



Australian Government

Department of the Environment and Heritage

**Parliamentary Joint Committee on Corporations and
Financial Services**

Inquiry Into Corporate Responsibility

Submission by the Department of the Environment and Heritage

Summary

This submission to the Parliamentary Joint Committee on Corporations and Financial Services outlines the initiatives and work of the Australian Department of the Environment and Heritage in relation to encouraging and improving sustainability reporting in Australia.

Introduction

Sustainability reporting is increasingly recognised as an important medium for improving disclosure and joint understanding of environmental, social and economic issues relating to individual organisations. The Department has developed a number of initiatives that aim to enhance both the level and quality of sustainability reporting in Australia, and to ensure that sustainability reporting is meaningful and relevant to business and other stakeholders.

The Department encourages Government agencies and industry to adopt sustainability reporting and provides assistance to reporters. It helps to make the business case for sustainability reporting, develops and publishes reporting guides and provides access to other resources and reporting frameworks which can improve the quality and comparability of reports.

The Department acknowledges the importance of demonstrating best practice in corporate citizenship, and is committed to developing a whole-of government approach to sustainability reporting. The Department has already shown its commitment to sustainability reporting, having produced its first report last year.

Reporting organisations state two broad economic benefits from publishing a sustainability report:

- What gets measured gets managed and improved,
- Disclosure and reporting of non-financial issues helps to maintain the support of investors and other stakeholders.

Companies are increasingly seeing the business case for sustainability reporting, such as increased market share, innovation and new business opportunities, risk identification and mitigation, employee motivation and retention, enhancing reputation and brand and improved shareholder value.

Initiatives to increase the uptake and enhance sustainability reporting in Australia

Ministerial initiative with the Australian Stock Exchange (ASX) Corporate Governance Council

The Minister for the Environment and Heritage, Senator the Hon Ian Campbell, has requested the Australian Stock Exchange's Corporate Governance Council to consider mechanisms to enhance non-financial reporting in Australia. Senator Campbell has requested that companies continue to report on a voluntary basis. However, recognising that reporting against a more standardised framework would increase comparability and make reports more relevant to business and other stakeholders, the Minister has asked the Council to consider options on how to enhance this comparability. In particular, the Minister recommended consideration of an agreed reporting framework using an "if not, why not" approach. That is, if companies report, they should use the agreed framework or explain why they haven't.

Departmental Initiatives

The Department has a range of initiatives in place to enhance sustainability reporting in Australia. These initiatives include:

The State of Sustainability Reporting survey

This year, the Department commissioned its third survey on The State of Sustainability Reporting in Australia. The aim of this survey is to identify the number of Australia's largest companies that have undertaken a sustainability report (including triple bottom line reports, environment reports and community reports) or who are planning to undertake their first sustainability report within the coming year. The report also looks at the extent of external verification of sustainability reports and the benefits and impediments associated with producing sustainability reports.

From the results obtained in The State of Sustainability Reporting in Australia reports from the past three years, it is apparent that there was a significant increase last year in the number of sustainability reports produced by Australia's largest companies, and this number is slowly increasing.

Some of the results from *The State of Sustainability Reporting in Australia 2004* are as follows:

- 116 of the top 500 reported (from a universe of ASX 300, top 100 private and top 100 public non-listed companies)
- 42 of ASX 300 reported
- 34 of top 100 private companies reported
- 40 of top 100 public non-listed reported
- Most reporting by industry sector: Manufacturing 35%, Mining 17%, Wholesale Trade 13%, Finance and Insurance 11%
- 40 companies made use of the Global Reporting Initiative (GRI) guidelines

Sustainability and Environmental Reporting Awards

The Department has been involved in a number of Sustainability and Environmental Reporting Awards, including the Australasian Reporting Awards and the Australian Certified Chartered Accountants (ACCA) Awards.

Resources and Publications

The Department has led government activity promoting firstly environmental, and now sustainability reporting since 2000. Some of the key publications and resources include:

- A Corporate Sustainability Reporting website, which can be accessed at <http://www.deh.gov.au/settlements/industry/corporate/reporting>;
- Two reporting Guides on Triple Bottom Line Reporting in Australia: A Guide to Reporting Against Environmental Indicators – June 2003 and Public Environmental Reporting: An Australian Approach – March 2000;
- Development of *A Framework for Public Environmental Reporting – An Australian Approach 2000*.

Sustainability Reporting Library

The Department of the Environment and Heritage Sustainability Reporting Library holds electronic copies of sustainability, environmental and social performance reports in Australia. It links to 400 reports from 122 organisations, and these can be accessed from the Department of the Environment and Heritage's website. This web-based tool is designed to facilitate access and use

of non-financial reports produced by Australian companies. The Department also holds hard-copies of all non-financial reports produced by Australian companies.

Engaging the Finance Sector

The Department has been working with the finance sector to increase understanding of the potential value of sustainability issues to the long-term financial performance of companies. Much of this work has involved dialogue with the sector through the roundtables and publications.

Key activities have included:

- Three high level roundtables with the finance sector.
- Publications: *The Role of Australia's financial sector in sustainability; A Capital Idea: Realising value from environmental and social performance; The Materiality of Environmental Risk to Australia's Finance Sector; Corporate Sustainability – An Investor Perspective: The Mays Report.*
- Involvement in the United Nations Environment Programme Finance Initiative (UNEP FI).

Engaging with Business Education

Another approach the Department is taking to improving the sustainability awareness and skills of our corporate sector is through the inclusion of sustainability in the curricula of Australian business schools. Building on established examples of leading business education in North America and early adopters here in Australia, the Department, through its funding of the Australian Research Institute in Education for Sustainability (ARIES) at Macquarie University, is working with Australian business schools on how to teach sustainability in business education.

This work has two stages, the first of which is complete and the second still underway. The first project examined the current level of education about and for sustainability in Australian MBA courses and short courses directed at business professionals; identified best practice in Australia and benchmarked it against international standards; and recommended core areas to further integrate sustainability into MBA and short course programs. The final report about this project, completed in 2005, is [Education About and For Sustainability in Australian Business Schools](#).

The findings of the initial research identified key needs that must be addressed if Business Schools are to build capacity for sustainability in business and industry. To begin to address these needs, funding has been provided for a follow up project, involving ARIES working closely with five of Australia's leading business schools - Macquarie Graduate School of Management, the Australian Graduate School of Management, Melbourne Business School, the University of Technology Sydney Graduate School of Business and the University of Queensland Business School. The aim of the action research projects is to effect change for sustainability across the participating business schools within a period of two years. Pending progress of the study, in 2006 additional Business Schools may be invited to participate in the project.

Sustainability Data

The Department, and the Australian Government as a whole, plays a key role in providing corporations and the community with baseline sustainability data required to understand what our key challenges and opportunities are. In this vein, the National Pollutant Inventory receives substance emissions data from significant facilities and reports those emissions publicly, allowing both the community and our corporations to keep an eye on pollution. Major national reports such as the State of the Environment Report (next due out in 2006) and the Headline Sustainability

Indicators Report provide key sustainability data that can inform action at the scales of the individual company, the sector or the economy as a whole.

Frameworks for reporting - Global Reporting Initiative (GRI)

As with financial reporting, value is added to sustainability reporting when companies report under a common framework as reports can be easily compared and contrasted. There are a number of frameworks available for non-financial reporting. Over the past few years however it has become clear that the Global Reporting Initiative (GRI) is emerging as the most widely used international framework for reporting.

The 2005 KPMG International Survey of Corporate Responsibility Reporting found the GRI Guidelines are the most common tool used to decide report content and 40% of reporters world-wide mention the use of these guidelines in their sustainability reports.

Currently, over 700 organisations world-wide are identified as users of the GRI Guidelines for reporting, a dramatic increase over the approximately 200 listed in 2003. In Australia, the 2004 State of Sustainability Reporting survey showed that 40 companies were making use of the GRI guidelines.

In October 2006 the GRI will release the third generation of its reporting guidance, to be known as the G3 Guidelines. This version will be the product of extensive stakeholder engagement and structured feedback, including from corporations and public agencies in Australia. It is expected that G3 will improve the ability to compare the performance of companies within a sector against common GRI indicators, a development likely to lead to further use by market analysts of the data contained in corporate sustainability reports.

The GRI provides a comprehensive overall framework for sustainability reporting. It is also sufficiently flexible to allow for different types and sizes of organisations to report using the framework. For example, the GRI recently released a handbook for Small and Medium Enterprises (SMEs). This handbook is designed as a “beginner’s guide” with step by step instructions to enable SMEs to create valuable sustainability reports. The GRI has also released a guide for public sector organisations.

Sustainability in Government

The Department aims to improve the environmental performance of Australian Government departments and agencies. The Department works with all agencies across the Australian Government to provide advice, communication networks, and access to best practice environmental management techniques from around the world.

The Department has a key role in the following activities:

- assisting Government agencies to develop and introduce environmental management systems (EMS);
- encouraging the consideration of relevant environmental policies, programmes, costs and benefits in Australian Government purchasing by the provision of voluntary environmental purchasing tools;
- promoting public reporting on performance. Australian Government Departments and agencies are required to report on their sustainability performance as part of their Annual Reports. This reporting, mandated by S516A of the *Environment Protection and Biodiversity Conservation (EPBC) Act*, includes coverage of agency activities against the principles of ecologically sustainable development (ESD).

Some are also producing stand-alone Public Environment Reports (PER) or Triple Bottom Line (TBL) Reports.

Publication of the Department of the Environment and Heritage's Triple-Bottom-Line Report

The Department released its first triple bottom line (TBL) report in 2004: *Triple Bottom Line Report 2003-04: Our environmental, social and economic performance*. This forms part of the Department's commitment to continuously improve the sustainability of its operations. It is also consistent with the Department's position of encouraging other organisations to report.

In 2005, the Department will release its second TBL report, improving significantly the first report through having included stakeholder engagement as part of the reporting process, and expanding the scope of the GRI-based report to also include the on-ground environmental performance of our operations in Antarctica, in National Parks and the actions of our Supervising Scientist Division in and around uranium mining sites in the Northern Territory.

Other Australian Government reporting

The first Australian Government Department to produce a triple bottom line (TBL) report was the Department of Family and Community Services (FaCS), which has reported on its social, environmental and economic performance for 2002-03, 2003-04 and is currently working on their third TBL report for the 2004-05 financial year.

The experience of both DEH and of FaCS has been that the discipline of sustainability reporting applies pressures that improve key business systems and, via the setting of public goals for performance improvement and actions to meet these goals, has led to better sustainability outcomes (including reduced greenhouse emissions and improved resource use).

Additional non-financial reporting has come from:

- The Department of Defence, who produced their first Public Environment Report in 2003
- CSIRO, which has produced two Occupational Health, Safety and Environment reports for 2003 and 2004
- The Australian Nuclear Science and Technology Organisation (ANSTO), operator of the Lucas Heights nuclear reactor, who produced their first Corporate Social Responsibility report for 2003-04.

Recent survey results indicate that at least eleven Australian Government Departments and Agencies intend to produce non-financial reports on performance in coming years.

Other sustainability reporting in the public sector has come from government business enterprises and government owned corporations. Corporatised utilities and other government businesses are providing leading examples of sustainability management and reporting practice, examples relevant to both public and private sectors. There are also signs that Australian universities are beginning to realise the value of integrating sustainability management and reporting, with Monash University being a leader in producing several triple bottom line reports on its operations.

As part of developing the next phase of the Sustainability in Government programme, the Department of the Environment and Heritage will conduct public consultation in 2005-06 about opportunities to improve public sector sustainability management and reporting, including by incorporated entities such as government businesses.

Overseas Developments

There have been a number of significant developments in international activities regarding Corporate Responsibility and non-financial reporting. These include;

- A requirement by companies listed on the Johannesburg Stock Exchange to report on non-financial issues;
- South Africa, Denmark, France, Germany and Netherlands have some form of mandatory environmental reporting. In the Netherlands and Denmark, mandatory reporting relates to certain companies eg. only the larger polluters;
- The UK, Germany, Sweden require pension funds to disclose information on sustainability criteria in investment activities.