

# Annual reporting – a sustainable development perspective

*Wendy McGuinness and Peter Hays report on the results of the Institute's Annual Report Awards for sustainable development*

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EACH year since 1997, a diverse group of Institute members and other experts receive a large and heavy box of annual reports to review from a sustainability perspective for the Institute's Annual Report Awards. From a judge's perspective, this task is one of the more satisfying and interesting of its type.

Sustainable development reporting (which includes the concept of triple bottom line<sup>1</sup>) is still in its early stages of development. Not surprisingly, some reports are much further down the sustainability pathway than others. Indeed, some provide innovative reporting and format solutions that provide judges not only with information about the entity but also challenges, and give insights into the theory underlying sustainable development reporting. Every judge finds the process very rewarding.

For those interested in the topic, we recommend obtaining copies of the award winners' annual reports to appreciate the depth and variety of sustainable development reporting in New Zealand.

## Successful entries

The judges<sup>2</sup> can issue two types of awards:

1. Winner – a comprehensive leader of a category, or
2. Commendation – which recognises a particularly high standard of reporting in one or a number of areas of the report

This year's Annual Report Awards recipients are shown in *Table 1*.

Table 1: 2004 Annual Report Awards – sustainability categories

<b>Sustainability Report by a Non-Listed Entity</b>
<i>Winner</i> Landcare Research New Zealand Ltd (2003) <a href="http://www.LandcareResearch.co.nz/publications/annualreport_0203">www.LandcareResearch.co.nz/publications/annualreport_0203</a>
<i>Commendations</i> Youth Hostels Association of New Zealand Incorporated (2003) <a href="http://www.yha.org.nz">www.yha.org.nz</a>
Watercare Services Ltd (2003) <a href="http://www.watercare.co.nz">www.watercare.co.nz</a>
<b>Sustainability Report by a Listed Company (or Subsidiary)</b>
<i>Commendation</i> Sanford Limited (2003) <a href="http://www.sanford.co.nz">www.sanford.co.nz</a>
<b>Sustainability Report by a Local Authority</b>
<i>Commendation</i> Waitakere City Council (2002-03) <a href="http://www.waitakere.govt.nz">www.waitakere.govt.nz</a>
<small>Please note: The judges also provided a fourth category in 2004 – "small and medium-sized enterprises with a maximum staff of 50". However, no reports were entered for this category. The judges consider small to medium-sized enterprises are a key category and have requested the Institute's staff to promote this category in 2005.</small>

## Criteria

In the past, the criteria for judging the Annual Report Awards has been based on the Association of Chartered Certified Accountants' (ACCA) sustainability reporting awards criteria.<sup>3</sup> However, in 2003, the ACCA's criteria was changed markedly. As a result, the judges decided not to incorporate all the detailed changes but retain the ACCA's three key "report characteristics".

In addition, the judges continue to be guided by the need to apply the New Zealand reporting context (as currently outlined in the New Zealand statement of concepts) and the international sustainability context (as discussed in the Global

Reporting Initiative 2002 Guidelines).<sup>4</sup> The actual award criteria used by judges in 2004 is summarised in *Table 2*.

The judges and the Institute plan to discuss how the criteria should be developed in the future, particularly in context of the adoption of the IASB Framework.<sup>5</sup> Importantly, some of the judges are currently working on how to improve the "Exposure Draft New Zealand Framework", being the adoption of the IASB Framework with the addition of specific paragraphs for the New Zealand context.<sup>6</sup> The judges hope that such a framework will provide a clear basis for New Zealand to develop its own criteria and guidelines, based on



Table 2: 2004 Annual Report Awards criteria

Criteria: report characteristics	Brief explanation
Completeness (40%)	1. Degree of clarity in defining the reporting entity (20%). For example, how early and to what extent the report clarifies and clearly states the reporting boundaries of the entity 2. Degree of all significant aspects are presented in the report (20%). For example, the extent to which the report delivers on what it promises
Credibility (35%)	3. Internal – Degree of confidence readers could gain that the entity has organisational structures, processes and controls in place that produced accurate, relevant and meaningful information (17.5%) 4. External – Degree that evidence of independent assurance and/or benchmarking of KPIs by third parties is provided in the report (17.5%)
Communication (25%)	5. Degree to which the report meets the needs of stakeholders/users as defined in the report (25%). For example, identifying stakeholders, proof of engagement with stakeholders, and the extent the format and design of the report meets the needs of users

New Zealand's unique economic, social and environmental characteristics.

With the potential move away from ACCA's award criteria, Institute staff and judges are considering adopting a more formal approach by providing a detailed list of criteria in advance of judging, a written "report of the judges" (like the ACCA UK currently provides on its website<sup>7</sup>) and a detailed letter to each entrant. We are interested in your feedback on this approach.

### The 2004 entries

This year, even though there were some very good examples of sustainable development reporting, very few provided a comprehensive and well-balanced report that met all the criteria. Therefore, only one report received a winner award. A number of reports provided innovative or highly informative reports on specific impacts and proposed solutions to negative impacts, and the more accomplished examples of these received a commendation award.

This was in line with the judges comments in 2003, which noted that reporters should: "Focus on core business issues rather than isolated acts of good corporate citizenship."<sup>8</sup> Interestingly, John Craig picked up this point in his article "Ethics, sustainability and The Natural Step".<sup>9</sup> He suggested that this comment meant "something more is required" and he is correct. To produce a winning

report, entrants must produce a comprehensive, concise and relevant report for stakeholders. Consequently, reporters that achieve this high standard of reporting naturally deserve to be applauded by their peers.

It must be recognised that until the Institute provides very clear guidance on sustainable development reporting, reporters and verifiers will continue to find the process challenging. The Institute's staff and the Sustainable Development Reporting Committee are planning to provide voluntary guidance in 2005-06, and the judges look forward to this additional framework being provided to entrants.

In addition, the judges want to clarify that entities "reporting on isolated acts of corporate citizenship" do provide a useful form of communication to stakeholders. It is our hope that consideration of such issues may lead reporters to consider producing sustainable development reports, but such an isolated approach is insufficient to meet the needs of a successful sustainable development report.

### Highlights of good reporting practice from the 2004 entries

Examples of good reporting practice by entities include:

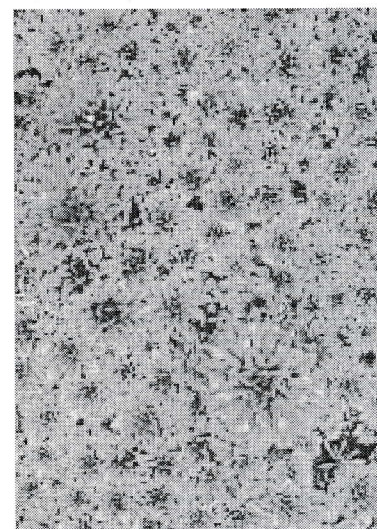
#### Clarifying the level of assurance

This is not just about the accuracy of the information provided but ensuring that all relevant information is provided (completeness). For example, Landcare

Research continues to place a strong emphasis on assurance by designating a separate section in their report on "verification and accountability" (see Figure 1). To provide assurance to users, its report includes an "in accordance"<sup>10</sup> declaration with the Global Reporting Initiative, a report from the PSA delegate and a verification statement from Tonkin & Taylor.

Other methods of providing external assurance include obtaining accreditation for environmental management systems, such as ISO 14001<sup>11</sup> (see Sanford Limited and Landcare Research), and adopting assurance standards, such as AA1000 (see Watercare Services Limited<sup>12</sup>, where

Figure 1: Title page of the verification and accountability section of Landcare's Annual Report 2003, p46



Photograph by Harley Betts



URS New Zealand Limited reported in accordance with the Assurance Standard AA1000).

**Reporting in a coordinated and relevant manner**

The Youth Hostels Association of New Zealand Incorporated clearly states its mission on the cover (see Figure 2), and uses it to clearly evaluate its results and state how such results can be improved in the future (eg, establish criteria for the selection of future suppliers). Notably, on the contents page, it states:

"The process of 'Triple Bottom Line' reporting is a journey that we embarked upon as an Association in 2001. It is a way of sharing information that identifies strengths as well as challenges, results as well as responsibilities. Systems that contribute to this process are continually being developed, implemented and reviewed to monitor our progress and the standard of our reporting quality."

Sanford Limited also included a large section on how it plans to manage its environmental footprint, for example, the use of devices such as a sea lion excluder device (SLED) (see Figure 3).

**Quantifying results in a measurable and comparable manner**

Watercare Services Limited provided a very innovative sustainability accounting analysis in its report (see Figure 4) that records the additional expenditure between what is legally necessary and what it has spent to deliver additional standards of sustainable performance. Notably, this 2003 figure can now be benchmarked against the 2002 figure. The report states:

Figure 2: Youth Hostel Association's Annual Report 2003

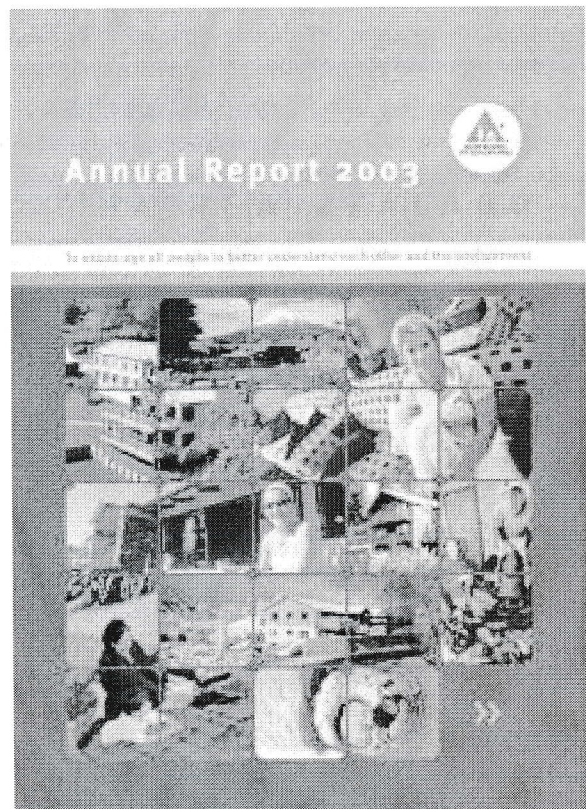
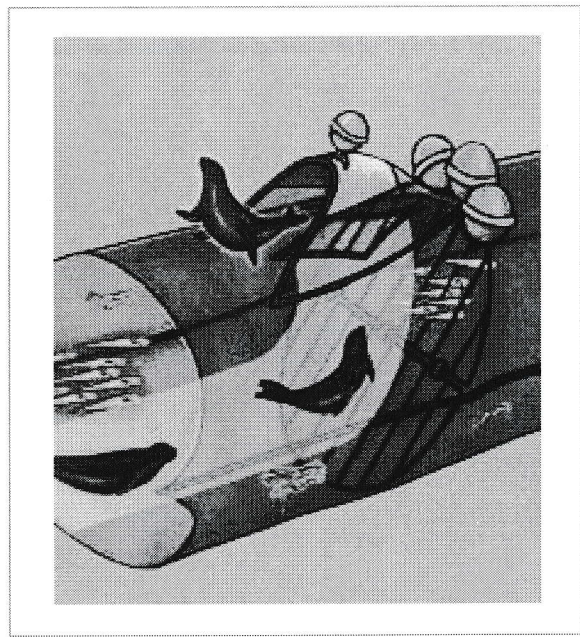


Figure 3: SLED device used in trawling operations. Sanford Limited Annual and Sustainable Development Report 2003, p66



"Sustainability accounting is a means of quantifying the cost of undertaking environmental and social initiatives that minimise a company's environmental and social impact, and that enhance environmental and social outcomes. In short, sustainability accounting puts a price on a company's environmental initiatives... Sustainability accounting allows organisations to quantify the scale of trade-offs that they face."<sup>13</sup>

A more traditional example of reporting sustainable development results is Sanford Limited, which reported "a \$270,000 saving due to electricity eco-efficiencies".<sup>14</sup>

**Reporting on and promoting stakeholder engagement**

Landcare Research promotes dialogue directly to relevant staff members whose names and contact details are provided in the report. Another example is Watercare Services Ltd, with its comment/feedback form and commitment to social policy by maintaining a process of Māori/stakeholder consultation.<sup>15</sup>

**Defining the boundaries of the reporting entity**

Waitakere City Council described and reported on two separate boundaries, being what the entity can influence as distinct from what it can control, and summarising these conclusions in separate sections of its annual report:

*Sustainable Development Report* (p10-13)<sup>16</sup>

"The Council uses sustainability reporting to measure and describe what the Council and the community are achieving together."

*Corporate Sustainability Report* (p14-24)<sup>17</sup>

"The purpose of Corporate Sustainability reporting is to measure and improve how the Council 'walks the talk'. This involves looking at how the Council goes about its business (as opposed to what it does), and measuring the impacts and progress towards sustainability for the Council as an entity/organisation."



Figure 4: Watercare Annual Report 2003, Sustainability Accounting Analysis

SUSTAINABILITY ACCOUNTING ANALYSIS

TABLE 18

\$ MILLIONS	2002	2003	NOTES TO THE SUSTAINABILITY ACCOUNTING ANALYSIS
<b>TOTAL EXPENDITURE INCLUDING THAT NECESSARY TO MEET THE STATUTORY AND LEGAL OBLIGATIONS</b>	1063	1289	<b>1. FOSTER FORTHGOING INNOVATION</b> This expenditure relates to the decommissioning of the coalition ponds, sludge lagoons and the treatment wetlands. Further details are contained in Note 3 to the financial statements.
<b>ADDITIONAL EXPENDITURE TO MEET THE STANDARDS EXPECTED OF WATERCARE</b>			<b>2. RISK CONTROL</b> The coalition ponds were fertile breeding areas for insects, a considerable social nuisance. The upgrade of the wastewater treatment process disturbed the stable population of the ponds and led to difficulties in the management of the insects. In 2003, Watercare spent approximately \$200,000 on insect sprays and inhibitors. In 2002, the introduction of saltwater to the interstitial storage basin was an environmentally friendly and inexpensive solution.
Project Marukau:			<b>3. RISK CONTROL</b> In the past year, the spending and maintenance costs of facilities to maintain labour in the reticulation network and at the wastewater treatment plant were approximately \$400,000.
1. Flood and sewerage remediation	15.4	226	
2. Sludge control	11.0	91	
<b>SUB TOTAL</b>	<b>26.4</b>	<b>317</b>	
Ongoing expenditure:			<b>4. WASTEWATER OVERFLOW CLEAN-UP</b> The wastewater reticulation network overflowed in heavy storms and as the result of system failure or third party damage. Watercare employees clean and disinfect overflow sites, which cost an estimated \$1,000,000 in the past year.
3. Odour control	13.9	139	
4. Wastewater overflow clean-up	11.1	111	
5. Wastewater pump station "leakage" maintenance	1.2	12	<b>5. WASTEWATER PUMP STATION FAILURE MAINTENANCE</b> Watercare spends a considerable amount of its maintenance budget (approximately 67%) on planned maintenance, which is necessary to minimise the occurrence of pump station failures and consequential environmental damage. This safeguard costs approximately \$500,000 per year.
<b>SUB TOTAL</b>	<b>26.2</b>	<b>262</b>	
<b>COSTS FORMING THE BASIS OF WATER AND WASTEWATER CHARGES - FOR AUDITED FINANCIAL STATEMENTS</b>	<b>1140</b>	<b>1427</b>	<b>6. CO<sub>2</sub> EMISSIONS</b> Watercare's total greenhouse gas emissions were 27,740 tonnes for the year. The New Zealand Government's Climate Change project discussion document issued in December 2002 proposes that these emissions should be charged at \$21 per tonne.
<b>ANNUALISED COST OF THE ADDITIONAL ACTIVITIES THAT COULD IMPROVE THE ENVIRONMENTAL STANDARDS</b>			<b>7. RISK CONTROL - EMISSIONS ESTIMATION</b> Reducing the system's ability to absorb loads of all the treatment plants by constructing new facilities, would involve \$40 million in capital cost and \$200,000 per year in operating and maintenance costs. The annual costs, including interest but excluding depreciation, would be \$25 million.
6. CO <sub>2</sub> emission reduction	1.0	24	
7. Odour emission elimination	3.8	38	
8. Wastewater overflow minimisation	15.0	150	<b>8. WASTEWATER OVERFLOW MINIMISATION</b> Watercare has estimated that installing all wet weather overflows, except in extreme storms, or once in every five years, could be achieved through installing storage tunnels and tanks in the network. The estimated capital cost of this is \$200 million with a \$1 million a year operating and maintenance cost. The annual cost, including interest but excluding depreciation, would be \$15 million.
9. Visual enhancement	3.2	38	
<b>SUB TOTAL</b>	<b>23.0</b>	<b>250</b>	
<b>COST BASE REQUIRED TO DELIVER SUSTAINABLE PERFORMANCE</b>	<b>1304</b>	<b>1687</b>	<b>9. VISUAL ENHANCEMENT</b> Watercare estimates that the cost of either constructing, removing or replacing "aesthetic" assets would be approximately \$40 million and \$1 million a year in operating and maintenance costs. The annual cost, including interest but excluding depreciation, would be \$20 million.

There is no doubt that organisations that focus on corporate governance, accountability, ethics, stakeholders needs, transparency and benchmarking tend to produce excellent sustainable development reports. Consequently, these characteristics, when combined with vision and commitment, create the necessary culture for organisations to begin their own journey to reporting on sustainable development.

What is becoming obvious is that every standard in the journey is a potential signpost, every innovation a potential step forward and every adventurer a potential champion. As judges, we are continuously impressed by the commitment and vision of New Zealand organisations.

Footnotes

1. A triple bottom line report is a type of sustainable development report that addresses economic, environmental and social issues separately. As reporting becomes more sophisticated, there is a tendency to integrate these three components
2. Peter Hays (Chair), Ken Tremaine, Rita Evans, Richard Thompson, Peter Casey and Wendy McGuinness
3. The ACCA UK Awards for Sustainability Reporting: Criteria and Report of the Judges – www.acca.co.uk
4. Global Reporting Initiative 2002 Guidelines – www.globalreporting.org
5. International Accounting Standards Board Framework – www.iasb.org
6. Comments on the "Exposure Draft New Zealand Framework" were due to Institute staff on 31 July 2004 – www.icanz.co.nz/StaticContent/ags/iased.cfm

7. See 3 above
8. "True, fair and looking further", *Chartered Accountants Journal*, by B Gilkison, August 2003, p6
9. "Ethics, sustainability and The Natural Step", by J Craig, *Chartered Accountants Journal*, September 2003, p15
10. "The decision to report 'in accordance' with the 2002 GRI Guidelines is an option, not a requirement. It is designed for reporters that are ready for a high level of reporting and who seek to distinguish themselves as leaders. Organisations that wish to identify their report as prepared in accordance with the Guidelines must meet five conditions (see p13 of the 2002 Guidelines). Two key conditions are: (1) Respond to each core indicator by either (a) reporting on the indicator or (b) explaining the reason for omission of each indicator, and (2) Include a statement signed by the board or CEO attesting that the report is a balanced and reasonable presentation of the organisation's sustainability performance. The in-accordance conditions help to advance GRI's commitment to achieving improved report comparability and quality." See www.globalreporting.org (FAQ link)
11. www.iso.ch
12. Watercare Services Limited Annual Report 2003, p89
13. *ibid*, p87-88
14. Sanford Limited Annual Report 2003, p56
15. Watercare Services Limited Annual Report 2003, p71, 129-132
16. Waitakere City Council Annual Report, p10
17. *ibid*, p14 =