

**The Accounting for Sustainability
Group**

**Accounting for Sustainability
Introduction and executive
summary**

**A report from the Accounting for Sustainability Group convened by HRH The Prince
of Wales**

5 December 2006

This report contains 9 Pages

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SUPPORTING RESEARCH PAPERS

PART I: A review of academic literature by the Saïd Business School, Oxford University

PART II: Developments in the public and private sectors and environmental markets by the Accounting for Sustainability Group

PART III: International comparison by RAND Europe

1 Introduction

1.1 The Accounting for Sustainability Group

The Accounting for Sustainability Group is a small cross-sectional team established by HRH The Prince of Wales in June 2006 to develop a management tool to enable sustainability considerations to be built into decision making, resource allocation and accounting as an essential pre-requisite to embedding sustainability into everyday organisational practice.

The decisions taken daily by the private and public sectors have environmental and societal consequences that are not currently reflected fully (or at all) either in the analysis that precedes them or in the subsequent reporting on their consequences (financial and non financial).

Actions taken today will have consequences for, amongst other things:

- Pollution levels, including carbon emissions.
- The depletion of natural resources.
- Social well being.
- The impact on biodiversity.
- Water usage.
- Energy efficiency.

Many companies and public bodies can and do measure some of these factors, such as water and energy usage and carbon emissions. Others are not measured on any consistent basis - for example the impact of business practice on bio-diversity. Such measurement as does take place tends to be for the purposes of assessing short term considerations, such as factory performance. This reflects the fact that the longer term impacts on the environment are external to the **decision-taker** and have little or no direct **short-to-medium** term consequences on **its'** financial position. Of course, over the longer term **these decisions** will have implications for all of us. We all have an interest in understanding what **these implications might be**.

In this context there is a need to develop a means by which the environmental consequences of our actions today can be assessed, measured and reported on, and this knowledge used in decision-making and resource-allocation systems. The objective of the Accounting for Sustainability Group is to facilitate the debate on this subject and to identify and develop the tools needed to embed sustainability **in** organisational processes.

1.2 Purpose of this report

This report is an initial consideration of the background to issues affecting the measurement of and reporting on sustainable development. It contains:

- A summary of the development of and shortcomings in our current measurement systems (accounting and economic).

- A consideration of some of the conceptual analysis that could be applied in developing alternative measurement and reporting systems, **contributed** by the Saïd Business School.
- A brief overview of developments in the public and private sectors.
- An illustration of how environmental markets have developed and contributed to sustainability, based on a paper prepared by Robert Rabinowitz, PhD of **Climate Exchange**.
- An overview of the international picture, based on a report prepared by RAND Europe¹.

This is a wide ranging and complex subject. This report does not claim to cover all of the many developments that have taken place **in** the UK and internationally. Rather, this document provides a summary of the course that this debate could take. It will, hopefully, encourage others to participate.

1.3 **Acknowledgements**

We would like to thank all those who participated in and contributed to this paper. In particular, we would like to thank:

- The companies who we interviewed²
- Robert Rabinowitz PhD
- RAND Europe
- The Saïd Business School

¹ RAND Europe is an independent not-for-profit research organisation that aims to serve the public interest by improving policymaking and informing public debate.

² Anglo American Plc, BP Plc, BT plc, Boots Plc, Carillion Plc, Centrica Plc, Diageo Plc, John Lewis, Kingfisher Plc, GlaxoSmithKline Plc, HSBC Plc, Rio Tinto Plc, Tesco Plc and Vodafone Plc.

2 Executive summary

2.1 Aim of the Project

The Prince of Wales has established his Accounting for Sustainability Project to develop systems to help organisations to measure more effectively the environmental and social costs of their actions.

2.2 Summary

Stage one of the project has been a review of the current state-of-play in the measurement and reporting of organisational sustainability in the UK and internationally.

The research to-date has identified a number of trends. There is clearly a growing awareness of the need to preserve the environment, and considerable strategic commitment in both the public and private sectors to adopting the principles of sustainability. There are, however, relatively few practical mechanisms for managers to use to translate strategic sustainability vision into operational reality.

2.3 What next?

The Prince's Accounting for Sustainability Project will develop a range of measures to help organisations embed sustainability into their decision-making processes and report their performance in this respect more clearly and consistently. Work will be undertaken in the following areas.

- A ***model and methodology*** to enable managers to take greenhouse gas emission and other sustainability issues into account more effectively when making, for example, procurement, product design and building decisions. This work will include joint studies with participating companies in the food, construction and investment sectors.
- The project will also consider, again working with organisations in the public and private sectors, how the reporting of sustainability information can be ***clearer, verifiable and more consistent***, both in formal reporting and on the labelling and packaging of products.
- Building on the success of “cap and trade” schemes for carbon and other emissions, the project will consider ways in which ***cap and trade schemes can be extended further***, covering resources like water, wetlands, forestry and agriculture.
- The project might consider the idea of a ***“kite marking”*** system for companies which voluntarily adopt better accounting for sustainability. The certification

would help shareholders and consumers identify organisations that are following emerging best practice.

2.4 Overview

The following is a brief overview of the research to date. The full report can be found on the Project's website, www.accountingforsustainability.org.uk.

Chapters 1 and 2 comprise an introduction and this Executive Summary.

Chapter 3 of the research paper, contributed by the Saïd Business School, provides a brief overview of the development of systems to account for and report sustainability performance, and of the academic literature in this area. It examines the concepts of critical natural capital, ecological footprint and the sustainability hierarchy as different ways in which sustainability can be measured and reported. The chapter also examines a number of frameworks for sustainability reporting, including Triple Bottom Line, the Balanced Scorecard, the French 'tableau-de-bord' and the Sustainability Assessment Model (which is based on the concept of full-cost accounting).

In general terms, academics are agreed that sustainability indicators need to be integrated more effectively into decision-making processes. There is, however, disagreement as how best to achieve this and, in a number of cases, a discrepancy between academic theory and practical reality.

Chapter 4, reviews sustainability approaches and techniques in the public sector. Sustainability has been high on the public sector agenda for several years and, in 2005, the Government published its Strategy for Sustainable Development. The recently published Stern Report has also provided significant further impetus.

There are a large number of policy guidelines and initiatives in the public sector intended to raise awareness of sustainable development, and many notable examples of successful initiatives. These are, however, often isolated initiatives, championed by determined individuals or particular organisations wanting to make a difference. The key challenge for the promotion of sustainable development in the public sector is to facilitate and encourage more joint working between the many organisations with a role to play in sustainable development, so that the isolated good practices of to-day become the norm for tomorrow.

To assist this, key decision makers within the public sector require practical decision-making tools so that they can more readily and effectively translate the good intentions of policy, guidance or initiative into reality.

Chapter 5 of the report, reviews how a selection of organisations in the private sector approach sustainable accountancy and decision-making. The report is not exhaustive – one or two large organisations in particular industries have been selected to illustrate the sort of ideas that might be developed further. Industries reviewed including retail, energy and utilities, banking and finance, mining and construction. There is, of course, also

innovative work being done by smaller organisations, both inside and outside these industries, which will be considered during the next stage of the Project.

The research confirms that businesses recognise the benefits of sustainable working practices, and have applied various techniques to monitor their impacts on the environment. In general, those industries that have the greatest impacts, such as the oil and gas industry, have developed the most sophisticated measurement principles and reporting systems. This is partly due to the legal obligation on these companies to make good any damage they cause to the environment (e.g. in decommissioning costs), which encourages them to include such externalities in their financial reports.

Many companies produce reports setting out their sustainability strategy and details of their performance in areas such as water, energy use and carbon emissions. There is, however, no definitive guidance on the measurement bases that businesses should adopt, and no real consistency in the form of their reporting. This makes it difficult to compare the sustainability performance of companies even within a particular industry.

Chapter 6 of the report, contributed by Robert Rabinowitz, PhD, Director of Climate Exchange (Europe) Ltd., examines the development of environmental markets. The introduction of markets setting a declining cap on pollutants such as sulphur dioxide (a cause of acid rain) and carbon has been successful in reducing the emission of these pollutants. The combination of regulatory systems and financial incentives to reduce emissions has led to a high level of compliance on the part of organisations, and stimulates the development of new emissions mitigation technologies.

The most high-profile environmental markets at present are the carbon markets, of which the largest is the European Union's Emissions Trading Scheme. The key achievement of these markets is to ration the pollution which companies can emit, and then put a price on the capped greenhouse gas emissions. This allows organisations to trade any 'surplus' allowance they have with those who wish to exceed their allocation.

Chapter 7 of the report, commissioned by the National Audit Office from RAND Europe, reviews international examples of approaches and initiatives in the field of sustainable accountancy and decision-making. In particular, it considers developments in Brazil, Canada, China, India, Mexico, South Africa, the USA, Europe, Japan and Korea in the areas of government policy, accounting standards and market impacts.

The international review identifies a variety of different approaches that can contribute to the mitigation of the environmental and social impacts of economic activity. The approaches are, however, not always successfully integrated, and therefore not as effective as they might be.

The research on international accounting standards shows that these can be powerful instruments to encourage companies and industry sectors to internalise environmental costs and to act in a more sustainable way.

Internationally, private sector initiatives on accounting for and reporting on environmental and social impacts are becoming more sophisticated. It is not always clear, however, that these initiatives are having a positive impact on sustainable

development, and sustainability accounting and reporting often remains isolated from business governance.

Finally, this chapter shows that the creation of market standards allows consumers to make informed choices between products, which in turn has a powerful influence on how companies report on and account for their environmental and social impacts.

2.5 **How you can help?**

The report shows that commitment to the principles and practice of sustainability in the public and private sectors is increasing all the time. To help translate this commitment into positive action, there is a need for the generally accepted and practical decision-making, resource-allocating and accounting systems and mechanisms that The Prince's Accounting for Sustainability Project intends to develop.

Over the course of the next year the project team will work with a variety of organisations to ensure that the approach developed is effective and adds genuine value to business processes.

The project team would be delighted to hear from anyone who is interested in this work and who would like to contribute to the Project. Please contact the project team through its website, www.accountingforsustainability.org.uk.

Project Steering Committee

Sir Michael Peat (Principal Private Secretary to TRH The Prince of Wales and The Duchess of Cornwall, Chairman), Nick Smedley (Project Director, on secondment from the Department for Constitutional Affairs), Roger Adams (Executive Director – Technical, ACCA), David Aeron-Thomas (Head of Sustainable Economy Programme, Forum for the Future), Mark Davies (Director, Cross-Government Studies, National Audit Office), Paul Druckman (Former President, ICAEW), Steve Freer (Chief Executive, CIPFA), Jim Haywood (Director, Business in the Community), Professor Anthony Hopwood (Saïd Business School, Oxford University), Professor Sir Andrew Likierman, Iain Macdonald (Group Vice President, BP plc), Professor Andrew Parker (Natural History Museum), Dr Mike Peirce (Deputy Director, University of Cambridge Programme for Industry), David Phillips (Partner, PricewaterhouseCoopers LLP), Russell Picot (Group General Manager and Group Chief Accounting Officer, HSBC Holdings plc), Richard Reid (Partner, KPMG LLP), Martin Smith (Chairman, The Martin Smith Foundation), Francis Sullivan (Advisor on the Environment, HSBC Holdings plc) and Michael Whitehouse (Assistant Auditor General, National Audit Office).

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