

Influences on Sustainability Reporting within Local Government

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Local government has traditionally provided basic services such as waste collection and disposal, maintenance of the road network and social services such as meals-on-wheels. There is increasing awareness and demand from stakeholders for social and environmental information which is also being played out in the media. The objective of this study is to identify the key influences which affect the pattern of sustainability information. The findings suggest that population growth, climate change and the extension of the urban growth boundary are the significant issues that are impacting on local government. These concerns along with local government leadership, communication with stakeholders and community engagement are influencing sustainability reporting. These findings could have implications for local government managers in their quest to maintain and enhance notions of accountability, transparency and effectiveness in meeting the expectation of increasingly sophisticated stakeholder groups.

Field of Research: Local government, sustainability reporting.

1. Introduction

There is a growing body of knowledge investigating the topic known widely as Social and Environmental Reporting (SER). SER has historically been viewed by some in the accounting academic community as falling outside the realm of traditional accounting research. However, it is increasingly recognised that SER and the more contemporary term known as Sustainability Reporting (SR), is being used and adopted so widely now, that those working in the accounting/finance area will continue to ignore it at their own peril. The recent 15th United Nations Climate Change Conference in Copenhagen, Denmark in November 2009 has brought into sharp focus not only the divide between the motivations of developed and developing countries, but also the recognition that organisations cannot continue to operate as they have done in the past. In other words there is a calling globally that we must operate in a *sustainable* way for the benefit of current and future generations.

Following calls for research on sustainability reporting focussing on the public sector, as well as for research focused on why organizations undertake reporting (Adams, 2002; Farneti & Guthrie, 2009; Bebbington *et al.*, 2009), the aim of this article is to gain an understanding of what are the key influences in determining the extent of for sustainability reporting in a group of Australian Local Councils (LCs).

The paper is structured into five sections. Section 2 discusses the extant literature on theoretical frameworks relevant to sustainability reporting and reviews previous investigations focussing on the public sector. Section 3 outlines the research method employed. Section 4 details the findings. Section 5 discusses the main conclusions and includes suggestions for further research.

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2. Literature Review

Terms such as environmental accounting, social and environmental accounting, triple bottom line accounting (TBL) and the balanced score card (BSC) have historically been used in the context of a move away from simply providing financial information to users but recognising that non-financial information is also being demanded from stakeholders, hence, the increase in interest in this area. More recently the terms sustainability accounting and/or sustainability reporting has been used widely and this term will be used throughout this paper. Although there is no one definition of sustainability a number of theoretical frameworks have been utilised to guide research in this domain. Sustainability has been defined as:

.....not just an efficient allocation of resources over time, but also a fair distribution of resources and opportunities between the current generation and between present and future generations, and, a scale of economic activity relative to its ecological life support systems (Gray and Milne 2003 p.69).

Although there is no one accepted definition of sustainability, a number of consistent themes provide guidance. For example, there is an emphasis placed on a long-term view and concern regarding leaving the environment to future generations in no worse condition than that experienced by the current generation. It is argued here that no one theory is overwhelmingly applicable to sustainability research. Rather there can be a number of theories that can alone or together provide useful insights and explanations for managerial behaviours and actions. Legitimacy theory has been widely used in this context (Tilling and Tilt, 2010; Deegan, 2002; Gray *et al* 1996). It is a theory that is related to other established theories such as political economy theory, institutional theory and stakeholder theory. According to Lindblom (1994, p.2), legitimacy is defined as:

.....a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy.

In essence, legitimacy theory posits that there is a 'social contract' between the organisations and individual members of society (Mathews 1993). In the case of legitimacy theory, the idea that organisations seek to be recognised as good corporate citizens by disclosing their activities that have a favourable effect on or seek to minimise damage to the environment is well established. In fact there is a strong case for suggesting that there are some particular limitations of analysing the contents of annual reports. This is because the disclosure of most environmental information is voluntary and therefore, it would be in the best interests of management to produce an annual report that would likely demonstrate skewness towards providing positive information. Perhaps more importantly, the promotion of transparency and accountability of an organisation is best achieved through in-depth interviews to assessing managerial motivations (Owen 2008). In addition, disclosures in annual reports is *ex-post* and therefore, certain activities that the community find sensitive may only reach the annual report if a widely reported incident has occurred.

Farneti and Guthrie (2009) undertook in-depth interviews across seven different public sector agencies in Australia. The agencies comprised of one federal government department, one state department, three local councils and two state

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public organisations. Twenty-five hours of interviews were undertaken to identify such issues as the reason for sustainability reporting in annual reports, how the agencies communicated sustainability issues, difficulties associated with using the GRI and who carried responsibility within the organisation for sustainability reporting. This study focussed on why organisations report on sustainability issues rather than what they report on. The findings suggest that that sustainability reports were mainly directed towards internal stakeholders, however, the annual report was a key communication device for external users. Further, a key individual in the organisation gave the impetus and motivation to pursue the path of sustainability reporting. Finally, in most cases these agencies had commenced with either triple bottom line (TBL) reporting or the balanced scorecard (BSC) before embarking on the GRI framework. The reason being that it had an international reputation which enhanced its legitimacy.

The work of Ball (2005) focuses on how environmental accounting information can act as an agent for organisational change. Using a case study of a UK local council, Ball (2005) found evidence that was contrary to some standard beliefs. Most notably, that external public pressure can bring about positive changes to the *modus operandi* of the organisation. In fact, it was the local council that was actively engaging external stakeholders to communicate and demonstrate the unsustainability of current services.

Adams and McNicholas (2007) used an action based case study approach by observing meetings at a government owned water authority in Victoria, Australia to gain an understanding of the processes involved in developing a sustainability reporting framework. The authors' direct involvement and assistance with the authority led to the integration of sustainability information in the Annual Report. This demonstrates the practical application of research 'in the field', especially with respect to innovative approaches to reporting. Moreover, engaging with organisations has the potential to improve the theory and practice of sustainability performance (Adams and Larrinaga-Gonzalez 2007).

Given the paucity of sustainability research in the context of local government, the research question is:

What are the key influences that are driving sustainability reporting within local government?

Identifying these influences is important because governments need to remain transparent and accountable in their dealings with stakeholders. In addition, other local government managers can gain an understanding of whether they are being influenced by the same or similar issues and hence, may need to adapt their reporting mechanisms to fit changing community information needs.

3. Methodology

A qualitative approach is used in the conduct of this study. Multiple methods and sources were used to collect data for this project, including secondary information in published annual reports, and other specialised reports relating to the environment. Primary information was collected from observations, interviews and archival material.

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Five councils were chosen for the conduct of this study. The five councils are geographically spread across metropolitan and coastal areas. They are identified in the findings as C1 to C5 to protect the privacy of the managers interviewed. They were also selected on the basis that compared with other councils, the ones selected had greater expertise and experience in the area of sustainability reporting. Five councils was considered adequate given that previous papers such as Ball (2005) and Adams and McNicolas (2007) investigated one council in each of their studies, however, greater in-depth analysis is undertaken.

Five semi-structured interviews were conducted on the premises of the five respective councils. The interviewees had roles such as Manager – Environmental Sustainability, Co-ordinator – Sustainable Environment and Team leader – Renewable resources. It was appropriate to interview these managers as they had the expertise and knowledge of sustainability activities and strategies within council. Conversely, the accountants/finance managers at the present time had much less to do with sustainability reporting issues, however, it was indicated in some of the initial discussions that their role may expand in the future, especially as it relates to climate change. The interviews were of approximately one hour duration.

Although not a new data collection method, the use of interviews within the context of 'engaging research' has been strongly encouraged within the academic community. This is particularly so where pursuing research questions on sustainability and sustainability reporting. Whilst the work of Albelda-Perez et al. (2007); Belal and Owen (2007) and O'Dwyer and Unerman (2007), do not relate to Local Councils, the principles and methods applied are similar to what has occurred for this project. For example, Albelda-Perez et al., (2007) used semi-structured interviews with environmental managers and management accountants from ten Spanish European Community's Eco-Management and Audit Scheme (EMAS) registered sites. Belal and Owen (2007) widened the pool of organisations by collecting a series of interviews with senior managers from twenty-three Bangladeshi companies representing the multinational, domestic private and public sectors. O'Dwyer and Unerman (2007) used a series of in-depth interviews with senior individuals working within the Irish non-governmental development organisations (NGDO) sector, along with a comprehensive analysis of documentary sources.

The analysis of the data involved a number of stages. A familiarisation process of the interview transcripts was carried out so as to commence building a structure to enable deeper analysis. After undertaking a thorough review, a catalogue of concepts was noted as they began to emerge from a reading of the transcripts. From this initial list, an indexing scheme was used to bring together and capture the recurring and/or dominant themes present in the interview transcripts – a process known as thematic analysis. A hierarchy of main and sub-themes was created using thematic charts. Careful attention was paid to using terms drawn from the transcripts so that this part of the analytical process becomes grounded in the data.

4. Findings

Each of the five councils had employed a sustainability manager who did not have an accounting background, but was aware of some of the basic reporting tools used by local government such as TBL and GRI.

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4.1 Strategic Issues

One interviewee identified population growth as the major concern for council, whilst three other interviewees believed that the expanding green wedge boundary was the major issue and two interviewees acknowledged climate change as a significant issue. However, the impacts of climate change such as coastal erosion, flooding and heatwaves are already affecting councils, thus, they are not waiting for irrefutable scientific evidence that climate change is 'real', rather they are taking action to reduce the harmful consequences of climate change. For example, one council was concerned about the effect of heatwaves on its elderly population and developed policies and programs to support the elderly on extreme weather days. Thus, many of the key risks of climate change are actually issues that already exist and climate change will simply exacerbate those and create a higher focus. Linked to climate change was the issue of the availability and consumption of water:

Likewise, the more obvious one in this community, which I think is more evident, is the water consumption, that's been a major one we know because of the drought and because most of our water usage is on outdoors, it's keeping the gardens, the playing fields, the street trees alive. And you know we've had regulations now for the last four years controlling our water use, which has thrown up some real challenges in terms of maintaining and looking after important city assets, but at the same time conserving water (C2).

Council C2 has the highest per capita water use of the 15 councils that are in this same water service area. This is due to the fact that the residents from this council have large properties, with large gardens with very dry sandy soils. C2 does not have many commercial and business areas which need water for industrial needs. Council C2 has now developed the capacity to measure what they are doing with water over time. For example, since 2000-2001 they have reduced water use by 66% which on the surface sounds commendable, however, that has also meant that some of those important community assets have been compromised. Therefore, further analysis was undertaken to identify strategies for using alternative water sources. This has led to Council C2 identifying, capturing and using storm water.

For C1, tourism and agriculture are significant economic contributors, thus, there was concern expressed to retain agricultural land and not just to convert the land (which has excellent agricultural soil) into housing estates. This has occurred in other suburbs and this council wants to prevent the same thing happening again.

The major issue is that we are in the urban growth boundary, so the pressure on our natural environment is increasing every week. If you go up to (X location) they are building completely new suburbs from scratch, and they're not just building ten houses they're building thousands of new dwellings. All of the new growth puts pressure on the land, it puts pressure on the waterways. The public transport does not exist out there so everybody has got to get into their car. So in terms of environment, that stuff impacts – well, the growth impacts on everybody because there's got to be new services provided to those communities. (C4)

Off the top of my head I would say that the key issues are probably around maintaining a green wedge, so ensuring that we keep development within the urban growth boundaries. Another key issue would be climate change; having 10% of Victoria's coastline, as well as a number of identified high-prone bushfire areas, and given the access issues to the community, that is, there is only one way in and one way out. (C5)

Population growth continues to be a major area of concern whether it occurs in outer metropolitan areas or along the coast line. In many ways, population growth is

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outside the control of councils. For example, on a national level, the Federal government determines immigration policies, and at the state level the State government determines the availability of land for housing sub-divisions.

4.2 Leadership

Some of the sustainability literature (Guthrie and Farneti 2009) has identified the need for organisations to have strong leadership in the areas of social and environmental issues for there to be a discernible impact on its activities.

Traditionally, that's a job that this role has had. It sits with me. There has been a slight organisational change but it is now recognised that it needs to happen at a very senior level so the CEO has a role with that as well, more importantly I guess it is through the council. The councillors' wanting and setting out the agenda and identifying on the basis of what the community wants. (C2)

The other four interviewees also emphasised the importance that leadership played. The extent of SR was based primarily on a few individuals championing the cause of sustainability reporting. These individuals held powerful positions in their respective agencies and this enthusiasm needed to be passed on to others if changes to personnel occurred.

A good example of leadership has been the participation by C2 in the Victorian Local Sustainability Accord (VLSA), which is an agreement between councils and the Victorian Government, principally through the Department of Sustainability and Environment. The objective of which is about developing agreed priorities and agreed roles and coordination for the delivery of programmes to achieve environmental outcomes. This type of initiative appeared to be a very important distinction from other councils which did not play an active role. Moreover, Partnering with state government agencies provided the council with additional political clout and also opened up further opportunities for grant funding.

4.3 Communication

Sustainability issues need to be communicated to both internal and external stakeholders. Internally, the rise of sustainability issues has led to confronting the challenges of separate departments having to deal and communicate with each other on a much more intensive basis than previously had occurred. This is because sustainability per se, knows no technical or discipline boundaries. It can be just as important to the engineers, scientists or the building and planning department as to the employees responsible for meal-on-wheels. Hence, the need for an integrated approach, that is common and valid across the council.

At an organisational level we now have a cross-organisational reference group at a senior level which is basically a reference group for environment and sustainability but obviously climate change is a key element of that. Therefore we have really established a cross-organisational taskforce to ensure that it is being addressed and coordinated at a higher level across the organisation, and it is at a strategic level in our key planning document. (C2)

Communication with external stakeholders is also given a high priority amongst these councils. For example, C2 is quite strong in terms of trying to shape or influence both national and state policy, particularly around key areas such as greenhouse strategies such as climate change and water. They have actively written

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submissions for both the Australian Government and the Victorian Government on their climate change policies. Thus, this council recognises a broader, social responsibility role for councils in general, in terms of shaping or influencing or advocating to the other levels of government.

The community of C4 is largely from non-English speaking backgrounds and there is also a significant portion of educational disadvantage in the region as well. Therefore, presenting the ratepayers and other external stakeholders with a 60 odd-page Annual Report and expecting that everyone will take an interest in it was problematic. Alternatives were provided to increase the likelihood that the community would engage with council. Hence:

Just the way that we present the information needs to fit more in line with what our community might see as a reasonable way of receiving that information. Maybe that is on-line, maybe it is through an e-mail every month, or maybe it is a 10 page document at the end of every year where we present the major successes that we have had for the year and what we are going to do, what is coming up next, and how they can get involved and that sort of thing. (C4)

We actually have a monthly report that we put out to the community that details everything the council has done that month. (C5)

4.4 Community Engagement

Although not a new government policy, it appears that community engagement has attracted greater attention within the scope of climate change. It is an important element of democracy and governance and there is an argument to suggest that climate change strategies can have a better chance of successful implementation at the most local level; the community (Wiseman, Williamson and Fritze 2010).

It's a huge issue. I was a teacher and taught this sort of stuff in the eighties to the kids and I learned very early on that it's a big turn off, they get sick of hearing how we're destroying the planet and we've got no water and we're losing all those species. Kids don't want to hear it. There is an issue about how you present the information and be positive about it, without getting away from the facts. But I think people are getting sick of being hit over the head about what to do about water conservation. So there is an element of that, I think, and it is important to show progress (C2).

Council probably needs to be more proactive in making information accessible to community and engaging the migrant population in some of the activities. I know in the Sustainable Environment Department we do actually have a part-time Officer who is the Community Development Environment Officer. She works specifically with the culturally and linguistically diverse communities and she runs presentations about environmental issues, takes them on site visits, gets them involved in things like Clean Up Australia (C4)

Effective community engagement on sustainability issues can have the benefit of communities 'owning' the issue to be addressed. Rather than being some distant problem that is perceived to be too great a challenge, local ownership and appropriate support mechanisms can be beneficial in implementing sustainability strategies.

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Table 1: Influences on sustainability reporting in local government

Council	Interviewee position title	Significant issues	Leadership	Communication	Community Engagement
C1	Environment manager	Population growth	Sustainability manager	✓	✓
C2	Manager – Environmental sustainability	Climate change	Councillors	✓	✓
C3	Senior sustainable environment officer	Urban growth boundary	CEO	✓	✓
C4	Co-ordinator sustainable environment	Urban growth boundary	Councillors	✓	✓
C5	Team leader – Renewable resources	Green wedge/Climate change	CEO & councillors	✓	✓

5. Summary and conclusions

The debate surrounding how organisations can produce goods and services in a sustainable manner continues. More specifically, climate change continues to be a sensitive topic with governments' worldwide waiting for the next major policy announcement, given the unsuccessful attempt at global agreement in Copenhagen. Notwithstanding this, the findings from this report suggest that local councils are in fact pressing ahead with policies and actions attempting to address the consequences of climate change and operating as far as possible, in a sustainable way, however defined.

It appears that sustainability reporting in local councils is definitely within the domain of 'sustainability' managers and not within the accounting or finance department. The accounting function is predominantly focussed on ensuring that funds are expended according to the budget, all cash-flows are accounted for and adhering to the requirements of the statutory Annual Report. In this respect, the accountant's role in local councils has not changed significantly. However, the composition of the annual report has and is continuing to change with additional disclosures on sustainability matters. The volume of this voluntary material suggests that stakeholders desire such disclosures for making assessments regarding the particular council.

What motivates councils to include sustainability information was a major driver for this project. Four of the five councils suggested that population growth and the urban growth into what previously were 'green wedges' have been identified as major concerns for these councils. These are local concerns that follow from repeated

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announcements from leaders in both the State and Federal Governments that the Australian population will continue to grow. Concern has obviously filtered down to the community level on how Australia will house this rise in the population, and also concern over the natural environment. For example, these new growth areas are characterised by a lack of infrastructure including transport, schools and community centres leaving new residents with little choice but to use their private vehicle for transport.

Leadership by the CEO and/or the elected Councillors was cited as an influence on sustainability reporting. It is apparent that these senior figures need to demonstrate their commitment to sustainable practices and development in order for this enthusiasm to filter through to all council employees. The level of community engagement also influenced the amount and type of sustainability reports. An appropriate balance of communicating the seriousness of sustainability issues commensurate with a sense of possibility to tackle these successfully.

The limitations of this study are two-fold. First, the study investigated councils in the Australian state of Victoria. Further studies should be undertaken across the other five states and territories to improve geographical spread and improve the generalisability of the findings. Second, it was noted that the local government accountants/finance managers are not involved in sustainability reporting to the degree with which environmental/sustainability managers are. Identifying councils where the accountant and the environmental/sustainability unit communicate and collaborate closely would provide the basis for a further rigorous and interesting study.

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