

report of the judges



objectives

ACCA, the Association of Chartered Certified Accountants, is delighted to congratulate the winners of the ACCA Australia and New Zealand Awards for Sustainability Reporting 2004. We appreciate how much effort goes into producing a sustainability, environmental or social report and would like to commend those who have won awards, or have been mentioned in this Judges Report, as well as every organisation that took the time to prepare a Report and enter our Awards.

ACCA Awards around the world aim to reward transparency by identifying and recognising innovative and effective attempts to communicate corporate performance. Much has changed since ACCA first started researching and building technical knowledge around sustainability reporting over a decade ago. Last year in the introduction to the Judges Report we noted the widespread acknowledgement that organisations that produce sustainability information have a more thorough grasp of the health of their operations and can reduce and manage the risks facing them. This year, we were very pleased to receive a sustainability report from Insurance Australia Group, a company whose core business is managing risk. IAG's approach to sustainability reporting can advance the efforts of all companies as they consider risk in sustainability terms.

At the core of the judging criteria are completeness, credibility and communication. Our Award winners demonstrate that, by emphasising these key elements, companies can target significant improvements in the quality of information disclosed during the reporting process. Ultimately, the Awards help underline the business case for sustainable practices and development as these can play an important part in protecting and enhancing intangible value, ultimately improving corporate competitiveness.

Once again the utilities sector, largely comprising water and energy authorities, and the mining and resources industry were well represented, with nearly 50% of entries received from these two sectors. Twenty percent of entries were from Government agencies. While there were also several from manufacturing concerns and from the financial sector, broadly defined, retail interests were represented only through Wesfarmers ownership of a hardware chain. Judges are again hopeful that next year will see an increase in entries received from industry sectors such as retail and food manufacturing.

The judges are disappointed at the continued low rates of sustainability reporting among Australia's and New Zealand's top companies, especially in the light of much higher reporting rates in other countries. They support some baseline level of mandatory disclosures on environmental and social issues and welcome the Australian Government's recent request of the Corporations and Markets Advisory Committee (CAMAC) to examine the extent to which the duties of directors under the Corporations Act 2001 should include social responsibilities, and whether companies should report on the social and environmental impact of their activities.

The judges were pleased to see several companies raise the standard of their reports this year and welcome the effort that all companies make in producing their reports.

entrants 2004

AGL
(The Australian Gas Light Company)
www.agl.com.au

Arcor Limited
www.amcor.com.au

Anglo Coal Holdings Australia Limited
www.anglocoal.com.au

Australian Ethical Investment
www.austethical.com.au

**Australian Government Department of
Environment and Heritage**
www.deh.gov.au

**Australian Government Department of
Family and Community Services**
www.facs.gov.au

BHP Billiton Limited
www.bhpbilliton.com

Bluescope Steel
www.bluescopesteel.com

British American Tobacco Australia
www.bata.com.au

City West Water
www.citywestwater.com.au

Forests NSW
www.forest.nsw.gov.au

Gosford City Council
www.gosford.nsw.gov.au

Hamersley Iron
www.hamersleyiron.com

Henry Walker Eltin
www.hwe.com.au

Iluka Resources Limited
www.iluka.com

Insurance Australia Group
www.iag.com.au

Investa Property Group
www.investa.com.au

Landcom
www.landcom.nsw.gov.au

Lion Nathan Limited
www.lion-nathan.com.au

Main Roads Western Australia
www.mainroads.wa.gov.au

Murray Irrigation Limited
www.murrayirrigation.com.au

National Australia Bank
www.national.com.au

Placer Pacific (Osborne) Pty Ltd
www.placerdomw.com

Robe River Mining Company Pty Ltd
www.roberiver.com.au

Sydney Water
www.sydneywater.com.au

Tarong Energy Corporation Limited
www.tarongenergy.com.au

Toyota Motor Corporation Australia
www.toyota.com.au

TXU Australia
www.txu.com.au

VicSuper Pty Ltd
www.vicsuper.com.au

Waste Service NSW
www.wasteservice.nsw.gov.au

Watercare Services Limited
www.watercare.co.nz

Wesfarmers Limited
www.wesfarmers.com.au

WMC Resources Limited
www.wmc.com

Yarra Valley Water
www.yvw.com.au

judging

Key features of sustainability reporting

An excellent sustainability report clearly acknowledges and explains the environmental and social impacts of an organisation's operations and products. The report also demonstrates the organisation's policies, targets and long-term objectives to reduce any adverse environmental and social impacts.

Panel of judges

In accordance with the ACCA judging panel conflict of interest policy, several judges declared associations and personal interests with reporting organisations. As appropriate, certain judges did not participate in the discussion of specific reports and did not exercise any vote in relation to those reports.

Professor Carol Adams

Head of School, School of Accounting, Economics & Finance
Deakin University

Mr Charles Berger

Legal Advisor
Australian Conservation Foundation

Mr Francis Gray

Head of Australian Research
Sustainable Asset Management (SAM) Australia & New Zealand

Mr Terence Jeyaretnam

Principal
URS Australia

Professor Craig Deegan

Director of Research
RMIT Business Accounting & Law

Ms Lyn Mayes

Communications and Project Manager
New Zealand Business Council for
Sustainable Development

Ms Amanda McCluskey

Manager, Governance Advisory
BT Financial Group

Mr David Pinch

Assistant Manager, Corporate Sustainability and
Energy Efficiency Policy
Australian Government Department of
Environment and Heritage

Ms Glennys Purcell

Manager, Prime Minister's Community Business
Partnership Secretariat
Australian Government Department of Family
and Community Services

Dr Ian Woods

Senior Research Analyst,
Sustainable Funds Team
AMP Capital Investors

Judging criteria

The judging panel assessed the applications and focused on the following three key elements of an excellent report:

Completeness

Credibility

Communication

Completeness (40%)

Corporate context

Key (direct and indirect) environmental impacts

Environmental policy and management commitment

Environmental targets and objectives

Scope of the report (by entity)

Reporting and accounting policies

Report audience identified

Credibility (35%)

Contingency planning and risk management

Compliance/non-compliance record

Environmental impact data

Environmental financial statements and full cost accounting

Approaches to stakeholder dialogue

Third party statement

Communication (25%)

Layout and appearance

Understandability, readability, accessibility, appropriate length

Innovative approaches

Availability of a summary report and/or executive summary

Use of internet

Appropriateness of graphs, illustrations, photos

summary

In 2004, four reporting awards were given by the judging panel.

Best Sustainability Report:	Watercare Services Limited
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Runner up, Best Sustainability Report:	BHP Billiton
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Joint Winner, Best First Time Reporter, Sustainability Reporting:	Insurance Australia Group
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Joint Winner, Best First Time Reporter, Sustainability Reporting:	VicSuper Pty Ltd
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winners 2004

BEST SUSTAINABILITY REPORT – WINNER

Watercare Services Limited

Constant Progress Continuous Success

Watercare Annual Report 2004

Integrates environment, social and economic issues into all aspects of the discussion and demonstrates a clear understanding of the reasons for addressing sustainability, reporting and risk management

Departs from the standard environmental, social and economic paradigm in an intelligent and refreshing way which demonstrates very original thinking about sustainability, competing pressures and reporting

Uses sustainability accounting to explore in a forthright way what would be required to “totally mitigate” the company’s environmental impact and discusses the trade-offs between price, service and environmental and social impacts.

Makes good use of GRI

Evidences high-level consideration of the risks and opportunities across the business and utilises “performance rulers”, an innovative and clear way of demonstrating performance against targets

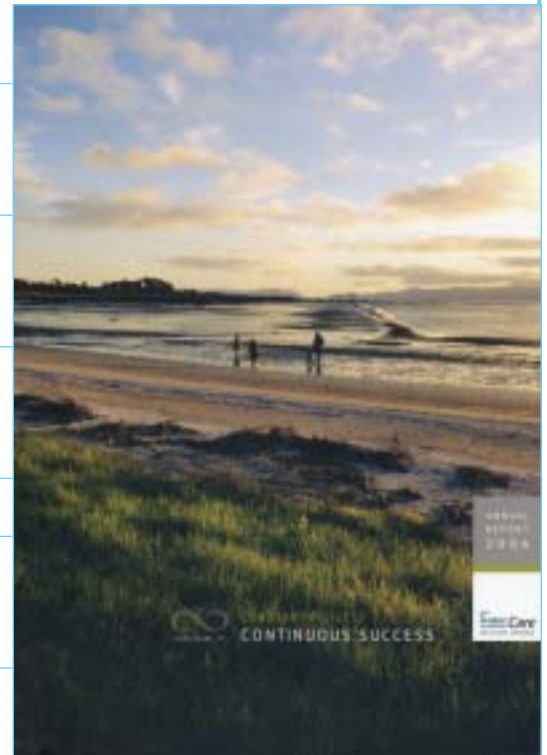
Provides a true integration of financial and non-financial reporting and is a fully integrated sustainability and annual report

Provides a sophisticated treatment of all major issues facing the organisation

Provides comprehensive, well-organised hard data (including 3-year history) without obscuring the main qualitative points of the report

Is graphically well-designed, easy to follow, well-written and interesting

Raises the level of achievement by reporters in Australia and New Zealand and confirms Watercare’s leadership role



BEST SUSTAINABILITY REPORT – RUNNER-UP

BHP Billiton Limited

Working for a Sustainable Future – BHP Billiton Health Safety Environment and Community Report 2004

Uses a balance of case studies and data to cover a vast amount of activity, presenting information for a diverse audience, and benefits from a separate Executive Summary which serves as the primary communication tool

Nominates Five Key Risk areas to provide focus and identify high-level business risks and opportunities

Provides a clear statement on the performance against targets, which can be objectively assessed, over the reporting period

Provides external views of BHP Billiton's performance, with comments from the members of the Forum for Corporate Responsibility

Clearly outlines management standards systems used, and the extent of implementation, as part of Health Safety Environment and Community governance.



BEST FIRST TIME REPORTER, SUSTAINABILITY REPORTING – JOINT WINNER

Insurance Australia Group

The Fewer the Risks the Better – for Everyone

IAG Sustainability Report 2004

Provides a clear articulation of what sustainability means for the company and its responsibilities to the broader community

Provides a good example of a Supply Chain Policy and how it operates within the company

Includes reporting against GRI and includes an assurance statement

Highlights challenges faced by the company

Explains what the key issues are for insurance and provides a clear framework for risk management which is at the heart of its business

Outlines the relationship between sustainability programs and shareholder value very well

Differentiates itself by its appearance and style and takes environmental considerations into its publication, in terms of length, material and printing process



BEST FIRST TIME REPORTER, SUSTAINABILITY REPORTING – JOINT WINNER

VicSuper

What in the world has sustainability got to do with superannuation?

The VicSuper Sustainability Report 2004

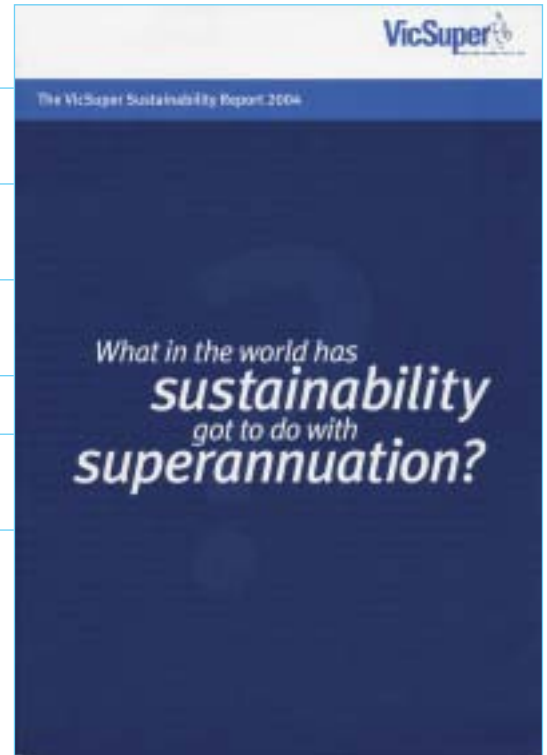
Demonstrates that the principles of sustainability are starting to be woven into all aspects of the business

Provides a clear understanding of the business and the relationship between the superannuation sector and sustainable investment

Demonstrates the benefit of using the GRI to test whether all relevant issues are addressed

Includes the beginnings of a supplier policy

Appears to be the first such report by a mainstream pension fund anywhere in the world.



EXAMPLES OF GOOD PRACTICE



Toyota

This Way – Environment and Community Report 2004

<http://www.toyota.com.au/TWP/Upload/Media/319.pdf>

Last year the Judges commended Toyota's report for being able to report performance within a short document, and for including community information. This year's report stood out because it was different, succinct, visually appealing and easy to read. Members of the general public might read such a report. The Judges compliment Toyota's Report on its design and accessibility.

judges' recommendations

The following areas are perceived by the panel of judges to require greater emphasis in sustainability, environmental and social reports in Australia and New Zealand:

Clear Statement on the performance of the organisation over the reporting period

Many reports provide information about what the company is doing. However, it is not clear what are ongoing initiatives, what are new initiatives or what initiatives have been discontinued. Reporters should clearly state what has changed over the reporting period.

Clear targets against which performance can be objectively assessed should be clearly outlined and performance against these should be reported, for the reporting period. Too many reports have vague objectives.

More attention needs to be given to identifying key environmental and social impacts and in putting selected key performance indicators (KPIs) into context by relating them to back to these impacts. Reporting particular indicators without explaining their significance, or indeed the reason for inclusion in the report, undermines the usefulness of the data. It is also important to clearly define the scope or boundaries of the report in relation to the organisation's operations and relationship to other companies.

Increase stakeholder involvement and disclosures

Stakeholder identification and involvement is particularly weak in many reports. In an environmental, social or sustainability report, reporters should:

- disclose who the key stakeholders are to the organisation, and explain how these stakeholders were identified

- identify to which stakeholder groups the report is targeted
- include and involve the stakeholders throughout the reporting process
- describe the dialogue process and disclose it in the report
- explain how stakeholder feedback was used
- provide details how this has changed the reporting process and internal management procedures, and disclose the 'weighting' different stakeholder groups have to facilitate change

Public policy issues and positions should be disclosed

Reports should disclose the lobbying positions an organisation takes on key public policy issues (whether directly or through industry or other groups) and which external organisations the reporter supports. The role of companies in lobbying governments (especially outside the OECD), or instigating their own governments to lobby on their behalf, is seldom transparent and almost never covered in public reporting. These disclosures may indicate the level of internal commitment to sustainable development values or principles the organisation has. The degree of internal alignment within the organisation can also be measured. If public policy positions change, these should be disclosed and each change accompanied with an explanation.

Address issues on which the organisation has been criticised

Too often, reporters fail to address issues of critical community concern, or address them in a way that is

not responsive to, or does not accurately reflect, the core complaint against the reporter. Frequently, where such sensitive issues are mentioned, broad assurances are given that “stakeholder consultation” is continuing, but without a forthright response to the substance of the issue. A good counter-example is ABN AMRO’s global report (http://www.abnamro.com/com/about/sd/sd_issues.jsp), which addresses with specificity the bank’s position on a number of loans for which it has been criticised.

Include credible third-party commentary

Particularly on issues involving sensitive community or environmental concerns, unedited commentary can provide credibility where the comments of the company alone could be seen as self-serving. An organisation that is willing to subject itself to a critical external eye, even on sensitive issues, demonstrates confidence and a genuine effort to engage with stakeholders. Such commentary may come from NGOs, governments, analysts, customers or others, but to be meaningful it should be clear that the opportunity to comment was offered unconditionally and not subject to editing (subject to it being exercised in good faith).

Make reporting more meaningful – focus on issues of significance

It is important for reporters to retain a focus on significant sustainability related impacts and risks for the organisation. This includes those significant sustainability issues that are of immediate financial relevance to the company as well as sustainability issues

significant to the environment and other stakeholders. It is worth noting that issues that are not of immediate financial relevance to the company can become significant in the longer term through their impact on intangible assets such as brand and reputation.

Thus, in the context of reporting, information is material if its omission or misstatement would lead to an organisation significantly misrepresenting itself to stakeholders. Applying materiality tests to reporting processes provides an excellent way for companies to prioritise the large levels of non-financial data they collect. Furthermore using the process of stakeholder dialogue to determine relevance/materiality issues can strengthen the accountability of the reporting processes and help other stakeholders, internal and external, assess the level of non-financial risk inside an organisation. In particular, while the GRI framework is to be encouraged, not all issues will be of equal relevance to the organisation.

Include sector benchmarks

Benchmarking is an effective way of putting an organisation’s performance into context and for comparing data between one organisation and another. It provides a better and more relevant comparison of performance, although problems of paucity of information in the public domain, consistency (are we comparing apples with oranges?) and timeliness (the likelihood of the comparative data coming from the previous year’s report) should be borne in mind.

This same-sector organisation comparison within reports should be encouraged to provide readers with industry benchmarks of performance: this is becoming easier to do as increasing numbers of reporters from the same sector publish reports. The widespread use of GRI will also aid benchmarking.

Clearer statements about the Organisations Relationship with the Verifier

The third party verification of information provided in reports is a positive development. However, the basis for the statements that the verifier is independent should be clarified. As with financial auditors, reasons why specific verifiers and the verification company are independent should be presented.

The judges encourage the use of AA1000 as at least an interim solution to the developing issue of third party verification.

Electronic Media

There is a growing use of web-based reporting which can improve the timeliness and accessibility of information, particularly the ability to retrieve and tailor the information to meet different stakeholders' specific needs. Web based reports can provide much more information than a printed report and web technologies can allow companies and their stakeholders to interact. There needs to be a clear path through any web-based report and help for the user to avoid unnecessary exploration. In addition, it is very important that companies recognise that data or discussion available at any time via the internet needs to be retained in some form to ensure a complete record of disclosure can be accessed.

Supply Chain Management

Most reports pay inadequate attention to the issues relating to supply chain management. The NZ Business Council for Sustainable Development defines a sustainable supply chain as "Management of raw materials and services from suppliers to manufacturer/service provider to customer and back with improvement of the social and environmental impacts explicitly considered." Good reporters will identify exactly what their supply chain comprises and the major risks relating to their own organisation. This will involve a review of their procurement policy and

examples of how the organisation manages the sustainable source of materials and packaging, labour standards and practices, supplier dependence and viability and balances local and overseas supply.

Whilst reporters focus on energy efficiency and waste management, internal logistics and the movement of goods has a much wider impact. Few companies are reporting on "empty kilometrage"; efforts made to maximise full loads or selection of mechanical handling equipment. See nzbc.org.nz/supplychain for information on how to evaluate suppliers against defined criteria.

More advanced components of reports should be disclosed

A number of advanced, more strategic components of reports should be included to improve the completeness and materiality of the reports. These include:

- provision of an overview of how reporting is changing the day to day operating functions of the business, for example, to what extent does sustainability, environmental, and/or social performance impact management remuneration?
- a description and overview of supply chain management initiatives informing the stakeholders of the level of commitment and responsibility taken by an organisation to influence its suppliers (this is of particular relevance for organisations with significant purchasing power and/or those whose supply chains are susceptible to 'sensitive' issues such as human rights abuses and poor working conditions)

- developing and using sustainability accounting (or similar) techniques to quantify and begin to internalise externalities and to contribute towards sustainable development more strategically
- addressing global and local climate change, its risk to future business operations and products/services, and what strategies the organisation is putting in place to address current and future risks associated with climate change.

Core business issues and external impacts not identified or discussed

Organisations need to assess their core business issues with regards to their environmental and social impacts. If the fundamental fact of an organisation's sustainability impact is not disclosed then reports are not addressing major sustainability issues. In this respect, reporting on life cycle impacts of goods and services is essential. The direct impacts of a business may be just one small component of its total impacts. This is particularly true, for example, of the fossil fuel industry, where combustion of the product by end consumers is the major environmental impact, and the impacts of production are secondary in comparison. Indirect impacts of investment decision-making in the financial services sector similarly overshadow the direct effects of office-based operations. A positive example is AGL's inaugural sustainability report, which reports on greenhouse gas emissions three different ways: first, based on its own operations; second, based on its equity investments; and third, based on the full life cycle of the production and supply of electricity and gas to end consumers.

Explicitly stating what the key environmental/ social/ economic impacts are of the organisation should be more prominent in reports. Without identifying these, subsequent information in the report may be somewhat out of context. Identifying what global/ national/ local issues are relevant to the organisation's operations, or which the organisation may find particularly challenging, is currently weak and should also be clearly disclosed. After reading many reports, the reader comes away with the sense that there are no sustainability issues that are challenging the organisation.

Particular areas for improvement

There are a number of areas where reporting should be improved:

- Health and safety performance is particularly poorly reported, with occupational health issues and performance almost universally ignored. Safety severity data should be included as well as frequency data (LTIFR or MTIFR). Number of workers compensation claims and compensation premiums should also be reported;
- Many reports make vague statements about the status of the management systems. Statements such as "environmental management system is consistent with (or based on) ISO 14001" do not convey enough details about the management system for the reader to assess the company performance. In discussing, management systems, the process by which key issues are identified, including how these are integrated into general organisation risk management systems, what the key issues are, what are the objectives and targets for the key issues and who within the organisation is responsible for meeting the objectives;
- The boundaries used for performance for reporting should be clearly stated. For example: does safety performance include contractors? are energy performance data for buildings reported on a tenancy or whole of building basis?

awards 2005

Demonstrate your organisation's commitment to accountability and transparency by entering the ACCA Australia and New Zealand Awards for Sustainability Reporting 2005. Organisations of any size or sector that disclose environmental, social or sustainability information are eligible to enter.

The 2005 Awards timetable is:

January 2006 Deadline for participation

March 2006 Judges' meeting

May 2006 Awards presentation ceremony

To enter the awards, contact ACCA on +61 2 9233 1242 or e-mail ausnz@accglobal.com

For further information about the awards including judging criteria and information on ACCA's Sustainability Reporting Awards in other countries, go to www.accglobal.com/sustainability

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Further Information

For further information about the ACCA Sustainability Reporting Awards, please contact:

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