**Exposure Draft 83**
**November 2022**
***Comments Due: January 16, 2023***

IPSAS®

*Proposed Amendments to Recommended Practice Guidelines*

# Reporting Sustainability Program Information—RPGs 1 and 3: Additional Non-Authoritative Guidance

IPSASB International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

# REQUEST FOR COMMENTS

This Exposure Draft was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by January 16, 2023.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

### Objective of the Exposure Draft

The IPSASB proposes additional guidance for RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* and RPG 3, *Reporting Service Performance Information* to facilitate the reporting of sustainability program information. This additional guidance will enhance awareness about the applicability of, and help in applying the existing guidance in RPG 1 and RPG 3.

### Guide for Respondents

The IPSASB welcomes comments on all the matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the ED are provided below.

### Specific Matter for Comment 1

Do you agree with the proposed additional implementation guidance for RPG 1? If not, what changes would you make?

### Specific Matter for Comment 2

Do you agree with the proposed additional implementation guidance and illustrative examples for RPG 3? If not, what changes would you make?

**Note: In ED 83, the new text proposed to be added to RPG 1 and RPG 3 is underlined.**

# EXPOSURE DRAFT 83, REPORTING SUSTAINABILITY PROGRAM INFORMATION—RPGS 1 AND 3: ADDITIONAL NON-AUTHORITATIVE GUIDANCE

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# Objective

1. The objective of this Exposure Draft (ED) is to provide additional guidance for RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* and RPG 3, *Reporting Service Performance Information* to facilitate the reporting of sustainability program information. This additional guidance will enhance awareness about the applicability of, and help in applying the existing guidance in RPG 1 and RPG 3.

# Summary of Additional Guidance

| **Proposed Additions to Section of RPG 1** | **Summary of Additional Guidance** |
|---|---|
| Basis for Conclusions | Explains the IPSASB decisions to:<br>• Undertake the Reporting Sustainability Program Information project;<br>• Communicate the applicability of RPG 1 to reporting sustainability program information; and<br>• Provide additional non-authoritative guidance. |
| Implementation Guidance | Guidance added to illustrate the applicability of the RPG 1 principles when reporting the impact of sustainability programs on an entity's overall finances. |
| **Proposed Additions to Section of RPG 3** | **Summary of Additional Guidance** |
| Basis for Conclusions | Explains the IPSASB decisions to:<br>• Undertake the Reporting Sustainability Program Information project;<br>• Communicate the applicability of RPG 3 to reporting sustainability program information; and<br>• Provide additional non-authoritative guidance. |
| Implementation Guidance | Guidance added to illustrate the applicability of the RPG 3 principles when reporting service performance information related to sustainability programs. |
| Illustrative Examples | Examples added to illustrate how the RPG 3 principles apply for reporting specific sustainability program information. |

# Non-authoritative Amendments to RPG 1

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, RPG 1.*

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## Additional Guidance proposed for RPG 1 as a result of the Reporting Sustainability Program Information Project

BC37. The IPSASB decided in March 2022 to address an urgent stakeholder concern by adding the limited scope project, *Reporting Sustainability Program Information*. The project responds to the need to provide public sector entities with guidance emphasizing the applicability of the Recommended Practice Guidelines (RPGs) to reporting sustainability program information in general purpose financial reports.

BC38. To clearly communicate its applicability, the IPSASB decided to add guidance to RPG 1 to demonstrate how the guidance should be applied when reporting on sustainability program information. The IPSASB decided to highlight that the principles and guidance in RPG 1 are relevant for an entity to report the financial impacts of sustainability programs and that they should be included when developing its overall financial projections.

BC39. The IPSASB has proposed adding IG1.– IG3. to communicate:

(a) That RPG 1 applies to reporting sustainability program information and its financial impact on the long-term sustainability of an entity's finances;

(b) How program impacts on the dimensions of long-term fiscal sustainability should be assessed; and

(c) Which principles are applicable for reporting on sustainability program information.

BC40. The IPSASB agreed that IPSAS should be applied to capture the impact of an entity's sustainability-related transactions in general purpose financial statements. RPG 1 provides guidance on disclosures in general purpose financial reports on the overall financial impact of government programs, including sustainability-related ones, on an entity's long term financial projections.

BC41. The IPSASB considered whether paragraph 4 should be amended to remove the statement that RPG 1 was not designed for reporting on environmental sustainability. The IPSASB decided not to amend this because RPG 1 does not address broad environmental sustainability reporting. As the second sentence in paragraph 4 makes clear, RPG 1 reporting captures the financial impact of environmental factors and notes that these should be taken into account when developing RPG 1 projections.

## Implementation Guidance

*The guidance accompanies, but is not part of, RPG 1.*

**IG1. Does RPG 1 apply to reporting information on the impact of sustainability programs on an entity's overall finances?**

Yes, RPG 1 provides principles to apply in reporting on an entity's overall long-term fiscal sustainability, including those relating to sustainability programs, provided the cash flow impacts of these are included when developing projections.

**IG2. How should sustainability program impacts on the dimensions of long-term fiscal sustainability be addressed?**

RPG 1, paragraph 27 discusses three inter-related dimensions of long-term fiscal sustainability:

- Service;
- Revenue; and
- Debt.

Sustainability programs can impact all of these dimensions in terms of future cash inflows and outflows. These impacts should therefore be modelled and included in the overall projections on the basis of assumptions regarding current policies, and about future demographic and economic conditions. Depending on the purpose of the report, and their significance, the impacts of such programs can either be presented separately or as part of the overall totals.

**IG3. Which principles should be applied in reporting on the impacts of sustainability programs?**

The guidance in RPG 1 related to policy, demographic and economic assumptions, as well as on other principles and methodology should be applied to reporting on the projected future cash inflows and outflows associated with sustainability programs. Sensitivity analysis should be used to help users understand the impacts of significant changes in assumptions on the projections.

# Non-authoritative Amendments to RPG 3

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, RPG 3.*

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## Additional Guidance proposed for RPG 3 as a result of the Reporting Sustainability Program Information Project

BC44. The IPSASB decided in March 2022 to address an urgent stakeholder concern by adding the limited scope project, *Reporting Sustainability Program Information*. The project responds to the need to provide public sector entities with guidance emphasizing the applicability of the Recommended Practice Guidelines (RPGs) to reporting sustainability program information in general purpose financial reports.

BC45. To clearly communicate its applicability, the IPSASB decided to add guidance to RPG 3 to demonstrate how the guidance should be applied when reporting on sustainability program information. The IPSASB decided to highlight that the principles and guidance in RPG 3 are relevant for an entity to report the impact of sustainability programs, to enable transparency and accountability of the program's impact against its objectives.

BC46. The IPSASB has proposed adding IG1.– IG2. to communicate:

(a) That RPG 3 applies to reporting information related to sustainability programs; and

(b) How RPG 3 can be applied to individual sustainability programs.

BC47. The IPSASB has proposed adding IE4.– IE8. to illustrate how the guidance in RPG 3 applies to sustainability programs, including:

(a) A program financed by a green bond;

(b) A program financed by a carbon tax;

(c) An investment in infrastructure to mitigate the impacts of climate change; and

(d) A tax expenditure for sustainability investments.

BC48. The IPSASB agreed that IPSAS should be applied to capture the impact of an entity's sustainability-related transactions in general purpose financial statements. RPG 3 provides guidance on disclosures in general purpose financial reports, including the impact of individual programs in achieving its objectives.

BC49. The IPSASB noted that normally illustrative examples developed by the Board show the application of different concepts. IE4. – IE8. illustrate similar RPG 3 concepts applied to four different sustainability programs to help communicate how the guidance can be applied to various types of programs.

## Implementation Guidance

*The guidance accompanies, but is not part of, RPG 3.*

**IG1. Does RPG 3 apply to reporting information related to sustainability programs?**

Yes, RPG 3 provides principles to apply in reporting on an entity's service performance by considering its objectives, and measuring performance against relevant indicators (inputs, outputs, outcomes, efficiency, or effectiveness).

The RPG 3 principles are applicable for entities that establish service performance objectives related to sustainability programs and can measure performance against relevant overall indicators set by the entity or specific program metrics.

**IG2. How does RPG 3 apply to an individual sustainability program?**

Decision makers may want to evaluate the governance, strategy, risks and performance associated with sustainability programs as part of delivering the entity's service performance objectives. RPG 3 reporting supports transparency in these key areas which are important both for ensuring accountability and providing useful information for decision-making purposes.

The illustrative examples (IE4. – IE8.) in RPG 3 demonstrate the application of the principles to four different types of sustainability programs. Including how an entity identifies service performance objectives of its respective programs, and how they can be expressed using performance indicators related to inputs, outputs, outcomes, efficiency, or effectiveness, or through a combination of one or more such indicators.

## Illustrative Examples

*These examples accompany, but are not part of, RPG 3.*

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## Examples Related to Reporting Sustainability Program Information

IE4. A general overview of how to apply the RPG 3 principles when reporting service performance information is provided in IE1.– IE3. Specific examples of how to report service performance information related to sustainability programs are provided in IE5.– IE8. These examples are not exhaustive and are meant to provide entities with a simplified fact pattern for illustrative purposes on how to report on service performance objectives of sustainability programs. An entity needs to evaluate all relevant facts and circumstances of its specific programs when applying the RPG 3 guidance.

**Example 1—Program Financed by a Green Bond**

IE5. Green bonds may be used by entities to raise funds for investment in sustainability programs, for example, environmental or climate change mitigation projects. Issuers of such green bonds may identify specific metrics or targets to provide investors with information on the performance of the program in achieving those targets. Below is an example of a program financed by a green bond and how to apply RPG 3 for the reporting on the program.

*Green Bond Details and Objectives:*

- On January 1, 20x0 a green bond was issued to fund a reforestation program with the goal of planting 100 million trees by the end of the year at a cost of CU4 per tree.
- The reforestation program's target outcome is the absorption of 997,900 tons of $CO_2$ per year ((100 million trees x 22 pounds of $CO_2$ absorbed per tree) divided by 2,204.63 pounds in tons) for the first 20 years.
- At the end of year 20x0, forestry staff had planted 85 million trees and determined that the $CO_2$ absorbed by the reforestation program for year 1 was 578,328 tons of $CO_2$ ((85 million trees x 22 pounds of $CO_2$ absorbed per tree) divided by 2,204.63 pounds in tons).
- The actual cost to plant each tree in the reforestation program was CU4.1 (CU348.5 million/85 million trees).

*Performance Indicators:*

- Inputs: The cost to plant each tree.
- Outputs: The number of trees planted.
- Outcome: Total $CO_2$ absorbed.
- Efficiency:
    - The cost per tree planted was CU4.1, higher than the expected cost of CU4. The total number of trees planted fell short by 15 million trees (100 million less 85 million). The cost per ton of $CO_2$ absorbed was CU 603 $CO_2$t (CU348.5 million/578,328 $CO_2$ tons), while the planned cost per ton of $CO_2$ was CU 400 $CO_2$t (CU 400 million/997,900 $CO_2$

tons). The higher cost of $CO_2$t per CU spent shows a lower absorption of $CO_2$, which could be attributed to a number of factors, including the gradual process of planting trees, a lower number of trees planted by the program than planned, and a lower survival rate of planted trees.

- Effectiveness:
  - Input: 87% (the actual cost to plant the trees over the target cost to plant the trees – CU348.5 million/CU400 million) because it cost more (CU4.1) than planned (CU4) to plant each tree.
  - Output: 85% (the actual number of trees planted over the target number of trees to be planted – 85 million/100 million) because fewer trees were planted than planned.
  - Outcome: 58% (the absorption of $CO_2$ at end of year 1 over the target absorption of $CO_2$ for year 1 – 578,328 tons of $CO_2$/997,900 tons of $CO_2$) because less carbon was absorbed than planned.

**Example 2—Program Financed by a Carbon Tax**

IE6. Carbon taxes may be used by entities to generate revenue to fund investment in sustainability programs, including those to fund investment in climate change mitigation. Carbon tax programs often have specific metrics or targets. This information can be used by the entity to report on the performance against the program objectives. Below is an example of a program financed by a carbon tax and how to apply RPG 3 for reporting on the program.

*Carbon Tax Details and Objectives:*

- On January 1, 20x1 Jurisdiction B implements a carbon tax to generate revenue to fund the installation of 10,000 electrical vehicle (EV) charging stations over the next 15 years along their highways.
- The objective of Jurisdiction B's program is to incentivize the development of the zero-emission vehicles (ZEV) market so that ZEVs make up 100% of the 460,000 new light-duty vehicles sold per year, within 15 years.
- The target for year 1 of the program, which starts on 20x2, is to install 600 EV charging stations (expected to cost CU28,500 to install each charging station) and for ZEV sales to comprise 26% of new light-duty sales in Jurisdiction B (119,600).
- At the end of 20x2, Jurisdiction B invested CU13.11 million to install 460 EV charging stations and 18% (85,000/460,000) of all new light-duty vehicle sales were ZEV.

*Performance Indicators:*

- Input: the cost to install each EV charging station.
- Output: The number of EV charging stations installed.
- Outcome: ZEV market share of the new light-duty vehicles market.
- Efficiency:
  - Cost per EV charging station installed was CU28,500 (CU13.11 million/460 EV charging stations), achieving the target 20x1 cost per station. However, the program only resulted

in 460 EV charging station installations falling short by 140 (the plan was to complete 600 EV charging stations). The cost incurred by Jurisdiction B to incentivize the purchase of ZEV new light duty vehicles in 20x2 was CU154 per ZEV (CU13.11 million/85,000 ZEV new light duty). The program's planned cost was CU143 per additional ZEV new light duty vehicle sold, however, this expectation was based on capturing 26% of the market, instead of 18% captured in 20x2.

- Effectiveness:
  - Input: 100% (the actual cost to install an EV charging station over the target cost to install an EV charging station – CU28,500/CU28,500) because the cost planned was achieved.
  - Output: 77% (the actual number of EV charging stations installed over the target number of planned EV charging station installations – 460/600) because fewer EV charging stations were installed than planned.
  - Outcome: 71% (Actual of ZEV new light-duty vehicles sold over the target (85,000/119,600) because the market share achieved of 18% was lower than the 26% targeted.

**Example 3—Investment in Infrastructure to Mitigate the Impacts of Climate Change**

IE7. Investments in infrastructure can be used by entities to help restore the natural environment and mitigate the impact of climate change. Such investments often identify specific metrics or targets the investments are intended to achieve, including those related to service delivery. This information can be used by the entity to report on the performance of the program in achieving the program objectives. Below is an example of an investment in infrastructure financed by environmental penalties collected to mitigate the impacts of climate change and how to apply RPG 3 when reporting on the program.

*Investment in Infrastructure Details and Objectives:*

- Community C utilizes funds collected from environmental penalties to provide funding for projects helping restore the environment, through 'green infrastructure' projects, such as installing rain gardens to reduce the risk of flooding and help communities adapt to climate change.
- In 20x1, community C made CU250,000 available for the installation of rain gardens in residential homes and small businesses, with an average cost of CU5,556 each (CU250,000/45 rain gardens).
- A water management consultant report states that the plan to install 45 rain gardens is estimated to reduce instances of flooding by 60% (30 fewer floodings instances).
- Rain levels between 20x0 and 20x1 were consistent, 50 flooding instances were noted in 20x0, and after issuing funding of CU150,000 for 25 rain gardens in 20x1 there were 17 fewer flooding instances (57% reduction).

*Performance Indicators:*

- Input: Funding collected from environmental penalties and available for rain gardens.
- Output: The number of rain gardens funded by community C.

- Outcome: Reduction of residential and small businesses flooding instances
- Efficiency:
    - The cost per rain garden was CU6,000 (CU150,000/25 rain gardens), CU444 over the target cost. There were only 17 fewer flooding instances than the estimated 30, which can be attributed to the lower number of rain gardens funded by the program (45 rain gardens were estimated to be funded, but only 25 were funded and completed in 20x1). The cost per reduction in flooding instances was CU490 higher per flooding instance, as the planned cost was CU8,333 (CU250,000/30 reductions of flooding instances) and the actual was CU8,824 (CU150,000/17 reductions of flooding instances).
- Effectiveness:
    - Input: 60% (the actual funding provided for rain gardens over the target funding available – CU150,000/CU250,000) because less funding was provided than was available.
    - Output: 56% (the actual number of rain gardens funded over the target number of rain gardens planned – 25/45) because fewer gardens were funded than planned.
    - Outcome: 57% (the actual reduction of flooding instances over the target reduction of flooding instances – 17/30) because fewer flooding instances were reduced than planned.

**Example 4—Tax Expenditures for Sustainability Investments**

IE8. Tax Expenditures (tax credits provided through the taxation system) can be used to incentivize private investment to improve energy efficiency and reduce energy consumption. Such programs encourage investments and often identify specific metrics or targets the investments are intended to achieve. This information can be used by the entity to report on the program performance in achieving its objectives. Below is an example of a tax expenditure program to encourage energy efficiency improvements through conservation that sets out how to apply RPG 3 when reporting on the program.

*Tax Expenditure Details and Objectives:*

- In 20x6, Country A introduced a tax credit to incentivize energy-efficient renovations of CU525 million (approximately 80,000 renovations) to decrease energy consumption, specifically natural gas, by 15% in 20x7.
- In 20x7, an income tax credit of CU300 million was given by Country A on housing energy efficiency expenditures.
- The tax credit for energy transition triggered around 60,000 additional eligible energy-efficient renovations and accounted for a reduction of 7% (94,007,117 MMcf[1]) of the natural gas consumption in residential properties in 20x7 (20x7 total natural gas consumption was 1,342,958,820 MMcf).

*Performance Indicators:*

- Input: The total amount of tax credits provided

[1] One million cubic feet of natural gas.

- Output: The number of eligible energy-efficient renovations completed.
- Outcome: Reduction in energy consumption.
- Efficiency:
    - The average tax expenditure provided for each energy-efficient renovation was CU5,000, resulting in a lower tax expenditure than planned of CU6,563 per renovation. The actual cost per unit of energy conservation was CU3.191 per MMcf (CU300 million/94,007,117 MMcf), which was higher than planned at 2.606 per MMcf (CU525 million/201,443,823 MMcf). This could be attributed to fewer actual renovations (60,000) than planned (80,000) and less energy savings per renovation (1,566.78 MMcf per renovation instead of 2,518.05 MMcf).
- Effectiveness:
    - Input: 57% (the actual tax credit issued for eligible energy-efficient renovations over the target announced – CU300 million/CU525 million) because the tax expenditures issued was less than the target.
    - Output: 75% (the actual number of eligible energy-efficient renovations over the target – 60,000/80,000) because there were fewer energy-efficient renovations than planned.
    - Outcome: 47% (the actual natural gas consumption reduction over the target – 7%/15%) because the reduction in natural gas consumption achieved was lower than planned.

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