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sustainability at work

www.sustainabilityatwork.org.uk

THE PRINCE'S CHARITIES

ACCOUNTING FOR SUSTAINABILITY

CONTENTS

CLARENCE HOUSE

I have long been concerned not only by the damage caused to the environment by many of our activities, but also by the broader issue that many of our decisions, taken at all levels and in all walks of life, have wider or longer-term consequences of which those taking the decisions are unaware or do not understand fully.

It was for this reason that I established my Accounting for Sustainability Project. To help ensure that sustainability – considering what we do not only in terms of ourselves and today, but also of others and tomorrow – is not just talked and worried about, but becomes embedded in organizations' "DNA".

To begin with, the Project was quite a small acorn, but I was delighted that in a relatively short period we had over forty people working as part of the project team, or on related committees, and more than one hundred and fifty public and private sector organizations participating.

I suspect that a large part of the reason why the Project has attracted this level of interest and support is that while many organizations are now aware of the need to take sustainability into account, they do not usually have the methodology or the tools to enable them to do so.

The Project's recommendations address this issue. Firstly, guidance to embed sustainability into day-to-day processes is given, including an innovative web-based, decision-making tool and examples of good practice drawn from the public and private sectors; and, secondly, a new Connected Reporting Framework is proposed to encourage and facilitate clear, concise and comparable sustainability reporting. This framework is also designed to ensure that broader and longer-term sustainability considerations are integrated and connected with traditional accounting measurements.

If we are to meet the challenges of climate change and over-consumption of the Earth's finite resources a "sustainability revolution" is required. Revolution is a strong word, but the facts and figures about greenhouse gas emissions, deforestation, land loss, waste and dwindling natural resources are increasingly clear, with scientists ever more concerned that "tipping points" may occur within the next ten years, or even sooner, which will affect, irretrievably, the Earth's habitability for humans.

Organizations, in both the public and private sectors, which have strong environmental, social and ethical management practices are the most likely to survive and prosper in the face of this sustainability revolution. They will be the organizations best placed to anticipate changing expectations and evolving regulations, so that they can more readily develop the policies, programmes, services and products that will meet the future needs of the societies in which they operate.

My Accounting for Sustainability Project's recommendations are to help organizations meet this challenge. They are not intended to be an end, but rather a beginning to be built on and developed.

I very much hope that the readers of this report and those of you who have a moment to visit the accompanying website, www.sustainabilityatwork.org.uk, will find the Project's conclusions and recommendations helpful. A huge amount of work has certainly been devoted to the Project and I could not be more grateful to the scores of very busy people who have given up their scarce time to contribute, and to the companies and public bodies who have very kindly provided the case studies and, above all, the funding.

Charles

THE SUSTAINABILITY REVOLUTION

There is now far greater awareness of the broader and longer-term consequences of individuals' and organisations' actions: of the contribution made to, and the catastrophic consequences of, global warming, of the destruction of the world's rainforests, of over-consumption of other finite natural resources, of problems caused by waste, and of the consequences of individual, corporate and governmental actions for communities, now and in the future.

Individuals, whether as consumers, employees, investors or voters, increasingly want these broader and longer-term consequences to be taken into account and for their own, companies' and government's actions to be more "sustainable".

As ever, when faced with significant change, in this case "the green" or "sustainability" revolution, judging the best scale and pace of response is not easy.

Deciding that sustainability is the way forward may appear easier for the public sector. It is the Government's job to meet the full range of society's needs and to look to the long-term. The public sector has an obligation to provide leadership, developing best practice and harnessing its spending power to open up markets and stimulate the development of sustainable technologies. However, even in the public sector, sustainability decisions are by no means straight-forward. To what extent should present programmes to improve public services or reduce poverty, and indeed the enjoyment of modern lifestyles, be restricted for the benefit of future generations or developing countries?

While difficult for government, the issues are conceptually more complex for business. Business is expected to make a profit for its owners, to convert private ambition and the desire to profit, into public virtue through the creation of wealth and jobs, and the payment of tax. Conserving the planet and communities is often still thought of as being outwith business' remit and best left to government, charities and individuals.

Life, however, is no longer so simple. In a mass media age, a business' brand or reputation is a more significant element in shaping decisions to invest, to buy its product or to become an employee. In particular, many of the brightest and best potential employees are more likely to choose a company with a good green or sustainability reputation. A business which does not have a well developed sustainability programme may also be slow to respond to new regulation.

In other words, if a business is off the pace with respect to sustainability, it may lose competitive edge, risking profitability and its long-term future. Organisations that have embedded social, environmental and ethical management practices at their heart are those that are, ultimately, more likely to gain the greatest benefit and enjoy customer and shareholder approval. They will anticipate changing attitudes and expectations so that they can develop the products, services, policies and programmes that will meet the sustainability needs of the societies in which they operate.

THE PRINCE'S ACCOUNTING FOR SUSTAINABILITY PROJECT

There is now much greater awareness of these issues and of the need to respond to the "sustainability revolution", with committees and commissions established and sustainability policies promulgated; however, the translation of aspiration and policy into effective action is inhibited in both the public and private sectors by the lack of new "sustainability systems and processes".

In particular:

- limited information and processes have been developed to enable high-level sustainability policies and targets to be taken into account in day-to-day operations and decision-making; and
- the reporting of sustainability performance is inconsistent and often over-complicated and inaccessible.

The National Audit Office, for example, concluded in its report, '*Building for the future: Sustainable construction and refurbishment on the government estate*' (April 2007), that 85% of public sector building projects largely ignore the sustainability guidance given by the Government.

The Prince of Wales established his Accounting for Sustainability Project to address these two issues. The Project was launched with speeches from His Royal Highness, the then Prime Minister, the Bishop of London and Lord Browne of Madingley on 6th December 2006. During the intervening 12 months over 40 individuals and over 150 companies and public sector organisations have contributed to the work (a list is given on pages 48 and 49).

The conclusions and recommendations of The Prince's Accounting for Sustainability Project are given in this report, with more detailed information, including the prototype decision-making tool and case study examples, given on the website www.sustainabilityatwork.org.uk

The report has two main sections: "Embedding Sustainability", which gives guidance for how sustainability can be taken into account more effectively in day-to-day operations and decision-making, and includes a newly developed web-based tool; and "Reporting Sustainability", in which the recommendations for how sustainability can be reported in a more consistent, clear, concise and connected way are explained.

The conclusions and recommendations set out in this report are a beginning, which we hope will be taken up and built on, rather than an end.

The website, www.sustainabilityatwork.org.uk, is freely available to organisations in both the public and private sectors. A stakeholder forum, supported by the Consultative Committee of Accountancy Bodies and working as a continuing part of the Prince's Accounting for Sustainability Project, will take forward the Reporting Sustainability proposals.

We have been delighted and surprised by, and very grateful for, the level of interest and support which The Prince's Accounting for Sustainability Project has generated. Perhaps the main reason for this is the fact that while many organisations are now aware of the need to take sustainability issues into account, few know how to do so at a practical, operating level. This Project is, we hope and believe, a helpful and constructive step in providing this guidance.

SUMMARY

The Prince of Wales has long been concerned that the world will continue to live off capital rather than income, and what we enjoy today will be at the expense of our children and grandchildren, unless practical and robust systems are developed to enable broader and longer-term factors to be taken into account more effectively in accounting and decision-making.

Fortunately, there is now greater awareness of the need for "sustainability", considering what we do, not just in terms of ourselves and today, but also in terms of others and tomorrow. Commissions and committees have been established, and policies and strategies developed and promulgated by the Government and companies; however, the translation of this aspiration into effective action is often inhibited by the lack of new "sustainability systems and processes".

The Prince of Wales established his Accounting for Sustainability Project to address this issue: to provide practical guidance and tools to help ensure that sustainability is not just talked about but becomes an integral part of organisations' day-to-day operations. The Project has had the support of over 150 public and private sector organisations and over 40 people have worked as part of the project team or on related committees.

The guidance developed by the Project is in two categories.

Embedding Sustainability (to become part of the organisation's "DNA")

Guidance in this respect is given on our new website, www.sustainabilityatwork.org.uk, and is summarised in this report. The guidance has three parts.

1. The 10 main elements required to embed sustainability successfully in an organisation are identified and discussed.

   (i) Board and senior management commitment.
   (ii) Understanding and analysing the key sustainability drivers for the organisation.
   (iii) Integrating the key sustainability drivers into the organisation's strategy.
   (iv) Ensuring that sustainability is the responsibility of everyone in the organisation and not just of a specific department.
   (v) Breaking-down sustainability targets and objectives for the organisation as a whole into targets and objectives which are meaningful for individual subsidiaries, divisions and departments.
   (vi) Processes that enable sustainability issues to be taken into account clearly and consistently in day-to-day decision-making.
   (vii) Extensive and effective sustainability training.
   (viii) Including sustainability targets and objectives in performance appraisal.
   (ix) Champions to promote sustainability and celebrate success.
   (x) Monitoring and reporting sustainability performance.

2. A new web-based tool or methodology has been developed to enable sustainability issues to be taken into account more robustly and consistently in day-to-day decision-making. It is believed to be the first methodology of this type and is explained in detail on our website, and in summary in this report. The new methodology is to be applied by Sainsbury's.

3. A wide range of case studies in both the public and private sectors has been undertaken to identify good and innovative sustainability practice. A small sample of the case studies is provided in this report, with full details on the website.

Reporting Sustainability

The reporting of sustainability performance is often inconsistent, over complicated and inaccessible. A prototype reporting model is described which presents key sustainability information alongside more conventional financial information to give a more rounded and balanced picture of the organisation's overall performance. While the new model focuses primarily on environmental impacts, it can be developed to include social and ethical factors.

The new "Connected Reporting Framework" developed by the Project explains how all areas of organisational performance can be presented in a connected way, reflecting the organisation's strategy and the way it is managed. The principles which underlie the new Framework are:

- sustainability issues should be clearly linked to the organisation's overall strategy;
- sustainability and more conventional financial information should be presented together so that a more complete and balanced picture of the organisation's performance is given; and
- there should be consistency in presentation to aid comparability between years and organisations.

The new Connected Reporting Framework has the following five key elements.

1. An explanation of how sustainability is connected to the overall operational strategy of the organisation and the provision of sustainability targets. The challenge is to ensure that the sustainability information included in mainstream reporting is strategically important. Targets are important to ensure and demonstrate that sustainability issues are taken into account when making investment decisions.

2. Five key environmental indicators, which all organisations should consider reporting, being: polluting emissions, energy use, water use, waste and significant use of other finite resources.

3. Other key sustainability information should be given where the business or operation has material impacts. The Framework is not prescriptive in this respect to avoid the provision of irrelevant information and a "one-size-fits-all" approach.

4. The inclusion of industry benchmarks, when available, for key performance indicators, to aid performance appraisal.

5. The up-stream and down-stream impact of the organisation's products and services: the sustainability impacts of its suppliers and of the use of its products or services by customers and consumers.

The development of the new Connected Reporting Framework has been the result of a wide consultation process including large public companies, investors, NGOs, accounting standard setters, accountancy institutes and accounting firms. In addition, three companies – Aviva, EDF Energy and HSBC – have tested the new Connected Reporting Framework using actual data, and BP has expressed its intention to do so.

EMBEDDING SUSTAINABILITY

Changing mind-set, information sources, decision-making processes and reporting is probably the biggest organisational challenge faced by both the public and private sectors in responding to the "sustainability revolution". Although many organisations now have sustainability policies, relatively few have robust systems and procedures to embed these consistently and effectively into the "DNA" of their businesses.

How to do so is a wide-ranging and complex issue and, as a first step, the Project looked at four sectors: food, construction, the financial sector and the public sector. Work was undertaken with the companies and government agencies listed in the acknowledgements on pages 48 and 49 to understand how they are embedding, or are planning to embed, sustainability and to test emerging conclusions. The results of this work are as follows:

- a summary and discussion of the 10 main elements to embed sustainability successfully;
- a new web-based tool or methodology to enable sustainability issues to be taken into account more robustly and consistently in day-to-day decision-making; and
- examples of good sustainability practice from some of the companies and public sector organisations participating in the Project.

Although there can be a tendency for organisations to look at their own sectors in isolation, the Project was struck by the similarity of the issues encountered across the four sectors, and the opportunities that exist for cross-sectoral learning. These findings, together with other key guidance and tools, are brought together in a new website, www.sustainabilityatwork.org.uk. This website provides the information and the tools for how an organisation can embed sustainability in day-to-day operations and gives examples of good practice in this respect.

Many of the elements to embed sustainability successfully in an organisation can be found in the Business in the Community's Corporate Responsibility Index, which provides an overall indicator for organisations on the 10 key elements noted. It also has a set of Marketplace Responsibility Principles which deal with developing sustainable marketplace strategies.

THE 10 MAIN ELEMENTS TO EMBED SUSTAINABILITY SUCCESSFULLY

1. Board and senior management commitment

Senior management needs to be committed to the process of embedding sustainability. In particular the Chief Executive needs to show urgency in both action and message. Only when the enthusiasm and motivation comes from the top will sustainability become an essential and unquestioned part of an organisation's procedures.

Larger organisations often establish a Board committee to identify and address environmental and social issues, that might otherwise be marginalised during a full Board meeting. Another option is to broaden the scope of more traditional standing committees to include sustainability, for example the audit committee.

2. Understanding and analysing the key sustainability drivers for the organisation

No organisations have unlimited resources to dedicate to addressing sustainability issues. It is therefore important for each organisation to determine which sustainability areas are the most important for it, and to understand how sustainability in these areas affects profitability, brand and relationships with key stakeholders. It is, of course, important that this analysis should focus on the financial or operating case for sustainability.

It should include an assessment of the impact of sustainability issues on the organisation's staff, operations, premises and other assets, as well as on its suppliers, customers and related communities.

It is important that the sustainability analysis is quantified (i.e. backed-up with numbers) to the greatest extent feasible. It is also important for an organisation to ask and understand what its customers, investors and other stakeholders expect. This understanding will enable the development of an approach that reflects all material stakeholder priorities. In discussions with stakeholders the organisation can also begin to identify an appropriate set of qualitative and quantitative performance indicators. Identifying the sustainability drivers clearly will enable them to be communicated both internally and externally more effectively.

Considering relevant frameworks and standards can also be helpful. There are frameworks and standards that address a broad range of sustainability issues including the environment, human rights and business ethics. Some are cross-sectoral and others are sector specific. Signing up to an international or national framework or standard can add credibility to the organisation's sustainability programme, as it will ensure that many of the important issues are covered in a way that is generally regarded as effective. Signing up may also give access to valuable guidance, data sources, best practice research, contacts and reviews.

This is a rule as much as a step – don't try and do it all at once, in fact ask the question – what action is really relevant to me?

A case study partner.

Senior management commitment to sustainability issues acts as the driving force for sustainability in the organisation leading to extensive buy-in from employees across the organisation and a general desire to "do the right thing".

Innocent Drinks Ltd, case study partner.

3. Integrating the key sustainability drivers into the organisation's strategy

Having identified the key sustainability issues for the organisation and quantified their impact to the greatest extent possible, it is important that they are incorporated and reflected in the organisation's strategy as an integrated and connected part of the whole, rather than as stand-alone issues and objectives.

4. Ensuring that sustainability is the responsibility of everyone in the organisation (and not just of a specific department)

Many organisations have sustainability plans and objectives, but they tend to be the responsibility of a separate department and part of a separate mind-set. To put it another way, the foundations of good sustainability information and actions have often been put in place, but have been sidelined in a corporate social responsibility department and report. This fulfils a perceived need but fails in its broader purpose because sustainability has been isolated within the organisation.

It is essential that the connection between sustainability measures and the organisation's performance is understood and that sustainability is embedded in mainstream management processes. Sustainability objectives are unlikely to be achieved fully unless this is the case.

Aligning sustainability within our core business strategy was a key step to embedding sustainability within our company… it made it easier to convince others of its importance when sustainability is highlighted as one of our top business objectives.

HSBC Holdings plc, case study partner.

We have introduced a process by which major policies are tested against a wide range of criteria to assess their sustainability impacts. This can help to highlight impacts not previously considered and policies have been changed as a result.

Welsh Assembly Government, case study partner.

5. Breaking-down sustainability targets and objectives for the organisation as a whole into targets and objectives which are meaningful for individual subsidiaries, divisions and departments

There should be effective mechanisms for transferring strategy and top-level enthusiasm into the day-to-day operations of the organisation. Too often, forward-thinking sustainability strategies lose focus somewhere between the strategy document and everyday decision-making.

There can often be a lack of clarity as to what "sustainability" means and which measures are the most effective and most relevant in a particular situation. It is essential that targets and objectives set for the organisation as a whole are broken-down into targets and objectives which are meaningful for individual subsidiaries, divisions and departments.

6. Processes that enable sustainability issues to be taken into account clearly and consistently in day-to-day decision-making

Sustainability factors will not be taken into account by middle-managers and others unless they are given the authority, processes and information to be able to do so. For example, in setting a target for the reduction of greenhouse gas emissions during the production and use of a particular product, the manager concerned will not be able to respond meaningfully unless information about greenhouse gas emissions at each life-cycle stage is given and unless he or she is able to balance the cost of reducing emissions with other factors such as pricing, quality and availability of raw material supply. Equally if he or she does not have the authority to take action then action will be inhibited.

There is often confusion about the pros and cons of sustainability approaches even in relatively simple areas. For example, is more energy saved by using paper towels or electric hand-driers or by flying in fruit from Southern countries or by growing it in the UK in heated greenhouses? It is therefore important to ensure that the relevant information and decision-making processes are available to those having to take sustainability issues into account. It is the process of connecting sustainability related issues and conventional financial criteria that is critical.

This is an area where embedding sustainability is difficult to achieve in practice, but it is also a litmus test for whether the embedding process has worked. It is not uncommon for those procuring goods and services to want to act sustainably but still to choose suppliers on the narrow basis that they are the cheapest, because they have no other reliable and robust decision-making approach.

As part of the Project we have developed a web-based decision-making tool to show how this can be achieved in practice. Details are given in the section Taking Sustainability into Account in Day-to-day Decision-making on pages 14 to 17, and on our website www.sustainabilityatwork.org.uk

We are required to report annually to the Sustainable Development Commission on progress against our Sustainable Development Action Plan. This focuses our attention on our sustainability performance, and we are now looking at our Action Plan targets for the next two years.

Department for Children, Schools and Families, case study partner.

For us, all deals are in the region of £100m to £200m+ and will therefore need to comply with Equator Principles. We do not see a lot of projects where Equator Principles are an issue, everyone now recognises these stricter principles that have to be adhered to, that there are higher hurdles to meet. There may not always be social and/or environmental issues to consider but you need to ask the question.

Barclays Bank PLC, case study partner.

7. Extensive and effective sustainability training

Creating a culture of sustainability begins with staff, throughout the organisation, understanding not only what sustainability means generally, but what it means and why it is important in their specific context. Training is key to this and is particularly important and relevant in this developing area.

Cynicism about the sustainability agenda can be an issue, with sustainability often seen as adding expense, and therefore conflicting with the principle of value for money. It will take time to raise awareness and engage with every person within the organisation so that he or she knows what the sustainability strategy means and how to respond to it.

Where the appropriate training skills are lacking, they can be brought in from outside. Many organisations such as accountancy bodies and business schools have included sustainability as a major core of their work in recent years. Learning programmes should be established, and partnerships with outside bodies or with other companies or organisations in the same field might be explored.

8. Including sustainability targets and objectives in performance appraisal

A range of techniques can be used to influence behaviour, including training, awareness raising, objective setting, remuneration, promotion and other incentives.

It is essential that sustainability issues are reflected fully when setting objectives, assessing and remunerating staff and considering promotions.

It is a huge challenge for business schools to work with Chief Executives and the practising managers of today and yet also prepare the young managers of tomorrow, in a climate where the pace of corporate change and planet Earth are both heating up rapidly. Increasingly, it is not just about delivering education about sustainability; but the reality that Universities and business schools themselves are putting sustainable practices in place and being held publicly accountable for these.

Jonathan Slack, Chief Executive Association of Business Schools.

We have linked remuneration to a three-year cycle of profit return. This was done in order to remove the motivator of chasing short-term returns. We believe that chasing short-term returns is ultimately self-defeating. It is an unsustainable process that in the long-term will produce diminished returns for its clients.

Generation Investment Management LLP, case study partner.

9. Champions to promote sustainability and celebrate success

In order to embed sustainability successfully, there need to be people who understand the issues and have the capacity for change at every level. In other words, champions need to be identified who can be encouraged and relied upon to use their passion and commitment to embed the strategy. It should become a reinforcing model. From the board of directors down to the lowest levels within the organisation there should be active involvement with sustainability issues to influence thinking and behaviour throughout the organisation.

Celebrating success and showcasing good practice can also encourage further innovation and provide case studies from which others can learn.

10. Monitoring and reporting sustainability performance

Accountants are inclined to say that if it isn't measured it isn't done and reporting sustainability performance in internal and external accounts is essential. Sustainability measures need to be reported in a way that is part of, and connected, to the other key measures, financial and general, which inform performance evaluation. Measuring sustainability factors and establishing them at the heart of decision-making ensures that sustainability is embedded in the day-to-day life of the organisation.

In order to maintain support for sustainability improvements it is also necessary to demonstrate how the organisation has benefited from the changes made. This requires monitoring and reporting back on progress in achieving sustainability priorities.

This matter is discussed more fully in the Reporting Sustainability section, on pages 22 to 45 of this report.

Commitment from politicians and senior officials is one of the major driving factors for sustainability in our organisation. Engagement by senior staff throughout the organisation reinforces the importance of sustainability.

Welsh Assembly Government, case study partner.

TAKING SUSTAINABILITY INTO ACCOUNT IN DAY-TO-DAY DECISION-MAKING

One of the main issues to address in embedding sustainability is that managers, in taking day-to-day decisions, are rarely provided with the methodology and information to take the organisation's strategic sustainability objectives into account in a meaningful, consistent and robust manner.

Addressing this issue is not, of course, easy. Variables to be taken into account in decision-making are almost infinite. The data required to make assessments, for example, of how much water a process uses or how much carbon dioxide it emits, is not always available and can be difficult to find. Furthermore, sustainability issues, for example labour practices in the supply chain and environmental management, tend to be dealt with in specialist departments rather than by line management. Unless progress is made to enable operating managers to take sustainability issues into account in day-to-day decision-making more effectively, the ability to deliver sustainability objectives will be seriously inhibited.

A central part of The Prince's Accounting for Sustainability Project has been to develop a prototype sustainability decision-making model to illustrate how sustainability issues can be taken into account in decision-making more effectively. It is hoped that the general principles demonstrated in the model can be developed and adapted to meet a wide range of circumstances.

This prototype decision-making tool has been developed by the sustainability consulting firm ERM in conjunction with, and tailored by, Cadbury Schweppes, Duchy Originals, Sainsbury's and Tesco.

Introduction to the Sustainability Decision-making Methodology

The objectives for the model are to ensure, when decisions about products and services are made, that sustainability factors are taken into account:

- at the same time as and alongside more conventional factors, and in a way that enables the financial inter-relationship between the two to be apparent;
- in a way which is consistent and robust across the organisation; and
- which facilitates review by more senior management and subsequent reporting.

The process is divided into three broad phases.

- Undertaking a review of the whole product or service range to understand the impact of the organisation's main sustainability objectives. If additional major sustainability impacts are identified during this process the organisation's overall strategy may need amendment.
- Analysing the life-cycle of particular products and services to determine the impact of the key sustainability factors identified during the first more general review. This is an iterative process involving, for example, discussions with in-house manufacturing and/or suppliers and other stakeholders.
- Costing all the various options and reaching a balanced fully informed and documented decision as to how the sustainability performance of the particular product or service can be improved, with hopefully enhanced sales as a result of a better sustainability profile.

Sainsbury's has been very pleased to be involved from the outset with the development and design of the embedding sustainability tool. We particularly welcome the broad approach to sustainability: economic, social and environmental, which more realistically reflects the impact that businesses can have on the world. The tool provides a methodology and a structure that will help us to evaluate the way we do business in a practical way - Sainsbury's is fully committed to using it.

Justin King, Chief Executive, J Sainsbury plc.

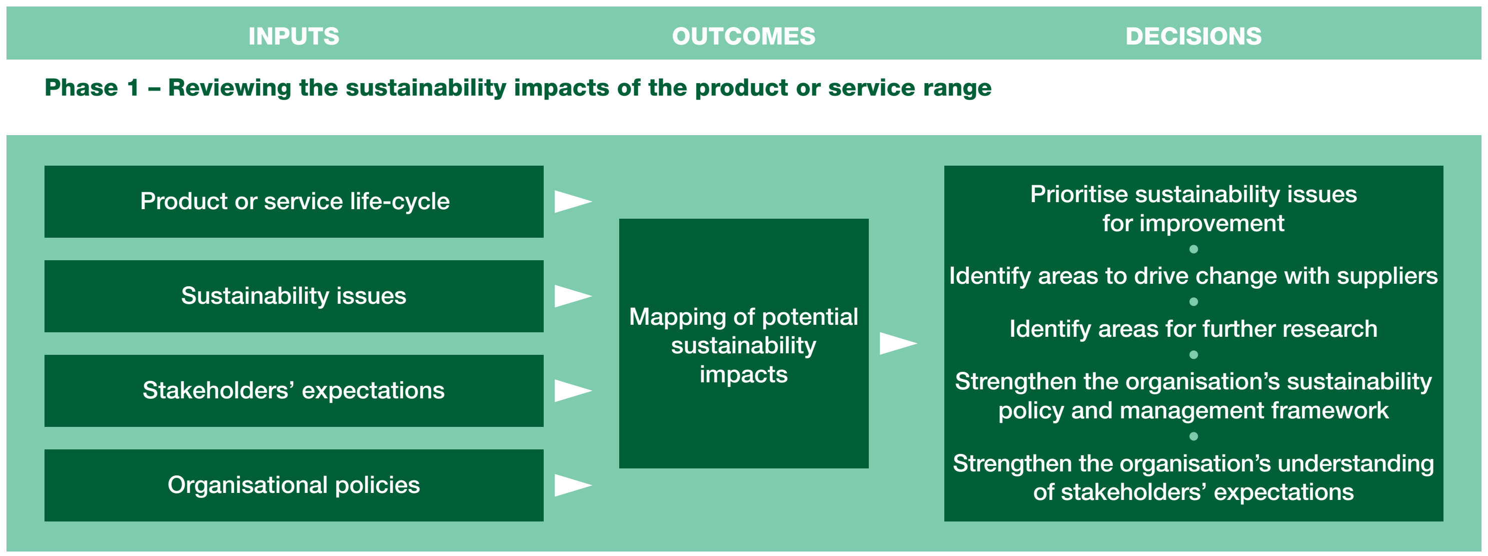
PHASE 1:

REVIEWING THE SUSTAINABILITY IMPACTS OF THE PRODUCT OR SERVICE RANGE

This phase aims to assess the material sustainability issues and to understand how external pressures impact on a product or service category across its life-cycle. The methodology enables the user to do the following.

- **Identify relevant environmental and social issues** – This involves a high-level desktop review of a product or service and its life-cycle to identify significant sustainability issues.
- **Understand and assess stakeholders' expectations** – The relevance of the sustainability issues across the life-cycle can then be assessed against stakeholders' expectations.
- **Review current product sustainability standards and overall organisational sustainability policies** – It will also be important to assess what the organisation's overall sustainable strategy and objectives are, and how the issues identified from the first two stages align with them.

This phase allows the organisation to prioritise sustainability aspects of a product or service for improvement. This may result in further research or discussion with suppliers.



PHASE 2:

ANALYSING THE SUSTAINABILITY IMPACTS OF A SPECIFIC PRODUCT OR SERVICE

The second phase of the methodology involves a more detailed on-site assessment of a specific product or service life-cycle and its associated suppliers, from raw material production to manufacturing, distribution, consumer and post-consumer use.

- **Understand the supplier's sustainability context** – Identification of the relevant environmental and social issues and their likely impact on the environment, workers and local community.
- **Review the supplier's sustainability management practices** – Assessing the supplier's sustainability management practices and performance, and identifying areas requiring further improvement to match expected sustainability product or service standards.
- **Development of improvement action plans** – In relation to the significant sustainability issues, identifying options available for improving the sustainability performance of the product or service, for example implementing new technology or changing suppliers. Specifying the time frame for these identified improvements is of importance.

As a result, either a performance rating is generated to reflect the product's or service's sustainability quality, or an exception report is generated that highlights the products and suppliers that are not meeting their agreed action plans in the time stated.

Cost implications are then calculated and considered in the next phase.

Phase 2 – Analysing the sustainability impacts of a specific product or service

INPUTS	OUTCOMES	DECISIONS
Product or service specific life-cycle Supplier's sustainability context Sustainability issues and likely impact Organisational policies	Sustainability rating for a product's or service's life-cycle and action plan for improvement	Agree on supplier and product or service life-cycle sustainability rating • Identify improvement actions for each supplier within the product or service life-cycle • Identify costs related to improving the product's or service's sustainability

PHASE 3:

REACHING A BALANCED AND INFORMED DECISION AS TO HOW THE PRODUCT'S OR SERVICE'S SUSTAINABILITY PERFORMANCE CAN BE IMPROVED

The third phase consists of integrating the newly generated information about the product's or service's sustainability performance rating, into the organisation's commercial decision-making processes such as buying, selecting new suppliers and product labelling.

It brings together the sustainability information and traditional financial indicators such as margin, product cost, market share and expenditure.

A fuller description of this sustainability decision-making methodology is given on our website www.sustainabilityatwork.org.uk

Phase 3 – Reaching a balanced and informed decision as to how the product's or service's sustainability performance can be improved

INPUTS	OUTCOMES	DECISIONS
Product life-cycle / supplier sustainability rating Other product and supplier parameters Consumer and other stakeholders' buying behaviours Organisation's sustainability strategy and policy	Improved product or service sustainability performance	Decide which components to buy at what sustainability quality, cost and business benefit • Decide to encourage suppliers' improvement of their sustainability performance • Decide to engage with consumers, demonstrate the value of sustainability products, and encourage change in consumption patterns

CASE STUDY EXAMPLES

Decision-making and sustainability considerations – Kent County Council

A major project was undertaken to review the lighting programme within Kent. Kent County Council (KCC) is responsible for and has over 16,500 signal lamps and almost 2,500 'WAIT' bulbs, all of which have to be replaced on average every six months.

As a result of looking into this issue and on deciding what action to take, sustainability considerations were built into the decision-making process. This ensured that the final decision took account of other issues and was not just focused on existing financial metrics traditionally used. The result of this is that the Council is in the process of bulk-replacing their traffic signal heads to light-emitting diode (LED) lights. KCC will be the first council to do this, and they will reap the following benefits.

- Saving over £1.8million over the first five years in operating costs.
- Reducing energy consumption by 70% compared to the standard bulbs previously used.
- Improving health and safety implications for employees due to removing the need to carry out frequent lamp maintenance/replacements.
- Reducing the number of lamp failures at traffic signals, which will help to reduce potential traffic accidents.
- Reducing waste disposal and landfill (by reducing the number of lamps and associated packaging to be disposed of), by 400,000 units.

Champions in the business – Barclays Bank PLC

The company focused on embedding a sustainable strategy into its lending process. The credit risk team were involved early in the process of credit review with the entire transaction being reviewed, including legal, credit, social, environmental and due diligence aspects in terms of direct, indirect and reputation risks. The company is guided by a 'do no harm' philosophy and aims to ensure that no material losses are incurred.

A central environment team works to ensure that each credit risk team has sufficient knowledge of social and environmental risks to enable them to make a final decision locally. However, referrals can be made for decisions on complex or unfamiliar transactions.

Increased awareness has been achieved by workshops, presentations, ad hoc information provision, organising events to promote a common understanding of issues to business, credit risk, syndication and legal teams, and use of environmental champions to communicate relevant information locally. Additional support is provided through detailed guidance notes which cover over 50 environmentally sensitive sectors.

The organisation recognises that assessing the significance of social and environmental risks is a skill which is acquired over time through practical experience, and a prescriptive approach is not encouraged due to the complex and wide-ranging nature of social and environmental issues. In its approach to assessing sustainability risks, the organisation recognised many benefits, including a reduction in the time taken to reach a decision due to the greater understanding of potential risks; an ability to avoid lengthy review processes for deals that may ultimately be declined; and helping to avoid becoming involved in controversial deals which may have associated financial and reputation risks.

Embedding sustainability into core business strategy – Carillion plc

Over the past ten years Carillion plc has implemented an organisation-wide framework on sustainability including their Strategy and Sustainability Excellence Models, which have been developed to embed sustainability considerations into all aspects of its business operations. Central to the model are the strategic key performance indicators (KPIs) which are set across a range of environmental, community and economic issues, following initial work to identify the key areas of impact for its business.

This approach specifically links the delivery of Carillion's business objectives to the UK's Sustainable Development Strategy. This represents a marked shift from a reactive response to environmental issues, to a proactive one - which actively seeks to promote sustainability throughout the business, support services and the construction sectors.

The new John Radcliffe Hospital, a Public Private Partnership project in which Carillion is an equity investor as well as providing design, construction, maintenance and ongoing facilities management services, is an excellent example of how organisation-wide KPIs can be translated into action using Carillion's sustainability framework. As part of The Hospital Company consortium, Carillion worked with the Oxford Radcliffe Hospitals NHS Trust, to provide a dedicated children's hospital and an adult centre on the existing John Radcliffe Hospital site. The project involved the construction of 55,000 square metres of new building facilities at a capital cost of £135 million. The business case for the project incorporated the following three strategic sustainable objectives.

- To provide a flexible facility that will adapt to the changing requirements of healthcare in the 21st century, with minimal disruption to patient services and site activity.
- To provide revenue savings from reduced estate running costs, maintenance and upgrading costs.
- To work in partnership with local government to deliver an environmentally beneficial solution providing medicine in Oxford throughout the 21st century.

A Sustainable Action Plan was developed which incorporated the NHS Trust's own sustainability objectives for the project. This was done through a series of joint workshops and training sessions held with the development team and Carillion, in which improvement actions were identified. Some examples are as follows.

- The energy usage for the John Radcliffe building was originally estimated at 56 giga-joules per 100 cubic metres per year. Through the recruitment of a dedicated energy manager on site, refinement of the on-site energy management systems and working closely with the Oxford John Radcliffe NHS Trust, the site is now reading 48 giga-joules.
- A waste management company was employed to segregate waste, this resulted in 36 tonnes (90%) of the average monthly waste being diverted from landfill.
- Ceiling tiles were selected that consisted of sustainable recycled materials of 30% post-industrial waste, this also resulted in financial savings of £60,000.
- Linoleum was used for 60% of the flooring, which is manufactured from renewable raw materials and is biodegradable. Selecting this product increased the replacement life cycle by 10 years compared to the use of manmade vinyl.

The Sustainable Action Plan facilitated the identification and implementation of innovative ideas, and focused on longer-term costs and better value for money. These measures have helped deliver value through reduced waste levels, improved carbon emissions and lower running costs.

Strategy development identifying and focusing on key sustainability issues – Metropolitan Police Service

As part of the Safer Neighbourhoods Initiative, the Metropolitan Police found that by reducing environmental crime (litter and vandalism), overall crime levels fell. Based on the "Broken Window theory" that there is an express link between environmental degradation, reducing quality of life and high crime, a number of initiatives were undertaken to improve and promote a cleaner and safer local environment. For example, providing paint to local shopkeepers to paint out graffiti and providing skips free of charge to clear up fly-tipped waste.

After 12 months of engagement with the local community, the overall crime level had dropped by 24% in the area, and a reduction was achieved in every one of the 15 "basket of crime" offences. The Metropolitan Police Service has 630 Safer Neighbourhood teams across London, and in 2006/7 5,782 environmental visual audits were carried out and 2,740 environmental crimes were prioritised by local communities for Safer Neighbourhood teams to tackle.

The Metropolitan Police provide a co-ordination role and do not a have a specific budget for this activity. However, by identifying key issues to tackle, which can incorporate sustainability issues, and by working in partnership with other organisations with the same objectives of cleaning up the area and reducing crime, resources can be pooled and the overall objectives achieved. Overall this has improved the physical and mental well-being of those people who live in these areas, thereby reducing their call on a variety of public services.

Sustainability targets set throughout an organisation – Welsh Assembly Government

The Senedd Building on Cardiff Bay which houses the National Assembly for Wales, was completed in 2006. One of the targets in the design brief was that energy consumption and carbon emissions from the building should be minimised. Through the design brief and work done, to look at all aspects of how the building ran and where the principal energy consumption was, the following innovations were made.

- Using natural ventilation techniques throughout the building to reduce the need for mechanical air conditioning. Combined with other energy-minimisation measures, this has helped the Senedd building to achieve running cost efficiencies of 30-50%.
- Installing a ground source heat exchanger system that relies on the constant temperature of the earth at a depth of 100 metres for heating and cooling via underground pipes. This uses 2-3 times less energy to produce the same amount of heating/cooling as a conventional system, reducing energy costs and lowering emissions.
- Using a biomass boiler to provide high-grade heat. The boiler uses wood pellets made from off-cuts produced at a local furniture makers; and the residual ash left after combustion is almost pure potash, which is sold on to local garden centres for fertiliser. The process emits significantly less carbon dioxide than burning conventional fuel.

How to develop an effective sustainability strategy – Cadbury Schweppes plc

Cadbury Schweppes plc has developed a global sustainability strategy organised around their most relevant and material corporate and social responsibility (CSR) issues. This strategy is underpinned by high level leadership commitment based on the business case for sustainability as well as the company's heritage, values and ethics.

Cadbury Schweppes's first step at formalising their CSR and sustainability strategy was taken in 2001, when they clarified the key CSR drivers for the company and for the wider industry. Based on this, the company's most relevant and material CSR and sustainability issue areas were identified for priority focus. The 5 material areas form the company's 'CSR pillars' and are:

1. Marketing, Food and Consumer Trends;
2. Environment, Health and Safety;
3. Human Rights and Employment Standards;
4. Ethical Sourcing and Sustainable Agriculture;
5. Community Investment.

A specific senior leader was appointed as a 'pillar owner' for each, with responsibility for defining the envisioned sustainability outcomes for their area as well as broad strategies for achieving them. In defining envisioned sustainability outcomes, pillar owners took account of current and emerging trends (including social, economic, political trends etc) and their impact on our business. All pillar owners report to the company's Main Board through the Board CSR Committee.

In 2006, having developed broad strategies around every pillar, the company announced a set of 'sustainability commitments' for each. These are concrete time-bound targets which help to align energies globally and support more detailed action planning within each pillar. These sustainability commitments are currently being woven into key business processes and performance management systems. Progress is reported regularly through externally-assured CSR reporting.

In 2007, as part of Cadbury Schweppes's Purple Goes Green programme, the company started a campaign aimed at engaging employees around its sustainability commitments. The campaign is designed to increase employee awareness, action and input on sustainability issues. For example, the company is currently establishing an employee network of 'green advocates' across the global company. Coordinated from the corporate centre, green advocates organise local awareness events including poster campaigns, movie screenings, discussion groups etc. They also initiate workplace improvements as well as lifestyle changes that add up to substantial sustainability impacts. In the UK, some current or planned improvements include upgrading to more efficient office equipment, encouraging cycling to work and carpooling, "incentivising" use of public transport, switching off lights and idle computer monitors etc.

This approach of implementing a clearly defined strategy while at the same time engaging employees is proving successful in advancing Cadbury Schweppes's still evolving sustainability agenda.

REPORTING SUSTAINABILITY

This section provides new insights into how organisations can approach the challenges of providing key sustainability information in a more integrated, clear, concise and comparable format. The focus is primarily on environmental impacts but the suggested Connected Reporting Framework also facilitates the reporting of social and ethical factors.

This section has three parts.

- **A Time for Change in External Reporting** – A discussion and appraisal of how external reporting has developed, of the need for change and in particular of the need to connect and integrate the financial and sustainability elements when reporting.
- **The proposed Connected Reporting Framework** – An explanation of how this suggested reporting model seeks to demonstrate how all areas of organisational performance can be presented in a connected way, reflecting the organisation's strategy and the way it is managed. The Connected Reporting Framework proposes five environmental indicators that all organisations should report on: polluting emissions, energy, waste, water and significant other finite resource usage.
- **The Connected Reporting Framework in Action** – A series of worked examples provided by Aviva, EDF Energy and HSBC which bring to life the Connected Reporting Framework and highlight how it can be used in practice.

A TIME FOR CHANGE IN EXTERNAL REPORTING

External reporting is an important component in the effectiveness of capital markets and in giving employees and other stakeholders confidence in an organisation. As society's awareness of the importance of sustainability has increased, in particular climate change, so has the challenge of clear and effective sustainability reporting moved up public bodies' and companies' agendas. The result has been increasing discussion of how best to report sustainability performance; or to put it another way, of how to give a more balanced and complete picture of overall performance.

External corporate reporting has evolved from the simple financial reporting of profits and losses, assets and liabilities to give more information about how organisations are managed and conduct their business. This change has embraced information on governance as well as non-financial information such as environmental and social policies.

In parallel, a separate strand of reporting has emerged under the banner "Corporate Social Responsibility (CSR)". CSR reports are becoming increasingly common and can cover such matters as corporate relationships with employees, their health and wellbeing, relations with local communities, transparency of business dealings, and anti-fraud and anti-corruption behaviour. This reporting is typically driven by requirements for information resulting from stakeholder engagement processes. As a result, CSR reporting primarily remains an addition to the existing model, and is not generally connected with an organisation's main strategic objectives.

The Global Reporting Initiative has become widely used by companies, providing a useful basis for applying consistent measurement when reporting to key stakeholders.

However, the challenge is to ensure that sustainability information is included in mainstream reporting and is strategically important and forms part of the decision-making process of the business. This differs from much of the current corporate responsibility reporting which is not connected with the business and its strategic thinking.

The emergence of these new reporting methods over the last decade has paved the way for a new approach. It has, for example, become clear that narrative reporting provides benefits which add to those of traditional financial reporting. At the same time there is growing dissatisfaction, among both preparers and users of financial annual reports, with their length and complexity.

In developing our proposals for improved sustainability reporting we have built on the work of many organisations which have been operating in this area for a number of years, in particular the Global Reporting Initiative, the United Nations, AccountAbility and Defra/Trucost.

The development of our proposals has also benefited from a wide consultation process which started with a series of round table discussions. Over 45 organisations have been consulted, representing large companies, investors, NGOs, accounting standard setters, professional institutes and accounting firms. A list is provided on pages 48 and 49.

In developing our proposals the following issues and barriers were identified.

Companies

- Concerns about adding to the amount of information already reported, unless added benefits can be demonstrated.
- Issues over deciding what information to report and where to report it.
- Worry about the disclosure of competitive information.
- Concerns over the publication of targets.
- Concerns about the lack of consistency in measurement and interpretation in some areas.

Investors

- How material sustainability issues impact short-term profitability of an organisation. This focus is reinforced by the current incentive structures that drive the fund management industry.

NGOs

- Their important role in driving change in this area, and concern that sustainability should be reflected fully, and in an integrated way, in organisations' operating or business strategies.

If reporting is to reflect fully the developments and requirements of the "sustainability revolution", it is important that the interdependent relationship between existing financial data and other data such as social, customer, supplier and environmental indicators is made clear. Connecting the various elements in this way when reporting should help ensure that decision-making and strategy is based firmly on the whole picture rather than an incomplete set of contributing factors.

Financial accounts show that profitable organisations create wealth, but they rarely show that apparently profitable organisations can also destroy it, for example through negative environmental impacts. Presenting a more balanced understanding of an organisation's contribution to society, both in terms of long-term financial and other often less readily measurable impacts, is critical.

We also concluded that there needed to be a framework that helped ensure consistent building blocks of information are reported to facilitate comparison of performance between years and organisations. The framework should also be flexible to enable organisations to present the information in a way that is relevant for themselves and their particular industries.

The response to our emerging conclusions has been overwhelmingly positive, with particular support being given to:

- the emphasis on the link between sustainability issues and the financial performance of the organisation; and
- flexibility in reporting to accommodate the specific information needs of different organisations and industries.

> Reporting should not be seen just as a matter of compliance but rather as a critical component in the process of reputation management and value creation.
>
> **Paul Druckman, Chairman, Clear Group and Fédération des Experts Comptables Européens Sustainability Policy Group.**

The new reporting framework has the following characteristics.

Strategic relevance – Sustainability issues need to be clearly linked to the organisation's overall strategy. If key sustainability indicators (as shown on page 32) are not considered important this should be stated.

Comparability (from year to year and with other organisations) – This can be achieved by a consistent application of the proposed reporting framework. While we recognise that in certain areas there is a lack of generally accepted bases for measurement, this problem will diminish with time. The lack of standard measurement bases does not compromise the use of the suggested framework, as the first challenge is to start to provide a broader and more balanced picture of the organisation's performance.

Balance – By bringing together financial, non-financial and narrative information, the framework should provide a more complete and balanced record of the organisation's performance and impact on society and the environment.

Value chain impact – The framework provides for explanation of the effect of the organisation's activities on its suppliers (up-stream) and customers (down-stream), as well as of its own direct activities.

Flexible evolution – The framework enables organisations in different industries to report those sustainability issues that are material to them and allows their reporting to evolve over time in its sophistication and depth.

Behavioural change – At the heart of the sustainability challenge for most organisations is the issue of behavioural change. An organisation needs to reorient the mindset of its staff to embrace sustainability, and to minimise the risks and grasp the opportunities it presents. Reporting the information in a more connected way should help staff to engage with the issues.

Ahead of the game – The proposed framework provides a platform from which to learn and experiment. The likelihood of regulation in this area is strong. By starting this journey now an organisation will have more time to respond to and meet developing requirements. Reporting is a competitive tool and it is hoped that the proposed new Connected Reporting Framework will enhance an organisation's credibility and standing.

The Connected Reporting Framework makes practical steps to redefine corporate value through a more holistic reporting approach.

Oliver Greenfield, Head of Sustainable Business and Markets, WWF-UK.

THE CONNECTED REPORTING FRAMEWORK

In developing the framework we have placed most emphasis on environmental indicators. This is because environmental impacts and associated measurement and quantification techniques are more developed.

Reporting social impacts is generally more difficult to do in a quantified and comparable manner; however, impacts on issues such as wage levels, working conditions and social cohesion and communities are, of course, important and the proposed Connected Reporting Framework provides for the reporting of this type of information.

The key recommendations which support the Connected Reporting Framework are as follows.

Five environmental indicators – All organisations should report the following environmental indicators – polluting emissions, waste, water usage, energy usage and significant use of other finite resources. Given the current level of concern about climate change and the environment generally, no organisation can afford to ignore these areas. If an organisation believes that its impact in one of the five specified areas is not material then the reasons should be explained. This will avoid concern about possible cherry-picking.

Sustainability and strategy – It is a critical component of the framework for the organisation to explain how sustainability fits into its operations or business, and to present the information which is material to the organisation and its stakeholders in the achievement of its stated strategy. The framework will highlight this by the connection between sustainability and financial performance and by the use of targets and narrative. The type of information may, of course, change over time as the strategic objectives of the organisation change. The provision of targets is particularly important in sustainability areas to ensure and demonstrate that sustainability issues are taken into account when making investment decisions.

Relevance and flexibility – In addition to the five indicators noted above, other key sustainability information should be given where the operation or business has material impacts. This will demonstrate that the organisation has analysed and is addressing its sustainability impacts across the spectrum. The framework is not prescriptive in this respect to avoid the provision of irrelevant and therefore unhelpful and "cluttering" information and a one-size-fits-all approach.

Industry benchmarks – To aid performance appraisal, industry benchmarks for the key performance indicators should be included where available. It is hoped that organisations will continue to work with others in their sector or industry to develop these benchmarks.

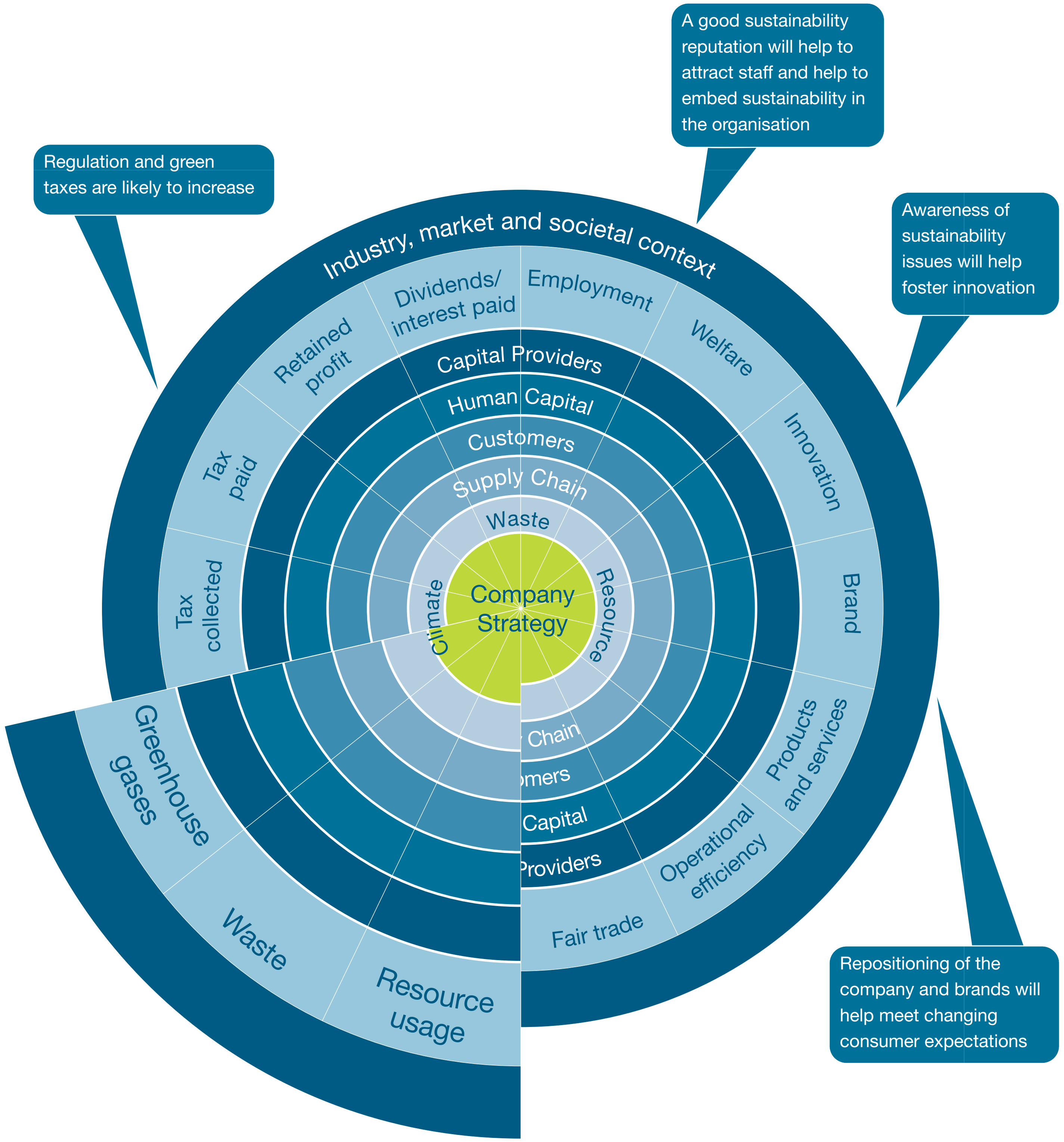
BP is pleased to have been a sponsor of the Accounting for Sustainability Project. We believe the proposals contained in this report can help organisations, through their accounting and reporting, contribute to sustainable development issues in a meaningful and consistent way.

Iain Macdonald, Deputy CFO, BP plc.

Beyond the legal core – An organisation should also take into account and, if material, reflect in its reporting the up-stream and down-stream impacts of its products and services. It should consider the environmental and other sustainability impacts of it suppliers – how are raw materials being extracted and depleted, how is food grown, transported and processed – to help them become more sustainable, and it should take into account the sustainability impacts of the use of its products and services by consumers and customers, for example how much fuel will a supplied car use or how much energy will food take to store, cook and what waste will there be to dispose of? Furthermore organisations acting on their own are often unable to deliver the change that is needed. The only way some sustainability issues will be solved will be by working together with other businesses, investors and the Government, seeking a more holistic solution rather than one that works solely for one organisation.

As mentioned above, the key element of the suggested Connected Reporting Framework is that it provides a framework for reporting strategically important financial and sustainability performance in a way that demonstrates the strong interdependence between the two. This concept is illustrated opposite.

The diagram shows the interconnected range of activities and sectors that need to be integrated into a connected report. The enlarged wedge shows how traditional financial information is impacted by many different aspects of an organisation's activities.



Environmental degradation was the most mentioned element in an assessment of corporate reporting, with 45% saying that better environmental practice should be the highest priority for business. This has increased by 11% in the period 2001 to 2007.

Ipsos MORI Poll August 2007.

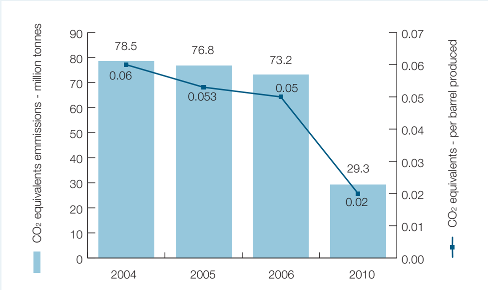
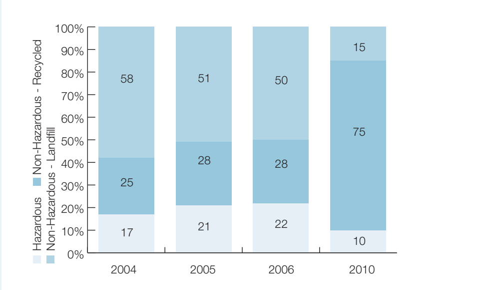
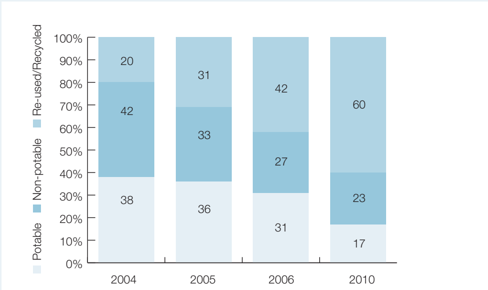
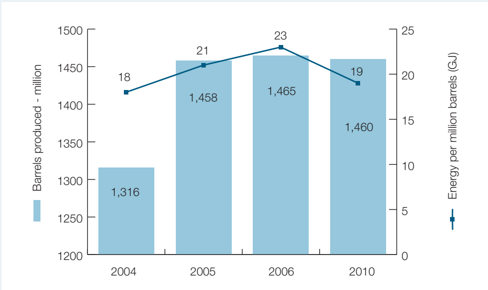
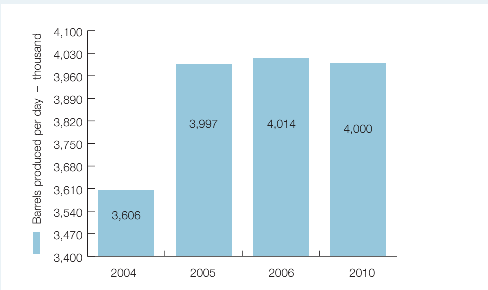
An illustrative example of what a Connected Reporting Framework might look like in practice for an oil company is given below. It includes a number of callouts which demonstrate the key recommendations and features of the proposed framework.

1) Presenting a balanced understanding of a business' contribution to investors' returns and the wider needs of society

5) Information reported externally should align with the information used to run the company internally. If its not used internally then it should not be reported externally

6) The information reported for each critical area should comprise financial, non-financial and narrative information

KEY INDICATORS / DIRECT COMPANY IMPACTS

Climate, waste and resource indicators	Financial performance 2004 £m	2005 £m	2006 £m	Non-financial indicators
Emissions				
• CO_2 equivalent emissions				
- Sustainability expenditure	10.0	12.0	15.0	
- Offset expenditure	1.0	1.5	2.0	
- Carbon equivalent liability	10.0	13.0	19.0	
• Other significant emissions				
- Sustainability expenditure	1.0	1.0	2.0	
Waste				
- Sustainability expenditure			2.5	
• Hazardous waste				
- Total disposal cost			1.6	
• Non hazardous waste				
- Total disposal cost	0.5	0.7	1.0	
Finite resource usage				
• Water				
- Operating expenditure	3.0	4.0	4.5	
- Sustainability expenditure	1.0	1.5	1.9	
• Energy consumption				
- Operating expenditure	8.5	9.3	9.6	
- Sustainability expenditure	1.0	1.2	1.6	
• Other finite materials				
- Sustainability expenditure	2.0	3.0	3.1	
• Environmental incidents				2004 2005 2006
- Fines	0.7	0.6	0.2	No. 15 12 10

2) All that is reported has to be set in context, particularly the company's strategy. It is the strategy which should determine what is measured and reported

3) The shape and nature of the information reported will change by industry and by organisation depending on the business model and key drivers

4) The way financial information is presented needs to be recast to align more effectively with the key drivers of business performance

INDIRECT COMPANY IMPACTS / INDUSTRY

Targets and narrative	Customer / supplier indicators	Benchmark information
Our strategy is to source renewable, local energy supplies to reduce CO_2 emissions and to reduce miles travelled. Further information is presented in our CSR Report	Our top two areas for reducing our carbon footprint in 2006/07: • we will be undertaking energy audits on our refining processes to lower energy usage and looking to increase the amount of power from renewable resources. • working with our transportation partners to explore the use of alternative fuels.	CO_2 equivalents per barrel produced 0.045
Opportunities to use non-hazardous substances are being identified and the promotion of safer, more environmentally friendly chemicals will occur as technology is replaced. Further information is presented in our CSR Report	We are working with our up-stream partners to improve the recycling of: • scrap metal, cans and drums – seeing how we can reduce the amount lost and wasted in the value chain. • chemicals and related waste.	Percentage recycled/reused 45%
Innovation into new technology to reduce water consumption is being introduced. Saline water use, rainwater harvesting and pit dewatering are also being explored. Further information is presented in our CSR Report	We will be seeking to ensure that we help to improve water access for communities where our operations are. In addition we are developing water management systems with supplying partners to help install water meters and allocating water allowances to encourage savings.	Reused/recycled water 52%
Our energy strategy is to invest in new energy saving technology, and to reduce our energy dependency on fossil fuels. Further information is presented in our CSR Report		Energy consumption per million barrels 20 (GJ/million)
Further information is presented in our CSR Report		
Zero incidents		12

7) Trend data and targets are important features of the model, and are particularly critical for environmental reporting

8) The up-stream and down-stream impacts of products and services should be reported on

For the purposes of the Connected Reporting Framework, the environmental indicators that all organisations should report include the following.

Polluting emissions

To be subdivided into

- CO_2 equivalent emissions (e.g. greenhouse gas emissions)
- Other significant emissions (e,g. Sulphur Dioxide)

A recommended measurement basis is that set down in the Greenhouse Gas Protocol, issued September 2007. The minimum information to be reported should include the following.

- Financial data – the offset cost (the amount paid to reduce the organisation's carbon footprint), sustainability expenditure (the amount which is spent to lessen polluting emissions) and carbon equivalent liability (the cost to an organisation of buying carbon credit for CO_2 equivalent emissions which are not offset).
- Non-financial information – the actual carbon footprint of the organisation. Targets for future reductions should be given, showing the strategy for sourcing renewable energy supplies, for example, or on tackling transport policy to reduce miles travelled. This could include energy audits or working with transportation partners to explore the use of alternative fuels.
- Sector benchmark information can also be provided.

Waste

Figures should be subdivided into hazardous and non-hazardous waste. The recommended measurement and disclosure approach would normally be total weight of waste by type and disposal method (GRI indicator EN 22).

- Sustainability expenditure should again be included.
- Future targets and information on the substitution to non-hazardous substances, and the replacement of existing technology to promote, for example, safer and more environmentally friendly chemicals, should be included.
- The policy for reducing the amount of material lost and wasted in the value chain could be explained. Equally the policy for working with the organisation's partners to use technology to reduce reliance on, for example, hazardous chemicals, could be described.
- Sector benchmark information on the percentage of recycled and reused resources could be provided.

Finite resource usage

Covering

- Water
- Energy
- Significant other finite materials

By combining related financial and non-financial information, the Accounting for Sustainability Project proposes a practical approach to reporting material sustainability impacts. Its widespread adoption will produce a useful consistency to the presentation of non-financial key performance indicators.

Sir Michael Rake, Chairman, BT Group plc.

The recommended measurement bases for these indicators are total water withdrawal by source, direct and indirect energy consumption by energy source and the total amount of materials used by weight or volume including the percentage of non-renewable materials.

Operating expenditure, sustainability expenditure, targets and industry benchmarks should all be included along with narrative which explains ways in which the organisation is working to improve its impacts. This could include the immediate policy for developing water management schemes with partner suppliers, installing water meters or allocating water allowances to encourage savings.

Sector specific issues

Although we have said that we believe there are a number of key environmental issues which all organisations should report, irrespective of sector or impact, we also suggest that when the organisation has other significant sustainability impacts these should also be reported.

Social impacts are often equally as important as environmental impacts, particularly for the service industry or the public sector; as mentioned before, this is an area that requires further evaluation and has not been the focus of this project.

An additional dimension which all reporting organisations need to consider is sector specificity. From time to time most economic sectors face investor or community scrutiny. Examples include:

- packaging (the food industry);
- responsible lending (the banking sector);
- natural resource constraints (the extractive industries sector);
- climate change (the water and insurance sectors); and
- the use of fertilisers and the bio-diversity issue (the agricultural sector).

While it may not be possible to identify quantitative metrics which capture the essence of organisational performance in all these areas, it is still necessary to try to make the economic link. We encourage experimentation and transparency in response to identified stakeholder concerns on any key sector specific issues.

The five environmental indicators are the core indicators that every organisation should consider reporting, but it should also be understood that they do not exclude other disclosures. The most important priority is to look within the organisation and choose the indicators which will have the greatest relevance and value in highlighting the connected nature of information such as major influences on financial performance, environmental impact and future strategy.

Alan McGill, Project Director, Accounting for Sustainability.

Underlying principles

The Connected Reporting Framework allows organisations to report in a way that reflects their particular circumstances. It should also help organisations and their staff to look to the long-term.

We acknowledge that financial, narrative and sustainability reporting derive much of their credibility from strong underlying principles. These include the International Accounting Standards Board's guidance on the characteristics of financial reporting (understandability, relevance, reliability and comparability), and the Global Reporting Initiative's sustainability reporting guidelines published in 2006. Reporting should focus on the key financial and sustainability issues and include future-oriented disclosures which are made in good faith and, like the rest of the information, can be explained and defended.

We do not recommend that mandatory assurance should be required at this stage of the framework's development, although organisations may find it useful to commission assurance work to provide them with a sounding board and recommendations for future action.

THE CONNECTED REPORTING FRAMEWORK IN ACTION

In addition to the main consultation process referred to above, three companies, Aviva, EDF Energy and HSBC, have tested the reporting framework. This was to check that the framework can be used in practice and to ascertain how information is captured, presented and, importantly, used internally to drive decision-making. BP have also expressed their intention to use the Connected Reporting Framework.

Trial reports prepared by Aviva, EDF Energy and HSBC are given below. They provide ample evidence for the way the framework can be used. Hopefully these examples will inspire others to adopt the proposed Connected Reporting Framework. They also illustrate how the issues and barriers noted above have been dealt with.

The flexibility of the framework and the way it can be used is demonstrated by the fact that each of the three companies is using the framework in different reporting mediums. Aviva plans to use the framework in its Annual Report and Accounts, HSBC is proposing to use it in its Corporate Sustainability Report, and EDF Energy as a key component of its internal management reporting.

Aviva plc

Aviva has a long history of CSR reporting, and has produced an annual CSR Report for several years now. Last year it added a CSR section to its Annual Report and Accounts. Aviva is the first insurer to carbon neutralise its global operations, offsetting its 2006 carbon emissions. It has been working on carbon reduction through a number of different initiatives over the last number of years, including increasing energy efficiency through behavioural and technological changes, purchasing of zero emission electricity and engagement campaigns to involve employees.

Aviva's purpose is to provide prosperity and peace of mind to our customers. Sustainability is key to achieving this. Through our products, we offer protection from some of the adverse consequences of climate change and environmental degradation, such as flooding, by transferring the risks from such events from our customers to ourselves. Therefore, it is essential that, if we are to secure the future success of Aviva, we manage not just our own direct impact on the environment and society, but influence sustainable behaviour amongst our customers, suppliers and the companies we invest in. This is not just about corporate responsibility, it makes sound business sense.

Lord Sharman of Redlynch OBE, Chairman, Aviva plc.

Aviva plc

Climate, waste and resource impact

KEY INDICATORS

DIRECT COMPANY IMPACTS

Cash flow performance

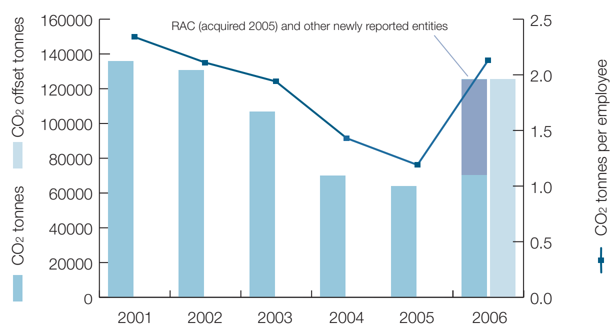
Non-financial indicators

Greenhouse gas emissions

- CO_2 emissions

Total cost of offsetting 100% of our global CO_2 emissions in 2006 was £756,000. We incur up to a 2% premium for zero emission / renewable electricity compared to fossil fuels. Furthermore, while it is not possible to attribute individual weather events such as the June-July 2007 UK flooding event to climate change, the increased incidence of such events has a significant impact on the insurance claims which we incur.

Aviva's CO_2 emissions



- Other significant emissions

Other than CO_2 emissions our operations do not generate material quantities of any other significant greenhouse gases.

Waste

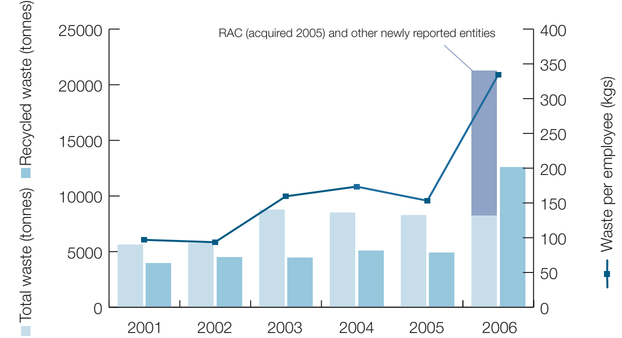
- Hazardous and non hazardous waste

Total disposal cost for hazardous and non hazardous waste in the UK was £585,000, which includes UK landfill tax at circa £80 per tonne

- Conservation investment

Total capital expenditure for storage and recycling in the UK was £200,000.

Aviva's waste



Resource usage

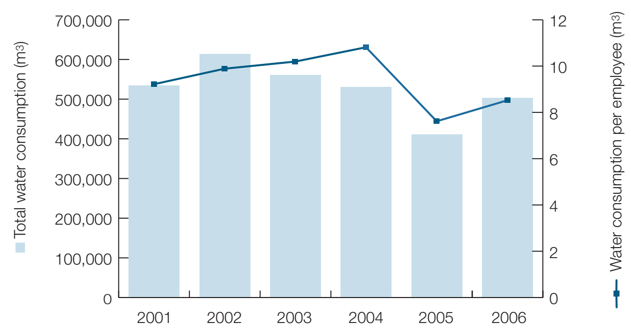
- Water

The operating cost of water usage was £670,000 in 2006 (2005: £756,000) (2004: £956,000)

- Energy intensity

Total cost of building-related energy in 2006 was £19.4 million (2005: £25.2 million)

Aviva's water consumption



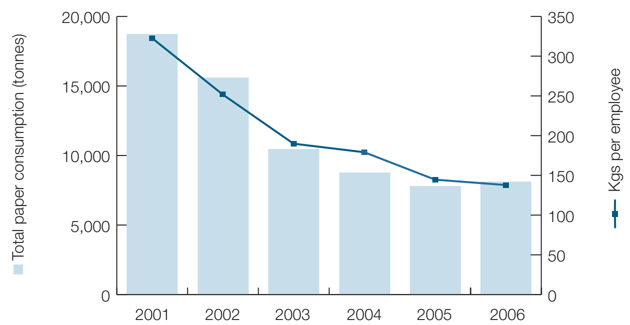
- Paper usage

We currently do not track the cost of paper usage.

- Environmental incidents

During 2006 there were no environmental incidents as a result of our operations, resulting in fines of £nil (2005 £nil).

Aviva's paper consumption



INDIRECT IMPACTS

INDUSTRY

Commentary on our performance, strategy and targets

Products / Suppliers / Investments

Benchmark Information

Greenhouse gas emissions: commentary

In 2006, our total CO_2 emissions increased, mainly due to the inclusion of emissions data, for the first time, from the RAC and AutoWindscreen fleets and buildings, and our Asian businesses. The addition of a vehicle recovery business with a very different carbon footprint to our existing business has resulted in an increase in CO_2 emissions per employee. From our existing businesses, emissions have shown a slight increase, reflecting operational requirements, for example the upgrading of our managed property portfolio in respect of air-conditioning. We will continue to focus on reducing our energy use and look to source zero emission power where we can (currently 55% of our electricity worldwide is purchased from zero emission sources). We offset our remaining emissions on a retrospective basis starting with emissions generated in 2006, compensating for the carbon output of our consumption of non-renewable sourced electricity, gas and oil from buildings and business travel, including air, car and train, across all of our global operations.

Our top two areas for reducing our carbon footprint in 2007/08:

- We are installing Telepresence systems in six locations worldwide to begin with to reduce the amount of business travel. We have set a reduction target of 10% for the routings.
- We are working with our vehicles service fleet (RAC) to investigate alternative lower intensity fuels.

Although we are growing organically and by acquisition, we will still strive to reduce our CO_2 emissions per full-time equivalent employee over time.

Greenhouse gas emissions: products / suppliers / investments

We are looking at ways in which to help our customers reduce their own CO_2 emissions through the provision of innovative products such as "Pay As You Drive™" and by offering reduced premium insurance for drivers of hybrid and flexi-fuel in the UK, Canada and the Netherlands. Aviva France offers reduced premium household insurance for energy efficient houses. Delta Lloyd has a motor insurance product, which as part of the product provides emission offsetting for the mileage covered by the driver.

The UK business has also pioneered digital flood mapping to more closely match risk to premium and has showcased flood resistant and resilient measures to assist customers with climate change adaptation.

In the Netherlands, Delta Lloyd asset management business has two funds which concentrate on climate change mitigation (Environmental Technology Fund and New Energy Fund), with funds under management of €103m. Morley Fund Management with £168bn funds under management engages with companies they invest in to encourage greater environmental reporting/disclosure.

Greenhouse gas emissions: benchmark information

Carbon Disclosure Project CDP 5

'Best in class'

Innovest ranking 'AAA'

BREEAM minimum ranking 'Good' for new build and refurbishment

Waste: commentary

In 2006, the increase in total waste volume and total amount recycled is again due to the acquisition of the RAC, with new sources of waste originating from the Auto Windscreens operation (large volume of glass, plastic and wooden pallets) and scrap metal from the RAC business. RAC's office waste segregation and recycling is being improved to the standard of the rest of our UK business. Our bin-less office system is being rolled out in the RAC and plastic wrap from the Auto Windscreens operation is now being recycled – 70 tonnes per year with a value of £135 per tonne. Opportunities are being taken to reduce the amount of waste coming into the business through clauses in purchasing contracts around removal of packaging.

In 2006, recycled waste increased by 157%, with the proportion of waste recycled increasing from 59% to 64%. Recycling costs (including secure destruction of all paper) and cleaning costs were lower as a result of segregation. In the UK we have recycling in place for 14 different waste streams.

Waste: products / suppliers / investments

We are working with our upstream partners to eliminate waste from the business through take back and to switch to biodegradable wrapping etc. Environmental clauses are included in contracts with suppliers. Each new supplier has to sign up to Aviva's CSR Supplier Code of Conduct – focusing on environmental impact as well as human rights and social issues.

We follow all building regulations (insulation, proper disposal of waste material including building waste and white goods).

We have a responsible motor repair network which disposes of waste and spare parts responsibly.

Waste: benchmark information

200 kgs of waste per employee per year

Recycling rate of 60-70% (BRE Office toolkit)

Resource usage: commentary

There is limited scope for the retro-fitting of latest technologies in water usage reduction in washrooms. However, where possible we take advantage of such technologies. Consideration of the use of greywater is included in requirements for new buildings.

Our energy strategy is to invest in new energy saving technology and to reduce our energy dependency on fossil fuels. We are prepared to pay up to 2% premium for purchasing electricity from renewable/zero emission sources.

Energy conservation investment is now starting to be measured. Capital expenditure work on energy conservation is proceeding with a payback period of less than three years.

Our strategy is to increase the use of recycled content paper, while reducing overall paper use. Cost and quality of recycled papers are now comparable with virgin content paper.

We have introduced self selection options, which enable policyholders to receive and save policy documentation online, thus reducing paper usage, printing and postage costs

Resource usage: products / suppliers / investments

Work is continuing with marketing departments and suppliers to provide marketing materials with recycled content and remanufactured stationery products.

Shareholders have been asked to switch to electronic transfer of dividends and receiving communications over electronic mediums.

Resource usage: benchmark information

7.7m³ per employee per year (National Water Demand Management Centre)

Aviva plc (continued)

The Connected Reporting Framework will help Aviva mainstream sustainability within its business by linking environmental indicators to financial cash flows and by influencing, through its products and policies, the behaviour of its customers, suppliers and the companies it invests in.

For Aviva, sustainability is increasingly breaking out of the CSR silo and into the thinking of strategy, finance and product development. The Connected Reporting Framework will help reinforce this more contemporary business approach.

While doing this work, Aviva has spoken to various areas of its business that would like to use the external reporting requirement to gain greater information on sustainability impacts.

The one-size-fits-all approach of the model is particularly challenging. It is not easy to select indicators and measurement bases for these indicators which are appropriate for all industry sectors – financial services, retail, manufacturing, extractive resources. Aviva thinks the model has achieved the right balance between the prescriptive and non-prescriptive content, providing a framework which can be progressed further as practice develops. For example, Aviva has experienced problems integrating carbon reporting following the recent acquisition of RAC, which has a very different environmental impact from the rest of its business.

It believes that external benchmarking is a powerful tool in measuring how an organisation fares in relation to its competitors and the business community as a whole. In using this tool, the aim is to ensure that Aviva is a leader in CSR.

In 2007, Aviva was named “Best in Class” by The Carbon Disclosure Project.

EDF Energy plc

In the summer of 2006 EDF Energy established its Sustainable Future project, to build on its foundations of corporate responsibility as a driver of business performance, to act as a catalyst for developing a sustainable energy business which adds economic, social and environmental value and to embed a culture of sustainability throughout the organisation.

“Our Climate Commitments”, launched in June 2007 set out how the company will reduce its own environmental impact from its electricity generation, transport, waste and other activities as well as how it will help customers reduce energy consumption. These commitments include a 60% reduction in the intensity of carbon emissions from power stations by 2020. Together they form the biggest package of environmental initiatives launched by any British company.

In July 2007 EDF was unveiled as a sustainability partner of the London 2012 Olympic Games and Paralympic Games. EDF will use this partnership to encourage people in the UK and elsewhere in Europe to reduce the carbon emissions linked to their energy consumption. EDF will also play a key role in ensuring London 2012 is the most sustainable Olympic and Paralympic Games ever.

The relationship between individual employees and company performance is critical. For a modern, knowledge-based organisation performance relies on engaging staff on a personal level, inspiring people to work to better themselves rather than being driven by top-down measures. Achieving this creates a virtuous cycle of improvement. Individuals improve their performance when they receive relevant information on their performance compared to their aspirations.

Alongside the climate commitments, the company has also promised to develop a set of social commitments.

It was against this backdrop that the Connected Reporting Framework was presented to EDF Energy. EDF Energy was in the early stages of designing its Sustainability Report intended to drive change and deliver its commitments. We were immediately struck by the parallels with our own thinking and our approach to business performance and corporate responsibility.

For EDF Energy, the Connected Reporting Framework structured around the elements of economic, social and environmental performance, is extremely useful.

The framework for management reporting to the Executive was first used in October 2007 and will be updated quarterly.

We have declared how we will transform EDF Energy into a more sustainable business and our actions will be a major contribution to achieving the UK’s carbon reduction targets.

However, it’s not enough to make pledges – you have to deliver. By putting our work in this area through the same rigorous accounting process as we would our other more traditional business activities, we will see where we are meeting our targets and where we need to do more work. Our aim is to be as open, transparent and accountable for delivering a sustainable future as we are for every other aspect of our business.

Vincent de Rivaz, Chief Executive, EDF Energy plc.

EDF Energy plc

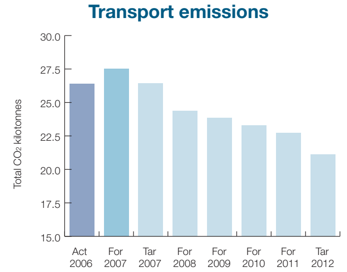
Extract from EDF Energy's first Sustainability Report for management, published in October 2007, showing three of Our Climate Commitments. This is a dynamic management report and as such drivers, interim targets, budgets and risks are all subject to change.

KEY INDICATOR

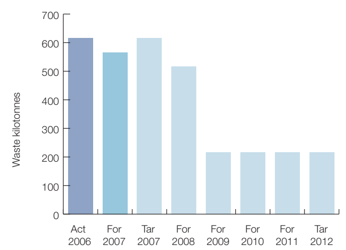
Business as usual cost / indicator (£ M)	2007 Budget	2008 - 2012	Future trend	Initiative description	Investment cash flow (£ M) 2007 Budget	2008 - 2012
We will take action to cut CO_2 emissions from our transport by 20% by 2012						
Target: 21 kilotonnes				(i) Implement alternative meeting technologies program	No funding budgeted	
a) Fuel purchase costs	6.9	29.4	↘	(ii) Improve efficiency of transport fleet	0.0	3.2
b) Business travel expenses	10.2	56.3	↑	(iii) Assess benefits of reduced home-office & business travel	No funding budgeted	
				(iv) Explore incentivisation and focused choice of carbon friendly vehicles	No funding budgeted	
We will reduce the volume of materials sent to landfill by 50% by 2012						
Target: 308 kilotonnes				(i) Investment in by-product ash beneficiation plant	2.0	4.0
a) Landfill tax costs	1.4	6.7	↘	(ii) Investment in by-product ash aggregation plant	0.5	5.0
b) Other landfill costs	2.4	14.9	→	(iii) Increase recyclable materials in the supply chain	No funding budgeted	
We will reduce our street works waste by 30% by the end of 2007 and eliminate it completely by 2020						
Target: 100% recycled				(i) "Invest" in street works waste recycling facilities	No funding required	
a) Landfill tax costs	0.7	21.0	↓			
b) Transport to landfill costs	4.2	7.8	↓			

Core OCC indicator:

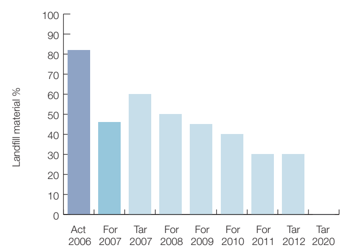
Transport emissions



Materials landfill waste



Street works material



DRIVER

Key risk description	Gross risk	Control score	Status	Delivery indicator	Unit of measure	Plan 2007	Plan 2012	Percentage of OCC target 2007	Percentage of OCC target 2012
Finance from branches or capital budget not made available	6	3	●	(i) Genisys usage hours	hrs	56,324.0	60,000.0	TBA	TBA
Benefits of tracker not realised	9	4	●	(ii) Fleet vehicle CO_2 emissions	t/vehicle	2,485.2	2,021.0	0.0%	81.3%
Feasibility study demonstrates a non-reduction in emissions	5	5	■	TBA	TBA	TBA	TBA	TBA	TBA
Feasibility study demonstrates no benefits to be derived	5	5	■	TBA	TBA	TBA	TBA	TBA	TBA
								0.0%	**81.3%**
Project installation costs are higher than planned	24	2	◆	(i) Additional treated by-product ash sold	kt	0	200	0.0%	65.0%
We fail to agree commercial terms to proceed with project	15	4	◆	(ii) Additional treated by-product ash sold	kt	0	200	0.0%	65.0%
Inadequate resources to analyse packaging and waste footprint	9	3	●	(iii) Contracts covered by low packaging terms and conditions	%	TBA	TBA	TBA	TBA
								0.0%	**129.9%**
Highway authorities do not accept re-cycled spoil back into excavations as backfill	20	2	◆	(i) Street works waste treated	%	40.0%	70.0%	40.0%	70.0%
								40.0%	**70.0%**

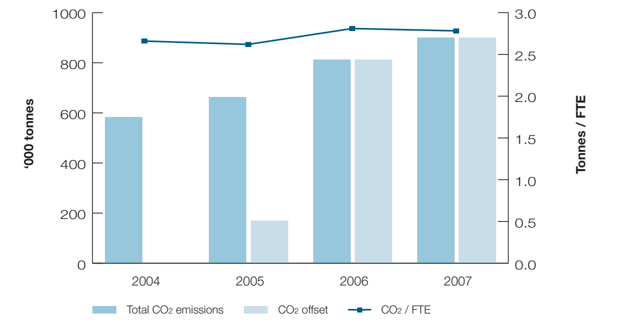
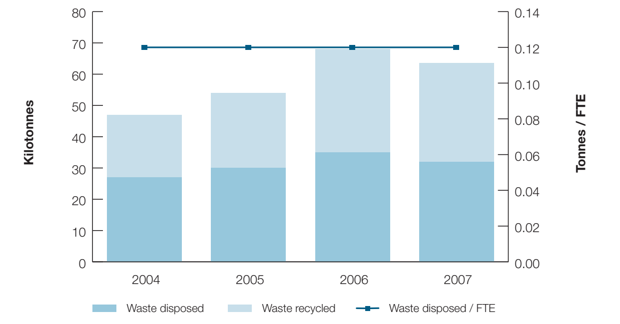
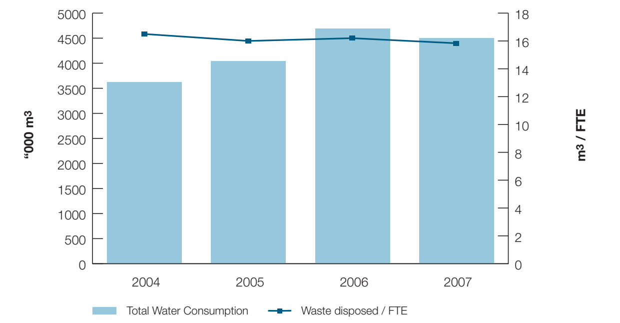
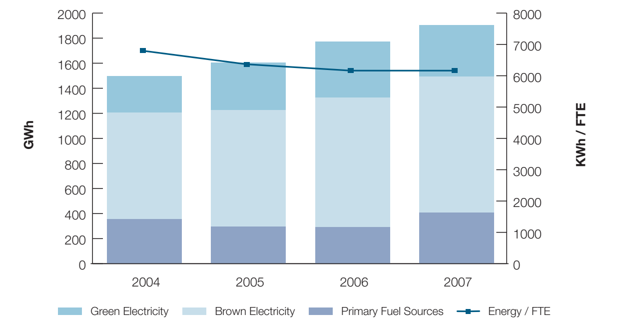
The Connected Reporting Framework allows us to see investment costs in the context of "business as usual" costs and the social and climate commitments we have set, enabling clear decision-making on investments we can make now to deliver improvements in the future.

By transforming it from static accounting into dynamic reporting we will use the Connected Reporting Framework in real time to help drive change, identify risks and modify our actions. This enables us to better understand the impact we're having on society and the environment so that these impacts can be managed.

Mark Bromley, Head of Business Performance, EDF Energy plc.

HSBC Holdings PLC

HSBC began measuring its direct impact on the environment in 2001. In the last quarter of 2005, HSBC offset its carbon dioxide emissions, which measured 170,000 tonnes, including a 5% contingency, making HSBC the first major bank to become carbon neutral. HSBC measured and offset its full-year emissions of 813,000 tonnes in 2006, thereby making the company's carbon dioxide emissions net zero.

KEY INDICATORS	DIRECT COMPANY IMPACTS					INDIRECT IMPACTS	INDUSTRY
	Cash flow performance			Non-financial indicators	Target and commentary	Customer & supplier impacts commentary	Benchmark information
	2004 $m	2005 $m	2006 $m				
Greenhouse gas emissions • CO_2 equivalent emissions - Sustainability expenditure - Offset expenditure *For the last quarter of 2005		0.753*	5.5	**CO_2 emissions** 	We have set targets to reduce our carbon dioxide emissions and have purchased green energy where available. The remainder of the carbon dioxide we emit is offset by buying an equivalent number of voluntary emission reduction credits (VERs), thereby bringing our net emissions to zero.	In June 2006 HSBC announced its carbon finance strategy, by which it aims to help clients respond to the challenges and opportunities of creating a lower carbon economy. This strategy builds on our energy sector policy. We see an opportunity to work with existing and new clients to promote the market opportunities within clean generation, low carbon, energy efficiency and renewable energy technologies. We also purchase renewable energy credits (RECs), which supports the market for renewable energy and the development of new renewable energy capacity in Europe. HSBC is committed to measures that reduce the environmental impacts of business travel. We favour travel partners and suppliers who can demonstrate environmental management strategies that deliver robust and verifiable information. This helps us monitor our progress and achieve our sustainability goals. We encourage all our suppliers to comply with the "HSBC Group Ethical & Environmental Code of Conduct for Suppliers of Goods & Services".	CO_2 per FTE
Waste • Non Hazardous waste - Total disposal cost				**Non hazardous waste** 	The UK and Hong Kong have rolled out waste recycling programmes to cover main head office buildings. Awareness raising and new recycling programmes have also taken place in Argentina, Hong Kong, Ireland, South Korea, Malaysia and Taiwan. In America and the UK, waste contracts have been re-tendered to ensure maximum recycling of waste streams.	HSBC makes recycling a performance indicator in the contract tender process. Where possible, old furniture and advertising/marketing materials are given to schools, NGO's and charities	Percentage of waste recycled / reused
Resource usage • Water usage - Operating expenditure - Sustainability expenditure				**Water usage** 	All countries are reviewing their operations to identify where water conserving measures can be implemented. Examples include the detection and repair of leaks; the use of recycled water for sanitary flushing and irrigation; and the installation of meters to accurately measure water consumption in offices and branches.		M^3 per FTE
• Energy intensity - Operating expenditure - Sustainability expenditure		191	238	**Energy intensity** 	Some examples of initiatives around the Group to reduce energy consumption include a reduction of the hours in which AC runs in Singapore, and the installation of software which powers down computers in the UK and Asia.	The Group has implemented a policy that equipment can only be replaced with an energy efficient alternative, which encourages our suppliers to provide energy efficient products. HSBC continues to buy electricity from "green" or renewable sources, helping to support global investment in renewable energy.	% energy from renewable sources.
• Environmental incidents - Fines				Number			

In June 2007, HSBC launched the Global Environmental Efficiency Programme (GEEP), which commits US$90 million over five years to reduce the bank's impact on the environment through a series of initiatives, including the introduction of renewable energy technology, water and waste reduction programmes and employee engagement.

The environmental efficiency initiatives focus on:

- **benchmarking** – Developing flagship buildings to recognised environmental standards which are independently certified;
- **footprint management and innovation** – Reducing energy and water consumption, business travel and carbon dioxide emissions, paper use and waste production. This will include piloting innovative and new technologies and working with our clients in the environmental sector;
- **behaviour** – Training, awareness raising, flexible working practices; and
- **environmental management systems** – Systems and processes optimising the efficiency of the bank's operations.

HSBC believes that a company that behaves ethically, responsibly and sustainably will ultimately be more successful than its competitors because it addresses issues on which its long-term success depends, and thereby gains the confidence of investors, customers and employees. Sustainability reporting ranks alongside financial reporting in importance in explaining our performance and our ethos to the wider community.

The Accounting for Sustainability Project has, for the first time, focused attention on how the two disciplines interlink, and has helped us identify ways of combining them more effectively. We believe that the Project's proposals will help us explain our overall performance more completely and, in the longer-term, will increasingly come to inform our investment and operational decision-making.

Russell Picot, Group General Manager and Group Chief Accounting Officer and Francis Sullivan, Deputy Head of Group Sustainable Development and Adviser on the Environment, HSBC Holdings plc.

HSBC is determined to develop a sustainable business. Our shareholders, customers and employees consider these issues to be important – and the rollout of GEEP clearly demonstrates our continuing progress in placing sustainability at the very core of how we do business.

Simon Martin, Head of Group Corporate Sustainability, HSBC Holdings plc.

NEXT STEPS

EMBEDDING SUSTAINABILITY

Embedding sustainability is an essential task for any organisation which is to thrive in the long term. For all organisations, the risks associated with not addressing sustainability will become more severe. Recruiting managers and employees will become harder, natural resources will become scarcer and the ability to use them in traditional ways will be restricted, and regulation is likely to increase. In short, the fundamentals on which organisations base their strategy and decision-making processes are changing.

Keeping abreast of this change will be a key factor in effectiveness and survival. This report is intended to help organisations to get to grips with this challenge, in particular by suggesting new approaches to embedding sustainability.

One major company has already decided to use the suggested embedding sustainability model and we hope that other organisations, public and private and large and small, will also find it helpful.

Our website, www.sustainabilityatwork.org.uk, provides further information and techniques to enable organisations to take account of sustainability issues more effectively. The website is freely available to all in the public and private sectors.

REPORTING SUSTAINABILITY

We hope that this report provides impetus for the development of corporate reporting, by facilitating the reporting of sustainability performance in a way that is connected with the organisation's overall strategy and financial performance and which is clear, concise and comparable.

The proposed Connected Reporting Framework is a basis for achieving these objectives.

The proposals in this report are voluntary, principles-based and capable of being tailored to the needs of all organisations.

Three organisations have already piloted the use of the Connected Reporting Framework. These major companies have shown that the framework is more than a theoretical model, but one that has real practical application and commercial value. It is hoped that other organisations will also adopt the proposed approach.

Further development of the Connected Reporting Framework is to be taken forward by the Consultative Committee of Accountancy Bodies continuing to work as part of The Prince's Accounting for Sustainability Project.

ACKNOWLEDGEMENTS

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The Steering Committee:

Roger Adams, *Association of Chartered Certified Accountants*
David Aeron-Thomas, *Forum for the Future*
Robert Bruce
Mark Davies, *National Audit Office*
Paul Druckman, *Clear Group, Fédération des Experts Comptables Européens Sustainability Policy Group*
Louella Eastman, *Aviva plc*
Steve Freer, *Chartered Institute of Public Finance and Accountancy*
Jim Haywood, *Business in the Community*
Professor Anthony Hopwood, *Saïd Business School, Oxford University*
Robert Hodgkinson, *Institute of Chartered Accountants in England and Wales*
Dame Mary Keegan, *HM Treasury*
Geoff Lane, *PricewaterhouseCoopers LLP*
Professor Sir Andrew Likierman
Iain Macdonald, *BP plc*
Alan McGill, *KPMG LLP, Project Director*
Tim O'Riordan
Sir Michael Peat, *Office of TRH The Prince of Wales and The Duchess of Cornwall, Chairman*
Professor Andrew Parker
Dr Mike Peirce, *University of Cambridge Programme for Industry*
David Phillips, *PricewaterhouseCoopers LLP*
Russell Picot, *HSBC Holdings plc*
Richard Reid, *KPMG LLP*
Martin Smith, *The Martin Smith Foundation*
Francis Sullivan, *HSBC Holdings plc*
Michael Whitehouse, *National Audit Office*

The Accounting for Sustainability core team:

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Kerry Perkins, *Project Coordinator*
Hannah Kerr, *Project Officer, Ministry of Justice*
Zoe Newall, *Project Officer, BP plc*
Chris Smith, *Project Officer, Standard Chartered PLC*
Ronnie Wedlock, *Project Officer, Royal & Sun Alliance Insurance Group plc*
Simon Mercer, *Researcher*
Tim Ash-Vie, *PricewaterhouseCoopers LLP*
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BP plc
C. G. Fry & Son Ltd
Cadbury Schweppes plc
Camelot Group plc
Carillion Plc
Department for Children, Schools and Families
Department for Environment, Food and Rural Affairs
Department for Work and Pensions
Duchy of Cornwall
Duchy Originals Ltd
EDF Energy plc
Entec UK Ltd
Environmental Resources Management Ltd
Forum for the Future
Finsbury Group
Gazeley Ltd
Generation Investment Management LLP
Glasgow City Council
HSBC Holdings plc
Innocent Drinks Ltd
J Sainsbury plc
JMG Foundation
Kent County Council
Kirklees Metropolitan Borough Council
KPMG LLP
Leicester University Hospitals
LIVE
Marks & Spencer Plc
Martin Smith Foundation
Metropolitan Police
Microsoft Ltd
Miller Homes Ltd
Ministry of Justice
National Audit Office
Ove Arup & Partners Ltd
PricewaterhouseCoopers LLP
Royal & Sun Alliance Insurance Group plc
Saïd Business School, Oxford University
Standard Chartered PLC
Tesco PLC
The Audit Commission
The Chartered Institute of Public Finance and Accountancy
Welsh Assembly Government
Welsh Health Estates
West Sussex County Council

The following organisations have been consulted during the project:

Accounting Standards Board
ActionSustainability
Association of Chartered Certified Accountants
Association of Chief Executives of Voluntary Organisations
AT Kearney Ltd
Auditing Practices Board
BAA Ltd
Boots UK Ltd
Brighton and Hove City Council
British Airways plc
British Standards Institution
BT Group plc
Business in the Community
Cabinet Office
Carbon Disclosure Project
Carbon Trust
Carmarthenshire County Council
Chartered Institute of Management Accountants
Climate Exchange (Europe) Ltd
Co-operative Financial Services
Countryside Council for Wales
Deloitte & Touche LLP
Department for Business, Enterprise and Regulatory Reform
Department for International Development
Department for Transport
Department of Health
East Midlands DA
East Midlands Regional Assembly
East of England DA
East Sussex County Council
EIRIS
English Partnerships
Environment Agency Wales
Ernst & Young LLP
European Commission
F & C Asset Management plc
Financial Reporting Council
Financial Services Authority
Foreign & Commonwealth Office
Friends of the Earth
FTSE Group
Goldman Sachs International
Hermes Focus Asset Management Ltd
Higher Education Funding Council for England
HM Revenue & Customs
HM Treasury
Institute of Chartered Accountants of Scotland
Institute of Environmental Management and Assessment
Institution of Civil Engineers
International Accounting Standards Board
International Business Leaders Forum
International Council on Mining & Metals
JJ Gallagher Ltd
Jupiter Asset Management Group Ltd
Kent County Council
King's Fund
Land Securities Properties Ltd
Leadership Foundation for Higher Education
Leeds City Council
Malvern Hills District Council
Manifest Information Services Ltd
Ministry of Defence
Morley Fund Management Ltd
National Assembly for Wales
National Audit Office
National College for School Leadership
National School of Government
NHS Confederation
NHS South West
North East Centre of Excellence
Nottinghamshire County Council
Office of Government Commerce
Permira Advisers LLP
Princess of Wales Hospital
Prudential Plc
RAND Europe
Rio Tinto plc
Society of Local Authority Chief Executives and Senior Managers Wales
South East England DA
Sustainable Development Commission UK
Sustainable Development Commission UK Wales
The British Chambers of Commerce
The British Land Company PLC
The Institute of Chartered Accountants in England and Wales
The Prince's Business & the Environment Programme
The Prince's Foundation for the Built Environment
Threadneedle Investment Services Ltd
Three Rivers District Council
Trucost Plc
Universities Superannuation Scheme Ltd
University Hospital of Leicester
University of Surrey
Vodafone Group PLC
Wales Audit Office
Welsh Consumer Council
Welsh Local Government Association
West Sussex County Council
Woking Borough Council
Wolverhampton City Council
WWF – UK