosures to report on sustainability outcomes. The City has delivered sustainability-related reporting through its Annual Financial and Sustainability Report since 2020, and as the industry evolves to more formal reporting, is well prepared to adopt to these future standards.

## Attachments

Appendix 1: KPMG Sustainability Roadmap Final Report



Shari Lichterman, CPA, CMA, City Manager and Chief Administrative Officer

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