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Sustainable reporting

Information for the NSW Legislative Assembly Public Accounts Committee

Inquiry into Sustainability Reporting in the NSW Public Sector

March 2005

Overview

Sustainability reporting has grown out of the notion of Triple Bottom Line reporting, introduced in the early 1980s and defined as:

“... a framework for measuring and reporting corporate performance against economic, social and environmental parameters.”

Elkington, J. (1980). *The Ecology of Tomorrow's World*

The core characteristics of triple bottom line reporting are accepting accountability; being transparent; integrating planning and operations; demonstrating a commitment to stakeholder engagement; and, multi-dimensional measurement and reporting.

Originally aimed at corporations, and particularly those operating globally, triple bottom line reporting has steadily embraced terms such as corporate social responsibility, community empowerment, socially responsible investment, and stakeholder engagement.

Organisations adopting triple bottom line reporting principles effectively accepted a shift from a shareholder obligation to a social obligation, an issue with which Government has traditionally been concerned.

By the late 1980s, Australian governments began moving towards sustainable development and, when reporting on progress, began to take a “sustainable” view of the operations of various agencies. In particular, greater scrutiny by environmental interest groups and the public of business and government agency operations on the environment resulted in a new focus given to environmental reporting, with key performance indicators reported, verified, and frequently benchmarked, in reports which were often separate to an agency’s annual report.

In 1997, the Global Reporting Initiative (GRI) was introduced following trends that emphasised the increasing globalisation of businesses and the rising visibility of the impact of business operations; coupled with calls for greater transparency, accountability and higher standards of corporate governance. This resulted in a worldwide framework for sustainable reporting.

The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines.

These guidelines are for *voluntary* use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products and services. The aim of the Guidelines is to assist reporting organisations and their stakeholders in articulating and understanding contributions of the reporting organisations to sustainable development.

The GRI has quickly established itself as the leading authority on sustainability reporting, largely due to its independence, its inclusive and consultative approach to the development of key measures and reporting principles, and the flexible nature of the application of the key principles of its reporting framework.

While a plethora of other sustainability and corporate social responsibilities indices have been developed within Australia, it is the GRI guidelines that have captured the attention of global and national businesses and government agencies, who are seeking a means of transparently reporting operations across common indicators. These include, for example, commitments by businesses such as Rio Tinto, Shell, Westpac, National Australian Bank, Sydney Water and Integral Energy to use the GRI as the basis of sustainability reporting.

Reporting practices

Integral Energy was among several government organisations that took a leading role in adopting triple bottom line principles for planning and reporting in the late 1990s, having adopted **sustainability and commercial success** as one of its corporate values, defined as follows:

“supplying electricity as an essential product to the economy and society; returning a commercial dividend to our shareholder; and, supplying electricity in a way that takes into account the impact of our operations on the environment and the wider community, now and into the future.”

For the reporting years 2000-2001 and 2001-2002, Integral Energy produced a separate Sustainability Report, which took information provided for the Annual Performance Report and presented it in the sustainability framework of economic, social and environmental issues. The broad contents of the report were independently verified.

Integral Energy set a reporting aim to merge the two reports by the 2004-2005 reporting year in the interests of reducing duplicated effort as well as production costs. This was achieved ahead of time with production of the first integrated Integral Energy Annual Performance Report in 2002-2003 that responded to the GRI guidelines, as well as to the requirements of NSW Annual Reports legislation.

Information was presented across the three dimensions of the triple bottom line - economic, environmental and social – and included typical measures of compliance with GRI guidelines.

Business planning

Integral Energy’s business planning is based on the following major result areas:

- Building value in the network.
- Maximising the contribution from the Retail business.
- Ensuring support systems are in place.

Within these three broad areas, economic, environmental and social aspects are considered, and allocated accordingly in the organisation’s annual performance report.

Sustainability is reflected in both the business planning and reporting processes through the following principles:

- Integral Energy supports the voluntary Global Reporting Initiative (GRI) principles.
- Integral Energy recognises that sustainability reporting is still at a developmental stage.
- Characteristics of sustainability reporting include:
 - Ensuring the organisation’s core values reflect sustainable outcomes.
 - Adopting clearly defined decision-making principles.
 - Linking organisational priorities.
 - Conducting detailed analysis.
 - Measuring specific and tangible criteria.
 - Avoiding broad statements.
 - Achieving external (third party) verification of data.

Terms of reference

- a) **Review the current requirements for sustainability reporting, whether compliance with these requirements is mandatory and how compliance is monitored.**

Currently there are no formal or mandatory sustainability reporting guidelines for NSW public sector organisations, beyond a very general requirement in *NSW Annual Reports (Statutory Bodies) Act 1995* to comment on the impact of the organisation's operations, as follows:

Economic

- factors which have affected the achievement of the operational objectives of the statutory body during that reporting year
- summary review of operations.... which includes selected financial and other quantitative information associated with the administration of programs
- Payment of accounts, and the time for the payment of accounts

Social

- a statement setting out the equal employment opportunity achievements of the statutory body during the reporting year and the key equal employment opportunity strategies proposed for the following year
- social programs according to details as provided by the secretary of Treasury from time to time
- funds granted to non government community organisations, including the name and amount given
- human resources information....including the number of employees by category, changes in wages, personnel policies, industrial relations practices
- disability plans...as required under the *Disability Services Act 1993*
- the extent and main features of consumer complaints
- key actions towards the NSW Government Action plan for Women (1996)
- occupational health and safety statement and statistical information as required by Treasury

Environmental

- waste management reporting, focussed on Waste Reduction and Purchasing Policy (Resource NSW) initiatives to encourage greater recycling.

Note that this information has been grouped by Integral Energy according to the three dimensions of sustainability reporting to highlight a perceived lack of emphasis about sustainability issues across the legislation. Arguably, there is a fourth dimension to effective sustainability reporting– that of good corporate governance – which should be a mandatory component in any sustainability report.

For the reporting year 2002-2003, Integral Energy integrated two separate annual reporting documents – our Sustainability Report and Annual Performance Report - into one document. This was a step in a larger process to focus more sharply on the integration of sustainability across the organisation.

Compliance to mandatory reporting standards (ie NSW Annual Reports legislation) is monitored through random audits conducted by NSW Treasury each year. Integral Energy's annual performance report has been selected for audit each year for the past 8 years.

In addition, Integral Energy has been a frequent participant in programs designed to benchmark the standard of its report. Integral Energy representatives have previously given evidence to a past public accounts committee concerning annual reporting standards across various government agencies, and Integral Energy a past recipient of five Australian Annual Report Gold Awards, (1995, 1996, 1997, 1998 and 1999 including the Annual Report of the Year (1996). It has not entered the awards since 2000, following the organisation's decision to transition to sustainability reporting using the GRI principles, as these varied considerably from the criteria used by judges to determine the Australian Annual Report Awards.

b) Present information on the extent of sustainability reporting within and across NSW Government agencies, with particular reference to the 'whole of government' approach to sustainability reporting initiated within the Premier's Department.

The NSW 'whole of government' approach to sustainability has sought to evaluate the implementation of core sustainability principles, identify best practice and innovation to educate public administrators on the integration of sustainability into decision making.

Integral Energy is an ongoing participant in the Premier's Department initiative for sustainability reporting.

As a State-owned Corporation, we also are reviewing our current approach to sustainability reporting, including the methodology and accuracy of the data that is collected, as well as approaches for third party verification of this information. The whole of government approach will assist in this review by providing examples of reporting best practices that have been implemented in the public sector.

c) Consider whether sustainability reporting should be linked to other reporting mechanisms to Parliament.

Integral Energy believes there is scope for formal sustainability reporting to Parliament, for example, through formal requirements covering annual reports.

However, this would require much clearer links to be established between the organisation's Statement of Corporate Intent, as negotiated with its shareholder, the NSW Treasurer, and the organisation's annual performance report, as tabled in NSW Parliament. Of particular note, the Statement of Corporate Intent would require the incorporation of agreed key performance indicators across social and environmental aspects of its business in order to provide a basis for subsequent reporting.

d) Consider appropriate processes for auditing or verifying sustainability reports.

Integral Energy is committed to an open, honest and transparent approach to annual reporting, and continues to strive for the highest level of accuracy in presenting information for a wide range of stakeholders.

Although statutory accounts are verified by the NSW Auditor-General, and other data is presented under various industry or environmental guidelines, Integral Energy recognises that external verification of sustainability reports can add rigour and credibility to the process of reporting itself. This is important against a backdrop of increased scrutiny by Non Government Organisations (NGOs) to standards of sustainability reporting, where some businesses have

done little more than re-package existing information under the banner of a sustainability report, leading NGOs to allege that some businesses are guilty of “greenwash.”

However, auditing and verification of data for its own sake merely ensures compliance, rather than driving any real improvements to business processes. Unless verification is used to drive improved business processes; enhance customer outcomes; and deliver more transparent reporting practices, Integral Energy does not believe that it adds value to sustainability reporting.

At present, organisations can choose whether or not to proceed to external verification, but may be constrained by the need to report to their shareholding and portfolio Ministers by 31 October in each year.

Although best practice in sustainability reporting is for external verification of qualitative and quantitative analysis, financial and social auditing, it presents some difficulties within the present reporting framework.

In the years that Integral Energy produced separate sustainability reports – which were designed to accompany and complement the Annual Performance Report – they were produced at least two months apart. External verification adds considerably to production time as well as costs.

e) Consider how effectively sustainability reporting is linked to actions within and across agencies.

Integral Energy believes that sustainability reporting is a useful means to link the typically diverse and insular functions within its business – such as finance, marketing, capital programs, and human resources. It encourages internal conversations where they would not otherwise occur, and presents information in a manner that reflects stakeholder interests, rather than management interests.

However, Integral Energy does not see any evidence that sustainability reporting across government agencies is linked to actions across agencies.

f) Review the adequacy of current central agency tools to assist individual agencies in applying sustainability reporting

Agency annual reports are produced under a raft of legislation and other directives that concentrate more on delivery of particular information - in the interests of wide public disclosure - than on the notion of sustainable reporting.

Such is the breadth of statutory and other requirements, Treasury provides a useful guide to annual report preparation, which is updated every year, plus regular and timely directives on changes. However, this checklist continues to focus on compliance with necessary content rather than offering a code of practice for sustainability reporting. Integral Energy believes there is scope for Government to give renewed emphasis to standards of reporting by developing such a code.

Reviews of annual reports by the Auditor-General of NSW also provide useful guidelines for financial reporting and compliance.

In conducting the enquiry the Committee should :

a) Consider sustainability reporting initiatives within the public sector in Australia and in international jurisdictions

Integral Energy's approach to sustainability reporting is based on the principles of the Global Reporting Initiative (GRI), an international approach to reporting an organisation's sustainability initiatives, which commenced in 1997. Based in the Netherlands, the purpose of the GRI is to elevate economic, environmental and social reporting to routine practice within the highest standards of rigour and compatibility

There are other international approaches to sustainability reporting:

- Coalition for Environmentally Responsible Economies (CERES) – a United States based coalition of environmental, investor and advocacy groups
- International Institute for Sustainable Development - Bellagio principles

However, Integral Energy chose the GRI because of its wide global acceptance by leading organisations, public and private.

In determining its position on sustainability reporting, Integral Energy has considered several leading reports that compare and contrast the experience of public and private sector businesses within and beyond Australia regarding sustainability reporting.

These reports include:

- "Triple Bottom Line Measurement and Reporting in Australia: Making it Tangible", Allen Consulting Group, 2002
- "Sustainability Reporting Guidelines", Global Reporting Initiative, 2002, and
- "Taking the First Steps: An overview of Corporate Social Responsibility in Australia", the Common Good Program, State Chamber of Commerce (NSW) 2001.

b) Study the processes agencies are using to achieve integration between the dimension of social, economic and environmental sustainability and the core principles of sustainability.

Many businesses and government agencies are now experiencing renewed focus on the nature and relationship between business and its stakeholders. Companies are increasingly being asked for information about their impacts on the environment, the economy and the society in which they operate, as well as to attest to the ethical conduct of their business. Companies and government agencies are faced with deciding whether to resist these questions, or respond with available data, or whether to seize the opportunity to gain deeper insight into the impact of their own practices, as well as to become truly transparent and accountable. Integral Energy committed to sustainability reporting as a means of tangibly demonstrating its performance in a candid and transparent manner to a diverse range of stakeholders.

Allen Consulting (2002) reports that the core characteristics that companies display when embracing sustainability are:

- accepting accountability and being transparent
- integrated planning and operations where a company's contributions to economic prosperity, environmental quality and social well-being are reflected in strategic planning and management systems
- a commitment to stakeholder engagement, and
- multi-dimensional measurement and reporting.

In addition, their report notes that there are five broad categories that capture the diverse 'state of play' in performance measurement and reporting in Australia. The five categories are used to

highlight the varied business rationale and interpretation that is presently made across the public and private sector to sustainability reporting. The categories are as follows:

- i. 'Wait and see' - sustainability reporting is not given a high priority and business adopts a 'wait and see' mentality before considering further.
- ii. Community 'right to know' - these businesses package internal information for external audiences, in recognition of the community's right to know principle. They reveal the standards set by them to meet business objectives, and their performance against them. They continue to develop data collection, reporting and verification approaches, but do not see that a change in approach to embrace environmental or social dimensions would necessarily yield additional business benefits.
- iii. Meeting stakeholder expectations - these businesses 'start from scratch' and systematically seek to align their operations with stakeholders' expectations and business strategy. This generally requires new management systems and is a long and resource intensive approach.
- iv. Guiding principles – a few companies shape their response to stakeholder expectations into principles that guide their business operations and core values. This approach seeks to embed these principles into management practices. Again, this is a complex and intense journey.
- v. Cultural perspectives – Some companies, typically in private ownership, define their business purpose and commitment to sustainability values and accountability as fully integrated – their business success depends on this cultural perspective. The UK Body shop is an oft quoted example, but Visy Industries also embraces this holistic approach.

c) examine the core value of sustainability indicators across all public sector agencies versus the development of indicators which are agency specific

Integral Energy believes that developing high quality indicators is a challenge and there is no easy or correct way to develop and report them. Further, Integral Energy recognises the limits of a 'one size fits all' approach.

The GRI has been quick to recognise the issues faced by different types of businesses in determining indicators, and has moved to develop industry specific supplements to guide businesses in determining appropriate indicators. Importantly, the GRI encourages agencies to consult with stakeholders about issues of most concern to them when determining indicators.

Integral Energy believes that this approach is commendable, especially when coupled with indicators that are most useful for informing strategic decisions within the business.

Although the extent to which environmental and social indicators are integrated into management decisions varies from one agency to another, Integral Energy believes that there are several indicators that are comparable within and between all public sector agencies.

Common environmental indicators include:

Amount of energy consumed and its origin

Resource and material usage

Greenhouse gas emissions

Effluent and waste management

Common social indicators include:

Health and safety

Community involvement

Stakeholder engagement

Economic indicators (beyond financial results) include:

Taxation paid

Estimates of wealth generated

Capital investment

Return on assets

Integral Energy believes that adoption of these indicators across all public sector agencies would be useful in encouraging benchmarking of performance and subsequent improved service delivery to the people of NSW.

d) discuss processes by which sustainability reporting practice is communicated and discussed within and across agencies and to Parliament

Sustainability reporting practice is communicated and discussed within and across agencies through externally arranged conferences, professional associations, specialist consultancies, and benchmarking opportunities.

In addition, Treasury's annual review of reports for compliance to reporting legislation usually provides some commentary on best practice trends for reporting.

Leading businesses customise web based reporting in the interests of making the information widely accessible, while other more sophisticated approaches have developed this to the next stage and have 'gone live' with their data, which challenges the status of the more static traditional paper based reporting.

Recommendations

Integral Energy recommends:

1. The development of a code of practice to foster the introduction and development of high standards of sustainable reporting across all government agencies and departments.
2. Central assessment of the robustness of agency data, by an independent expert panel, with a view to providing 'arms length' verification. Verification should be used as a platform to drive business improvement rather than mere compliance.
3. A comprehensive review of the Annual Reports (Statutory Bodies) Act 1995, and ensuing regulations. This review should encourage the adoption of the principles articulated in the Global Reporting Index (GRI).