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A2 The Case for Sustainability Reporting by the Public Sector

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The Centre is a collaboration of the Global Reporting Initiative (GRI), ICLEI - Local Governments for Sustainability, the City of Melbourne and the State Government of Victoria (through the Victorian Sustainability Fund). The Centre's global mission is to improve the performance of public agencies through the practice of sustainability reporting. The Centre builds capacity and facilitates the development of best practice reporting by departments, agencies, government business enterprises and local councils.

Summary

- Sustainability reporting involves measuring, accounting and disclosing an organisation's economic, environmental and social performance to improve organisational performance and advance sustainable development.
- The Global Reporting Initiative's sustainability reporting framework is increasingly recognised as the global benchmark for sustainability reporting for both the public and private sectors.
- Sustainability reporting is an essential management tool for enhancing accountability, transparency and engagement, and addressing sustainability within any organisation.
- Sustainability reporting can inform learning, change and innovation to improve organisational performance.
- Sustainability reporting can be integrated with public agency strategic planning and reporting arrangements, and help consolidate existing corporate reporting requirements.
- The Centre for Public Agency Sustainability Reporting™ builds capacity and facilitates the development of best practice sustainability reporting by departments, agencies, government business enterprises and local councils.

1. Introduction

Sustainability reporting is becoming common practice in the corporate sector. However, increasing interest in sustainability, and increasing expectations of accountability and transparency, are also pressures being felt by the public sector. Although the very mission of a public agency may be to improve economic, social and/or environmental outcomes, the way in which that mission is achieved must also reconcile multiple and sometimes competing objectives. This paper explores the value case for sustainability reporting by the public sector and highlights selected approaches. It briefly introduces sustainability reporting, introduces and explains the Global Reporting Initiative, and discusses sustainability reporting by the public sector with reference to the City of Melbourne and Melbourne Water.

2. Sustainability Reporting

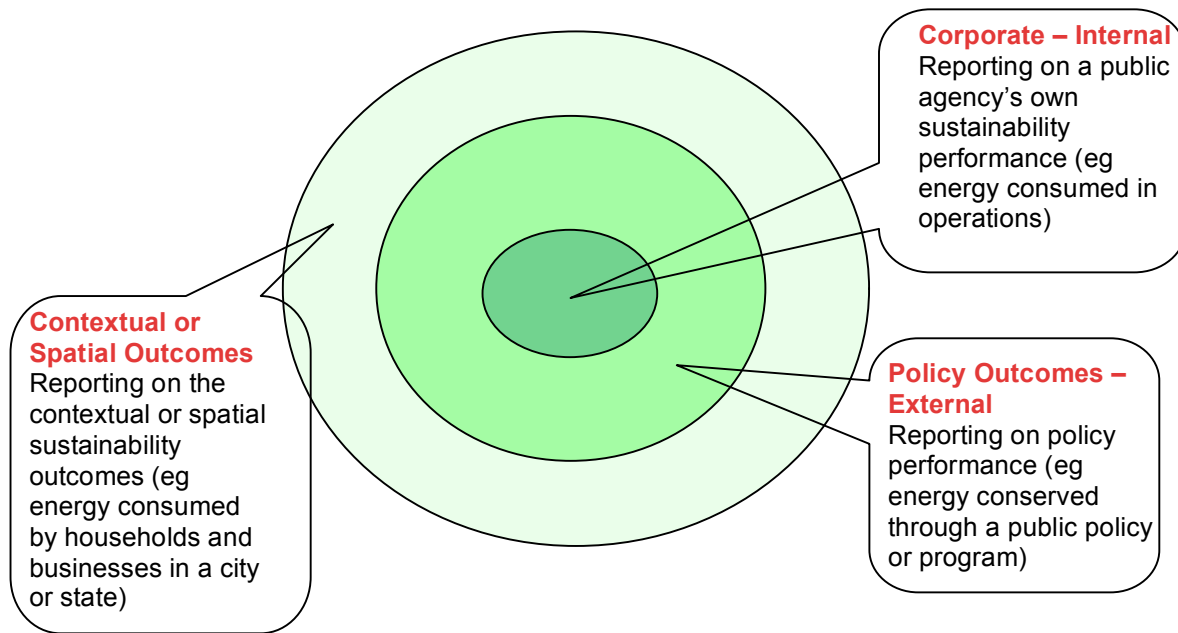
Sustainability reporting involves measuring, accounting and disclosing an organisation's economic, environmental and social performance to improve organisational performance and advance sustainable development. Sustainability reporting is also used synonymously with citizenship reporting, social reporting, triple-bottom-line reporting and other terms that encompass the economic, environmental, and social aspects of an organisation's performance (GRI 2006).

Sustainability reporting emerged in the 1990s as a response to demands from shareholders, communities, employees and NGOs for more information, accountability and transparency. While the level of sustainability reporting by Australian-listed companies is increasing, it appears to be less than the average for OECD

countries (CAMAC 2006). In Australia, companies in the banking, manufacturing and mining sectors are most likely to produce sustainability reports. Public agencies are beginning to take-up sustainability reporting with water and energy utilities, land development corporations and environmental agencies leading the sector.

For public agencies, sustainability reporting can be considered at three levels: corporate – internal; policy outcomes – external and contextual or spatial outcomes (see figure 1). Not every public agency, especially some departments or agencies within a larger portfolio, will report at the contextual level, for example, through a state of environment or state of social condition report. Contextual reporting may also occur at a different timeframe to annual reporting on organisational performance.

Figure 1: Sustainability Reporting Spheres



Source: GRI 2005.

3. Global Reporting Initiative (GRI)

The GRI is an independent institution whose mission is to develop and disseminate globally applicable sustainability reporting guidelines. Starting in 1997, GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Programme (UNEP). GRI continues to build connections with other organisations and recently formed an alliance with the Global Compact. Today, more than 950 organisations actively cite the use of the GRI in their reports, and many others make use of the Guidelines.

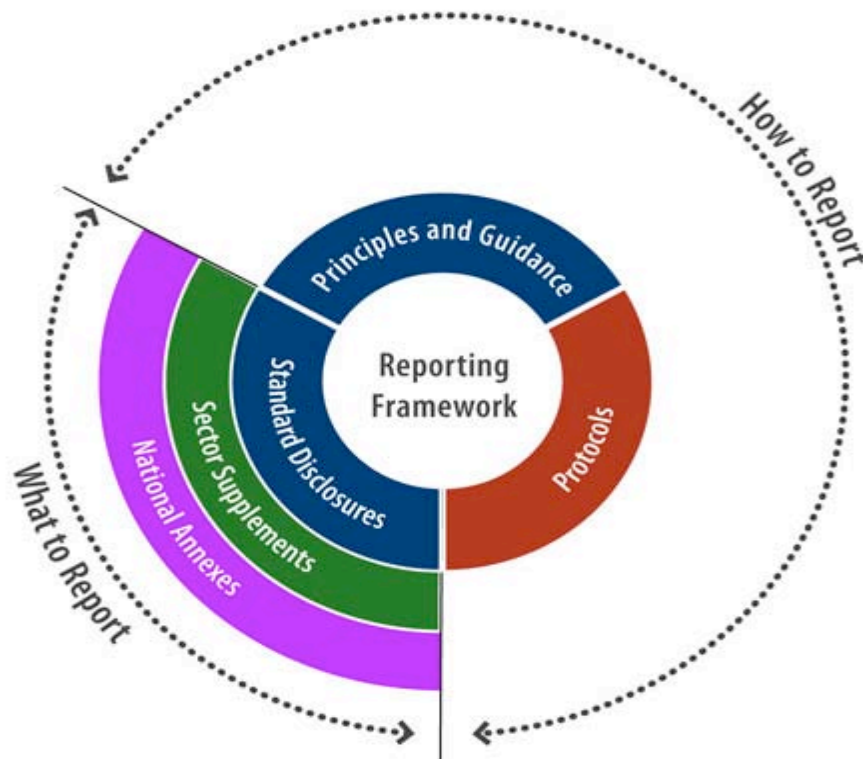
The GRI developed as a response to the growing need and practice of reporting against non-financial performance parameters. The use of a common set of disclosures and indicators in such reporting is a powerful tool. It allows for the use of a common language, performance measurement, benchmarking over time and space, and alignment with financial reporting frameworks.

The GRI framework consists of a central set of *Sustainability Reporting Guidelines* (currently the G3 Guidelines released in October 2006) which identify reporting principles (see Annex 1), disclosures and performance indicators common to all organisations. The GRI has also developed sector supplements to provide additional guidance and performance indicators which are important for that sector but not fully reflected in the Guidelines. For example, the *GRI Sector Supplement for Public Agencies* (GRI 2005) was developed to assist public agencies and provide sector specific guidance on public policy disclosures. Technical protocols have also been developed to provide further guidance on areas, such as data collection and reporting boundaries. The GRI reporting framework is illustrated in figure 2.

Standard disclosures (see figure 2) for a public agency using the GRI framework involve reporting on:

- strategy and analysis
- organisational profile
- report parameters (eg scope and boundaries)
- governance, commitments and stakeholder engagement
- management approach (including organisation context, goals and performance, policy, responsibility and accountability)
- economic, environmental and social/cultural performance indicators, and
- public policy outcomes (through the GRI Sector Supplement).

Figure 2: The GRI Framework



Source: GRI 2006.

At the October 2006 GRI conference, Mr Ernst Ligteringen, the Chief Executive of the GRI observed that:

As an important element of a sustainability management program, reporting is clearly not only an exercise in accountability; the process also fuels learning, change and innovation. The key question is therefore not **whether** sustainability reporting will become relevant, but rather in what **shape or form** reporting will be most useful. GRI's mission is to evolve a global language and metrics for sustainability reporting. On this journey, we have now reached a milestone: the G3 version of the GRI Guidelines.

The GRI framework is being increasingly recognised as the global benchmark for sustainability reporting (CAMAC 2006). For example, the Government of the United Kingdom, has stated 'The 'Global Reporting Initiative (GRI) is widely considered to be the most comprehensive sustainability reporting framework' (UK Government 2006). In New South Wales, in terms of reporting, the *Whole-Of-Government Sustainability Principles* (New South Wales Government 2006) outline that:

REPORTING

All agencies report on the sustainability of many aspects of their operations including water and energy use and waste management. Some also report on the economic, social and environmental impacts of their operations using international guidelines such as the Global Reporting Initiative. In addition, the

NSW Government produces reports on specific sustainability issues, such as the State of the Environment. Agencies are encouraged to continue to report on their sustainability achievements in their Annual Reports, websites and through other appropriate means.

4. The Public Sector and Sustainability Reporting

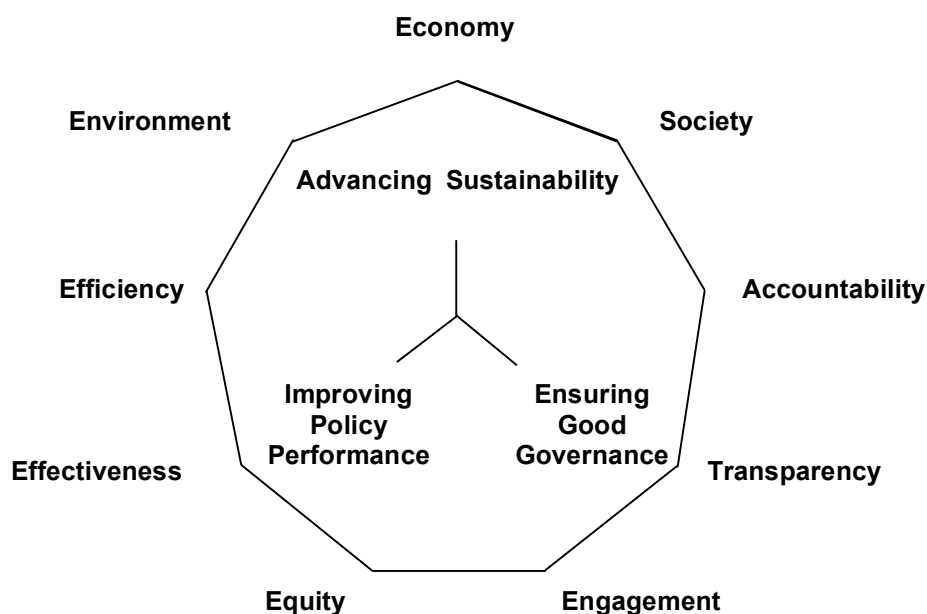
There are a number of reasons why the public sector should take-up sustainability reporting. The public sector is typically one of the largest sectors in every country, state, and local government area. The direct and indirect impacts of public sector operations on the economy, environment, and society can be significant. Public agencies exist to deliver public policies, programs and services that can significantly influence progress on sustainable development. It is important to know if these policies, programs and services are making a positive contribution to sustainable development or if changes are required. Addressing sustainability, improving performance, accountability and transparency is as important for the public sector as for the private sector

The recent Australian Government's Corporations and Markets Advisory Committee report on *The Social Responsibility of Corporations* (2006) identified that Government had a principal role in providing the public policy settings within which companies operate. However, Government could also facilitate or encourage companies to recognise the benefits of appropriately engaging with social responsibility by:

- taking a whole-of-government and national approach to policies and administrative arrangements
- providing leadership by example through public agency governance and disclosure standards
- promoting, assisting or encouraging companies and others to engage with key issues, such as by disseminating information, and
- encouraging participation by consulting with the corporate sector on developments on international codes or guidelines.

Key dimensions of sustainability reporting for public agencies cover advancing sustainability, ensuring good governance and improving policy performance (see figure 3). Sustainability reporting can promote good governance through enhancing accountability, transparency and stakeholder engagement. Reporting can also improve policy performance by assisting the measurement and reporting of the efficiency, effectiveness and equity (or distributional) impacts of public policies and programs.

Figure 3: Key Dimensions of Public Agency Sustainability Reporting



Source: Hughes 2006

The benefits of sustainability reporting have been identified in a number of major Australian Inquiries into corporate social responsibility and sustainability reporting (for example, see Corporations and Markets Advisory

Committee 2006, Parliamentary Joint Committee on Corporations and Financial Services 2006, and NSW Public Accounts Committee 2005). For a public agency, the benefits of sustainability reporting may include:

- increased agency efficiency by reducing operating and compliance costs
- proactive management of risk and protection of reputation
- attraction and retention of high calibre employees
- facilitation and enhancement of stakeholder engagement
- improvements in organisational accountability and transparency
- the ability to benchmark both within and across sectors
- an enhanced business case for ongoing public funding, and
- demonstrated innovation and leadership.

When carefully integrated with existing reporting and strategic planning commitments, sustainability reporting can assist public agencies to:

- promote a strategic and integrated approach to performance management and reporting
- streamline reporting processes to better align and integrate social, cultural, environmental and economic practices
- develop stronger community relationships through more strategic stakeholder engagement, and
- use the results of sustainability reporting to drive change and innovation through influencing strategic planning, policy development and delivery.

Selected examples of public agencies who are undertaking sustainability reporting include:

- Department of the Environment and Heritage and Department of Families, Community Services and Indigenous Affairs (Australia)
- Department of Corrections (New Zealand), Ministry of Defence (United Kingdom) and Architectural Services Department (Hong Kong)
- Sydney Water, Melbourne Water and SA Water (Australia) and Watercare Services (New Zealand)
- Landcom and Landcorp (Australia)
- City of Melbourne (Australia), City of Amsterdam (Netherlands) and Wolverhampton City Council (England)
- Integral Energy (Australia), BC Hydro and Hydro Quebec (Canada)
- Manaaki Whenua Landcare Research Ltd (New Zealand).

5. Case Studies of Reporting

This section briefly considers the approach taken with sustainability reporting by the City of Melbourne and Melbourne Water.

City of Melbourne

The City of Melbourne is a major metropolitan council with 1100 staff and A\$264 million revenue (2005-06). The City of Melbourne is a leader on sustainability, for example, through the new Council House 2 – a six star green building in the heart of the city. As a further commitment to sustainability, the City of Melbourne is undertaking sustainability reporting.

The City of Melbourne partly addressed sustainability reporting in its 2004-05 annual report for which it received a Gold reporting award. In early 2007, the City of Melbourne released its first stand-alone sustainability report for 2005-06 (City of Melbourne 2007). The Council explained in the 2005-06 report that it reports to:

- present Council's performance in a holistic and transparent manner
- document how the Council's policies, programs and actions are affecting key sustainability indicators at an organisational and municipal level
- lead to more inclusive, responsible, informed and engaged decision-making, and
- integrate information on performance into Council's planning and management activities, leading to better priority setting, planning and resource allocation in the future.

In its 2005-06 report, the Council has reported against the GRI indicators and on internal organisational performance. There are a limited number of 'public policy' indicators complemented by 'state of environment'

indicators to provide contextual information. The Council also prepares a City Index Report in the Annual Report to report on a more comprehensive number of 'state of environment' indicators, and it also prepares an annual Environmental Indicators Bulletin.

The strengths of the City of Melbourne report lie in the use of the GRI reporting framework, reporting against some public policy indicators, and strongly linking reporting to organisational strategic priorities to ensure that reporting drives performance. There are opportunities for the Council to expand the areas reported against, increase stakeholder engagement, and gain assurance.

Melbourne Water

Owned by the State Government of Victoria, Melbourne Water manages Melbourne's water supply catchments, removes and treats most of Melbourne's sewage, and manages rivers and creeks and major drainage systems in the Port Phillip and Westernport region of Victoria. Melbourne Water has undertaken environmental and social reporting for some years.

In late 2006, Melbourne Water released its first integrated 'Sustainability Report', outlining its environmental, social and economic performance for the 2005-06 financial year (Melbourne Water 2006). This comprehensive 'Sustainability Report' is the result of Melbourne Water amalgamating previously separate Annual, Sustainability, and Social and Environment Reports. This integrated 'Sustainability Report' demonstrates Melbourne Water's commitment to sustainability, and it is a good example of how agencies can integrate reporting on all areas of operational performance into one holistic document.

Melbourne Water's 'Sustainability Report' is divided into four main areas, with the opening section providing a comprehensive overview of the report, and Melbourne Water's approach to sustainability. This introductory section gives the reader a sense of what to expect from the report and provides the context for understanding the information reported. As Melbourne Water's business focus is primarily water management, it is not surprising that the environmental section is by far the most comprehensively covered in the 'Sustainability Report'. However, the economic and social performance areas are also covered with appropriate detail. A particular highlight of the 'Sustainability Report' is the presentation of both the 2005-06 achievements, as well as commendable transparency and disclosure around 'disappointments' and 'challenges'.

The strengths of the Melbourne Water lie in the integrated approach to reporting, and the balanced presentation of achievements, disappointments and challenges. There are opportunities for Melbourne Water to increase stakeholder engagement on the report, and use the results of reporting to further improve performance.

6. Key Challenges and Conclusions

There are a number of challenges for any public agency (or organisation) wanting to take-up sustainability reporting. An agency needs to manage different mandatory and voluntary reporting commitments including annual reporting, financial reporting, social reporting and state of environment reporting. For local government, a particular issue can be the boundary of sustainability reporting compared with community-wide reporting, such as State of the Environment Reporting (SoE) and other reporting systems using community sustainability indicators.

Determining the boundaries of reporting is a key step for all organisations including whether subsidiary companies will be included within the scope of a report. For public agencies, adequately reporting on the outcomes of public policies, programs and services is an additional challenge compared to the private sector. There are considerable challenges in designing and implementing a robust and cost-effective monitoring system to assess the economic, environmental and social outcomes of public policies.

Other key challenges include:

- obtaining sufficient buy-in and support at the council, board and senior management level
- embedding reporting within an organisation so that it becomes part of core business and supported by all sections
- conducting stakeholder engagement, and
- using reporting to achieve change and influence strategic planning and operational performance.

Notwithstanding these challenges, sustainability reporting is receiving increasing attention from the public sector. Leading and innovative public agencies are taking up reporting and linking it to strategic planning and operational management. Where it is done well, sustainability reporting demonstrates good governance, enhances stakeholder engagement and advances sustainable development. It is an essential management and reporting tool for any public agency.

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Notice

The information provided in these materials has been independently prepared by Phil Hughes and Jeanne Allegro of the Centre for Public Agency Sustainability Reporting™ and the opinions contained herein do not necessarily reflect the opinions of CPA Australia. These materials are intended to be a guide only and no part of the contents of these materials or the oral presentation are intended to be advice, whether legal or professional. All participants are advised to seek independent advice.

Annex 1 GRI G3 Reporting Principles (2006)

Principles for Defining Content

Materiality	Stakeholder Inclusiveness	Sustainability Context	Completeness
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Principles for Defining Quality

Balance	Comparability	Accuracy	Timeliness	Clarity	Reliability
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GRI Principles for Defining Content

Materiality - *The information in a report should cover topics and Indicators that reflect the organisation's significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders.*

Stakeholder inclusiveness - *The reporting organisation should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests.*

Sustainability context - *The report should present the organisation's performance in the wider context of sustainability.*

Completeness - Coverage of the material topics and Indicators, and definition of the report boundary should be sufficient to reflect significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organisation's performance in the reporting period.

GRI Reporting Principles for defining quality

Balance - The report should reflect positive and negative aspects of the organisation's performance to enable a reasoned assessment of overall performance.

Comparability - Issues and information should be selected, compiled, and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyse changes in the organisation's performance over time, and could support analysis relative to other organisations.

Accuracy - The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organisation's performance.

Timeliness - Reporting occurs on a regular schedule and information is available in time for stakeholders to make informed decisions.

Clarity - Information should be made available in a manner that is understandable and accessible to stakeholders using the report.

Reliability - Information and processes used in the preparation of a report should be gathered, recorded, compiled, analysed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.

Source: Global Reporting Initiative 2006, *Sustainability Reporting Guidelines*, Amsterdam, The Netherlands.