



EPISODE 5: ACCOUNTANTS TO THE RESCUE: CLIMATE CHANGE - PART 2
TRANSCRIPT DOCUMENT

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AG: ALY GARRETT

JGW: Jane Gleeson-White

BG: Bruce Gilkison

[00:08] Hello, and welcome to the Acuity podcast, I'm your host Aly Garrett, founder and principal of All In Advisory.

In this episode we're jumping back into the issue of Climate Change and the tangible impacts accountants can have not only assisting businesses they work with but on a broader scale too.

The wonderful conversation I had with author of Six Capitals Jane Gleeson-White and Kiwi CA Bruce Gilkison was so full of pertinent information and advice, that we split it into two parts. This is the second half. If you haven't already, I recommend that you listen to Episode 4 first.

In this episode you'll hear about businesses and governments that are rising to meet the challenges of climate change today, and into the future - as well as looking at the challenges of implementing systemic change throughout an organisation.

In the previous episode, Jane spoke about the first ever company to create an environmental profit and loss account - sportswear manufacturer Puma.

Let's jump back in and hear what they discovered... here's Jane.

JGW Yea it was a very interesting case, 200 billion US dollars was their total environmental cost and that was going right down their supply lines as well, so it was their impact right down to the rubber producers in Malaysia or on the local water suppliers and so on, I mean it was obviously a rough figure, but it would have meant that their profit if that was subtracted from it would have been reduced by over a half, but they didn't take it off the bottom line they used it more as guidance for their internal practices and as a kind of marketing exercise to demonstrate, the potential of such accounts

AG [01:43] The response by the public in relation to those losses, was it disastrous for them, how did the public respond?

JGW: Well I don't know in particular but I do know it was successful for them because they were seen as leading some sort of environmental

consciousness within a massive corporation. Because they were also quite a kind of hip company and they're making sporting goods so they've got a bit of a following, I think it resonated more with their customers positively than it did negatively because they were seen to have an environmental awareness and consciousness

AG If all businesses and economies around the world were to implement integrated reporting and this concept of six capitals, what do you think would happen?

JGW: [02:24] I would have thought it was a lot of window dressing and marketing hype a bit, if I hadn't of spoken to quite a few environmentally minded accountants within huge organisations who were in their younger generations, not that they all are, clearly Bruce is an example of one who isn't, but - the ones I met tended to be in their thirties and forties trying to drive real change and they wouldn't say anything when I was within the walls of their corporation but when we would leave in the lift and they could literally step outside they would say 'this is revolutionary', if the C Suite respected the environmental sort of value of their company in the same way they did the bottom line and were forced to consider it in their financial decision making it would actually be revolutionary. And it was so revolutionary they couldn't even say that within the walls of their corporation.

AG [03:20] So it's been a few years since the initial integrated reporting framework was released in 2012. Are there any Australian businesses that have implemented integrated accounting, and how have they gone about it?

JGW: There definitely have been many Australian companies that have, including NAB and ANZ and LendLease and from what I know mostly from speaking to the accountants the way they go about it is to start having conversations around the boardroom, and start having conversations with managers, so it seems to be a lot about, first of all raising these as ideas, these other sorts of values, and then working to make sure that they have environmental accounts and that they have their GRI reporting. They have these reports and they are all addressed in their annual financial statements but as yet it's more stories about what they're doing. They don't actually yet match you know the people who actually need to...Borrow money... That hasn't happened yet so I don't know how that's going to happen and I suspect it's not going to happen until there is a price on these goods,

AG [04:32] Yeah systemic change in organisations of any size is incredibly difficult so it's one of those things we're just openly communicating and taking it to the C Suite and repeatedly talking about it and finding champions to really drive that through an

organisation, that's where you're going to see the real change, the more we can get this six capital concept out to our organisations and through the accounting bodies and to ourselves, that's when we hopefully will get that ground swell of change.

Bruce what about Kiwi businesses that have implemented integrated reporting, how has that worked for them?

BG [05:09] Okay so there is one I was keen to follow up on, Sanford Fisheries, a New Zealand company, and I was interested in that one because it had won the Australian Reporting awards in 2019 and in 2020 it was a finalist in that, now what it does it reports using the six capitals, the United Nations Sustainable Development Goals, it uses the integrated reporting framework and the GRI, the global reporting initiative and it reports against each of those. Now that company was founded in 1865 and that says something about sustainability and it's now the largest fisheries and aquaculture business in New Zealand and it also, I couldn't get details of these, but apparently it has helped other probably New Zealand companies as well to venture into integrated reporting.

AG [06:10] Yes so using the different types of reporting sounds complicated but worthwhile. Do you know if these organisations have changed their business ways

since changing their reporting, has it changed their behaviours?

BG It possibly happens simultaneously, they're changing and they're also reporting on them and when they report they learn more about themselves and find things that they need to know and a comment that they made is 'it's the right thing to do and we know an increasing number of stakeholders are interested in how we create long-term sustainable value, we wish to be transparent', and so I think that flows right through the whole business. When we report we always learn something new as well and perhaps I could just mention that on calculating carbon footprints, a couple that thought of one was Countdown supermarket chain here which looked at its emissions and discovered that almost half of them came from refrigerants, now it didn't realise that until it did the calculation and then another one was a local council which assumed that it's emissions were from motor vehicles and so they were going to electrify those and probably still are, but they actually found that methane from waste made up eighty five percent of their emission. By looking at those things you discover more and you learn more and it's a virtuous circle.

AG [07:34] So New Zealand seems to be paving the way for climate change initiatives including being the first in the world to make climate risk reporting

compulsory, as well as zero carbon legislation passing last year, can you tell us a little about this and how's it set to work?

BG We've got three main parts of our carbon neutral journey here and I've got to say we're in the early stages but I think we've got the framework there. So the first one is the Zero Carbon Act, that's not it's full name, but that was passed last year, that one was based on UK law and the UK Act when that was passed it was something like four hundred and fifty MPs to five against, something like that, the New Zealand one was passed without dissent, in fact no one voted against it, the one MP apparently was going to but he wasn't there that day, so it has cross party support so it's there for the long-term. The law is designed to align with a one and half percent increase in temperature globally, of course we can't do that all on our own but at least this is our way of saying we're doing our bit, so it's aligned with the one and a half degrees, it sets up a climate change commission - the job of which is to set five yearly carbon budgets in advance and so the reason for that is so that there are three set in advance each of five years, that way it's not so vulnerable to the election cycle, it makes it harder for a new government to come in and say 'we don't agree with that, let's start again'. That's the Zero Carbon Act and that's important. We have the Emissions Trading

Scheme it's had a bit of criticism because it was slow to start and it still excludes agriculture which is roughly half of our carbon equivalent emissions in New Zealand, it is simplified to the extent that it could be and that the obligation to pay is set up as far up the supply chain as possible, units that have to be paid for petrol and diesel for example are paid at the time that the fuel is imported to the country not by the individual motorist, so, you know, that cost will filter down. The third part of the legislation here, the Zero Carbon Act, the Emissions Trading Scheme and then the Climate Related Financial Disclosure Scheme, now that won't kick in until probably 2023, it does still need to be passed by parliament. I'm thinking that it will survive anyway because of the kind of cross party support that we've had and also very strong support for that one from the public, from the governor of the Reserve Bank and from many of the organisations that are to be regulated by this, so they will be required to, there's roughly two hundred organisations will be required to report on their physical risks from droughts, storms, various climate effects, risk of stranded assets and yes so both the impact that they're having and the likelihood that they will have of being impacted upon, and it's on a disclose or explain basis, so if they for some reason can't disclose it they will have to explain why they can't disclose it and that in itself might focus attention on those organisations, like why can't they? What are they being secretive about?

The positive thing is it's getting strong cross party support and business buy in.

AG [11:11] Are businesses finding it a bit more onerous and time consuming to do that or are they seeing the value in doing that?

BG I believe they're seeing the value, a lot of support, from that announcement I don't think I've seen any negative publicity whatever. People are aware that there are trillions of dollars of climate risks worldwide that are not disclosed on corporate balance sheets and these companies don't want to be part of that and they also want to show that they're not part of that and so remain attractive to owners and stakeholders.

AG [11:44] That's absolutely amazing and I'm hoping Australia can follow in your well-paved New Zealand footsteps here. Jane would you like to see Australia following in the steps of New Zealand in regards to their legislation on climate risk reporting?

JGW: [11:58] Absolutely so would. I love especially the cross party support for this and obviously the support from the public, and from businesses and the treasury and people that you mentioned, that would just be the greatest joy. It was only three years ago that our Prime Minister took a lump of coal into the

National Parliament so we still labour under that sort of delusion I believe, that there's something upbeat about coal. Yeah, I would absolutely love it, because it seems that the general public in Australia, so many people are keen to have change. A lot of the initiative has come from the private sector in Australia and especially the group that are sort of leading the integrated reporting push here who have made it part of the Companies Act or to try and introduce these matters, the climate change risk, into risk reporting.

AG [12:51] So it sounds like the private sector is where the change will happen and I guess push the government into paying attention, that groundswell.

JGW I think so. I should add that, and this is slightly, not beside the point but it's not necessarily in terms of accounting, that my focus has so much been on this new form of corporation, the benefit corporation which makes it legally necessary to report on these different values, social and environmental, and so I've more been following the adventures of B Lab in Australia and they do have legislation waiting to be incorporated into the Australian Corporations Act that will make it legal to have a company that is legally bound to report on financial, social and environmental capital. So that's like an analogue it seems to me in terms of a corporate structure that fits very well with integrated reporting.

AG [13:45] So you mentioned B Lab for accountants, are there specific examples that you can provide there where they've received great benefit?

JGW: Yeah so B Lab is not so much for accountants but it's the analogue, it's creating a new corporation for which integrated reporting is perfectly suited because integrated reporting struggles I think within the traditional corporation that's pretty much set up to maximise profits. It's not legally binding in Australia yet hence the need for the legislation, but my favourite B Lab of the moment which has done absolutely phenomenally well during coronavirus is Who Gives a Crap.

AG: Yes.

JGW: I don't know if you're aware of the toilet paper manufacturers but they have been certified as far as you can be in Australia as a B Corporation and I came across them at this amazing conference on corporations with purposes, so they are environmentally friendly, they are socially responsible, for every toilet roll sold they give half their profits to build water facilities in Africa in impoverished communities and towns. So they're just like the rockstars for me of the new corporate world. They do so well because they were forced to think about the impact on their local community, on their employees, and the impact on the wider world both environmentally and sort of ethically, socially and so

they devised this fantastic business model which has been one of the success stories of coronavirus, So with their view always to transparency and the long-term, two critical qualities of an integrated report which makes businesses think beyond quarterly reporting and understand that the more transparent they are the more they will attract, goodwill from investors and their communities

AG [15:31] I'm certainly seeing a lot more businesses set up with purpose behind them and they're so aligned to their why and so this type of integrated reporting and looking at the holistic view is certainly, I think, something that is growing, we just need to give it a few more legs. Research from the University of Melbourne has found that over the next thirty years increasing economic damages from climate change will cost the Australian economy at least one point eight nine trillion dollars if current emission policies are maintained, so what would you say to somebody that might say that climate change doesn't exist at this point Jane?

JGW: [16:10] Where were you last summer? I would say maybe you need to go and talk to a lot of people who are living in western New South Wales who have been drought stricken, who are trying to farm, who are trying to get water anyone who is still skeptical they just actually need to put their feet on

the earth, preferably without shoes on, and talk to the people who are seeing it first hand.

AG Bruce what do you say to people who say that climate change doesn't exist?

BG There could be people who genuinely haven't understood what's happening and I would probably spend a bit of time with those people, if instead it was someone who as a tactic or to justify continuing in an unsustainable direction then yeah that's a bit harder. I think if someone didn't understand it even fifteen years ago or maybe even ten years ago I'd be a bit sympathetic but not now, things have changed.

JGW: Almost I'd say, disclose your reasons, explain why we're not threatened by climate change, the onus is on them to explain their disbelief rather than on us to explain the obvious.

AG [17:22] Absolutely that makes perfect sense. What do you think the next step is, if there was going to be one next step? Bruce what do you think the next step is?

BG If I'm only allowed one then I'm going to have to move quickly, I'll say listen to young people including those who are not here yet, so those who will be alive in 2060 and 2100, I won't be here. We need

to be able to say though 'I'm sorry, we didn't always understand the damage we're doing, but when we finally got it, we did our best'. We have to listen to those young people and those future young people and those people who will inherit this planet, in whatever shape we leave it, and listen to those voices and decide what's really important.

BG [18:09] Could I just add one to that and this is a local organisation Wakatu Incorporation, so this is a Maori owned business, it has a five hundred year intergenerational plan, so you know, you think long-term, that's long-term. I think often for accountants even five years seem like long-term but that's five hundred years and they also have a very nice expression, 'let's be good ancestors'.

JGW: [] Yeah, beautiful.

BG [] Thank you very much.

JGW: [] Thanks Alyson and Bruce, gosh that was so inspiring.

AG [] Absolutely.

JGW: [] I might be in danger of having to write another accounting book.

This has been the second half in a two part series on Climate Change with author Jane Gleeson-White and CA Bruce Gilkison - Thanks for listening!

If you're as inspired as I am - make sure you check out the CA ANZ website to find out more on how you can become professionally ready for climate change - including increasing your knowledge on climate related financial disclosures - head to [charteredaccountantsanz.com](https://www.charteredaccountantsanz.com).

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I'm Aly Garrett from All in Advisory, I'll speak with you again next time.