

SUSTAINABILITY REPORTING IN THE PUBLIC SECTOR: INSIGHTS FROM THE CITY OF TORONTO

Sustainability reporting is becoming an important aspect of governance in business and in the public sector. The City of Toronto, the local government for Canada's largest city, is one of the pioneers of public sector sustainability reporting. Heather Taylor, former chief financial officer (CFO) of the City of Toronto and currently a partner at EY Canada, describes the City's approach to sustainability reporting and offers some advice to others who are considering its adoption.



The City of Toronto

The City of Toronto provides most of the public services that directly affect the daily lives of 2.8 million people. These services include policing, emergency services, health services, clean water and sewage management, waste collection, social services, housing support, public transportation, and road maintenance. It has 30,000 employees, an annual operating budget of CAD 16 billion and a 10-year capital plan of CAD 49 billion.



Toronto's journey

The City of Toronto produced its first, annual ESG (environment, social and governance) report in 2020. The [City of Toronto's ESG reports](#) are primarily focused on climate change, aiming to align financial and sustainability reporting to attract public attention and underscore the City's commitment to this issue. The reports are based on the framework developed by the internationally-recognised [Task Force on Climate-related Financial Disclosures](#) (TCFD).

The TCFD framework has four pillars:



Climate-related financial disclosures are also published in the City's [Annual Financial Reports](#), demonstrating connectivity between the financial and sustainability-related disclosures.

Sustainability reporting is integrated into the city's governance structure. The Environment & Climate Division takes the lead on, and is accountable for, the City's environmental and energy sustainability outcomes. The CFO is the champion of sustainability reporting, working on it in partnership with the Environment & Climate Division.

Factors enabling the adoption of sustainability reporting

There are three major factors that enabled the City of Toronto to adopt sustainability reporting: **timing**, improving access to **finance**, and **commitment**.



From a **timing** perspective, the City already had a net zero commitment in place and had identified its carbon footprint. The City had a strategic plan for sustainability, supported by a sustainability investment plan worth CAD 21 billion, and it was natural to report on progress in these areas.



From a **financial** perspective the City required investors to finance its ambitious sustainability investment programme. Adopting sustainability reporting helped to open up opportunities to new funding sources and better financing conditions. There is a significant demand for, and interest in, sustainability information from investors.



There was **commitment** to making this change from many key stakeholders, including the City's Mayor. The CFO was also personally committed to the innovation. She had experience with sustainability reporting from previous provincial government roles and took the opportunity to be a leader of the sustainability agenda, and to deliver what society needed.

Challenges

Navigating change within a city of Toronto's size involves significant challenges. Effective change management and stakeholder engagement were instrumental in building momentum for the project amidst many competing priorities within the City.

A further challenge was having the necessary capacity for the reforms. The Environment & Climate Division has two dozen staff. The CFO was supported by two staff who were as committed to the topic as the CFO.

Of course, no change project has absolutely universal support. Some of the city's stakeholders expressed reservations about the transparency associated with sustainability reporting.

The City of Toronto completed impact assessments, both from the 'inside-out' perspective, to assess the impact of the City on the economy, environment, and society and from the 'outside-in' perspective, the way in which sustainability-related issues impact on the organisation. The former was for getting the buy-in of politicians whereas the latter was relevant to investors.

Another challenge was deciding which topics should be included within the sustainability reports. The so-called materiality assessment was difficult to complete and resulted in a longer list of areas of concern/focus than might have been the case in a private sector setting.

At the time the City initially developed its reporting approach, there were no specific sustainability standards for the public sector. Nevertheless, consistency between financial reporting and sustainability reporting is essential. Many different departments are involved in the preparation of the reports, using multiple sources of data. From all this the preparers need to make sure that the reports are consistent and coherent.

Sustainability reports are not audited, but some elements undergo external validation, such as [ISO 37120](#) (*Sustainable development of communities — Indicators for city services and quality of life*) certification and the validation of the sustainable finance framework by a law firm.



Benefits for the City of Toronto

There have been benefits for the City of Toronto. Sustainability reporting has elevated the reporting on risk. Reporting on sustainability risks and quantifying the sustainability metrics leads to better management of those risks by the City's leadership. Sustainability reporting also improves accountability for delivering on sustainability-related commitments by the City of Toronto.

There are tangible financial benefits, too. The issuance of sustainability bonds (both green and social bonds), aligned with sustainable finance frameworks, were over-subscribed and delivered a lower cost of capital to support the City's significant investment plans.

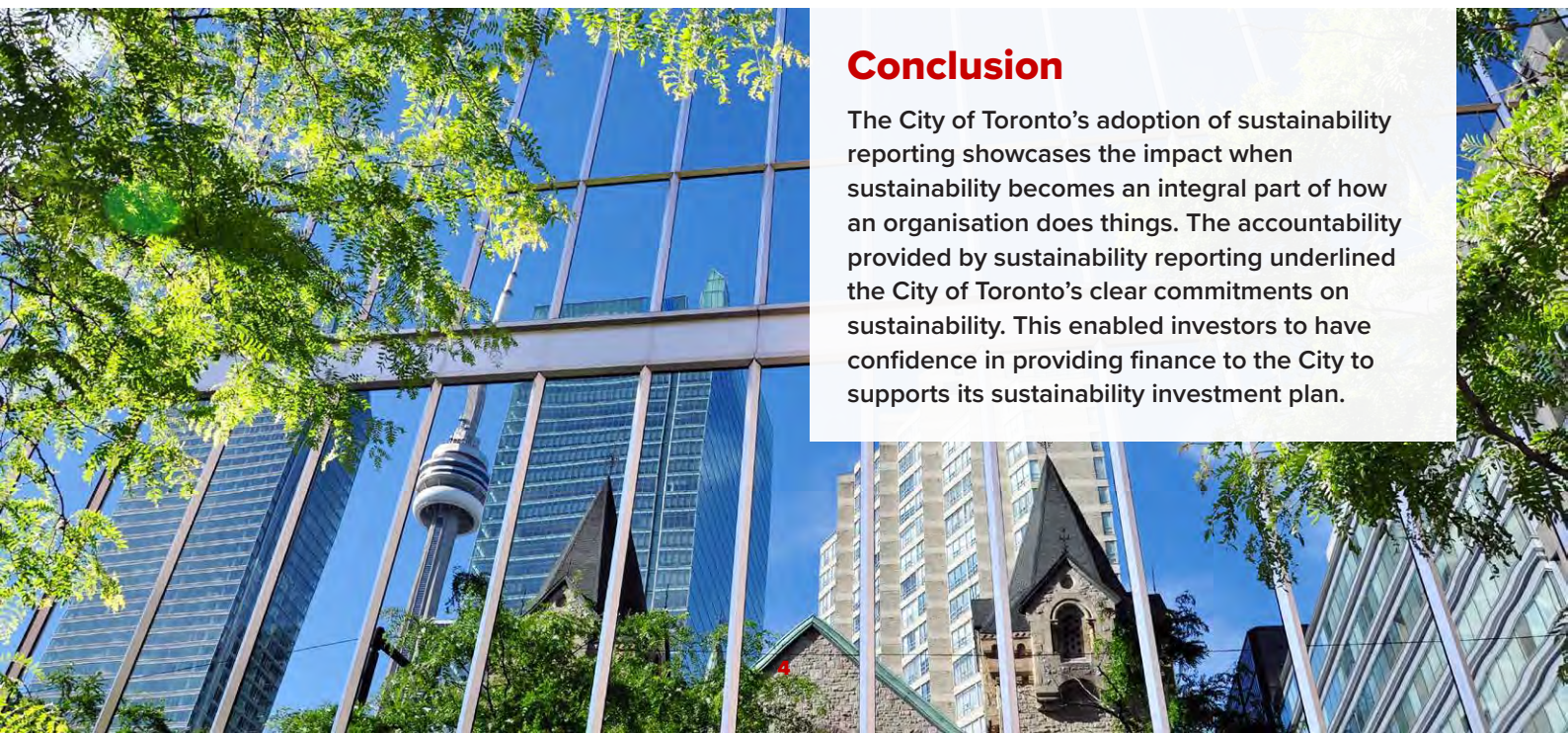
The City of Toronto's approach to sustainability reporting has been acknowledged by credit rating agencies and insurers. It has received positive feedback from these bodies and others, notably investors and climate advocates.

Future steps for Toronto

The city plans to introduce carbon budgeting in 2024 and anticipates aligning with the International Sustainability Standards Board's standards IFRS S1 and IFRS S2 that were published in 2023.

Advice for other public sector organisations

- Organisations contemplating sustainability reporting should begin by making a net-zero commitment. They might also find it helpful to map their services against the UN's Sustainable Development Goals because it can identify areas for improvement.
- Time is of the essence, don't wait for sustainability reporting to be mandated. The public sector can get started now on the reporting agenda and maximise the financial and sustainability benefits it brings. Begin with a baseline and build from there in successive years, recognising the evolving landscape of sustainability reporting.
- The materiality assessment aspect of sustainability reporting enables organisations to reflect their specific context. For larger public sector organisations that provide a wide range of services, a systematic review of its remit and operations is necessary to identify what has a material impact on sustainability.
- Having the CFO as the organisation's champion of sustainability reporting ensures a comprehensive perspective because they see what is happening across the whole organisation. It also helps with the integration of sustainability reporting with financial reporting.



Conclusion

The City of Toronto's adoption of sustainability reporting showcases the impact when sustainability becomes an integral part of how an organisation does things. The accountability provided by sustainability reporting underlined the City of Toronto's clear commitments on sustainability. This enabled investors to have confidence in providing finance to the City to support its sustainability investment plan.