

BUSINESS MANAGEMENT

# Sustainability reporting in local government: systemic change or greenwash?

A research report prepared for CPA Australia (December 2007)



CPA  
AUSTRALIA



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First published 2008

CPA Australia Ltd  
ABN 64 008 392 452  
385 Bourke Street  
Melbourne Vic 3000  
Australia

ISBN 978-1-876874-40-7

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# About the authors

**Associate Professor Kathleen Herbohn** is a financial accountant within the UQ Business School at the University of Queensland. Kathleen's current research interests include sustainability reporting, accounting for agricultural assets and earnings management.

**Professor Andrew Griffiths** holds the Chair in Business Sustainability and Strategy at the UQ Business School. He undertakes work in the area of climate change and corporate strategy and runs the UQ Business School executive program in Corporate Sustainability.

We gratefully acknowledge the financial support provided by a 2005 CPA Australia public sector grant. We are also indebted to Ms Martina Linnenluecke and Mr Alex Stathakiz for their research assistance with the project.

# Executive summary

Within Australia, there is a general trend towards governments and in particular, local councils implementing triple bottom line (TBL) or other forms of sustainability reporting. However, recent surveys of the state of sustainability reporting in the public sector have led to the conclusion that it remains in its infancy when compared to the uptake, forms and practice in the private sector. There is also debate over the outcomes of this reporting trend. On the one hand, the initiatives of councils may reflect a genuine attempt to achieve sustainable development in local communities through systemic change of management practices. On the other hand, an espoused commitment to sustainability reporting may be part of a well-planned strategy to manage stakeholder groups and gain community legitimacy (i.e. 'greenwash').

The aim of this study is to investigate the progress of local government toward adoption of sustainability reporting frameworks. Key to this investigation is identification of:

- motivating factors;
- impediments;
- usefulness of existing sustainability reporting guidelines;
- organisational fit;
- perceived actual benefits obtained to date and likely benefits in the future; and
- the role of the accounting profession in providing leadership in assisting local councils progress toward sustainability reporting.

A case study methodology is used. Three local councils – two metropolitan and one regional – participated in the study.<sup>1</sup> The selection process required that the case study councils had a commitment to sustainability reporting. The main sources of data are interviews, documentation and direct observation, with the most persuasive data being semi-structured interviews with the employees of each council involved with sustainability reporting. A condition of participation by the three local councils was that their organisations remain anonymous. Any identifying material is omitted from the report and they are described as Councils A, B and C.

The case study councils had a range of reporting maturities encompassing planning to implement some form of sustainability reporting within 18 months, publishing a first sustainability report (based on the Global Reporting Initiative (GRI) reporting guidelines plus the Public Agency Sector Supplement), and the publication of a fourth sustainability report (based on a state of the environment reporting approach). All of the local councils had a prior history of considering some aspects of sustainability – whether in the form of published TBL reports, state of the environment reports or the inclusion of three TBL columns in their corporate plans and operational plans. These experiences were likely to have contributed to managers' perception that sustainability reporting is very much an evolutionary process towards 'best practice'. Another common characteristic is that the reporting initiatives were managed by teams drawn from across organisational divisions. Key practical issues that had arisen for the councils included:

- establishing the extent of the councils' accountability in order to place a boundary on the reporting (i.e. accountability for internal performance versus accountability for city-wide outcomes);
- data availability to report against key performance indicators (KPIs), with particular emphasis on cost-effective data collection processes that are capable of repetition (to allow performance trends to be reported); and
- the difficulty of developing community KPIs.

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<sup>1</sup> The initial research plan was to include two metropolitan councils, two regional councils and two rural councils. The *Local Government Reform Commission's Report* (2007) was published prior to the commencement of data collection. Due to the recommended amalgamations of many regional and rural councils, it was not possible to secure the participation of these councils in the study. Additionally, discussion with the Queensland division of the Local Government Association indicated that they were unaware of any rural council involved in a sustainability reporting initiative.

## Executive summary

Interestingly, only one of the three councils had sought to engage external stakeholders in the reporting process. A common perception among managers was that stakeholders have limited interest in the reporting initiatives. The issue of external verification of reported performance data has not been given serious consideration for a variety of reasons including the early stage of the reporting initiatives, the possibly political nature of verification, and the extensive use of data from reliable external sources such as the Australian Bureau of Statistics and other government agencies.

Views on the usefulness of existing sustainability reporting guidelines are mixed. One council had found the GRI guidelines plus supplements promoted through the Australian-based Centre for Public Agency Sustainability Reporting critical to their initiative. Another council had engaged with the International Council for Local Environmental Initiatives (ICLEI) to assess their readiness for sustainability reporting, while the third council had established its own research unit to develop sustainability reporting, finding the GRI of limited value. In all cases, the councils also used the reports produced by other local government entities to inform their efforts.

Little comment was provided on the costs of sustainability reporting. There was generally a lack of understanding as to the costs associated with measuring sustainability. This was most likely due to the early stage of reporting, or the passage of time since the start-up costs had been incurred. The perceived benefits from reporting include:

- it demonstrates the council's commitment to sustainability both in Australia and globally (i.e. the council is seen to be doing the right thing);
- it assists in developing a leadership role on sustainability for councils in the community;
- it provides a feedback loop on sustainability performance;
- it improves internal decision-making by facilitating explicit consideration of social, environmental/ecological and economic sustainability issues;
- it assists councils in delivering on city-wide outcomes arising from strategic commitments made by top management;
- it raises internal awareness of sustainability issues; and
- it allows information to be presented in a more useful format to stakeholders.

A very strong theme across all councils was that the sustainability reporting initiatives are internally motivated, with little pressure felt from stakeholders to undertake the reporting. The key motivating factor in all cases is top management's support for sustainability reporting. Also perceived to be motivating the reporting initiatives are:

- concerns with climate change (e.g. drought, rising temperatures) and growing populations;
- high levels of interest in sustainability within councils;
- the current political and community environment which is conducive to sustainability reporting;
- that councils are the arm of government most suited to dealing with sustainability issues; and
- that sustainability reporting is a less costly alternative to other holistic reporting such as the balanced scorecard approach.

Interestingly, in all cases managers felt no pressure from external stakeholder groups to undertake the reporting.

Apart from the implementation difficulties listed earlier, managers identified the following impediments to the sustainability reporting initiatives of their councils:

- organisational inertia stemming from the nature of large political organisations providing community services;
- compartmentalised organisational structures (likened to silos) with little integration;
- lack of a common language shared by managers within councils;
- resistance to any additional data collection by managers facing resource and time constraints;
- managers' expectations (lack thereof) of the role of sustainability reporting;
- lack of community understanding of sustainability;
- the challenge of reporting critically on councils' performance; and
- the challenge of making sustainability/TBL reporting meaningful.

In summary, the study reveals a genuine motivation to undertake sustainability reporting as a tool for systemic change. Thus, it seems that the reporting initiatives go beyond a 'greenwash' public relations exercise. However, the extent of the systemic change sought is not clear. For example, annual managerial appraisals and project assessments do not incorporate sustainability targets in any of the three councils at present. Further, the pace of such change is likely to be slow with all councils viewing sustainability reporting as an evolutionary process.

To date, the accounting professional bodies have not played a significant role in building the capacity of local government to adopt sustainability reporting practices. For example, none of the sustainability teams from the case study councils had an accounting background. Also, none of the interviewees made any reference to any research undertaken or support provided by the accounting profession in Australia to assist public sector sustainability reporting. It would appear that there is great scope for the professional accounting bodies to contribute to this under-developed area of public sector accounting. Interestingly, several interviewees argued in support of voluntary reporting supported by clear guidelines rather than mandatory reporting. Their reasoning was that flexibility is needed to comprehensively report on individual council's activities. Also, they argued that allowing latitude prevents the exercise from becoming another compliance activity. The issue of voluntary versus mandatory reporting may become irrelevant if the introduction of 'cap and trade' carbon emissions schemes results in all organisations having to 'report' their greenhouse gas emissions.

# Part 1: Background to the study

## A. General overview of local government operations

Local government began in Australia in 1840 with the formation of the Adelaide Corporation. It continued to grow and develop until the time of Federation in 1901. At this time, agreement was reached under the Constitution that local government would not become a Commonwealth responsibility. Thus, it is a state responsibility, with each state and the Northern Territory providing the legal and regulatory frameworks for council operation. In Queensland, the legal basis for the existence of a system of local governance is provided by sections 70-78 of the *Constitution Act (2001)*. The Commonwealth government is only indirectly involved in local governance through the provision of funds in accordance with the *Local Government (Financial Assistance) Act 1995*.

The roles, functions and responsibilities of councils and the services they deliver differ between states due to the unique legislative and regulatory frameworks in operation. However, in all states, the role of local government has evolved from the 'core' local government services such as 'roads, rates and rubbish' to encompass broader roles in governance, advocacy, service delivery, planning and community development, and regulation. Local governments now have the authority to determine service provision according to local needs and the requirements of various state local government Acts (Local Government National Report, 2006). Examples of local government functions include engineering, recreation, health, community services, building, planning and development approval, administration, cultural/educational and water and sewerage (in some states).

The sources of revenue for local government differ between states. In Queensland, local governing bodies, on average, raise 87 per cent of their annual revenue from their own sources (Local Government National Report, 2006). For example, in 2003/04 total revenue was \$5,444,000, of which approximately 40 per cent was sourced from the sale of goods and services (i.e. provision of water and sewerage services), 27.8 per cent from taxation (i.e. rates), and 20.8 per cent from other sources. The remaining revenues were sourced from grants and subsidies. Of the total revenues raised in 2003/04, an amount of \$4,599,000 was expended on four major items – housing and community amenities (32.5%), transport and communication (25.5%), general public services (18.3%) and recreation and culture (10.7%).

There are currently 157 local government bodies in Queensland, of which 125 (80%) are regional and rural, and 32 (20%) are urban. However, far-reaching changes are likely to impact on these councils within the next six months. The State Government Department of Local, Government, Planning, Sport and Recreation commissioned a report on local government reform that was completed in April 2007. The impetus for reform came from a misalignment between local government boundaries, most of which have been in existence for more than 100 years, and shifts in population, changing community expectations and developments in communication and transport since the time the boundaries were developed. The recommendations of the Local Government Reform Commission's Report (2007) include:

- consolidation of councils through amalgamation from 157 to 73;
- formation of the Torres Strait Island Regional Council and the Northern Peninsular Area Regional Council involving Aboriginal and Torres Strait Island Councils;
- changing the electoral arrangements of councils to conduct their elections on 15 March 2008 on an undivided basis;
- changing the electoral composition of councils to reduce the number of councillors in Queensland from 1250 to 526; and
- regular reviews of the financial sustainability of Queensland councils.

## B. Sustainability reporting in local government

### Awareness of sustainability reporting

There is a general trend towards governments and in particular, councils implementing triple bottom line (TBL) or sustainability reporting (Keating, 2002, Jigsaw Services, 2004). This issue is likely to accelerate as greenhouse gas reporting may impact on all levels of government. Several councils such as the City of Melbourne (Vic), Lake Macquarie City Council (NSW), Onkaparinga City Council (SA) and Manningham City Council (Vic) already undertake TBL/ sustainability reporting on an annual basis (ICLEI, 2003). A large number of other councils have also signalled their intention to develop sustainability reporting. However, many are yet to undertake this reporting or are only in the early stages of development (CPA Australia *Sustainability Reporting, 2005*). The focus on sustainability that is part of a TBL reporting framework – a framework for measuring and reporting organisational performance against economic, social and environmental parameters (Elkington, 1997) – has led to TBL also being referred to as sustainability reporting, with the two terms used interchangeably (Henderson, Peirson and Herbohn, 2008; Dunphy, Griffiths and Benn, 2003).

There are two competing schools of thought on the growing awareness of sustainability reporting in local government. On the one hand, the initiatives of councils may reflect a genuine attempt to achieve sustainable development in local communities through systemic change of management practices. The activities of local government lend themselves to a sustainability reporting framework. They incorporate economic considerations such as the management of revenue, operating and capital costs, as well as the provision of communities with both social and environmental services such as recreation, health services, engineering, community services, planning and development. Within this context, sustainability frameworks can be incorporated into planning, reporting and decision-making frameworks to change management practices of councils to achieve measurable increased social, environmental and economic performance (Barrett, 2004; Jigsaw, 2004; ICLEI, 2003; Keating, 2002).

On the other hand, an espoused commitment to sustainability reporting may be part of a well-planned strategy to manage stakeholder groups and gain community legitimacy (i.e. 'greenwash'). This scenario is plausible in the light of increasing demands from stakeholders for greater transparency and accountability within council. In this context, the sustainability reporting initiatives can be structured to attain good reporting scores from external stakeholders, but would have little impact on internal planning and decision-making processes and thus the sustainability of local communities.

### Current practice

Recent surveys of the state of sustainability reporting in the public sector have led to the conclusion that:

'practice of sustainability reporting by the public sector is, arguably, in its infancy particularly when compared to the uptake, forms and practice in the private sector' (Leeson, Iver and Dickinson, 2005, p56).

A global review of public sector reporting practice conducted for the Global Reporting Initiative Secretariat by Kubo (2004) reveals that, on average, sustainability reports provide incomplete coverage of operational impacts; there is no common framework to prepare reports or to link various types of information found in the reports; and there are no reporting styles geared specifically to assist in managing and integrating sustainability performance into organisations' regular operations. Another global review of public sector sustainability reporting commissioned by the Australian Environmental Protection Agency (EPA) finds similar incomplete reporting.<sup>2</sup> A range of elements tend to be included within reports, with the most common being performance indicators (65% of respondents). However, these indicators are reported in isolation, and little information on trends and future targets are disclosed. Additionally, levels of verification and assurance of reports are low. A similar picture of public sector sustainability reporting emerges from the Sustainability Reporting Project (2005) commissioned by CPA Australia. A review of a stratified random sample of Australian councils shows that there is little consistency in the information presented in the reports, with only a few councils actually reporting on their sustainability performance and confining their disclosures primarily to statements of policy.

<sup>2</sup> The EPA commissioned the Centre for Public Agency Sustainability Reporting Sector to conduct a global survey of public sector organisations. Responses were received from Australia, New Zealand, Europe, North America and Asia, but none was received from Africa or South America (Leeson, Ivers and Dickinson, 2006).

## Background to the study

In essence, there are few reporting guidelines to assist local government in undertaking sustainability reporting. Notable developments include the establishment of the International Council for Local Environmental Initiatives (ICLEI) in 1990 at its inaugural conference held at the United Nations in New York. The ICLEI is an international association of local governments and national and regional local government organisations that have made a commitment to sustainable development. The association provides technical consulting, training and information services to build capacity. To assist local government in undertaking sustainability reports, the ICLEI 'Sustainability Management Resources' provides numerous case studies, a TBL reporting kit, an ecobudget guide and an environmental management system training kit.

Another initiative on local government sustainability reporting was launched in 2005 by the Global Reporting Initiative (GRI)<sup>3</sup> in the form of the Public Agency Sector Supplement (PASS). This industry-specific supplement is to be used in conjunction with the Sustainability Reporting Guidelines (hereafter referred to as the Guidelines). The PASS extends the GRI framework by including not only internal performance which is the focus of corporate-based reporting, but also public policy-based disclosures which represents a core business for public agencies. However, public sector organisations such as councils are likely to report community-based data and the GRI currently does not provide direction on this style of reporting (Leeson, et al, 2006).

The not-for-profit Centre for Public Agency Sustainability Reporting was launched simultaneously with PASS. The centre's aim is to improve the sustainability performance of public agency through the practice of reporting. It is a collaboration of the GRI, the ICLEI – Local Governments for Sustainability, the City of Melbourne and the Victorian government. One of the centre's first projects is the Australia New Zealand Alliance which provides a communication network that allows public agencies, including local councils,<sup>4</sup> to share experience and knowledge to develop best practice sustainability reporting, and to provide a set of recommendations to the GRI to assist in improving public sector materials such as the PASS.

Although not occurring in Australia, sustainability reporting by local government organisations in countries such as Italy has grown out of their Local Agenda 21 activities. At the 1992 Rio Earth Summit, local authorities were mandated to set up an action plan for sustainable development known as Local Agenda 21 implementation.

More generally, local councils may draw from the work of AccountAbility<sup>5</sup> on the AA1000 series which provides standards for sustainability, non-financial auditing and assurance, and stakeholder engagement. These standards include the AA1000 Assurance Standard (assurance of performance), AA1000 Standard for Stakeholder Engagement, and the Certified Sustainability Assurance Practitioners Program.

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3 The GRI was conceived in 1997 as an independent institution based in the Netherlands that seeks to facilitate a multi-stakeholder process to develop and disseminate globally applicable sustainability reporting guidelines. These guidelines are for voluntary use by any type of organisation. Their aim is to assist reporting organisations and their stakeholders in articulating and understanding contributions of the reporting organisations to sustainable development. The most recent version of the guidelines (G3) was issued in October 2006.

4 The alliance is a group of 17 public agencies (local, state and federal) across Australia and New Zealand. Local government agencies involved include Brisbane City Councils (Qld), City of Gosnells (WA), City of Melbourne (VIC), Penrith City Council (NSW) and Waiakere City Council (NZ).

5 AccountAbility was launched in 1996 as the Institute for Social and Ethical AccountAbility with the purpose of promoting accountability for sustainable development. Initially, it focused on professionalising the practice of social auditing and reporting, and since then it has evolved to provide advice and guidance, as well as opportunities for dialogue and information exchange to business, non-profit organisations and government in the development of their approach to accountability.

### C. Objective of the study

The objective of this study is to identify outcomes from the progression of local government toward adoption of sustainability reporting frameworks. Possible outcomes range from sustainability reporting as part of a 'greenwash' public relations tool, to sustainability reporting as a tool to introduce systemic change to achieve sustainability within local government. Key to this investigation is identification of:

- motivating factors (e.g. commitment of leadership within the organisation, external stakeholder pressure, government funding for projects, concerns with sustainability);
- impediments (e.g. lack of resources such as a full-time staff appointed to the sustainability project, data availability, inability of existing information systems to support it, competing council agendas);
- usefulness of existing sustainability reporting guidelines (e.g. GRI guidelines; ICLEI TBL toolkit);
- organisational fit (e.g. role within annual reporting process, role within performance appraisal of managers and projects, role within strategy development);
- perceived benefits and costs obtained to date and likely benefits and costs in the future; and
- the role of the accounting profession in providing leadership in assisting local government progress toward sustainability reporting.

## D. Methodology

A case study methodology is used. Three local councils – two metropolitan and one regional – participated in the study.<sup>6</sup> The selection process developed as follows. A contact person from the Queensland division of the Local Government Association (LGA) was asked to provide a list of six local councils that they considered had a commitment to progression toward sustainability reporting. Between the receipt of this list and the commencement of data collection, the Queensland State Government announced the likely council amalgamation reforms. Four of the six identified councils were likely to be impacted by the proposed reforms which made data collection problematic. To overcome this difficulty, the researchers asked participants from the two councils still able to participate in the study about their knowledge of other local councils with a commitment to sustainability reporting. The researchers also relied upon their own contacts in local government to identify other likely councils for inclusion in the study. This process yielded another council willing to participate in the study.

A condition of participation by the three local councils was that their organisations remain anonymous, and so any identifying material is omitted from the report. The case study councils have a commitment to sustainability that manifests in different reporting that include sustainability reporting against selected GRI indicators, state of the environment reporting, and a balanced scorecard that is evolving into sustainability reporting.

The main sources of data are interviews, documentation and direct observation. The most persuasive data are semi-structured interviews with the employees of each council involved with sustainability reporting. In each case study, care was taken to ensure that the leaders of the various reporting initiatives were interviewed. The interviews follow a cascading process, where an interviewee may provide the name and contact details of other people who would be useful to interview, who might in turn provide leads on other potential contacts. Where possible, the interviews were conducted at the offices of each council. However, several telephone interviews were conducted at the request of participants. With the permission of interviewees, each interview is tape-recorded and later transcribed verbatim. Table 1 provides summary details of the interviews conducted per case. On average, the interviews ran for 38.67 minutes per case. Internal and external documents were also collected to form part of the case study database. Examples include internal memos, consultancy reports, annual reports and any information available from public web sites.

The semi-structured interviews were designed to provide background information about the interviewees, as well as to identify perceptions of the current and expected future outcomes of the sustainability reporting initiatives. Information was also collected on the factors that had contributed to the outcomes including impediments, motivating factors, the usefulness of existing guidelines of sustainability reporting and any actions taken by the professional accounting bodies in Australia. The interview protocol is contained in the Appendix.

**Table 1. Descriptive data on interviews conducted for each of the local council case studies**

Case study	Number of interviewees	Average duration (mins)	Range (mins)	Type of council
Council A	4 <sup>1</sup>	49.2	37.3-65.1	Metropolitan
Council B	4	46.2	26.1-77.3	Metropolitan
Council C	2	20.6	23.2-16.0	Regional

1. One interviewee withdrew from the study after their interview was conducted and requested that their interview transcript be destroyed.

<sup>6</sup> The initial research plan was to include two regional councils and two rural councils. The *Local Government Reform Commission's Report (2007)* was published prior to the commencement of data collection. Due to the recommended amalgamations of many regional and rural councils, it was not possible to secure the participation of these councils in the study. Additionally, discussion with the Queensland division of the Local Government Association indicated that they were unaware of any rural council involved in a sustainability reporting initiative.

The analytical protocol recommended by Miles and Huberman (1994) is used. It comprises three linked sub-processes of data reduction, data display and conclusion drawing/verification. Data reduction is undertaken through descriptive and pattern coding of interview transcripts and non-interview data by the researchers. A descriptive coding scheme was developed prior to data collection and is based around the issues of interest (i.e. motivations, impediments, benefits, costs, organisational fit, usefulness of existing guidelines, role of the accounting profession). A list of key words was maintained during descriptive coding. For example, a motivating factor can be identified by the use of words or phrases such as 'the driving force', 'the reason for reporting', 'the critical issue', and 'the key drivers'. As the descriptive coding progressed, a pattern or theme coding scheme was developed based on the data. Patterns that emerged included 'leadership role in reporting', 'personal commitment to sustainability', and 'internally motivated'. Throughout the coding process, researchers held regular meetings to compare and contrast perceptions of themes emerging from the analysis of each case study and to identify any issues requiring follow-up.

Data displays were developed from the coding in the form of matrices ordered around descriptive codes and patterns that emerged from the analysis. The development of data displays allowed conclusions to be drawn. Overall, the process of coding and the development of data displays was an iterative process.

## E. Case study results

The results of the three case studies are presented separately for each council and concluding comments are contained in section F. Council A is a metropolitan-based council and is in its first year of sustainability reporting against the GRI guidelines. Council B is also a metropolitan-based council and produces a 'state of the environment' style sustainability report for city-wide outcomes. It is in its fourth reporting cycle. Council C is a regional council and its efforts with a balanced scorecard system have led to a planned implementation of sustainability reporting. At present, it is consulting with the ICLEI but the council's amalgamation with another regional council in early 2008 has caused uncertainty about the future of its reporting initiative.

### E.1 Case study No 1 – Local Council A

#### Overview of sustainability reporting initiative

Council A has had approximately two decades' experience with some form of reporting for environmental and/or social aspects of its operations. In the 1990s it undertook state of the environment reporting for approximately five years and for three years it attempted disclosure under triple bottom line headings in its 2001, 2002 and 2003 annual reports. In fact, it was awarded the 2001 Queensland Public Sector – Merit Award and the 2001 Australasian Reporting Award – Bronze for its reporting efforts. Managers were critical of these past reporting attempts and sought to distance their new sustainability reporting initiative from them. To illustrate, one manager commented that state of the environment reports provided no connection between the reporting framework and internal planning within the council:

'So what state of the environment reporting was, was a bunch of people in the organisation saying, "You need to know about this stuff and reporting against it." ... We are now saying, "Hey, a lot of the things you are reporting against are actually now things we are trying to plan for." '

Similarly, another manager suggested that the previous triple bottom line reporting attempt had achieved little because there no underlying framework:

'... I would argue that this [the 2003 TBL reporting] is just a bunch of achievements under environmental, social and economic headings. I would think that we actually were starting to go backwards [with our reporting] as we went though. We got to 2004 and did nothing and have done nothing since.'

The 2007 annual reporting period is the first period in which Council A will undertake sustainability reporting. Manager interviewees typically described the new process as giving rise to a separate sustainability report on an annual basis. However, when pressed it became apparent that this report will be included as part of the annual report. One manager describes the output as follows:

'The annual report this year will have three components. It will be the financial statements, the program reports and the sustainability report. On the web it will look like three separate documents. However, they are part of the annual report.'

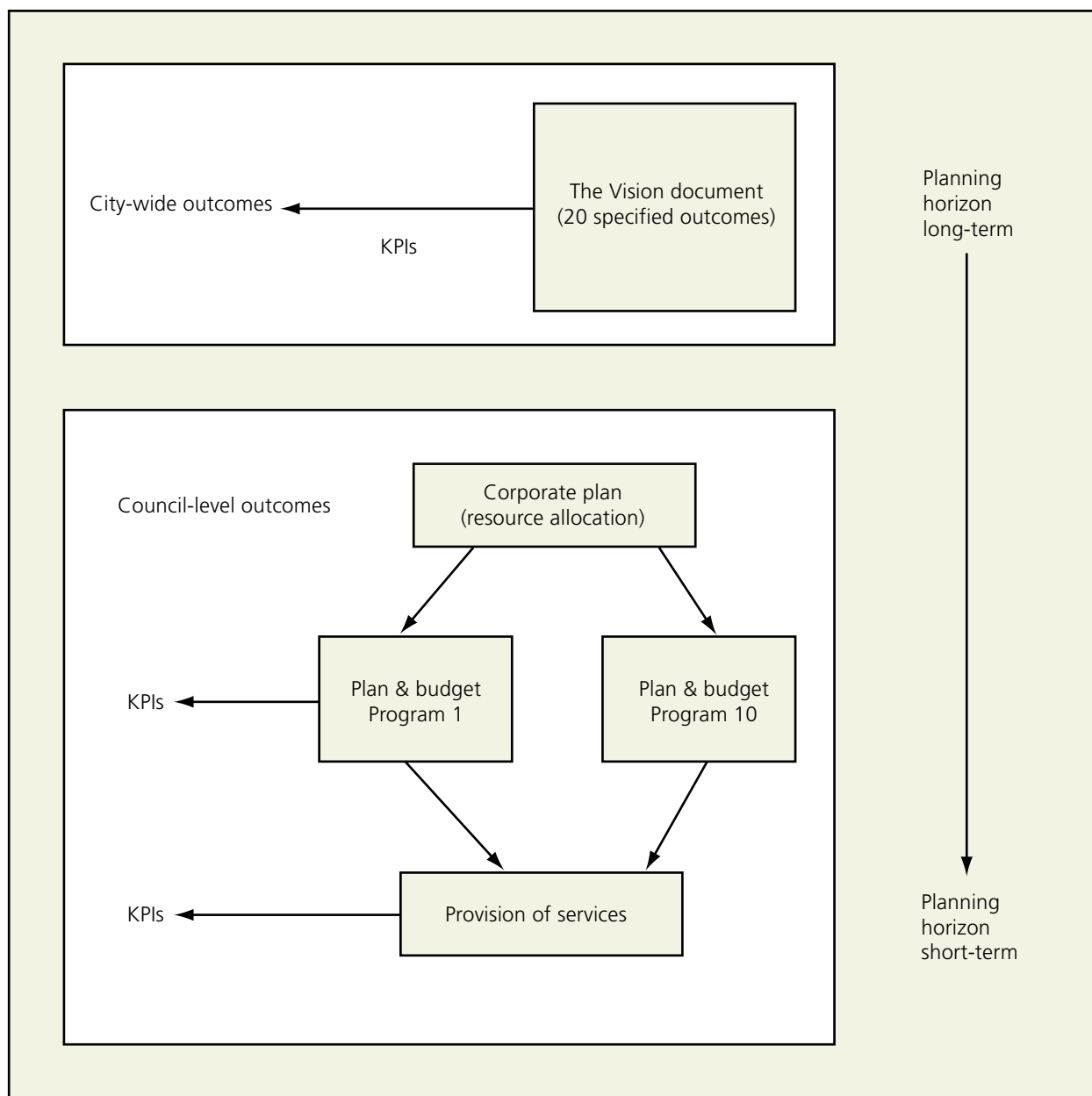
The reporting is informed by the GRI guidelines plus the Public Agency Sector Supplement (PASS). To assist, Council A became a member of the Australia New Zealand Alliance in 2005 and some of the manager interviewees have been attending workshops run by the Centre for Public Agency Sustainability Reporting. At the time this study was completed the sustainability report was still in draft form and yet to be published. However, the format of the 2007 sustainability report was described by managers as a checklist derived from GRI indicators plus the GRI PASS. The GRI-based checklist is located at the back of the annual report and provides a cross-reference as to where the different GRI elements are addressed in the report.

Currently, Council A collects performance data at a council level and at a city-wide level. Figure 1 provides an overview of the current data collection process. From Figure 1, the council's operations currently encompass 10 programs aimed to provide various services. Each program is assigned an annual budget and key performance indicators (KPIs) are reported at regular intervals. The council's corporate plan sits above these programs and is used to assign resources

to each of the programs. Recently, Council A committed to a long-term vision for the city, hereafter referred to as the Vision document. This document identifies eight themes (e.g. clean and green city, active and healthy city, vibrant and creative city) for which 20 city-wide outcomes are sought (e.g. clean air, inclusive caring communities, healthy economy). Council A has set itself the ambitious task of contributing toward the specified city-wide outcomes through its activities. To ensure progress toward these outcomes, the decision has been taken for the council to report KPIs for each of the outcomes. For the first PASS at sustainability reporting, the KPIs from the 10 programs and from city-wide outcomes as per the Vision document are included in the 2007 annual report, cross-referenced against the GRI indicators. As such, the 2007 report is viewed as the first step in an evolutionary process spanning three years, and the 2007 annual report (including the sustainability section) has not been prepared with the GRI indicators in mind. One manager explained:

'At this stage, we did not prepare this report with a lot of this in mind [points to the GRI handbook]. All we have done is gone through and said, "Of the information that we have in this report, this is where it is located." So if you look through the indicators, you will see a lot of gaps there.'

**Figure 1. Performance data collection processes of Council A**



## The study

Over the next two reporting periods (2008 and 2009), members of the sustainability reporting team plan to evaluate how relevant the missing GRI indicators are to Council A, and whether any new indicators need to be added. Managers perceived that at present the council has data available on some environmental KPIs and economic KPIs, but that they had less social or community data. As one manager commented on the council's current measurement of KPIs:

'In some areas, yes it is patchy. We are probably very good at measuring things that are of high importance to us like water use and green house gas emissions. We've been doing these things for a number of years . . . other areas like some of the community data, we probably have less confidence in.'

Key to the evaluation of the gaps in reporting against the GRI indicators is an assessment of the feasibility of collecting the new performance data – that is, cost-effectiveness and the ability to replicate the collection on a regular basis. One manager explains the types of decisions to be made:

'I think you have to make a judgement call about how much it costs to get a piece of data . . . and also how easy it is to replicate that each year. You know that this is a very important piece of data that we need to inform our decisions and it might cost \$100,000 to get. You might not be able to get it every year, but because it is important – you know we are spending \$2,000,000 on this program and we need to make sure we spend it wisely – we will spend \$100,000 every second year collecting the data.'

The sustainability report is not subject to audit or any form of verification, although all interviewees alluded to the fact that this was a good idea and would likely occur some time in the future. Managers suggested that verification is currently not appropriate because the sustainability reporting initiative is in its infancy and 2007 is almost a trial run using existing data and processes of the council. Also, the issue of assurance requires strategic thought. The nature and activities of the council are inherently political. If the council voluntarily undertook assurance of its sustainability information, it could lead to what are in essence political questions about planned delivery of services.

Interestingly, Council A is not currently engaged with stakeholders in its sustainability reporting initiative. Managers who were interviewed were not aware of any particularly important stakeholder groups, and one manager commented that there would likely be internal disagreement about who were stakeholders of the council. However, several managers did indicate that they are aware of the GRI emphasis on stakeholder engagement and this was another possibility to be pursued as the reporting initiative evolved.

### Organisational fit of sustainability reporting

An overview of the organisational structure of Council A is shown in Figure 2. The sustainability reporting initiative spanned three organisational sub-units – strategic planning, city policy and strategy, and corporate services. Interviewees were drawn from all of these sub-units. Early in the case study it was not clear with whom or with what division ultimate responsibility for sustainability reporting rests. Instead, it appeared to be a team effort with no distinguishable leader. There is also an apparent lack of internal awareness of the sustainability reporting initiative and where the team responsible is located. To illustrate, initial contact was made with the call centre of Council A regarding the study and after much discussion the researcher was referred to the orphanage, and then the creative communities divisions. Two further attempts were made to track down the sustainability reporting team, and ultimately the researchers had to rely on personal contacts within the council and another government agency to locate all council employees involved with sustainability reporting.

The sustainability reporting initiative is at an early stage of development. As such, it currently requires no new data collection and has resulted in no new information systems. There is no integration of data since KPIs are collected separately for each program, and general financial data for the whole of council is collected by the corporate services division. As one manager commented in response to a question on whether there was any integration between the financial reporting area and the sustainability area:

'No, the financial stuff is done in the financial area, then we would also have economic data which comes from another part of the organisation. So in terms of the coordination, I would not say that it is well done yet.'

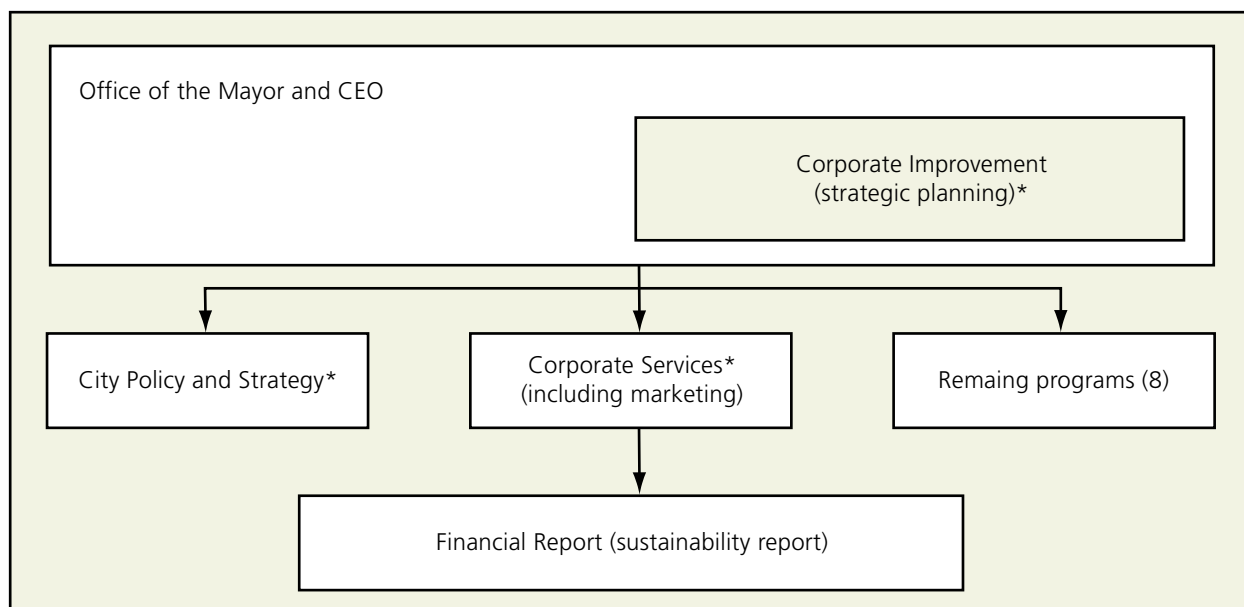
Additionally, sustainability reporting is not incorporated into managers' annual performance appraisals or into project appraisals. However, all manager interviewees stressed that a key element of their strategy was to embed the sustainability reporting into the organisation. One manager explained:

'The trick is for us to embed it [sustainability reporting] into the processes of the council, then it does not become something that we can chop off if we so desire. So that is why we are really keen to have it as part of the annual reporting process.'

The managers acknowledged that in order to achieve this they would be in competition with other managers with competing priorities. An additional pressure was that the reporting occurs only once per year. A manager described the situation:

'You tend to get one opportunity a year . . . So you are probably looking at three or four cycles to get the concept road-tested, piloted, put it in place across the organisation and then do the number of cycles that are necessary to institutionalise it. In the face of, frankly, a number of other priorities that other people just like me, would argue are just as important as the things that I am trying to do.'

**Figure 2. Organisational structure of Council A**



\* Interviewees were drawn from these organisational sub-units.

### Usefulness of existing reporting guidelines

The GRI guidelines and PASS were identified by all manager interviewees as critical to their ability to undertake sustainability reporting. Of particular importance is the global profile of the GRI guidelines. One manager explains:

'It gives us on the one hand an international benchmarking kind of capability, a globally used instrument to report against so that [name of city] can compare itself with other cities, but also there is evidence of commitment to sustainability in a language that other people can understand.'

The Centre for Public Sector Agency Reporting was also identified as being of great benefit because it provided a communication network that allowed Council A to learn from the practical experiences of other public sector organisations attempting sustainability reporting.

## The study

Another important influence on sustainability reporting is the activities of other councils identified as leaders in sustainability. In particular, all managers compared the efforts of Council A to the reporting of the City of Melbourne as well as to smaller councils such as the South Australian Onkaparinga Council.

### Role of the accounting profession

None of the sustainability team had an accounting background. Also, none of the interviewees made any reference to any research undertaken or support provided by the accounting profession in Australia to assist public sector sustainability reporting.

### Perceived costs and benefits of sustainability reporting

The sustainability reporting initiative of Council A has only been trialled for one year using existing staff resources, data sources and information systems. As such, the costs to date have been minimal.

When managers were asked about the benefits from sustainability reporting, several themes emerged. They are summarised in Table 2. The two benefits about which all interviewees spoke the most was the ability to demonstrate Council A's commitment to sustainability both in Australia and globally, while providing feedback on its internal performance. For example, a manager explained the importance of undertaking sustainability reporting as follows:

'It has a dual role of (a) demonstrating the council's commitment to sustainability and giving people a bit of flavour of here are the things that are important to [name of city] and here is how we are tracking toward them, but also (b) as a feedback loop for, OK, there are the important things – are they getting worse or better? If they are worse then we need to do something about it.'

Managers also identified that sustainability reporting would provide a vehicle to achieve the ambitious city-wide outcomes specified in the Vision document because it would assist in tracking progress with and against these outcomes. A typical commentary on this is:

'So the Vision document is pretty much a sustainability blueprint for [name of city] across the triple bottom line. The strategic planning unit is pretty much seeing the sustainability reporting as a way of tracking progress with the vision document as well as informing about performance against it.'

Additional benefits from sustainability reporting included its use as a strategy within the council to ensure what was described as evidence-based decision-making – that is, each decision incorporates the consequences of the proposed actions for the sustainability of both the council and the city. Related to this was an enhanced ability to raise internal awareness of sustainability issues and to embed sustainability considerations in the council's systems. Most likely because of the nature of local government – political organisations with a focus on delivering community services – sustainability reporting was also perceived to provide Council A with the opportunity to provide the community with leadership. That is, by setting an example with the resources used and the emissions created.

Additional benefits identified by one manager interviewee included the use of sustainability information in an advocacy role lobbying state and federal governments on social or environmental issues; and allowing the provision of sustainability performance data in a more informative package for stakeholders and the general public.

**Table 2. Perceived benefits of sustainability reporting identified by manager interviewees from Council A**

Benefit	Number of managers
Demonstrates Council A's commitment to sustainability both in Australia and globally (i.e. 'doing the right thing')	3
Provides a feedback loop on sustainability performance	3
Vehicle to achieve city-wide outcomes in the Vision document	3
Strategic investment to increase the extent to which evidence-based decisions penetrate the council	2
Raise internal awareness of sustainability issues	2
Provide the community with leadership in the area of sustainability	2
Use the sustainability information in an advocacy role	1
Presentation of information in a more useful format for stakeholders	1

### Motivating factors

The reporting initiative was strongly internally motivated. It was clear that little external pressure had been felt to undertake sustainability reporting, and all managers perceived that Council A had adopted an active strategic posture toward sustainability.<sup>7</sup> In the words of one manager:

'Historically I would say community interest in performance reporting has been pretty much selective . . .

Do we feel any particular pull from the community to be reporting? Probably no.'

Table 3 summarises the motivating factors for sustainability reporting. The key driver for the reporting is what a manager described as 'institutional commitment' from both the top and the bottom of the organisation. Commitment from the top originated from the mayor and this was perceived to be critical in a large organisation with multiple competing priorities. A manager explains:

'[Name of mayor] was a climate change sceptic when first joining the council, but has since turned around. So that has probably been the most significant thing that has happened – the ultimate decision-maker has now a personal commitment to sustainability and that has been fairly critical.'

In particular, the mayor had driven two initiatives through council – the Vision document and a 2005 Sustainability Policy<sup>8</sup> – that require some form of supporting sustainability reporting framework. Thus, sustainability and by default an interest in sustainability reporting is presently high on the political agenda of the council. Managers also perceived that there was a growing commitment to achieving sustainability from the bottom to the top of the council.

On average, the interviewees rated general interest in sustainability issues within the council as 5.3 on a scale of 1 (very low interest) to 7 (very high interest).

7 All manager interviewees selected the descriptor 'active' rather than 'passive' to describe Council A's strategic posture toward sustainability issues.

8 The Sustainability Policy was introduced to allow the city to become a clean and green city that is smart, prosperous, accessible, inclusive, creative and healthy, and leads the region by example by 2010. In essence, it states that sustainability is a principle to influence decisions to maintain and enhance the quality of life now and in the future. It requires an integrated consideration of economic, environmental and community factors.

**Table 3. Motivating factors for Council A's sustainability reporting initiative**

Motivating factor	Number of managers
Institutional commitment (from top and bottom levels of the organisation)	3
Concerns with climate change and the increased resource needs of growing a population	2
Current political environment	2

A second motivating factor identified by managers was a general concern with climate change and a growing population placing stress on limited natural resources. It was argued that sustainability reporting allows organisations such as Council A to become more proactive in the sustainable management of social, environmental and economic resources. One manager explained the situation as follows:

'I think with the extended drought the connection has been made between climate change and the fact that we have got a growing population with growing needs for resources. It has really focused people's attention that sustainability has massive economic and social implications. So people start to join the dots that we need to be proactive about this stuff.'

Finally, managers argued that the current political climate in general at local, state and federal levels is supportive of any initiatives that seek to add to the capacity of organisations to contribute to sustainability.

**Impediments**

The impediments to Council A undertaking sustainability reporting are summarised in Table 4. The most commonly identified impediment is the nature of a large political organisation delivering services to the broader community. The political nature of a local council means that as the political climate changes so too does interest in and funding for sustainability reporting.<sup>9</sup> As a politicised, bureaucratic organisation the council was also described as having a 'slow metabolic rate' due to a diffused power structure which makes the introduction of new processes such as sustainability reporting very slow and drawn-out.

Additionally, since the council is charged with providing multiple community services, it operates with a wide ranging number of priorities and limited resources. This makes it difficult for any local government agency to accord sustainability reporting the necessary time and attention to develop. As one manager explained:

'I would argue that we tend not to persist long enough and in a directed way enough to make some things happen. But there are a heck of a lot of priorities to chose between, 40 of the things . . . There are not 20 significant outcomes on Coca Cola's or Ford's horizons, there are two – being in business next year and making a profit this year.'

Lastly, the manager interviewees suggested that the political nature of any council meant that its members tend to focus on what is happening in their communities. This occurs at the expense of an internal focus on the sustainability performance of the councils themselves. The challenge was to encourage senior management within Council A to look to their internal performance to set an example to the general community.

<sup>9</sup> At present, managers noted that there was a favourable political climate for such initiatives and the sustainability reporting team were going to take advantage of it to ensure that sustainability reporting was embedded into the processes and system of Council A.

Two other perceived impediments more likely to arise in the future related to the ability to measure and collect performance data.<sup>10</sup> Managers also had concerns based on past experiences with other local government agencies that there would be internal opposition to any new data collection. One manager commented:

'We have not encountered this yet, but from past experience, the collection of data is often a hurdle . . .  
As new data on indicators is required, it is often a struggle to get people to collect that information . . .  
It is always seen as an additional burden to have to collect this data.'

A related concern was that there may be difficulties gaining support from other senior managers facing resource and time constraints. The managers interviewed planned to circumvent this problem by improving corporate knowledge of what the process of sustainability reporting can do for improving performance.

A final challenge is the absence of a shared discipline and therefore a shared language between members of Council A. The lack of common ground between engineers, planners, community workers or librarians, for example, creates problems in coordinating and integrating the sustainability reporting.

**Table 4. Perceived impediments to Council A undertaking sustainability reporting**

Perceived impediments	Number of managers
The nature of a large, political organisation providing community services	3
Difficulties in developing KPIs for the social area (particularly) and the environmental area (some) of performance	2
Internal resistance to any additional data collection	2
Ability to engender support from other senior managers facing resource and time constraints	1
Lack of a common language shared by managers	1

<sup>10</sup> As discussed previously, managers noted that Council A did not have the capacity to measure social indicators and some environmental indicators. Managers predicted that this would become an issue in the second year of trialling the sustainability reporting in 2008.

## E. 2 Case study No 2 – Local Council B

### Overview of sustainability reporting initiative

Local Council B has been undertaking state of the environment reporting at a city-wide level since 1997, and has completed approximately four reporting cycles. The latest report has been prepared for the 2006 reporting period and is described as follows on the council's web site:

The [name of report] 2005-06 has been developed as a sustainability report for the whole city including the community and industry. Sustainability reports, such as [name suppressed], bring a range of social, economic and ecological data together from a range of sources to improve understanding and communication of environmental issues between all levels of government and within the community. The report will provide for a clearer understanding of the opportunities and constraints necessary in moving toward a sustainable city.

Hereafter we will use Council B's terminology and refer to the state of the environment report as the sustainability report.

The sustainability report is published as a partnering report to the annual report. They are not integrated which has been a conscious decision by Council B. One manager described an 'accountability line' that characterises any federal, state or local government organisation. Below the line, the council can be held directly accountability for economic, social and environmental outcomes and this performance information is reflected in the annual report. Above the accountability line, outcomes are influenced by multiple players of which only one is Council B. Thus, performance above the line is reported on in the sustainability report at a city-wide level.

The content of Council B's sustainability report is arranged around three themes – social, economic and ecological sustainability. There are 21 separate social, economic and ecological sustainability goals that are drawn from Council B's Corporate Plan 05-09 (Strategic Priorities) and Planning Scheme (Desired Environmental Outcomes)<sup>11</sup>. The sustainability report aims to provide a summary of how the city is progressing against these sustainability goals. To illustrate, one sustainability goal included in the council's most recent sustainability report is to have a high participation rate in community-based activities. Summary data on participation in key community groups such as the Lions Club and surf lifesaving clubs is presented, as well as the council's response (e.g. increasing resources in its community services area to support community groups). An assessment of the outcomes of the response is also reported on a three-point scale of 'sound start', 'making ground' and 'met a challenge and progressing well'. This summary data is supported by more detail, including trends in performance, measured using performance indicators, that is presented in a chapter on social themes. A similar approach is used for the ecological and economic themes.

One of the challenges for Council B has been in the development of performance indicators for the social, ecological and economic themes. The approach adopted by the team producing the sustainability report is to start with 'definitions of success' that relate back to (a) the strategic priorities for the city in the council's corporate plan and (b) the desired environmental outcomes in the council's planning scheme for the city. The process is to use a 'backcasting methodology' that allows a definition of success to be inverted to something the indicators should measure. One manager used an example to describe the process:

'In the noise environment of the council . . . one lady said to me in a meeting, "I should be able to have a conversation across a table, across a cup of coffee, and not have to shout when I meet my friend at a coffee shop in [name of area of city] which is close to the road." So from that simple statement which is a definition of success, we can interpret to a noise level in decibels as an indicator'.

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<sup>11</sup> There is a legislated requirement contained in the *Greater Planning Councils Act* for councils to identify the desired social, economical and ecological outcomes that they are trying to achieve through planning the city.

A feature to note about the performance indicators presented in Council B's sustainability report is that they are drawn from existing data sources wherever possible. Managers involved in producing the report explained that the council overcomes data availability problems by using surrogates sourced from the Australian Bureau of Statistics and other government agencies, rather than undertaking new surveys or research. The view adopted is that an indicator does not have to be absolutely correct; rather its purpose is to indicate areas of concern. One manager explained the role of indicators as follows:

'Think about it like lights on a dashboard of your car. A light comes on, doesn't mean that you have to stop the car, get out and run away. This means you have to look at all the other dash lights and say OK, that is just a fault with the lights, or I really have a problem. It simply asks you to take further information on board before you make a decision. And that is all an indicator needs to do.'

Managers perceive the sustainability reporting cycle to be evolutionary, particularly in relation to the definitions of success and the indicators used to measure performance. Each year the council engages with the community via workshops in which feedback is sought specifically on the definitions of success. The aim is to continuously improve on the definitions of success to ensure their relevance to the community and the council's strategic objectives. The feedback from each workshop is incorporated into the next sustainability reporting cycle. Also, the sustainability reporting team has built in regular internal reviews of the indicators to take account of any new data sources, systems and emerging methodologies. Finally, the sustainability reporting team runs ad hoc internal information sessions on the sustainability report with council committees.

There is no external verification or audit of the sustainability report. This is largely because Council B draws upon ABS data and data from other government agencies, thus making any assurance of this data beyond the council's scope. Also, the sustainability report is a city-wide report, which managers viewed as covering areas above Council B's 'accountability line'. Thus, there is little urgency to undertake verification because of the council's limited accountability.

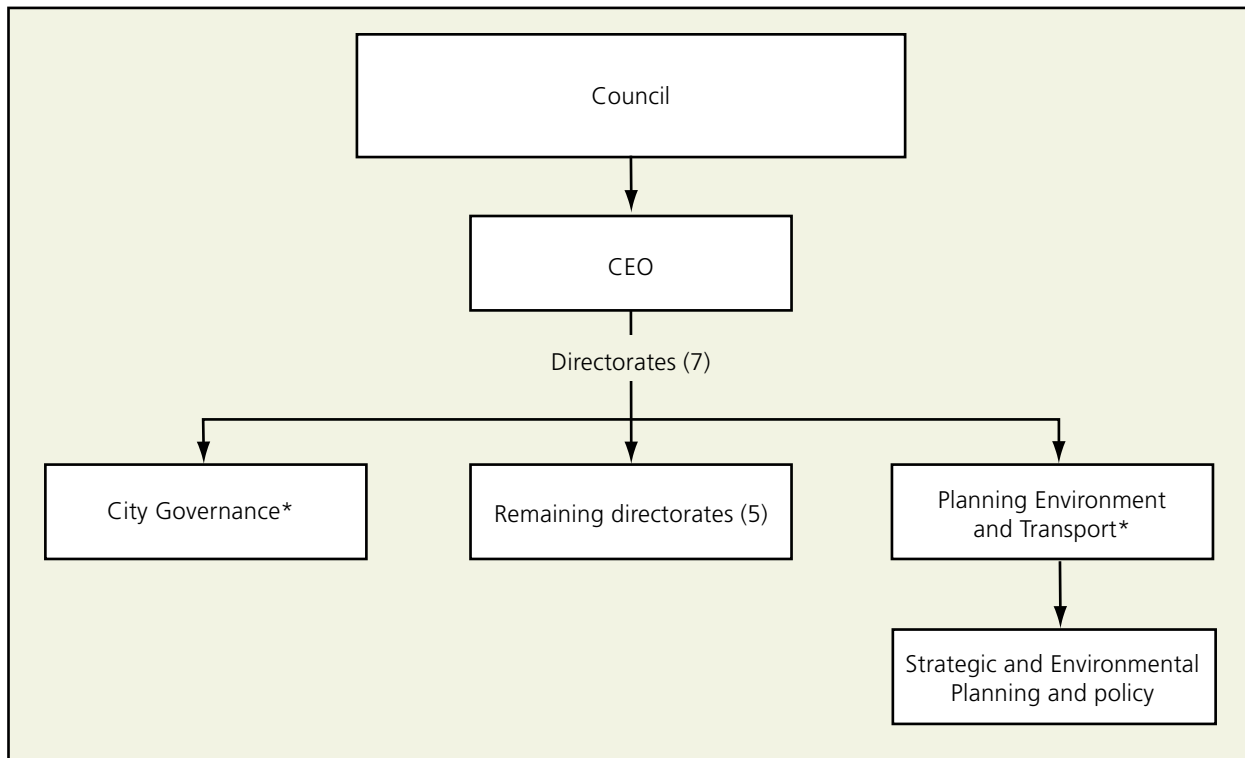
### **Organisational fit of sustainability reporting**

The sustainability reporting initiative of Council B began with the efforts of a research unit within the council. The unit had been created by the CEO of the council to investigate the value of state of the environment reporting to the council. The recommendations from the unit were positive and the reporting has evolved into the 'State of Our City' report. A series of restructures and the departure of the CEO led to the absorption of the research unit into a strategic planning branch. Since this time, the sustainability reporting team have worked to establish links with the annual reporting branch. These efforts have been successful since the annual and sustainability reports are viewed as partnering reports. Figure 5 provides an overview of the organisational placement of the sustainability reporting initiative. Interviewees are drawn from the strategic planning branch and the city governance branch.

Managers viewed the relocation of sustainability reporting into the strategic planning division as a positive development. One manager explained that it has the advantage of partially embedding sustainability reporting into the council's processes. Also, it has allowed a tighter grasp on planning within the council:

'In strategic planning, there is now the governance model, you've got one in the city, that branch faces up to the next 25 years, whereas the corporate governance people face up to the next four years. They are the political cycle, whereas we [the sustainability group] are almost the generational cycle and we have a correspondence between the three branches in managing the interface.'

Figure 3. Organisational placement of Council B's sustainability reporting initiative



\* Interviewees were drawn from these organisational sub-units.

### Usefulness of existing reporting guidelines

The sustainability reporting team had not found any of the existing reporting guidelines particularly helpful. Instead, the reporting initiative emerged from the original research undertaken by a research unit within the council that focused on state of the environment reporting. One manager commented that the Centre for Public Agency Sustainability Reporting, an initiative of ICLEI, the City of Melbourne Council and the Victorian State Government to promote sustainability reporting was not of any particular use. The manager explains as follows:

'It is not so much a question about cost, but more value for money. We have already done what they (ICLEI) can teach us, so what are we paying for?'

The manager also commented that there is a different style of local government in Queensland. Due to the size of the local councils, it is more a regional style of local government. This makes it necessary to adopt an approach that is different from that of smaller councils like the Melbourne City Council. In the manager's words:

'There is this enormous gulf between the Queensland-style local government and that of the rest of Australia, where ours tend to be more regional government than local government in that sense. You don't get a local council like you do in Melbourne. It might only have chambers and manage half a dozen city blocks like Melbourne City Council does. Melbourne City Council has all those wonderful ethics, and good luck to it, it is doing some great things, but literally it has a CBD. Not like [name of Queensland Council] has 15,000 square kilometres with thousands of buildings and roads and streets and rivers.'

Interestingly some managers suggested that the development of clear guiding statements on sustainability reporting by local councils would be of great assistance, more so than legislating to make this type of reporting mandatory. The managers pointed to the negative experiences of NSW councils that have a legislated obligation to prepare annual state of the environment reports. One manager explains:

‘It has actually created a bit of a straightjacket and people simply comply and complain about the fact that it adds no value or benefit to the organisation. It is just a compliance job.’

### **Role of the accounting profession**

None of the sustainability team had an accounting background. Also, none of the interviewees made any reference to any research undertaken or support provided by the accounting profession in Australia to assist public sector sustainability reporting.

### **Perceived costs and benefits of sustainability reporting**

Managers did not highlight any direct costs of the sustainability reporting initiative. This may have been due to the passage of time because Council B had committed the resources to establishing state of the environment reporting at least 10 years earlier. Also, the testing of the reporting process – including development of definitions of success, and the identification and testing of performance indicators – had occurred in earlier years. One indirect cost identified was the trade-off between progressing the sustainability reporting and having to largely rely on data from external agencies that was not always timely and did not always provide sufficient detail to understand local level developments. A manager explains:

‘They are trying to do the [name suppressed] sustainability report and they rely on external agencies or federal government to provide information. And the government is neither speedy in providing that information nor is it complete. They provide bits of information, not necessarily on a regular basis, nor on a very timely basis, or in a way that gives sufficient detail that we can really pull it apart at the [name of city] level and see what is happening.’

The perceived benefits are reported in Table 5. To date, managers commented that the sustainability reporting had enabled Council B to take a greater leadership role in pursuing sustainability. They had observed that the sustainability report is increasingly being used by elements of the community, some councillors and some executives to provide guidance and also to support new initiatives to address social, ecological and economic sustainability. They had also started to observe changes in thinking within the council. Council B was said to be operating in silos – for example, engineering in one silo, water management in another – with very little integration and communication between them. Sustainability reporting was encouraging a more holistic view of the council’s operations and as part of budgeting, people within these different organisational branches were appreciating the need to pool and share resources so that multiple objectives could be simultaneously attained. However, the strongest comment to emerge was that the benefits of sustainability reporting for Council B remain largely unrealised for several reasons outlined under impediments (p24).

**Table 5. Perceived benefits of sustainability reporting identified by manager interviewees from Council B**

<b>Benefit</b>	<b>Number of managers</b>
Assists in developing a leadership role on sustainability for Council B in the community	3
Introduces a new more integrated way of thinking about Council B’s operations and budgets	2

### Motivating factors

The perceived factors that have motivated Council B to undertake some form of sustainability reporting are summarised in Table 6. The original impetus was strong support from the council's CEO, which led to the establishment of a research unit that pioneered the reporting within the council. Despite this strong initial support, the CEO did not add his support to embedding the reporting initiative within council processes to ensure its continuation. As one manager explains:

'And we identified that there was value for a report [state of the environment report] to the council, got some nodding heads and off we went. But when you actually try to drive that into the organisation, then you meet bureaucratic inertia and unless the CEO is prepared to push for that approach, that structure and that strategy to embed, it bounces – it bounces on the bureaucratic face.'

Instead, it is apparent that several politically astute managers within the sustainability reporting team were able ensure the continuation of the reporting initiative by building networks with other managers in the council.

A more recent motivation has been the growing awareness of climate change as evidenced by the continuing drought, rising temperatures and rising sea levels in Queensland and globally. In response to these pressures, managers perceived a growing awareness of the need to achieve sustainability within the council. A manager described the situation as follows:

'We have almost had a climate change catastrophe [the ongoing drought and subsequent water shortage] that has got people moving. What I have noticed in the last six to 12 months is that the rhetoric has changed. People are now talking about sustainability not just as a set of words and maybe some glazing or decorative features on a few buildings. They are actually talking about sustainability in more fundamental ways.'

In fact, managers on average rated the council's concern for sustainability as 5 out of 7 (where 1=very low and 7=very high).

Additionally, one manager suggested that local councils are becoming motivated to undertake sustainability reporting because it is an area of governance where things actually happen and boundaries are definable. That is, it is easier for a local council to focus on the sustainability of a city, compared with state and federal governments that focus on the sustainability of an entire state or country.

**Table 6. Motivating factors for Council B's sustainability reporting initiative**

Motivating factor	Number of managers
Climate change catastrophe	3
Top leadership support for sustainability reporting	3
Local councils are the arm of government most suited to dealing with sustainability issues	1

### Impediments

Managers were able to draw on over 10 years of reporting experience to highlight impediments to sustainability reporting, which are summarised in Table 7. The hurdle attracting the most comment from managers is the compartmentalised organisational structure of Council B, which one of the managers likened to silos. A consequence is that there are few integrative structures, which has made it extremely difficult to link sustainability policies and strategic objectives to the activities of each of the sub-units. Another consequence is the mindset that develops from such arrangements. If one division is given responsibility for sustainability issues, then in a disconnected organisation such as Council B, the other divisions tend to continue operations as usual with the perception that sustainability is being dealt with by the sustainability division.

Managers also face the challenge of overcoming what they described as 'organisational inertia'. This inertia stemmed from the size of Council B and the subsequent competing priorities and wide scope of its activities. In this environment, sustainability is just another competing priority. The inertia also arose because of the nature of local government which encourages managers to focus on more immediate benefits rather than longer-term paybacks that result from pursuing sustainability. A manager describes the situation:

'In a large organisation everybody will say, "Yes, that is a great thing, we should be doing it." But when it comes to actually putting money on the table to do something about that as opposed to another competing priority, where there is no legislative driver, no possible risk of being sued, or that will not lead to a vote tomorrow, there will always be a tendency to push toward those things that have a more immediate payback.'

A related impediment is the operational environment of local councils. Managers perceived that local councils are not really in control of their ultimate destiny, particularly since they are subject to fairly routine legislative changes. They referred to recent examples such as the council amalgamations and water reforms in Queensland. In these situations, there is a lot of work involved in compliance with the introduced changes and local government has a tendency to be focused on legislative compliance. Since sustainability reporting goes far beyond mere legislative compliance, it can be difficult to engender support for such initiatives. As one manager commented:

'At the moment there is a lot of reform around local government . . . Trying to get people to not only focus on delivering their individual project deliverables or their individual programs of work, but also worry about how they interrelate with everyone else's and move forward together is quite difficult.'

Interestingly, one manager identified the expectations (or lack thereof) of managers regarding the outcomes from sustainability reporting as an impediment. Managers perceive the sustainability report as a one-way communication with the public at large and do not expect to use the outcomes disclosed in the report to inform their own programs and projects. This means that Council B is yet to fully realise the benefits from gaining feedback on how to improve existing performance and how it has tracked over a period of time. A related impediment is that it is a challenge for organisations such as Council B to critically evaluate and report on their performance against social, ecological and economic sustainability goals in the sustainability report that is available to the community. This would in turn reduce the usefulness of sustainability reporting.

Finally, the low level of community understanding of the concept of a sustainable city has hindered the reporting initiative. The failure by community members to understand the link between the word 'sustainability' and aspects of everyday life such as the energy supply to run cars and the city, and a clean and adequate water supply has resulted in a devaluation of the sustainability reporting initiative. To illustrate, one manager related an incident with a community member that had occurred several years ago:

'We had a letter from one community representative that everybody associated with the sustainability report should be sacked and those resources placed in and used for other more worthwhile purposes. This is a pointless report and not the province of local government.'

**Table 7. Perceived impediments to Council B undertaking sustainability reporting**

Perceived impediments	Number of managers
Compartmentalised organisational structure	4
Organisational inertia	3
Operational environment of local government	2
Managers' expectations of the role of sustainability reporting	1
Challenge of reporting critically on performance	1
Lack of community understanding of sustainability	1

### E.3 Case study No 3 – Local Council C

#### Overview of sustainability reporting initiative

In contrast with local Councils A and B, Council C is a regional council. It is also facing amalgamation with another council and has great uncertainty about operational directions, including sustainability reporting, until the election of a new council in March 2008. As one manager commented:

'The main issue is the four hundred pound gorilla in the corner – the amalgamation. So it may go nowhere, as the new [name of new council to be formed] may decide not to implement a triple bottom line reporting process. And, we don't know what the new [name] city council thinks yet – it doesn't exist. So, I don't know that there'll be much work done on triple bottom line reporting between now and March.'

However, managers of Council C were willing to discuss their efforts to date in the arena of sustainability. The interviewees referred to the initiative as 'TBL (triple bottom line) reporting'.

The reporting initiative is immature and still in the planning stage. Interest in TBL reporting occurred approximately 18 months earlier, when Council C had unsuccessfully attempted to implement a balanced scorecard reporting and tracking system across the council. The stumbling block proved to be the cost of supporting software (\$100,000) and the cost at three times that to provide ongoing training to staff across the council to use the software. The TBL reporting process was viewed as an alternative system for internal decision-making and external reporting to the community.

At present, Council C has triple bottom line columns attached to both its corporate plan and its operational plan. This means that the operational plan lists three columns on triple bottom line principles against each action, and assigns a score to the outcomes for each action. However, as one manager notes:

... 'We haven't progressed that to formal triple bottom line reporting or sustainability reporting on a best practice or benchmark basis as yet. But we are investigating producing an outcome now, although amalgamation has put that a little bit on a hold at the moment.'

Currently, there is no agreement between managers about whether to focus on triple bottom line, quadruple bottom line (governance is added) or even quintuple bottom line reporting (cultural sustainability is added). Although managers have done considerable work on performance indicators within a balanced scorecard framework, they acknowledge the need to refine these indicators to suit a TBL reporting framework. Additionally, the corporate plan has not yet been redefined to reflect the sustainability elements that can be reported upon. Given the early stage of development, TBL information is not used in internal decision-making (e.g. the decision to approve a development proposal). However, Council C trialed a TBL approach to managing a new riverway development. Managers observed that it assisted decision-making on this project in terms of what to include or exclude from the development while keeping social, environmental and economic considerations in balance.

As part of the implementation planning process, Council C has engaged with the ICLEI through the Australia New Zealand Alliance which provides a communication network to assist local councils develop best practice sustainability reporting. At present, managers are deciding whether they will use the 'ICLEI model' or develop their own model. One manager described the incremental process of Council C to sustainability reporting as follows:

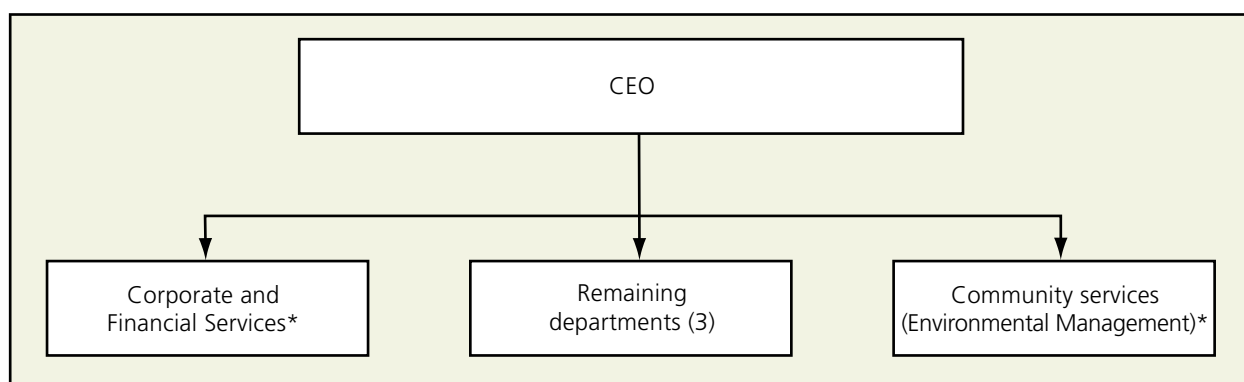
'We were members of the ICLEI Australia New Zealand Reporting Alliance some years ago, but we were quite immature in respect to sustainability reporting and really, that for us was dipping our toe in water. Where do we currently stand – we have currently got a process in place where we have examined the consequences of sustainability reporting, we have got a commitment from our chief executive and our executive team to implement sustainability reporting.'

Managers noted that at this point in its development, only internal consultation had occurred. There was as yet no engagement with stakeholders.

### Organisational fit of sustainability reporting

The reporting initiative appears to be the result of support from the CEO and executive team and spans at least two departments within Council C. Figure 6 provides an overview of the organisational structure of Council C and shows how the TBL reporting team is drawn from community services, and corporate and financial services. The level of integration of any TBL reporting system within the organisation is unclear given its early stage of development and the amalgamation of councils due next year. However, managers did allude to their aim to have a reporting system that informs internal decisions and provides an external report for communicating with the community.

**Figure 4. Organisational structure of Council C**



\* Interviewees were drawn from these organisational sub-units.

### Usefulness of existing reporting guidelines

Managers indicated that they were currently looking at three sources of reporting models to make a decision on which is most appropriate. First, they were considering the reports of other local councils throughout Australia and particular mention was made of the sustainability report of Gosford City Council. Second, they were looking at private sector reporting models because they felt that these models had become sufficiently refined and mature over time to provide meaningful communication. One manager explains:

‘A good example is the Australian Paper Manufacturers. I think they became very clever at using indicators to demonstrate cause and effect. They started at a fairly immature basis where they just reported data, you know, lots and lots of graphs, but when they started to overlay graphs. It is something that made a lot of sense to them, about, why things are happening. I would like to reach that level of maturity with triple bottom line.’

Third, the council had engaged with the ICLEI and is a member of the Australia New Zealand Alliance. In fact, the ICLEI had completed a report into the possibility of Council C successfully implementing TBL reporting in August 2007.

### Role of the accounting profession

None of the sustainability team had an accounting background. Also, none of the interviewees made any reference to any research undertaken or support provided by the accounting profession in Australia to assist public sector sustainability reporting.

### Perceived costs and benefits of sustainability reporting

The immaturity of the reporting initiative meant that managers had no comments on the costs. Their limited experiences incorporating a TBL approach into decision-making on the Riverway development had been positive. Managers commented that it had allowed them to balance social, environmental and economic considerations to achieve a sustainable outcome. This in turn allowed Council C to fulfil a need within the community.

**Motivating factors**

The motivating factors for Council C are summarised in Table 8. A key influence has been the commitment of top management within the council to the adoption of some form of sustainability reporting. One manager describes the critical nature of top leadership support:

‘Yes, our executive team is interested and is behind the process, and our managers are now up winning pride in the process. To some degree they were initially dragged into it with the idea that, “They will cope”.’

This has led to a growing interest in sustainability within the council. Recently, this level was described as ‘high’ within the ICLEI (2007) internal report which is based on 80 hours of interviews with staff. Interestingly, one manager also identified that TBL reporting fulfilled a need within the community to see that resources are managed on a sustainable basis.

Lastly, the move toward TBL reporting was almost a default position. Council C had been working toward using a balanced scorecard approach only to withdraw when the associated costs of software and staff training were judged to be too high.

**Table 8. Motivating factors for Council C’s sustainability reporting initiative**

Motivating factor	Number of managers
Top leadership support	2
High level of interest in sustainability within council	2
Less costly alternative to the balanced scorecard	2
Community desire for sustainable management of resources	1

**Impediments**

The perceived impediments by managers are drawn from their planning work on the TBL reporting initiative and not from implementation experiences. The impediments are summarised in Table 9. A significant concern of managers is the ability to develop KPIs. Managers perceived that it would take a significant investment of financial and human resources to identify environmental and social performance indicators that Council C simply does not have. Also, the selection of relevant performance benchmarks was of concern. In the words of one manager:

‘Deciding the KPIs is a major challenge. There are financial limitations in terms of reporting systems; there are also human restrictions. Benchmark data is another significant hurdle, but, you do not know the quantum of those hurdles until you have decided the KPIs.’

Another issue managers have grappled with is the determination of the accountability of Council C in order to place a boundary on the TBL report. Managers perceived that this would be feasible with environmental and financial aspects of their operations, but community outcomes were seen as almost out of the council’s control. A manager describes this situation as follows:

‘The other dilemma we are having is what do we report? Is it just the things we control, as a council, or is it the characteristics of the community that we don’t control?’

Additionally, managers felt that a challenge they faced is ensuring that any TBL report was meaningful internally and to the community. Careful consideration is required about how to present information, rather than simply reporting data under the three headings of social environmental and economic performance. One manager explains:

‘For example, . . . as a sustainability indicator it could be number of unemployed. That could be a rising graph for, example, or, or a descending graph, but it doesn’t mean anything until you also overlay something else which might be availability of public transport . . . So cause and effect, why we get a rising unemployed rate? Maybe there is a reason that is showing up in another set of data somewhere.’

**Table 9. Perceived impediments to Council C undertaking sustainability reporting**

Perceived impediments	Number of managers
Development of KPIs (particularly for community outcomes)	2
Determining the accountability of the council	2
Challenge to make sustainability/TBL reporting meaningful	1

## F. Synthesis and conclusions

The study's results reveal a genuine motivation to undertake sustainability reporting as a tool for systemic change. Common across all councils was a strong internal motivation that drove the reporting initiatives. Witness also the focus of interviewees on the need to embed sustainability reporting processes within councils and their interest in 'evidence-based decision-making' (i.e. decisions that are fully informed regarding consequences for sustainability goals). Thus, it seems that the reporting initiatives go beyond a 'greenwash' public relations exercise. However, the extent of the systemic change sought is not clear. For example, annual managerial appraisals and project assessments do not incorporate sustainability targets in any of the three councils at present. Further, the pace of such change is likely to be slow with all councils viewing sustainability reporting as an evolutionary process.

The progression of the councils toward sustainability reporting has two common motivating influences – top leadership support, and managerial sensitivity to a potential climate change catastrophe signalled by worsening droughts, rising temperatures and increasing population pressures. The managers interviewed all showed some degree of personal interest in sustainability and perceived that the current political climate at state and federal levels would likely facilitate this type of reporting into the future. Interestingly, in all cases managers felt no pressure from external stakeholder groups to undertake the reporting.

Local councils face several challenges in developing sustainability reporting processes. Of particular note is the lack of integration within councils, with their organisational structures likened to a grouping of largely independent silos. There are also challenges presented in developing appropriate KPIs, particularly in relation to community outcomes. Lastly and paradoxically, the broad scope of local government activities lends itself to sustainability reporting; yet, this same characteristic – large political organisations delivering community services – was commonly identified as contributing to organisational inertia that could cripple any sustainability reporting initiatives.

To date, the accounting professional bodies have not played a significant role in building the capacity of local government to adopt sustainability reporting practices. For example, none of the sustainability teams from the case study councils had an accounting background. Also, none of the interviewees made any reference to any research undertaken or support provided by the accounting profession in Australia to assist public sector sustainability reporting. It would appear that there is great scope for the professional accounting bodies to contribute to this under-developed area of public sector accounting. Interestingly, several interviewees argued in support of voluntary reporting supported by clear guidelines rather than mandatory reporting. Their reasoning was that flexibility is needed to comprehensively report on individual councils' activities, and allowing latitude prevents the exercise from becoming another compliance activity.

Further research is required to understand more comprehensively how the impediments to sustainability and TBL reporting can be overcome in order to create a systemic approach to reporting. Furthermore, an understanding is required of some of the measurement issues that local governments face in constructing sustainability reports and the level of management capability required to implement these systems. In our view, the broad issue of TBL and sustainability reporting will become more pressing as focus is put on how public sector organisations are responding to pressures to reduce and abate their greenhouse gas emissions.

# Appendix

## Case study questions – interview schedule

### Points To remember

The case study protocol questions are posed to the investigator to keep data collection on track. They are not literal questions that are asked of interviewees. The questions are to serve as a prompt to the interviewer.

The terms TBL reporting and sustainability reporting may be used interchangeably. For simplicity, the protocol uses the term sustainability reporting.

### Interviewee background

What is the organisational position, area of responsibility, and sustainability reporting experience of the interviewee?

### Extent of development of the current sustainability reporting system

Does the council have a definition or a clearly defined concept of sustainability reporting? If so, what is it?

How long has the council been involved with/attempting to undertake sustainability reporting?

How does the sustainability reporting system fit within your organisation?

- Within annual reporting processes?
- In performance appraisal of managers?
- In appraisal of projects?
- In strategy development?

Can you think of a reason event/project/development of the council? Can you illustrate how sustainability reporting was incorporated?

How does the council view the sustainability reporting – as a reporting tool to report on performance to parties external (i.e. outside) to the council, and/or as a reporting tool that is used to structure internal systems and processes as well as external reporting?

### Influence of technical factors

What reporting guidelines, if any, have been used to develop and implement the sustainability reporting system? Has this been a significant consideration in sustainability reporting?

Has the accounting profession assisted you at all? Would you like to see guidance on sustainability reporting by councils from the two professional accounting bodies in Australia?

Are accepted performance benchmarks important? Has this been a significant consideration in sustainability reporting?

Do the existing information systems have the capability/capacity to support sustainability reporting? Has this been a significant consideration in sustainability reporting?

Has there been training/education of council staff on sustainability reporting? Has this been a significant consideration in sustainability reporting?

Does your organisation have the capacity to measure the environmental and social impacts of its operations? Have measurement difficulties and data availability been significant considerations in sustainability reporting?

What has been the most (or the least) significant technical factor in undertaking sustainability reporting?

**Influence of organisational factors**

What is the council's general level of concern/interest in sustainability of its operations? What have been the most significant influences in shaping this attitude?

What has been the level of commitment to sustainability provided by the decision-makers of the council? Has this been a significant consideration in sustainability reporting?

What resources have been provided by the council to support sustainability reporting (e.g. appointment of full-time staff)? Has this been a significant consideration in sustainability reporting?

Are there other issues to sustainability that are more pressing for the council (competing agendas)? Has this been a significant consideration in sustainability reporting?

What has been the most (or the least) significant organisational factor in undertaking sustainability reporting?

**Influence of other external factors**

Who are the council's key stakeholders? How did the council learn of their importance?

Is the pressure exerted by external stakeholders an important consideration in the development and implementation of sustainability reporting?

Is government funding for projects an important consideration in the development and implementation of sustainability reporting?

Are there any other influences on the development and implementation of sustainability reporting?

What has been the most (or the least) significant other external factor in undertaking sustainability reporting?

**Current outcomes**

What have been the benefits to date of the sustainability reporting for your council?

What have been the costs to date of the sustainability reporting for your council?

Is sustainability reporting primarily a tool to report on performance to parties external to the council?

Is sustainability reporting a tool that is used to structure internal systems and processes (i.e. part of systemic change to achieve sustainable operations) as well as an external reporting tool to communicate progress to date?

**Future outcomes**

What are the challenges facing councils undertaking sustainability reporting?

What will be the importance of sustainability reporting to councils in the future?

Where will sustainability reporting by your council be in 10 years' time?

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CPA Australia  
ABN 64 008 392 452  
[cpaaustralia.com.au](http://cpaaustralia.com.au)  
T 1300 73 73 73

National Office  
CPA Australia  
Level 28, 385 Bourke Street  
Melbourne, VIC 3000  
T (03) 9606 9606  
F (03) 9670 8901

