

DOUBLE MATERIALITY ANALYSIS AS A CENTRAL FILTER FOR ESG REPORTING IN AUSTRIAN AND GERMAN MUNICIPAL UTILITIES

by Philumena Bauer & Dorothea Greiling



Highlights:

- The Corporate Sustainability Reporting Directive makes environmental, social and governance (ESG) reporting mandatory for many large municipal utilities for the first time.
- The double materiality analysis is becoming the decisive instrument for prioritizing relevant topics and for reducing the data points for ESG reporting.
- Empirical insights: 14 highly material topics could be identified across the ESG dimensions with "ESRS EI: Climate Change", "ESRS SI: Own Workforce" and "ESRS GI: Business Conduct" are the most highly prioritized ones.
- The opportunities: Strategic positioning, employer-branding, reputation management, greater resilience.
- The challenges: Data complexity, regulatory uncertainty, and very costly transformation process.



Context

With the introduction of the *Corporate Sustainability Reporting Directive*, large municipal utilities, are required for the first time to report extensively on non-financial ESG (Environmental, Social, Governance) matters. Central to this process is the “double materiality” principle — a double-perspective analysis assessing both financial impacts on the limited liability companies and societal/environmental impacts resulting from the company’s activities. The obligatory double materiality analysis offers the chance of reducing ESG-reporting to the most relevant data points.

Key Empirical Findings

Empirical basis: The study includes 14 *Austrian and German municipal utilities* and examines the current state, challenges, and opportunities of a double materiality analysis in line with the European Sustainability Reporting Standards (ESRS). Methodologically, the study is based on a *qualitative content analysis* of 28 sustainability reports published by the 14 municipal utilities between 2021 and 2024. So far, only 14 large Austrian and German municipal utilities had included the results of their materiality analysis into their sustainability reports based on international sustainability reporting standards. In addition, five *expert interviews* were conducted with representatives of large Austrian municipal utilities in February 2025.

Written by



Dr. Philumena Bauer Prof. Dr. Dorothea Greiling

Johannes Kepler Universität Linz - Institute for Management Accounting

This study of 14 municipal utilities from Austria and Germany reveals that all have started implementing a materiality assessment. The pioneers use the results of the double-materiality analysis already for assessing the progress they make in the ESG while others still struggle with the implementation and the final selection of themes and data points. Based on the empirical analysis, *14 highly prioritized material topics* could be identified. They can be divided into three dimensions:



- Environmental dimension (E) focuses on five key aspects: (1) energy efficiency; (2) (greenhouse gas) emissions; (3) climate protection measures; (4) energy, heating and mobility transition; and (5) reliable and high-quality waste disposal.
- Social dimension (S) also comprises five key topics: (1) health protection; (2) attractiveness as an employer; (3) security of service provision/security of supply; (4) sustainable cities and (5) product responsibility.
- Governance dimension (G), four key aspects are important: (1) compliance and anti-corruption; (2) security and data protection; (3) industry, innovation and sustainable infrastructure; and (4) efficient operations.
- Based on the guidelines of the European Financial Reporting Advisory Group (EFRAG) for the ten thematic standards that would lead to around *200 data points* in the *three thematic ESG dimensions*. In addition, municipal utilities must decide which data points from the two general ESRS standards (ESRS 1 and ESRS 2), which were not addressed by the interviewees, will be included.

Challenges and Opportunities

- *Challenges*: One of the top challenges for all municipal utilities is the complexity of CO₂ accounting, particularly Scope-3 accounting, which is methodologically very demanding and which was regarded by some of the interviewees as un-implementable. ESG-reporting comes along with considerable consultancy costs and the implementation-process is very time consuming. The stakeholder engagement process, required to identify material topics, is by no means trivial. That is also true for carrying out climate risk assessments. Additionally, the Omnibus I proposal (European Commission, 2025) has heightened regulatory uncertainty. This is exacerbated by the fact that the number of data points subject to ESG-reporting will probably be reduced which is a perspective welcomed by the municipal utilities.
- *Opportunities*: The double materiality analysis is essential to reduce ESG-reporting to the most relevant topics. Integrating sustainability into the corporate strategy enables municipal utilities to strengthen their resilience and strategic positioning as providers of services of general interest. ESG-reporting is also seen as an important tool for employer branding. As providers of critical infrastructure, municipal utilities can use ESG-reporting to make their unique contributions to public services more visible to key stakeholder groups. Leading municipal utilities can serve as benchmarks, while others can leverage best practices and external expertise to advance their ESG-maturity. ESG thus offers a chance to visibly position municipal utilities as highly reliable, social and environmental responsible institutions and therefore also as important local actors for contributing to the UN Agenda 2030.

Policy Recommendations

- *For municipal utilities*: Most municipal utilities adopt a "keep it simple" approach to ESG-reporting to fulfil the requirements with minimal complexity. This reduces the effort involved but harbors the risk of overlooking opportunities. A minimalist approach serves only as a temporary solution. The Omnibus I proposal will reinforce this pragmatic-minimalist approach of many municipal utilities for the time being. Nevertheless, it is essential to embed high-priority topics in the corporate strategy to strengthen corporate resilience and demonstrate the value contribution of the municipal utilities as enterprises committed to providing services of general interest. Proactive municipal utilities have advantages in the transformation of their business model and can use ESG-data for strategic repositioning. This is the only way to successfully transform their business model in a medium and long term perspective.
- *For policymakers*: Policymakers need to address the uncertainties of an ESG-reporting landscape further fragmented by the Omnibus I proposal and should quickly provide regulatory clarity and ensure a level playing field.

