

HOW BIG IS MY FOOTPRINT?

Did you know that at the time of writing this article changes to the Climate Change Bill, currently being laid before parliament, will oblige all Plcs to report on their carbon emissions? If the bill proceeds in its current form, it could emerge as a statutory requirement effective this year.

If the UK is to meet its target to reduce greenhouse gas emissions by 60% by the year 2050, it seems inevitable that there will be a need for a greater level of government intervention. This intervention can already be seen in such policies as the increase in car tax on 'gas guzzling' four-wheel drive vehicles, the taxing of leisure craft fuel, and the increased tax on motor fuels. The Climate Change Bill reinforces the UK's obligation to reduce CO2 emissions by introducing tough checks on the Government itself, to accurately measure and report on the UK's greenhouse emissions. It is unlikely that the UK will meet such targets unless the Government takes measures to oblige businesses to play a greater part. Thus the Climate Change Bill brings the first indication of what is to come.

YOU CAN'T MANAGE WHAT YOU CAN'T MEASURE

It's an adage that holds as true for managing CO2 emissions as anything else. In order for businesses to play their part, they need to be able to measure and report on their carbon emissions. Ideally they will need to utilise tools to analyse, budget, and control their CO2 performance. Does this sound like familiar territory? It shouldn't take much to guess which department of the company would be best suited to take this on. This measurement and reporting requirement will, most naturally fall to the finance departments within an organisation. To meet this new requirement FDs will need to equip themselves with a new portfolio of knowledge and new technologies.

WHICH COMPANIES WILL BE AFFECTED?

At present the legal obligations in the Climate Change Bill will only affect Plcs. However, pressures to report on CO2 emissions also come from a number of other areas:

Supply Chain Pressure

The large retailers are already advertising their 'Green' credentials and will be putting pressure on their suppliers to fulfil the green criteria. In the US, the giant superstore chain, Wal-Mart has already put its suppliers on notice that it will require the carbon cost of each product that they stock, on the label, within 18 months. Selective suppliers for Tesco are also now providing this data and Tesco is looking to extend the scheme to cover a wide range of produce. It is also likely that many Plcs will want to include environmental responsibility as part of the criteria to select their preferred suppliers.

Green Attraction

Customers, suppliers, and investors are attracted to companies that demonstrate a responsible approach to the issue of carbon emissions. Companies such as Adnams, brewers in Suffolk, have leveraged on their

outstanding environmental record and have marketed their low carbon packaging, warehousing, and even a carbon neutral beer. Marks and Spencer has implemented its 'Plan A' which will dramatically affect its buying policies as well as the environmental responsibilities that it is adopting internally. Many companies now include a CSR element to their accounts and are recognising value that the carbon emissions element carries. This is a component of growing importance for shareholders, customers, suppliers and future investors in deciding upon the organisations that they wish to deal with.

Quality Standards

New emerging quality standards such as ISO 14001 allow companies to proclaim their adherence to a high standard of environmental control. The standard encompasses the reporting of CO2 emissions. Many companies have already recognised the value of this ISO quality standard, particularly sectors such as the print industry where there is a greater awareness of the resource and environmental costs.

WHAT TECHNOLOGIES/TOOLS ARE AVAILABLE?

Although there are many vendors advertising carbon footprint tools there is a huge variance in the approaches taken, the methodologies provided, and the costs. Some of the approaches are shown below:

Carbon Footprint Consultancy

For the largest businesses there are many consultancy companies who will provide carbon footprint measurement services. These services tend to comprise of actual data input and assumptive modelling. At the end of the process the company is provided with a snapshot of its performance. In order to provide real value this process has to be undertaken on a regular basis.

Modelling

There are also a number of software tools that enable a company to create a model of their structure and behaviour, and derive an estimated carbon footprint figure from that information. These tools share some similarities with the personal carbon footprint calculators available on the web – but with varying levels of complexity.

Lifecycle Assessment (LCA)

There are also tools that model the lifecycle of each product. These tools help the user to assess the CO2 impact of each item as it progresses through the procurement, manufacturing, packaging, and distribution processes. This modelling process is called Life Cycle Assessment (LCA). It is best suited to those companies that are seeking to 'carbon-cost' each unit of product that they sell. There are also some enhanced tools that take data from activity areas of the company, combine these with data from modelling and provide an aggregated picture of a company's carbon footprint. Again these tools are complex in nature and require significant implementation consultancy in order to deliver results.

Integrated within the accounts function

For medium-sized companies the most commonsense approach appears to be gathering carbon emissions data as an extension of the processing of accounts transactions. Where a company's main carbon emissions are emanating from use of power, staff travel costs, and distribution costs, then this type of technology can deliver detailed CO2 reporting. The benefit is that accounts staff only have to enter a couple of extra fields of data when posting expense claims, purchase invoices or journals. As an example, when entering an electricity bill the operator may be prompted to enter the units consumed in order that the software can track the associated carbon emission.

Kevin Misselbrook examines the pressures on businesses to report on their carbon emissions, the technologies available and the role that accountants should play in addressing this new requirement.

Similarly either entering miles travelled, or the litres of fuel purchased on an expense claim, can result in the carbon being calculated, tracked, and reported on. The benefit of tracking carbon as an integrated part of the accounts system is that the company can have real time or period reporting, can analyse carbon usage by cost centre, and can set budgets, against which, performance can be tracked. From the accountant's perspective this approach also has the benefit of providing a full audit trail back to the source document or activity that created the carbon emission. The disadvantage of this type of tool is that it does not easily suit pure manufacturing companies where additional CO₂ may actually be borne out of the chemistry of the manufacturing process.

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HOW CAN I BE ASSURED THAT I'M DOING IT RIGHT?

The greatest concern is the lack of guidance on the reporting standards that are likely to be applied, and a lack of any audit standards. If the Climate Change Bill goes through, it will be up to the Secretary of State to determine the required format of the greenhouse gas reports. That format is, as yet, undefined. Hence you may make a major investment in a modelling tool only to find that any data that is based on assumptive modelling is not acceptable. The more encouraging news is that a lot of the mathematical formulae for converting, for instance, train miles travelled to CO₂, have already been defined and published by Defra. Technologies which utilise the Defra calculation standards and conform to the Greenhouse Gas protocol are more likely to meet future reporting requirements. Checking on the auditability of the offering will also be an important consideration as it seems a natural progression that this will eventually be part of the year end audit.

One thing seems assured and that is the remit of the company accountant will probably be broadened further to include accounting for carbon emissions. Although the Climate Change Bill has yet to filter through the legislative process, pressure is building from all sides to be able to report on a company's carbon footprint. The organisations that can demonstrate that ability will be in a position to benefit from cost-savings and to elevate themselves above the competition.

USEFUL WEB SITES:

Defra

www.defra.gov.uk/environment/climatechange/index.htm

Carbon Trust

www.carbontrust.co.uk

Envirowise

www.envirowise.gov.uk

GHG protocol

www.ghgprotocol.org/

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