

# Remaining Relevant: The Challenge for the Profession

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## Abstract

**Sceptics might say that triple bottom line reporting is just the latest management fad. I see it rather as the tip of an iceberg. Beneath the calls for triple bottom line reporting is a groundswell of support for the larger idea of sustainability. – JW Cameron, Auditor-General, Victoria, Australia, 15 June 2004<sup>1</sup>.**

This paper assumes that a groundswell of support for sustainability exists and that the accounting profession, in order to remain relevant, must find cost-effective and meaningful ways to meet the current needs of stakeholders. Stakeholders, particularly in local and central Government Organisations, are not solely interested in profitability and financial capital; consequently, accountants must look beyond the old tools and practices and develop creative and rigorous approaches to measuring, reporting and verifying information in the future. This paper accepts that this involves challenges for the profession, but the option of the status quo will lead to slow and sure death of relevance for the profession. This paper discusses the underlying themes that are developing and identifies the unresolved issues that are likely to define the profession and its approach to sustainability, over the next ten years.

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1. Given that there is a groundswell of support for the larger idea of sustainability and no person or organisation is categorically stating they are against sustainable development, then why the debate? The concept is old, but the application of the concept to accounting is relatively new, challenging and full of fish hooks. If the accounting profession is to remain relevant, it must be both brave enough to be creative and rigorous enough to ensure information is meaningful, relevant and accurate. The debate is therefore not about whether to apply the concept of sustainability, but how to apply the concept in a cost-effective and explorative manner.
  2. The concept of sustainability is not new to New Zealanders. Many of us are only one generation on from the family farm where our parents managed stock numbers, rotated crops, sprayed gorse, planted nut trees for the winter, helped neighbours with their hay, fed their dogs while they were away and alternated driving the school bus.
  3. These were tried and true methods of managing resources and no – they were not measured, reported or able to be verified. The reason these transactions did not need a high degree of measurement, reporting or verification are critical to understanding the debate about sustainability. In particular, the owner/operator requires no sophisticated accounting system

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<sup>1</sup> Auditor General Victoria, Measuring and Reporting on Sustainability – Beyond the Triple Bottom Line, Occasional Paper, 2004, Page i

because he or she is literally the operator and the owner, therefore there are no assurance issues and very minimal measurement and reporting issues. Notably, non-market products and services were taken into account and but not valued in financial terms.

4. The dynamics between the owner/operator, their descendants and the market/non-market goods are intrinsic determinants of the key themes underlying the concept of sustainability. In the writer's view, sustainability is an old concept with a new name.
5. This paper initially sets the context (*Part One*) by briefly discussing the terminology, the principles, public policy and the application of the term in Government. *Part Two* considers the themes underlying sustainable development and attempts to identify the fish hooks, being the tensions that will define the profession's approach to sustainability in the future. *Part Three* briefly explores all of the above in light of current tools, being the quality of the tools in the tool kit. *Part Four* concludes with identifying the key challenge for the profession. This paper will retain a broadly public sector view with a New Zealand flavour.

## Part One: The Context

### Terminology

6. The terms 'sustainability' and 'sustainable development' are used and defined in a number of ways, however this paper adopts Cameron's<sup>2</sup> approach, being 'sustainability' means the broader concept of balancing the environmental, social and economic concerns, whereas 'sustainable development' refers to economic development that is environmentally and socially sustainable, and has a narrower focus. What this means in practice – in particular, the emphasis on future generations – is discussed later in this paper.
7. As background, it is important to note that the term 'sustainability' is used 68<sup>3</sup> times and 'sustainable development' 45 times in statutes in New Zealand. Notably, eleven statutes since 1983 use the term 'sustainability', being the;

Biosecurity Act 1993  
Conservation Act 1987  
Conservation Law Reform Act 1990  
Energy, Efficiency and Conservation Act 2000  
Environment Act 1986  
Fisheries Act 1983 and 1996  
Hazardous Substances and New Organisms Act 1996  
Land Transport Act 1998 and Land Transport Management Act 2003  
Local Government Act 2002  
Resource Management Act 1991  
Retirement Income Act 1993

8. One of the older pieces of legislation is the Resource Management Act 1991. Palmer (1995)<sup>4</sup> discusses the creation of the Act, in particular stating the purpose,<sup>5</sup> and maintains;

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<sup>2</sup> Auditor General Victoria, Measuring and Reporting on Sustainability – Beyond the Triple Bottom Line, Occasional Paper, 2004, Page 2

<sup>3</sup> [http://www.legislation.govt.nz/browse\\_vw.asp?content-set=pal\\_statutes](http://www.legislation.govt.nz/browse_vw.asp?content-set=pal_statutes)

<sup>4</sup> Palmer G., Environment – The International Challenge, Victoria University Press, 1995 – The making of the Resource Management Act, page 171

<sup>5</sup> Resource Management Act 1991, Section 5

(1) The purpose of this Act is to promote the sustainable management of natural and physical resources.

It cannot be denied however, there remain important issues to be dealt with in deciding how the various factors set out in section 5 mesh with one another and how a hierarchy of priorities is determined.

9. Some argue (Beckerman<sup>6</sup>) that the fact the concept cannot be defined in such a way that enables it to be comprehensively measured is adequate reason to ignore the concept in its entirety, but there is a counter argument, namely, that this is why it is called a concept.
10. For example, others (like Prady<sup>7</sup>) suggest 'its ambiguity is probably one reason for its popularity with government, institutions and industries; it's capable of being supported by agencies with vastly different goals'.

### **Sustainability Principles**

11. Cameron<sup>8</sup> suggests that although sustainability is difficult territory it has the ability to be a powerful stimulant for public sector performance. He accepts there is no universal definition but promotes six commonly accepted principles of sustainability as a way forward. These principles are:

- Sustainability comprises at least three pillars (being environmental, economic and social).
- The pillars are inter-related.
- Sustainability strives for equity within generations (intragenerational equity).
- Sustainability strives for equity between generations (intergenerational equity).
- Sustainability uses the precautionary principle.
- Sustainability conserves biological diversity.

12. Applying the principles to the measurement, reporting and verification of public sector information in a consistent, comparable and accurate manner is a challenge. Some principles are more easily applied than others, and most proposed solutions are far from perfect. For example, Triple Bottom Line Reports<sup>9</sup> can be considered reductionist<sup>10</sup> and Ecological Footprints<sup>11</sup> can be considered highly complex. However, as suggested by Cameron, the challenge is selecting the appropriate cost-effective tool to meet the 'organisation's sustainability objectives, operational focus, expertise and resourcing and its audience's information needs'<sup>12</sup>.

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(2) In this Act, 'sustainable management' means managing the use, and development, and protection of natural and physical resources in a way, or at a rate, which enables people and communities to provide for their social, economic, and cultural wellbeing and for their health and safety while –

- a. Sustaining the potential of natural resource (excluding minerals) to meet the reasonably foreseeable needs of future generations; and
- b. Safeguarding the life-supporting capacity of future generations; and
- c. Avoiding, remedying, or mitigating any adverse effects of activities on the environment.

<sup>6</sup> Beckerman, W., A Poverty of Reason, Sustainable Development and Economic Growth, The Independent Institute, page 5

<sup>7</sup> Prady, B., Environmental law, A Guide to Concepts, Butterworths (1996), page 267

<sup>8</sup> Auditor General Victoria, Measuring and Reporting on Sustainability – Beyond the Triple Bottom Line, Occasional Paper, 2004, Page 6

<sup>9</sup> Triple Bottom Line Reports -

<sup>10</sup> reductionist – 'a procedure or theory that reduces complex data or phenomena to simple terms' The New Penguin [often used in the derogatory – which is how it is used here]

<sup>11</sup> Ecological Footprint – 'is the total amount of land required to directly and indirectly sustain an economic activity.' From ministry for the Environment, 'Headline indicators for tracking progress to sustainability in New Zealand' 2002, page 31

<sup>12</sup> Auditor General Victoria, Measuring and Reporting on Sustainability – Beyond the Triple Bottom Line, Occasional Paper, 2004, Page 19

13. Cameron outlines the principles and highlights some of the practical challenges in a very clear and concise manner. This paper uses this context to consider the underlying themes that have defined – and are likely to define – measuring, reporting and verifying information now and in the future.

### **Public Policy**

14. The Government has established a voluntary explorative approach for departments which is being managed by the Ministry for the Environment (refer Annual Report<sup>13</sup>) and a mandatory descriptive approach for local authorities (refer the Local Government Act 2002). The context for local authorities was outlined in an article by Frame et al.<sup>14</sup>, which stated:

The Act places a heavy emphasis on the need for local authorities to identify ‘community outcomes’ in order ‘to provide opportunities to discuss their desired outcomes in terms of the present and future social, economic, environmental and cultural wellbeing of the community’. The latter point is important in that it places an additional emphasis on local authorities to report on the expected effects of future actions.

15. In addition, the Government has set the direction for the economy through the Growth and Innovation Framework (GIF) and for the social sector through policies to reduce inequalities. The Government’s Growth and Innovation Framework is designed to deliver the long-term sustainable growth necessary to improve the quality of life of all New Zealanders.

It is a strategy based on a vision of New Zealand as:

- a land where diversity is valued and reflected in our national identity
- a great place to live, learn, work and do business
- a birthplace of world-changing people and ideas
- a place where people invest in the future
- an environment people cherish and are committed to protect for future generations.<sup>15</sup>

16. The Programme of Action (January 2003)<sup>16</sup> takes the process a step further. It draws together a number of key issues and signals that the Government intends to apply a sustainable development approach to its policy and decision-making processes. The Government intends to produce an updated programme of action.

17. The 2003 Programme of Action identified a number of goals for sustainable development which included:

- Strengthen national identity and uphold the principles of the Treaty of Waitangi.
- Grow an inclusive, innovative economy for the benefit of all.
- Maintain trust in government and provide strong social services.
- Improve New Zealanders’ skills.
- Reduce inequalities in health, education, employment and housing.
- Protect and enhance the environment.<sup>17</sup>

### **The Application of the Term ‘Sustainable’ in Government**

18. The term ‘sustainable’ is being used in a variety of ways, including being financially sustainable. For example, (1) Hon Pete Hodgson (October 2004) is suggesting the forestry

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<sup>13</sup> [www.mfe.govt.nz](http://www.mfe.govt.nz) 2001/2002

<sup>14</sup> Frame, B., McGuinness, W., and Gordon R., Accountability Quarterly, September 2003 (AQ21), Reinforcing a clean green brand: An overview of sustainable development reporting in New Zealand, pages 25-26

<sup>15</sup> <http://www.gif.med.govt.nz/>

<sup>16</sup> Sustainable Development for New Zealand, Programme Of Action, January 2003 [www.beehive.govt.nz](http://www.beehive.govt.nz)

<sup>17</sup> Sustainable Development for New Zealand, Programme of Action, January 2003 [www.beehive.govt.nz](http://www.beehive.govt.nz)

sector must be profitable – a financial sustainability approach, (2) MED and (3) Hon Marian Hobbs advocate a sustainable economic development approach; and (4) Hon Steve Maharey (October 2004) an intergenerational social equity approach.

- (1) But as I said in January, the essential truth is that underlying all these issues is that the forestry sector must be profitable. Only a profitable industry will be a sustainable and growing industry.<sup>18</sup>
- (2) The Ministry [Ministry of Economic Development] works across the public sector to advise on, coordinate and align activities that stimulate sustainable economic development. We influence the environment in which businesses grow and invest. We strive for a policy environment that regulates economic activity effectively and at low cost. We deliver services to businesses and consumers that assist them to conduct their affairs effectively... Sustainable development is a goal that emphasises a long-term (intergenerational) and holistic perspective, integrating economic, environmental, social and cultural dimensions.<sup>19</sup>
- (3) I see 'Thinking outside the triangle' as an opportunity to look very carefully at the roadmap for our future. I see the triangle as representing the way forward for New Zealand. How? Because a triangle has three sides, and sustainability has three sides: economic growth, an environment that can be sustained and a healthy, safe society. The path for the future of New Zealand must be founded on this principle of sustainability - looking at economic growth, the environment and society in its entirety. The Resource Management Act is a key law in guiding New Zealand down the path of sustainable management – striking a balance between our desire for a healthy environment and our expectations for growth and opportunity.<sup>20</sup>
- (4) In developing the Local Government Act... We intended to promote a sustainable development approach – an approach that meets the needs of communities today, without compromising outcomes for future generations... And we intended to promote the value of regional demographic and social information as a vital tool for planning.<sup>21</sup>

## Part Two: The Underlying Themes

19. This part of the paper attempts to identify and, where appropriate, discuss the recurring thoughts and ideas that have developed over time and that either directly or indirectly link into the concept of 'sustainability'. As stated earlier, it is the writer's view that sustainability is a new name for an old concept, but a significant concept nevertheless.

### More Than Financial – Think Integrated, Think Indicators

20. There are two aspects. Firstly, a move to more than financial data and secondly, that information should ideally be linked to economic, social and/or environmental impacts and in some cases, cultural impacts. Two recent New Zealand reports by Ministry for the Environment<sup>22</sup> and Statistics New Zealand<sup>23</sup> discuss the history and rationale of sustainability indicators and develop the concept of 'composite indicators', being indicators

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<sup>18</sup> Hon Pete Hodgson, Press Release, NZ Forestry Industry Council-NZ Forest Owners Association forum, Auckland <http://www.beehive.govt.nz/ViewDocument.cfm?DocumentID=21178>, 12 October 2004

<sup>19</sup> <http://www.med.govt.nz/values.html>

<sup>20</sup> Hon Marion Hobbs, Press Release, 'Thinking Outside the Triangle' Fourth Trans-Tasman Surveyors' Conference, 13 October 2004

<sup>21</sup> Hon Steve Maharey, Press Release, Social development and community planning, <http://www.beehive.govt.nz/ViewDocument.cfm?DocumentID=21151> 8 October 2004

<sup>22</sup> MfE, Headline indicators for tracking progress to sustainability in New Zealand, March 2002

<sup>23</sup> Statistics New Zealand, Monitoring Progress Towards a Sustainable New Zealand, August 2002

that combine environmental, social and economic measures in one indicator. For example, the Environmental Sustainability Index (ESI)<sup>24</sup>.

21. In addition, there is a strong move to considering cultural effects/impacts; in particular a great deal of New Zealand legislation requires the consideration of the Treaty of Waitangi (384 hits<sup>25</sup>), as an aspect of our cultural obligations. Interestingly, Cameron (the Auditor General of Victoria) noted some organisations tend to consider 'culture' as a fourth pillar while others integrate the cultural dimension into the social pillar<sup>26</sup>.

### **Think Global – Think Intragenerational**

22. Although this is definitely a trend, there are still differences between countries as to what the terms mean in practical terms. For example, since the World Commission on Environment and Development Report, titled *Our Common Future* (1987), Johnston, Secretary-General of the OECD (2002) suggests that OECD countries and developing countries have interpreted 'sustainable development' differently. For example, developing countries focus on poverty reduction while OECD countries focus on the environment. Johnston suggests that developing and developed countries are interdependent and must work together to address poverty and adds:

The sustainable development challenge is, as the experts say, to 'decouple'<sup>27</sup> material progress and the environment, by putting them on parallel, complementary and hopefully mutually reinforcing tracks. In simple terms, this means maximising economic growth and environmental improvement at the same time. This is an urgent challenge for OECD countries whose activities still put the greatest stress on the environment.<sup>28</sup>

23. For the public sector, this has resulted in a two-pronged approach. The obligation to be an effective and responsible trading partner abroad and to be an effective and responsible manager where the market fails<sup>29</sup> to manage resources or deliver safety.

### **Re-think Property Rights and Ownership – Think Stakeholder Rights**

24. Fundamental to a free market economy is transparent and effective property rights and this is as true today as in the past. However, what is different today is that 'property' means more than land and buildings and includes items like intangible assets (e.g. logo's), biological assets (e.g. GMO's) and non-market assets (e.g. fresh air). Accordingly, 'rights' are no longer just about the rights of owners, but about the rights of stakeholders<sup>30</sup>.
25. The sustainability concept also takes a view that future stakeholders have rights that must be considered. Consequently, those applying the concept to resources could argue an action is

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<sup>24</sup> Statistics New Zealand, *Monitoring Progress Towards a Sustainable New Zealand*, August 2002, page 91

<sup>25</sup> [http://www.legislation.govt.nz/browse\\_vw.asp?content-set=pal\\_statutes](http://www.legislation.govt.nz/browse_vw.asp?content-set=pal_statutes)

<sup>26</sup> Auditor General Victoria, *Measuring and Reporting on Sustainability – Beyond the Triple Bottom Line*, Occasional Paper, 2004, Page 7

<sup>27</sup> decouple – 'to isolate from one another so that they behave independently' – *The New Penguin English Dictionary*, 2000

<sup>28</sup> Johnston, Secretary-General of the OECD (2002), *OECD Observer*, August 2002

[http://www.oecdobserver.org/news/fullstory.php/aid/780/Sustainable\\_development:\\_Our\\_common\\_future.html](http://www.oecdobserver.org/news/fullstory.php/aid/780/Sustainable_development:_Our_common_future.html)

<sup>29</sup> Market failure – means 'the failure of a market to provide goods and services adequately, as when it is dominated by a monopoly. Market failure can be corrected by government action.' – Collins, P., H.; *Dictionary of Economics*, Bloomsbury 2003, page 125

<sup>30</sup> Stakeholders – 'those people and organisations who may effect, be affected by, or perceive themselves to be effected by a decision, activity or risk.' *Risk Management Standard AS/NZS 4360:2004*, Definitions

sustainable<sup>31</sup>, which ‘does not deplete or damage resources irreparably and which leaves the environment in good order for future generations’.

### **Intergenerational Equity**

26. What the Brundtland definition<sup>32</sup> of sustainable development does introduce is the concept of intergenerational equity (Prady<sup>33</sup>) and it is this aspect that questions the industrial assumption of ever-increasing expansion and consumption, and the infinite capacity of the environment to supply raw material and absorb waste. This concept therefore challenges the principle of discounting and the calculation of present value in economic theory.
27. Interestingly, some advocates go even further, suggesting that the rights of non-humans should be considered. For example, some schools of thought argue that sustainability should not just be viewed through a human lens, but through the lens of all living organisms – now and in the future. So going back to the farm analogy at the beginning of this paper, advocates would consider all stock, crops and gorse should have ‘moral standing’.
28. Stone (1996)<sup>34</sup> developed the legal arguments in an essay titled ‘Should trees have standing? Toward Legal rights for Natural Objects’. The essay cites Darwin, and explores the history of human moral development over time from self-obsessed, to consideration of all people (welfare state) and finally to that of lower animals. We can see the development of this thinking through animal rights groups and the Genetic Engineering debate.
29. Naturally, ‘sustainable development’ raises a few concerns about how this concept may be applied and more precisely, do we even need to apply such a concept. Many, like Beckerman,<sup>35</sup> argue that there is no empirical basis for fears that continued economic growth is unsustainable. He suggests concerns about limits to growth and a reduction in biodiversity are unproven and ‘indeed one of the more alarming features of the whole debate [on biodiversity] is the unscientific attitude of some distinguished biologists.’
30. What Beckerman and others are suggesting is that we need the facts on resource depletion, energy, biodiversity and climate change. Whereas others argue, and have been arguing for a while – for example, in books such as *Limits to Growth* (1972)<sup>36</sup> and *Silent Spring* (1962)<sup>37</sup> – that there is sufficient evidence that limits to growth are inevitable.
31. The dilemma of when a prediction becomes an undeniable fact is a continuum. Some individuals will consider a broad picture sufficient to spur us into action, whereas others will require undeniable proof of not just the probable impact, but who is responsible.

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<sup>31</sup> Sustainable - Colin P, Dictionary of Economics, Bloomsbury, 2003, page 196

<sup>32</sup> Brundtland definition – ‘Development seeking to meet the needs of the present generation without compromising the ability of future generations to meet their own needs’ - World Commission on Environment and Development Report, titled *Our Common Future*, 1987

<sup>33</sup> Prady, B., Environmental law, A Guide to Concepts, Butterworths, 1996, page 267

<sup>34</sup> Stone, Christopher D., *Should Trees Have Standing? And other essays on law, morals and the environment*, Oceana, 1996

<sup>35</sup> Beckerman, W., *A Poverty of Reason, Sustainable Development and Economic Growth*, The Independent Institute, page 5

<sup>36</sup> Meadows, Donella H. et al., *The Limits to Growth*, Universe Books, 1972

<sup>37</sup> Stone, Christopher D., *Should Trees Have Standing? And other essays on law, morals and the environment*, Oceana, 1996

32. This distinction is apparent on the issue of climate change and the Kyoto Protocol where the facts (the inputs) are the same, but the proposed solution (the outcomes) are very different, namely;

The problem you and I face is that the extent of climate change is not yet known with precision. Predictions are presented giving a range of probable change. Even though the direction, the tendency and the broad picture are well known, the extent of change in 10 or 100 years is simply not well known.' – Hon Pete Hodgson.<sup>38</sup>

33. In contrast, Beckerman argues that the benefits of climate change may exceed the costs, due to improvements in food production, and 'if one is seriously concerned about equity...it makes no sense to impose heavy burdens on today's generation in order to raise the welfare of people alive one hundred years from now.'<sup>39</sup>

34. This issue, being intergeneration equity, appears to cause significant concern among the sceptics. Beckerman may argue 'the greatest contribution that we can make to the welfare of future generations is to bequeath a free and democratic society'<sup>40</sup> but many stakeholders would also like to contribute fresh air, clean water and fertile land. It is all a matter of degree.

### **More Than Measuring Production –Think Resources, Utility, Waste, and Biosecurity**

35. There is no longer just a focus on production or even the costs of production, but a major swing to the consequences of consumption and, in particular, non-renewable resources. Economic theory frequently equated the resource/production model as equivalent to the consumption/utility model, in other words, that production was a measure of consumption, consequently analysing production was all that was necessary. However, in order to debate decisions or strategic directions, stakeholders, including entities and government, require information on utility, wastage and externalities<sup>41</sup> in order to identify potential trade-offs or analyse feasible options.

36. Whether you argue it is due to 'Maslow's Hierarchy of Needs'<sup>42</sup> or simply an increased awareness of environmental and social issues, we continue to move away from the heavy production focus of post-World War II where quantity was key (owning two cars, two TV's etc), to pricing (providing bargains), followed by quality (by developing brands), and then improvements in delivery mechanisms (technology and the net) until finally today, we see products and services being promoted on the grounds of 'sustainability'. Hence the desire for accreditations and certifications for sustainable products and services.

37. Whether the measurement base is determined by resource/production (like Brundtland Definition) or by utility/consumption (like Pezzey<sup>44</sup>) they often end up at the same place

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<sup>38</sup> <http://www.beehive.govt.nz/ViewDocument.cfm?DocumentID=21159>

<sup>39</sup> Beckerman, W., A Poverty of Reason, Sustainable Development and Economic Growth, The Independent Institute, pages 31-41

<sup>40</sup> Beckerman, W., A Poverty of Reason, Sustainable Development and Economic Growth, The Independent Institute, page 76

<sup>41</sup> Externalities – 'being costs or benefits involved in a transaction which do not accrue to the individual or firm which is carrying out the transaction' – Colin P, Dictionary of Economics, Bloomsbury, 2003, page 71

<sup>42</sup> Abraham Maslow is known for establishing the theory of a hierarchy of needs, writing that human beings are motivated by unsatisfied needs, and that certain lower needs need to be satisfied before higher needs can be satisfied. The needs were grouped and placed in order, being from bottom to top, namely physiological, safety, love, and esteem to self-actualisation.

<sup>44</sup> Sustainability is defined as ...non-declining utility of a representative member of society for millennia into the future – Pezzey C J V, Sustainability: an interdisciplinary guide, 1992, page 323



(Perman et al <sup>45</sup>), because most economists assume that utility drives consumption and consumption drives production and therefore argue utility is generally equal to production.

38. In addition, this approach assumes current and future generations will have the same measures of utility and the same attitudes to the consumption and scarcity of resources, whereas history tells us that this assumption may be flawed as values do change.
39. However, pragmatists would argue that in fifty years the ideas underlying sustainability are likely to remain intact or gather momentum, although the application of the concept is likely to alter due to changes in technological improvements, population growth and a reduction in non-renewable resources. The latter two characteristics imply resources will become increasing scarce per person (scarcity<sup>46</sup>), resulting in the need for further rationing, either through price or some central distribution system. Hence the pressure on technological improvements and resource management to counter the dynamics of scarce resources.

### **More Than Ethics – Think Governance, Accountability and Responsibility**

40. Five years ago, very few accountants would have anticipated the development and importance of governance statements in annual reports. Today it is becoming the norm, with nine principles advocated by the Securities Commission commencing with 'ethical standards' and concluding with 'stakeholder interests'. Spiller, in his recent article, 'Investing in Governance', suggests that good corporate governance and sound ethical practices contribute to sustainable wealth creation. He cites Sir Adrian Cadbury;<sup>48</sup>

Corporate governance is concerned with holding the balance between economic and social goals, and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.

41. In addition, many investors are looking to favour investment in companies which support sustainable growth, as indicated by the large growth in sustainability funds. This is perhaps best reflected by Bob Welsh, Chief Executive of VicSuper, an Australian \$600 million superannuation fund, when he recently stated;

What we are trying to do is say, if we can use the mechanism of the market to encourage greater sustainable assets management by those companies or fund managers, then we believe we can get the financial outcomes in a way that pays environmental and social dividends.<sup>49</sup>

### **Less Is More – Trade-offs May Be Necessary**

42. This change in thinking is supported by the Growth and Innovation Advisory Board Research (April 2004), which researched and reported on 'What is Important to New Zealanders?' In response, the research findings state;

New Zealanders today appear to be far different from the passionless people they were branded several decades back. They indicate clearly defined goals and values that come through strongly in the research data.

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<sup>45</sup> Perman R, Ma Y, McGilvray J., and Common M., Natural Resource and Environmental Economics, 3rd Edn, Pearson, 2003, page 87

<sup>46</sup> Scarcity – 'In the absence of scarcity, no difficult choices would need to be made, no prices would need to be attached to anything, and the study of economics would be rendered entirely unnecessary'. The Penguin Dictionary of Economics, 7<sup>th</sup> Edn, 2003, page 345

<sup>48</sup> World Bank's Global Governance Forum 2000, Sir Adrian Cadbury

<sup>49</sup> Funds get a green directive, The Australian Financial Review, 29 October 2004

A clear majority of respondents in all three groups – New Zealanders in general, Maori and business – rated the following lifestyle and personal factors as most important to them:

- quality of life
- quality of the environment
- quality of education
- quality of health services

These form a ‘top tier’ of priority that is evident not only in the survey information, which is presented in the following graph, but is even more strongly reinforced in the qualitative elements of the research programme.

Also important, though not with quite the same intensity of conviction, is a second tier of factors which are largely financial and vocational, such as potential to increase personal wealth, employment prospects and the level of wages and salaries.<sup>50</sup>

43. Changing the focus of the ‘market’ to a ‘sustainable market’ may not necessarily incur additional costs, as experience indicates that reviewing the manufacture and delivery of products and services often leads to substantial cost reductions or situations where costs cancel each other out<sup>51</sup>. In addition, there are a number of value-adds inherent in the application of the sustainability concept – for example, branding, customer service, employee satisfaction, employee health and safety, product design and delivery, which are not expanded upon here.
44. Therefore, the assumption that a sustainability focus will load significant costs onto shareholders, consumers, and government, remains an assumption. What is clear is that accurate, timely, relevant and cost-effective information will be a critical part of the solution because informed voters and consumers are likely to make better decisions about trade-offs, if or when they exist.

### **Think Long Term – Adopt Risk Management and the Precautionary Principle**

45. The return to long-term thinking and planning can be seen with the development and popularity of the Risk Management Standard, AS/NZS 4360<sup>52</sup>. First published in 1995, it has since become a significant driver for managing and treating risk to maximise future benefits or minimise future costs.
46. In addition, the precautionary approach (which places the onus of establishing the lack of environmental risk upon those who advocate development) is well-established in international law<sup>53</sup>. Notably, the term ‘precautionary’ is used in New Zealand statutes (being 24 hits<sup>54</sup>). A precautionary approach is broader in approach than the term ‘prudence’, which is applied in the New Zealand Statement of Concepts. The latter only suggests ‘the need to exercise care when dealing with uncertainties’<sup>55</sup> by disclosing the nature and extent of the uncertainty and the appropriate measurement.
47. How the underlying themes may effect the direction of accounting is discussed in *Part Four*. *Part Three* briefly considers the content and quality of the tool kit the profession has available to deal with these underlying themes.

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<sup>50</sup> Research Summary [www.giab.govt.nz](http://www.giab.govt.nz), page 2

<sup>51</sup> McEwen, S., *Ecologic – Creating a Sustainable Future*, PowerHouse Publishing, 2004

<sup>52</sup> <http://www.riskmanagement.com.au>

<sup>53</sup> Pardy, Bruce., *Environmental law – A Guide to Concepts*, Butterworth’s, 1996, page 189

<sup>54</sup> [http://www.legislation.govt.nz/browse\\_vw.asp?content-set=pal\\_statutes](http://www.legislation.govt.nz/browse_vw.asp?content-set=pal_statutes)

<sup>55</sup> New Zealand Statement of Concepts, 1993, Para 6.9

## Part Three: The Tool Kit

48. Currently, there are very few tools designed specifically for use in New Zealand, particularly in regard to the measurement and assurance of sustainable development information. Some guidance is available on reporting, namely; the New Zealand Business Council for Sustainable Development 'Sustainable Development Reporting Guide'<sup>56</sup> and the Sustainable Business Network and Ministry for the Environment- 'Enterprise3'<sup>57</sup> Guideline.
49. In addition, a number of public sector organisations have provided valuable input or papers on the topic, including Landcare Research New Zealand Limited, the Parliamentary Commissioner for the Environment<sup>58</sup>, Statistics New Zealand<sup>59</sup> and the Ministry of the Environment<sup>60</sup>.
50. In addition there are a range of tools identified in Appendices 1 and 2.
51. There are significant gaps, particularly in measurement and assurance, but also in adopting the broader principles. Cameron<sup>61</sup>, agrees and concludes;
- The currently available measurement and reporting tools apply some of the principles well. However approaches that capture the relationships between the pillars are still evolving. Approaches to measuring and reporting on intergenerational equity are even more rudimentary...Researchers around the world and across the disciplines are wrestling with these methodological issues.
52. A very good summary of recent research is contained in a report by The Institute of Chartered Accountants in England & Wales (ICAEW), titled 'Information for Better Markets – New reporting models for business'.<sup>62</sup>
53. The writer is of the view that accountants are well placed to close this gap between what stakeholders want and what we can provide by designing new tools. Accountants have significant expertise and experience in the collection, measurement, reporting and verification of facts and estimates and have managed significant reforms in the past, for example the implementation of accrual accounting in government departments in the late 1980's and 90's.
54. Challenges for accountants are inevitable and will include:
- Setting the context of the annual report early on in the text so that users of the report understand how the entity is interpreting the sustainability concept.
  - Building relationships with stakeholders to understand their information needs<sup>63</sup>
  - Collecting<sup>64</sup>, measuring, reporting and verifying information on externalities (like clean

<sup>56</sup> <http://www.nzbcscd.org.nz/sdr/> October 2002

<sup>57</sup> [www.mfe.govt.nz](http://www.mfe.govt.nz) June 2003

<sup>58</sup> [www.pce.govt.nz](http://www.pce.govt.nz) Creating Our Future, Sustainable Development in New Zealand 2002

<sup>59</sup> [www.stats.govt.nz](http://www.stats.govt.nz) Monitoring Progress towards a Sustainable New Zealand 2002

<sup>60</sup> [www.mfe.govt.nz](http://www.mfe.govt.nz) Headline indicators for tracking progress to sustainability in New Zealand

<sup>61</sup> Auditor General Victoria, Measuring and Reporting on Sustainability – Beyond the Triple Bottom Line, Occasional Paper, 2004, Page 26

<sup>62</sup> 'Information for Better Markets – New reporting models for business'

[http://www.icaew.co.uk/viewer/index.cfm?AUB=TB2I\\_59349](http://www.icaew.co.uk/viewer/index.cfm?AUB=TB2I_59349) Nov 2003

<sup>63</sup> McGuinness W., Frame, B., Port Report, Chartered Accountants Journal, August 2003, Page 9

- water, pollution, staff satisfaction).
- Developing shadow prices<sup>66</sup>, if appropriate.
- Developing relevant indicators, if appropriate.

## Part Four: The Challenge

### Decisions to Date

55. There have, in effect, been two strategic decisions made to date:

- The decision for sustainability information, as discussed in *Part One*.
- The decision by the 'Institute of Chartered Accountants of New Zealand' (Institute), to 'provide on-going leadership and guidance on the external reporting and auditing of sustainable development reports (being a recommendation<sup>67</sup> of the 'Report of the Taskforce on Sustainable Development Reporting' 2002 (The Taskforce Report)).

As a result, the Institute established the Sustainable Development Reporting Committee (SDRC) in 2003, which have since produced a (i) submission to the FRSB<sup>68</sup> on the Exposure Draft: New Zealand Framework and (ii) a draft report on the landscape.

56. Consequently, the challenge for the profession is to meet the current needs of stakeholders by developing and designing effective models, indicators, report protocols and assurance protocols so that the current tool kit for accountants can be applied to more than just 'financial accounting'<sup>69</sup>.
57. Accountants will not close this gap by arguing sustainability is too hard to measure. This attitude will simply send us round in circles, for example, we do not know how to measure, we do not have the tools, and therefore we cannot measure. If we allow this type of thinking to prevail, it will not be accountants who design the solution.
58. An opposite approach is to be proactive, and thankfully there are many accountants in the private, public and tertiary sectors who are being exactly that. For example, recent research papers include, Milne et al<sup>70</sup> (Otago), Brown & Fraser<sup>71</sup> (Victoria) and Lawrence & Collins<sup>72</sup>

<sup>64</sup> McGuinness W., Frame, B., Port Report, Chartered Accountants Journal, August 2003, Page 9

<sup>66</sup> Shadow prices – 'The price given to a good or service which has no market value. The value of air quality or pollution may have to be calculated as part of the environmental costs of making a product, even though there is no market price for them.' – Colin P., Dictionary of Economics, Bloomsbury, 2003, page 184

<sup>67</sup> Report of the Taskforce on Sustainable Development 2002, page 17

<sup>68</sup> FRSB – Financial Reporting Standards Board (Institute)

<sup>69</sup> Financial accounting – means 'the recording of financial transactions in monetary terms according to the financial standards and legal requirements' – Collins, P., H.; Dictionary of Economics, Bloomsbury 2003, page 75

<sup>70</sup> Milne, M.J., Owen, D.L. & Tilt C.A., Corporate environmental reporting: Are New Zealand Companies being left behind? University of Auckland Business Review, 2001 3(2): 24-36; [and] Milne, M.J., Tregidga, H. & Walton, S. The triple bottom line: benchmarking New Zealand's early reporters. University of Auckland Business Review, 2003, 5(2): 36-50

<sup>71</sup> Brown, J., Fraser, M., Social and environmental accounting: how are you approaching it? Part 1& 2, Chartered Accountants Journal, August and September 2004

<sup>72</sup> Lawrence, S. & Collins, E. Sustainability Practices of New Zealand Business. University of Waikato Management School. 2004, Report online, [www.management.ac.nz/rethink](http://www.management.ac.nz/rethink) [and] Collins, E, Corner, P., Kearins, K., & Lawrence, S.,

(Waikato) plus sustainability Annual Report Awards winners<sup>73</sup>. Notably two examples of good reporting were by Waitakere City Council (2002/3) and Watercare Services Ltd (2003). The first for clearly defining the boundaries of the reporting entity and the latter for quantifying results in a measurable and comparable manner.

59. Watercare Services Limited provided an innovative sustainability accounting analysis that recorded the additional expenditure between what is legally necessary and what it has spent to deliver additional standards of sustainable performance in a transparent and clear manner. Refer Appendix 4.
60. This example clearly indicates the role of accountants. Our role is not necessarily to make judgements on whether Watercare Services Limited has made the right expenditure decisions, which is clearly a decision for shareholders. Our role is to provide information that is relevant, cost-effective, meaningful and accurate for stakeholders in order to make quality decisions.
61. Interestingly, and this is a key point, shareholders investing purely for the short term profit motive should be demanding this information so that they can make decisions on whether to lobby the Board against such expenditure or exit the investment. Not surprisingly, those shareholders supporting the sustainable development approach should also be demanding this information on the basis that it will assist them make decisions on their investment and/or consumer purchases. For both groups of shareholders, such an approach allows for informed debate on the benefits and costs of such expenditure.
62. Our role as a professional body is therefore not to promote sustainable development per se, but promote quality information for users to make decisions on sustainable development. Hence the concept of 'informing the market' is our key purpose.
63. In order to inform the market effectively, the profession must therefore invest money, time and expertise to ensure we meet users' needs in a cost-effective and relevant manner. However tensions are inevitable.

### **The Tensions**

64. Accountants have long reflected and managed tensions in the application of 'financial accounting', as discussed in the 1993 Statement of Concepts – 'Influences on Qualitative Characteristics'<sup>75</sup>, consequently the concept of balancing and assessing users' needs and the costs/risks and benefits of information are not new.
65. The discussion on underlying themes above indicates that sustainable development reporting will include not only all the old tensions but highlight a number of new ones. The more obvious tensions are highlighted below.

1. Cost of Information verses Benefit of Information

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Getting Serious About Voluntary Environmental Programmes, University of Auckland Business Review, 2004, 6(2): 57-65

<sup>73</sup> McGuinness, W., Hays, P., Annual reporting – a sustainable development perspective, Chartered Accountants Journal, August 2004, page 4

<sup>75</sup> 1993 Statement of Concepts - Influences on Qualitative Characteristics, pages 8-10

2. Valuing market goods/services verses valuing non-market goods/services
3. Mechanisms for fixing Market Failures: Individuals verses Professional Groups verses Industry verses Government
4. Narratives verses Numbers
5. Shareholder value verses Shareholder value
6. Material to one stakeholder verses Material to another stakeholder
7. Rights of current generations verses Rights of future generations
8. Production verses Consumption verses Utility Measures
9. Human Rights verses Non-Human Rights
10. Uncertainty verses Caution/Prudence/Precautionary

66. The key points of the paper can therefore be summarised in Figure 1 below.

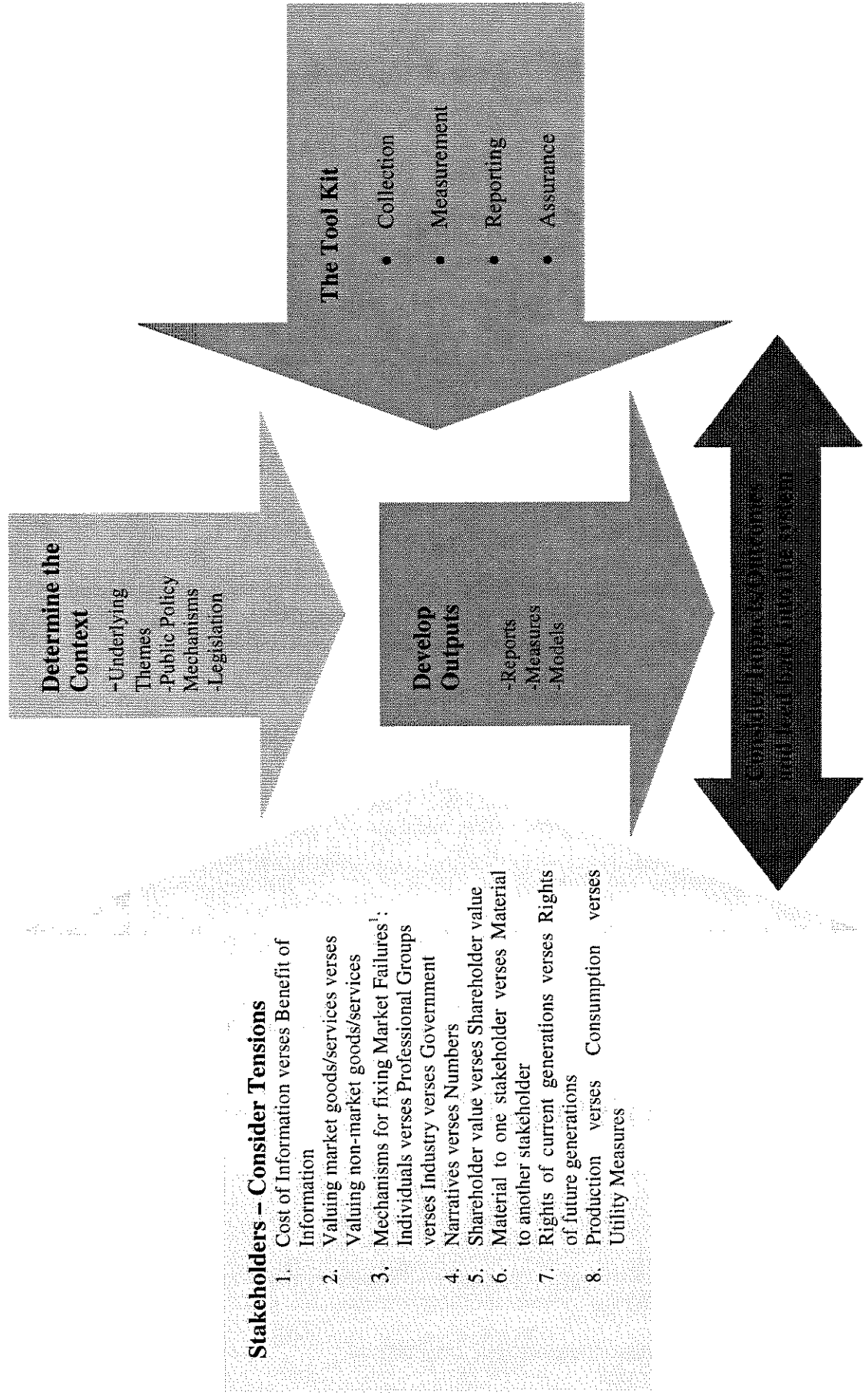
## **Conclusion**

67. Different beliefs drive the bigger societal debate. Individuals or organisations may disagree that a problem exists or about the size of the problem, but even if they agree on the scope, there tends to be disagreements over who should be held accountable (accountability), who should pay retribution (liability), the extent the problem is solvable (feasibility), the optimal solution (analysis), the value to stakeholders (CBA<sup>77</sup>) and who should make the decision (governance).
68. ‘Just Values’, an occasional paper published by BT (British Telecom) summed this up with its ‘agent of change’ diagram, attached in Appendix 3. Here the writers highlight that there is a values continuum and that different entities or even sub-entities will align themselves along the continuum in different markets and at different points of time.
69. Importantly, it is not accountants who are setting the context. This decision has already been made. Our dilemma is not whether sustainability is relevant to the profession, but whether the profession will remain relevant to the market.

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<sup>77</sup> CBA – Cost Benefit Analysis can have a very narrow or very broad scope. Collins P., Dictionary of Economics 2003 provides the latter, namely ‘an examination of the ratio between total social costs and total social benefits, especially in considering large-scale public building programmes. The externalities involved can be costs such as pollution and benefits such as better access to markets; if social costs are less than social benefits then the construction programme can be justified.’

Fig 1. The Foundation Framework



## Appendix 1: Tools for Measuring Sustainability

The following are two examples of how some alternative measurement methods are being applied in New Zealand. A comprehensive review of such measures is beyond the purpose of this paper.

### 1. Ecological Footprint<sup>80</sup>

New Zealand's ecological footprint is in the top 10 (including the United States of America and Australia) out of 150 nations surveyed in the 'Living Planet Report 2000'<sup>81</sup>

Notably, Environment Waikato has calculated its ecological footprint and defined the term as follows.

The 'ecological footprint' measures how much productive land it takes to support the lifestyle of an individual, a city, region or country in today's economy. This is calculated as the land use types (built up areas, crop and pastoral land, managed forest land and energy land) required for production and consumption of goods and services (food, housing, transport, consumer goods and services). Ecological footprints are usually expressed in hectares, or hectares per capita (per person), for a given year. The larger the ecological footprint, the more resources are needed to sustain an individual's or population's current lifestyle.

### 2. Natural Resource Accounts

Statistic's New Zealand recognises that standard measures of economic performance such as Gross Domestic Product (GDP) do not fully account for unsustainable use of natural resources and have therefore been working on the production of Natural Resource Accounts.

In order to complement measures such as GDP, Statistics New Zealand is providing a more complete picture of a country's economic and environmental performance by publishing Natural Resource Accounts.<sup>82</sup>

Standard measures of economic performance such as Gross Domestic Product (GDP) do not fully account for unsustainable use of natural resources. Natural resource accounts complement measures, such as GDP, to provide a more complete picture of a country's economic and environmental performance.<sup>83</sup>

Statistics New Zealand in association with the Ministry for the Environment, has prepared physical and monetary stock and flow estimates for four of New Zealand's significant natural resources – energy, fish, forestry, mineral and water resources. Technically, the physical estimates are referred to as natural resource accounts, while the monetary estimates are referred to as environmental accounts. In New Zealand, the initial impetus to begin compiling natural resource and environmental accounts came about as a result of decisions stemming from the Budget 2000. The Government decided that more information was required on complex relationships between the economy, the environment and society.<sup>84</sup>

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<sup>80</sup> [www.ew.govt.nz/enviroinfo/indicators/community/sustainability/ecofoot/report.htm](http://www.ew.govt.nz/enviroinfo/indicators/community/sustainability/ecofoot/report.htm)

<sup>81</sup> [www.ew.govt.nz/enviroinfo/indicators/community/sustainability/ecofoot/keypoints.htm#Footnote4#Footnote4](http://www.ew.govt.nz/enviroinfo/indicators/community/sustainability/ecofoot/keypoints.htm#Footnote4#Footnote4)

<sup>82</sup> [www.stats.govt.nz](http://www.stats.govt.nz)

<sup>83</sup> [http://www.stats.govt.nz/domino/external/web/prod\\_serv.nsf](http://www.stats.govt.nz/domino/external/web/prod_serv.nsf)

<sup>84</sup> [www.stats.govt.nz](http://www.stats.govt.nz)



## Appendix 2: Recent International Guidelines, Discussion Papers and Reports relating to SDR

Source: Appendix 3 of the 'Submission to the Financial Reporting Standards Board by the Sustainable Development Reporting Committee on Exposure Draft: New Zealand Framework', 6 August 2004

Organisation	Title	Website
<i>Written specifically for verifiers of SDR</i>		
AccountAbility	AA1000 Assurance Standard 1999	<a href="http://www.accountability.org.uk/aa1000/default.asp">http://www.accountability.org.uk/aa1000/default.asp</a>
Standards Australia	DRAFT General Guidelines on the verification, validation and assurance of environmental and sustainability reports August 2003	<a href="http://www.standards.com.au/catalogue/script/Details.asp?DocN=AS396064812062">http://www.standards.com.au/catalogue/script/Details.asp?DocN=AS396064812062</a>
<i>Written for a more general audience</i>		
AICPA (American Institute of Certified Public Accountants)	Quality and Transparency in Business Reporting – A Call for Action in the Public Interest. December 2003	<a href="http://www.aicpa.org">www.aicpa.org</a> - published by the AICPA Special Committee on Enhanced Business Reporting
Association of British Insurers	1. Guidance for Disclosure of Socially Responsible Investment. February 2003  2. Guidance for the Finance Sector on socially responsible strategy and reporting. July 2002	<a href="http://www.ivis.co.uk/pages/framegu.html">http://www.ivis.co.uk/pages/framegu.html</a>  <a href="http://www.abi.org.uk/Display/File/301/forgefull_doc.pdf">http://www.abi.org.uk/Display/File/301/forgefull_doc.pdf</a>
BT, UK	Just Values – Beyond the business case for sustainable development. May 2003	<a href="http://www.btplc.com">www.btplc.com</a>
Department of Environment & Heritage, Australia	1. Triple Bottom Line Reporting in Australia: A Guide to Reporting against Environmental indicators. June 2003  2. Corporate Sustainability – An Investors' Perspective: The Mays Report. September 2003	<a href="http://www.ea.gov.au/industry/finance/publications/">www.ea.gov.au/industry/finance/publications/</a>  <a href="http://www.deh.gov.au/industry/finance/publications/mays-report/">http://www.deh.gov.au/industry/finance/publications/mays-report/</a>
Department of Family and Community Service (Australia)	Triple Bottom Line reporting in Australia: A Practitioner's Guide to Reporting against Environmental indicators.	Website forthcoming
FEE (European Federation of Accountants)	Discussion Paper on providing assurance on sustainability reports. mid 2002	<a href="http://www.fee.be/publications/main.htm">http://www.fee.be/publications/main.htm</a> *click on Sustainability (Formerly Environmental) link
GRI (Global Reporting Initiative)	Overarching Principles for providing assurance on sustainability reports. April 2001	General: <a href="http://www.globalreporting.org/workgroup/verification">http://www.globalreporting.org/workgroup/verification</a>

		<a href="#">/OP/General.pdf</a>  Part A: <a href="http://www.globalreporting.org/workgroup/verification/OP/PartA.pdf">http://www.globalreporting.org/workgroup/verification/OP/PartA.pdf</a>  Part B: <a href="http://www.globalreporting.org/workgroup/verification/OP/PartB-1.pdf">http://www.globalreporting.org/workgroup/verification/OP/PartB-1.pdf</a>
ICAEW (The Institute of Chartered Accountants in England & Wales)	Information for Better Markets – New reporting models for business. November 2003	<a href="http://www.icaew.co.uk/viewer/index.cfm?AUB=TB2I_59349">http://www.icaew.co.uk/viewer/index.cfm?AUB=TB2I_59349</a>
ICANZ (Institute of Chartered Accountants of New Zealand)	Report of the Taskforce on Sustainable Development Reporting. October 2002	<a href="http://www.icanz.co.nz/StaticContent/download/ags/sdreport.pdf">http://www.icanz.co.nz/StaticContent/download/ags/sdreport.pdf</a>
ICCA (Institute of Chartered Accountants of Australia)	1. Financial Report Audit: Meeting the Market Expectations – (The ‘Trotman’ Report) June 2003 2. New Directions in Business: Performance Reporting, Communications and Assurance. Michael Bray, KPMG February 2002	<a href="http://www.icaa.org.au/upload/download/Audit_Report.pdf">http://www.icaa.org.au/upload/download/Audit_Report.pdf</a>  <a href="http://www.icaa.org.au/upload/download/michael_bray_paper.pdf">http://www.icaa.org.au/upload/download/michael_bray_paper.pdf</a>
IFAC (International Federation of Accountants)	1. International Framework for Assurance Engagements. December 2003  2. International Standards on Assurance Engagements. December 2003	<a href="http://www.ifac.org/Store/Details.tpl?SID=10751427882153820&amp;Cart=10771517473357770">http://www.ifac.org/Store/Details.tpl?SID=10751427882153820&amp;Cart=10771517473357770</a>  <a href="http://www.ifac.org/Store/Details.tpl?SID=10751407482153044&amp;Cart=10771517473357770">http://www.ifac.org/Store/Details.tpl?SID=10751407482153044&amp;Cart=10771517473357770</a>
INEM	1. The INEM Sustainability Reporting Guide. October 2001 2. Environmental Reports, Environmental Statements. June 1998	<a href="http://www.inem.org">www.inem.org</a>
ISO (International Organization for Standardization)	ISO 14001 – Evaluation of Environmental Performance. 1996	<a href="http://www.iso.ch/iso/en/CatalogueDetailPage.CatalogueDetail?CSNUMBER=23142&amp;ICS1=13&amp;ICS2=20&amp;ICS3=10">http://www.iso.ch/iso/en/CatalogueDetailPage.CatalogueDetail?CSNUMBER=23142&amp;ICS1=13&amp;ICS2=20&amp;ICS3=10</a>
HKSA (Hong Kong Society of Accountants)	Practice Note: 1010 The Consideration Of Environmental Matters In The Audit Of Financial Statements. December 2003	<a href="http://www.hksa.org.hk/professionaltechnical/pronouncements/handbook/volume3b/pn1010.htm">http://www.hksa.org.hk/professionaltechnical/pronouncements/handbook/volume3b/pn1010.htm</a>
NZBCSD (New Zealand Business Council for Sustainable Development)	1. Business Guide to SDR. June 2001 2. Case Studies	<a href="http://www.nzbcSD.org.nz">www.nzbcSD.org.nz</a>

SBN and MFE (Sustainable Business Network and the Ministry for the Environment	"Enterprise3". June 2003	<a href="http://www.mfe.govt.nz">www.mfe.govt.nz</a>
SIGMA	The SIGMA Guidelines. September 2003	<a href="http://www.projectsigma.com">www.projectsigma.com</a>
Sustainability UK	Trust Us Report. November 2002	<a href="http://www.sustainability.com/publications/engaging/trust-us.asp">http://www.sustainability.com/publications/engaging/trust-us.asp</a>
WBCSD	Sustainable Development Reporting: Walking the Talk. 2002	<a href="http://www.wbcsd.ch">www.wbcsd.ch</a> (under Accountability & Reporting)



Appendix 4: Excerpt WaterCare Annual Report 2003, page 88.

SUSTAINABILITY ACCOUNTING ANALYSIS

TABLE 18

	NOTES TO THE SUSTAINABILITY ACCOUNTING ANALYSIS	
	2002	2003
<b>\$ MILLIONS</b>		
<b>TOTAL EXPENDITURE INCLUDING THAT NECESSARY TO MEET THE STATUTORY AND LEGAL OBLIGATIONS</b>	106.5	138.6
<b>ADDITIONAL EXPENDITURE TO MEET THE STANDARDS EXPECTED OF WATERCARE</b>		
Project Manukau		
1. Pond and foreshore remediation	5.4	2.8
2. Midge control	0.5	0.1
<b>SUB TOTAL</b>	<b>5.9</b>	<b>2.9</b>
Ongoing expenditure		
3. Odour control	0.9	0.9
4. Wastewater overflow clean-up	0.1	0.1
5. Wastewater pump station "failsafe" maintenance	1.2	1.2
<b>SUB TOTAL</b>	<b>2.2</b>	<b>2.2</b>
<b>COSTS FORMING THE BASIS OF WATER AND WASTEWATER CHARGES - PER AUDITED FINANCIAL STATEMENTS</b>	114.6	143.7
<b>ANNUALISED COST OF THE ADDITIONAL ACTIVITIES THAT COULD IMPROVE THE ENVIRONMENTAL STANDARDS</b>		
6. CO <sub>2</sub> emission reduction	1.2	2.4
7. Odour emission elimination	3.8	3.8
8. Wastewater overflow minimisation	15.0	15.0
9. Visual enhancement	3.8	3.8
<b>SUB TOTAL</b>	<b>23.8</b>	<b>25.0</b>
<b>COST BASE REQUIRED TO DELIVER SUSTAINABLE PERFORMANCE</b>	138.4	168.7

**1. POND/FORESHORE REMEDIATION**  
This expenditure relates to the decommissioning of the oxidation ponds, sludge lagoons and the foreshore restoration. Further details are contained in Note 3 to the financial statements.

**2. MIDGE CONTROL**  
The oxidation ponds were fertile breeding areas for midges, a considerable social nuisance. The upgrade of the wastewater treatment process disturbed the stable operation of the ponds and led to difficulties in the management of the midges. In 2002, Watercare spent approximately \$500,000 on insect sprays and inhibitors. In 2003, the introduction of saltwater to the intertidal storage basin was an environmentally friendly and inexpensive solution.

**3. ODOUR CONTROL**  
In the past year, the operating and maintenance costs of facilities to minimise odours in the reticulation network and at the wastewater treatment plant were approximately \$900,000.

**4. WASTEWATER OVERFLOW CLEAN-UP**  
The wastewater reticulation network overflows 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 \$100,000 in the past year.

**5. WASTEWATER PUMP STATION "FAILSAFE" MAINTENANCE**  
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.

**6. CO<sub>2</sub> EMISSIONS**  
Watercare's total greenhouse gas emissions were 97,745 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 \$25 per tonne.

**7. ODOUR EMISSION ELIMINATION**  
Reducing the system's odours to minimal levels at all site boundaries, primarily by constructing new biofilters, would involve \$40 million in capital cost and \$500,000 per year in operating and maintenance costs. The annual costs, including interest but excluding depreciation, would be \$3.8 million.

**8. WASTEWATER OVERFLOW MINIMISATION**  
Watercare has estimated that eliminating 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**  
Watercare estimates that the cost of either camouflaging, removing or replacing 'unattractive' 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 \$3.8 million.



## Extending the business case

The following diagram illustrates where the business case for sustainable development has come from and where it might be leading. There's clearly a continuum here in terms of companies introducing more environmentally and socially responsible practices for different reasons, and driven by different agents of change. That said, it's never quite as cut and dried as the table makes out, in that any one company can be at different points on the continuum depending on the issue or even the market in which it is operating.

### Outlaws

It would be wrong to assume this is no longer an issue in these days of more enlightened business practice. It's worth remembering that the majority of small and medium-sized companies in the UK are still not in compliance with core environmental regulations, according to the Environment Agency. And even the best of best-behaviour companies often find that compliance in less sophisticated markets (particularly in the developing world) can be outside the local norms.

### Compliers

The body of international and local laws or regulated standards that exist in any country represent the minimum required of any company as part of its "licence to operate" in society. In effect, no business case is needed here, as there isn't a choice. Evidence of commercial benefits flowing from compliance acts as a positive inducement to companies to remain in compliance as standards tighten, though the debate about the macroeconomic effects of tougher regulation (in terms of competitive advantage or disadvantage) rumbles on within the context of an ever increasing regulatory bureaucracy.

### Case-makers

In many instances, there is total convergence between improved environmental and social performance and commercial self-interest. On the surface, this is a real "no-brainer", though it remains a source of astonishment to officials in the DTI running the Government's "Envirowise" and energy efficiency programmes that so many companies in the UK would indeed appear not to have a brain! But there are always multiple "business cases" under review in a company, competing with each other for both investment capital and management time.

### Innovators

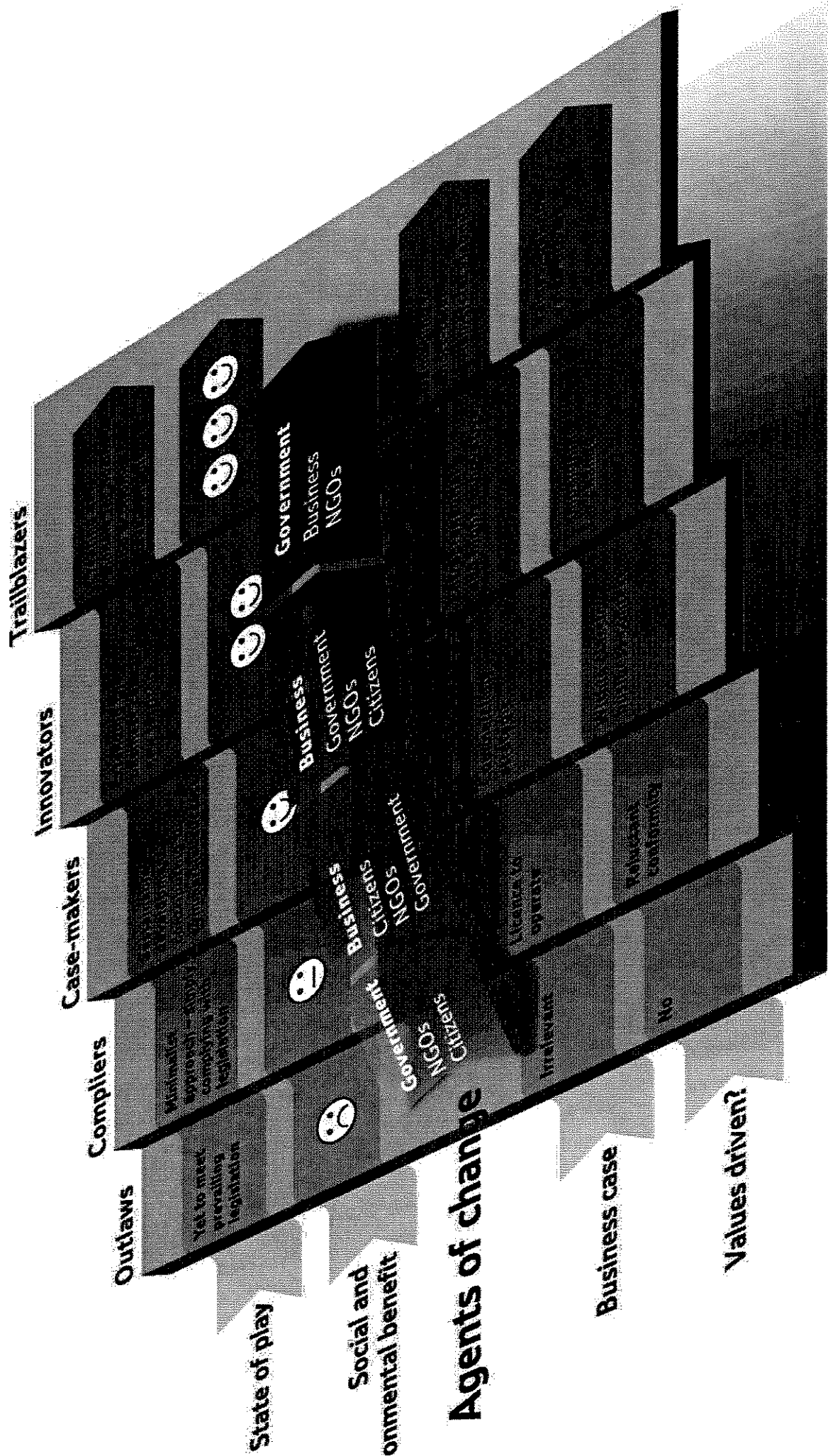
Convergence here is only partial: the business case for taking additional measures is harder to make, and the excuses for not doing so easier to deploy. This is the territory that we explore in the final part of this paper. For if it can be demonstrated through such an analysis that the business case only extends so far - and not far enough compared to the scale of urgency of the environmental and social challenges we face - then the obvious solution is to extend the business case, to make it work harder, to give companies scope to do more than prevailing conditions in today's capital markets allow.

### Trailblazers

Proactive investments for sustainable development may not only not create new value for a company, but actually destroy existing value. Companies voluntarily incurring substantial additional costs may as a result find themselves at a short to medium term competitive disadvantage. This is the territory that companies are understandably unwilling to move into, notwithstanding the exhortation of NGOs that this is precisely the territory they should be colonising.







State of play

Social and environmental benefit

Agents of change

Business case

Values driven?

