



# SUSTAINABILITY: THE MEASUREMENT AND REPORTING CHALLENGE

**T**he corporate world is scrutinising with increasing urgency the way it monitors and reports sustainability performance to stakeholders. Environmental reporting requirements are becoming more stringent and complex and many organisations are being faced with the challenge of balancing this with existing reporting requirements. The proper measurement and reporting processes are vital for corporates in order to be accountable and to demonstrate the improvements that they are able to achieve for their stakeholders and the community, while validating their investment in sustainability initiatives. In this paper, Jones Lang LaSalle provides a roadmap towards meeting the evolving sustainability reporting challenges in Australia.

## Introduction

The sustainability reporting challenge is now squarely in the sights of many Australian firms, as reporting of environmental performance becomes a high priority for many companies.

The corporate world is scrutinising with increasing urgency the way it monitors and reports on sustainability issues to stakeholders in response to the increasing adoption of global reporting practices, this includes reporting on defined metrics accompanied by regular auditing of property performance, supply chains and management practices.

Organisations are now faced with the challenge of balancing these sustainability reporting requirements, which are at times complex and varied, with existing operational performance reporting and analysis. The major challenge for these organisations is to develop effective measurement and reporting tools to provide all the information required via a common set of base data.

In this paper, Jones Lang LaSalle explores today's sustainability reporting landscape and compares this with previously accepted models. We look at the challenges facing companies in Australia with regard to addressing these reporting requirements. We will also provide a roadmap that will assist owners and occupiers in meeting these challenges as they evolve into the future.

## Sustainability Reporting Requirements

There is a variety of commercial and non-commercial drivers that contribute to the impetus building around sustainability reporting requirements in Australia (Fig.1). These include international reporting initiatives, the pursuit of environmental performance ratings, carbon trading and changing legislative requirements.

Organisations are reporting on their environmental performance as an integral part of their annual reporting process, or in stand-alone annual sustainability reports, in response to various stakeholder requirements.

International reporting initiatives, such as the Dow Jones Sustainability Index (DJSI), the FTSE4Good Index Series (FTSE4Good), or the Australian SAM Sustainability Index (AuSSI) locally, are encouraging companies to register and report on their sustainability credentials so that investors can compare companies' environmental performance. The

### Dow Jones Sustainability Index

The Dow Jones Sustainability Index tracks the financial performance of leading sustainability-driven companies worldwide. The index captures the leading 10% of firms in the area of sustainability out of the largest 2,500 companies in the Dow Jones Global Index. Its aim is to achieve a consistent, flexible and investable index for global sustainability portfolios and to provide investors with an independent benchmark based on triple-bottom-line criteria. Find out more at [www.sustainability-index.com](http://www.sustainability-index.com)

### FTSE4Good Index Series

The FTSE4Good Index Series measures the performance of companies that meet globally recognised corporate responsibility standards and facilitates investment in these companies. Alongside the FTSE, it provides transparent management and criteria for the creation of socially responsible investment products. Find out more at [www.ftse.com/indicies/FTSE4Good\\_Index\\_Series](http://www.ftse.com/indicies/FTSE4Good_Index_Series)

### The Carbon Disclosure Project

The Carbon Disclosure Project (CDP) brings together institutional investors to collectively sign a single global request for disclosure of information on greenhouse gas emissions. More than 1,000 large corporates are currently reporting on their emission through the CDP. Information from the CDP is collected and disseminated in a report via the CDP website at [www.cdproject.net](http://www.cdproject.net)

Global Reporting Initiative (GRI) provides a Sustainability Reporting Framework, incorporating Sustainability Reporting Guidelines that are used by some 1,000 organisations worldwide. Additionally the global Carbon Disclosure Project (CDP) specifically petitions organisations to publicly disclose their carbon emission performance.

Environmental performance rating tools are becoming widely used and recognised in the industry, with an increasing focus on results at a property level. Organisations that occupy or own sustainable space are being driven to report on performance to achieve Australian Building Greenhouse Rating (ABGR) scheme certification on their buildings. Tenants and owners entering into lease agreements with environmental targets are requiring reports, often using the ABGR framework, to ensure these commitments are being upheld.

Legislation and government policies are also key issues driving sustainability audits. In Australia, we are seeing an increasing legislative requirement for reporting, particularly through the Energy Efficiency Opportunities (EEO) Act and the National Greenhouse and Energy Reporting (NGER) Act. In addition, some state and local governments are requesting major consumers to report on energy and water consumption and to develop performance improvement plans in response to ever-increasing demand on capacity-constrained infrastructure.

Carbon trading is yet another driver looming on the reporting horizon as this emerging market matures into the future. Several multinational companies are already trading on international carbon trading schemes. Australia's first national emissions trading exchange, Australian Climate Exchange (ACX), opened in July 2007, placing a market-based financial value on greenhouse pollution. This market is continuing to evolve in Australia and it will place pressure on corporates to provide auditable and robust data to ensure the greenhouse credits can be effectively traded.

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Chris Wallbank has 30 years' experience in the design, construction, commissioning and maintenance of building services, with the last 15 years focussed on building performance improvements with new and existing property. He has developed a strong and rapidly growing sustainability business using innovative and well-structured solutions for both new and existing clients of Jones Lang LaSalle. Chris is responsible for the Australian Energy and Sustainability Services business for Jones Lang LaSalle and sits on both regional and global sustainability boards for the company.



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Tina is manager of business development and operations for Jones Lang LaSalle's Energy and Sustainability Services team in Australia. She is responsible for driving business development activities, as well as undertaking special project coordination for existing clients. Recently Tina has been heavily involved in the development and phased roll-out of a new web-based measurement and reporting technology for Australian clients. Tina is a member of Jones Lang LaSalle's Asia Pacific Sustainability Sub-Committee, which is responsible for sharing information and best practice on sustainability across the region.



### Australian SAM Sustainability Index (AuSSI)

The Australian SAM Sustainability Index (AuSSI) tracks the sustainability performance of Australian companies based on an assessment of economic, environmental and social criteria. The AuSSI comprises the top sustainability-driven companies from each of the 21 industry clusters covering the entire Australian economy. It enables the public to track the value of these companies on a day-to-day basis and provides a reference point for the growing interest in corporate sustainability and sustainable investment. The AuSSI provides an incentive for Australia's corporate sector to raise its sustainability performance.

Find out more at [www.aussi.net.au](http://www.aussi.net.au)

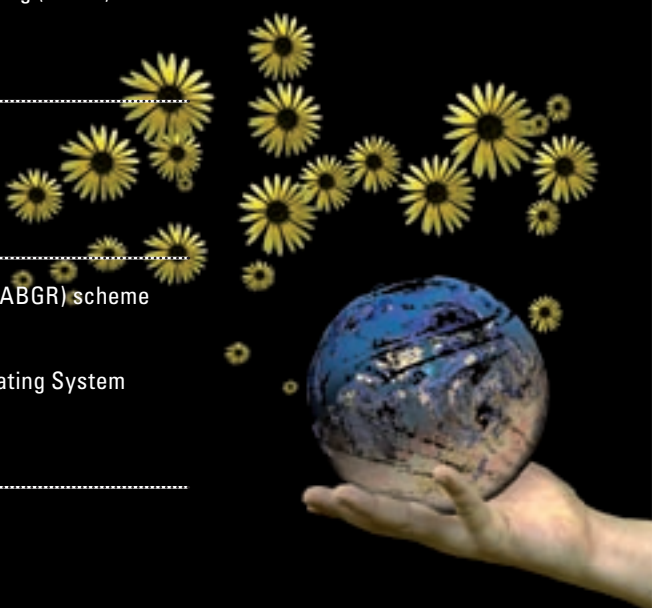
### Australian Climate Exchange (ACX)

Australian Climate Exchange (ACX), Australia's first national emissions trading exchange, opened in July 2007, placing a market-based financial value on greenhouse pollution. Companies can now trade Australian Greenhouse Office (AGO) accredited 'voluntary emission reductions' (VERS) on the ACX. In order to register offsets, they must be certified by the AGO and logged with the ACX registry.

Find out more at [www.climateexchange.com.au](http://www.climateexchange.com.au)

Fig. 1 >> Types of Reporting Requirements

Carbon Trading	<ul style="list-style-type: none"> <li>• Australian Climate Exchange (ACX)</li> <li>• International carbon trading schemes</li> </ul>
Voluntary	<ul style="list-style-type: none"> <li>• Global Reporting Initiative (GRI)</li> <li>• Carbon Disclosure Project (CDP)</li> </ul>
Investment	<ul style="list-style-type: none"> <li>• Dow Jones Sustainability Index (DJSI)</li> <li>• FTSE4Good Index Series</li> <li>• Australian SAM Sustainability Index (AuSSI)</li> <li>• Investor due diligence reports</li> </ul>
Legislative	<ul style="list-style-type: none"> <li>• Energy Efficiency Opportunities (EEO) Act</li> <li>• National Greenhouse and Energy Reporting (NGER) Act</li> <li>• State-based requirements (i.e. Victorian Government WaterMAP program)</li> </ul>
Corporate	<ul style="list-style-type: none"> <li>• Annual reports</li> <li>• CSR reports</li> <li>• Sustainability/Environmental reports</li> </ul>
Operational	<ul style="list-style-type: none"> <li>• Australian Building Greenhouse Rating (ABGR) scheme</li> <li>• Green Star</li> <li>• National Australian Built Environment Rating System (NABERS)</li> <li>• Lease agreements</li> </ul>



Source: Jones Lang LaSalle

### Energy Efficiency Opportunities (EEO) Act

The Energy Efficiency Opportunities (EEO) Act 2006 will require large energy-using Australian businesses to undertake an assessment of their energy usage and report on their reduction initiatives. The EEO Act has set mandatory participation in a program for corporations using more than 0.5 petajoules (PJ) of energy (or around 139,000 megawatt hours of electricity). The first possible trigger year for its assessment is 2005–2006. The companies involved must publicly report the outcome of their first assessment or assessments, including their business response, within 15 months of the first assessment's completion or by December 2008, whichever is earlier.

Businesses will be required to publicly report on their energy consumption and demonstrate that they are effectively managing their energy use. This affects around the top 200 energy users in Australia, with an anticipated reduction of reporting thresholds over the next four years.

Most companies that spend around AUD 5 million or more in electricity each year, or over AUD 1.5 million on gas, will be required to register and report on their emissions on or before December 2008. Corporates who are required to report under the Act and do not have systems in place within the next 12 months are increasingly concerned about the dangers of non-compliance.

### Challenges

The demand for auditable and robust data on sustainability performance for corporate reporting and operational purposes is of significant concern to those reporting on sustainability performance for real estate portfolios.

Organisations are now increasingly required to provide reporting across performance, operational and corporate structures and are finding that previous data collection methods are not providing them with the flexibility and detail they need now and into the future. Primarily, they are requiring scalable, robust data collection methods that allow them to prepare accurate reports in a timely and cost-effective manner.

In addition, the reporting cycles being introduced require data to be collected, stored and made accessible over long periods of time in order to establish valid performance trends and to measure the performance impact of sustainability initiatives.

A key issue in Australia is the lack of suitable monitoring and reporting systems that provide auditable data regarding energy, waste and water use to meet reporting requirements. The multitude of data that is produced from a properly measured building or facility represents many hours of time and money spent to compile, analyse and present. Add to this the time it takes for an auditor to review, verify and sign off on the accounts as being compliant, and reporting becomes a very costly exercise for an organisation.

Providing a single set of data that is robust and flexible enough to meet the variety of different requirements is a significant challenge. In order to arrive at an accurate picture of environmental performance, organisations need to pull together disparate data sets from many corners of their organisation including HR, Finance and Administration as well as building performance data.

The data metrics used and the ways in which data is manipulated and presented should have relevance at all levels

in the business. This data then needs to be rolled up into a common methodology to provide a single, succinct reporting layer that can be fed into the different sets of metrics for a variety of reporting requirements.

Organisations may have different ways of identifying which metrics to report on in order to meet their needs. There are tools available that can be used to assist in developing a reporting framework. One of the most commonly recognised tools is the GRI, which aims to set global standards for reporting on triple-bottom-line performance that is as routine and comparable as financial reporting for all organisations.

Data validation is a key component in meeting the requirements of the GRI and in providing accurate information in official documents such as annual reports, statements to the stock exchange and participation in global reporting schemes such as the DJSI and the FTSE4Good.

However, the key for any organisation is to arrive at a set of data and a reporting schedule that best reflects the business requirements and organisational objectives, while being flexible enough to meet a variety of metrics both now and into the future.

### **Sustainability Reporting: Current vs. Future**

Most company boards require very rigorous auditing of their financial accounts prior to signing them off as a true and accurate position of the firm's financial position. Environmental reporting, once it is codified in legislation, may well place the same duty of care on company directors. New environmental compliance regimes will become increasingly time consuming and expensive unless action is taken to automate the process to meet the reporting requirements of the legislation.

As such, fully integrated reporting and analysis systems are likely to be instrumental for corporates around the globe to manage and verify their sustainability reporting.

Typically, reporting models have been approached from a historical operational view. The traditional model of property reporting is simple and straightforward. It is based on data collection via master meters for base building and tenancy services to produce reports that are predominantly focused on consumption, cost and emissions, using monthly data only.

However, with the increasing complexity of sustainability reporting requirements, a new reporting model is required.

This new model provides the greater flexibility needed to meet numerous reporting demands through a single methodology. Detailed performance data is collected, consolidated and can be tailored to feed into various reporting metrics according to the requirements of their individual reporting cycles. (Fig.2). While this model is more complex to establish, it provides a highly focused data model for both managing and reporting on environmental sustainability issues.

This new model provides the greater flexibility needed to meet numerous reporting demands through a single methodology. Detailed performance data is collected, consolidated and can be tailored to feed into various reporting metrics according to the requirements of their individual reporting cycles.

When this data is normalised with additional company data such as full-time employees (FTE), this new reporting model can provide reports not only at an operational level, but on the corporate level as well.

It is important to note that while more complex, it is essential that a consistent property set-up is adopted to ensure that the data provided into the reporting layer is robust and can be used for comparison and analysis across multiple buildings where appropriate.

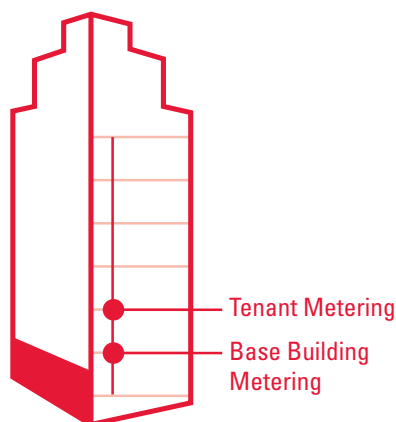
Large organisations attempting to prepare their financial accounts without the assistance of a sophisticated accounting system and audit process would find that element difficult to manage. Going forward environmental reporting is likely to require the same level of detail because carbon may well become another asset or liability that is set to make its way into the balance sheets for most of the larger organisations in the future.

### **Recommended Approach**

In order to meet the challenges that sustainability reporting requirements represent, it is imperative that organisations have a structured approach when they embark on their sustainability journey.

Performance measurement is a critical element of sustainability reporting in order to track performance in a meaningful and relevant manner. The method by which measurement and reporting is set up and managed is key to ongoing performance validation, and as such, should be subsets of the overall corporate level reporting requirements.

Fig. 2 &gt;&gt; Old World vs. New World Reporting

**Old World Reporting:**

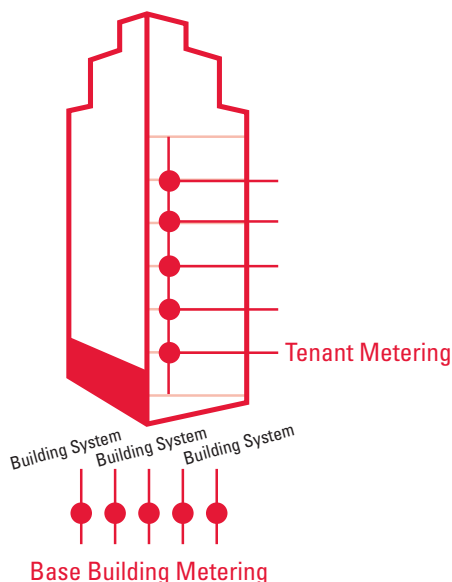
- + Simple implementation
- + Straightforward configuration
- Minimal discrimination of systems' consumption
- Difficult to compare across multiple buildings

**Utility Account Info**

- Cost focus
- Rolled up amount
- Monthly

**Reporting Layer**

- Emissions reporting
- Generally monthly reporting cycle
- Provides a historical view of trends
- Predominantly a cost-focussed view

**New World Reporting:**

- + High focus on environmental sustainability requirement
- + Floor-by-floor or sub-floor discrimination
- + Provide multiple data sets on various systems

- Complex configuration
- Requires understanding of systems relationships

**Utility Account Info**

- Cost focus
- Rolled up amount
- Monthly

**Reporting Layer**

- Emissions reporting
- EEO, GRI, DJSI
- Data collection at regular intervals ie.15 minutes
- Provides normalised comparison across multiple buildings
- Provides operational performance trends

The following steps provide a framework that can be used as a foundation when implementing sustainability and linking it to a reporting process across an organisation.

**1. Establish corporate objectives**

The first step in implementing a sustainability reporting program is to establish the corporate objectives. This means establishing the main areas of interest within the sustainability space and how sustainability aligns with corporate objectives and real estate strategy. It is essential that those responsible for implementing the program have the support of a board-level sustainability champion. Building on these objectives, a public policy can be created and an initial program can be developed on how to educate and engage staff and service providers.

**2. Identify reporting requirements**

The second step is identifying reporting requirements and understanding what needs to be measured and what metrics are required. Sustainability reporting is a top-down exercise, in that an organisation needs to understand what it is that it wants to report on, and then have access to information at varying levels within its structure to meet the identified reporting requirements. It is important at this stage to establish what legislative, regulatory and corporate reporting is required and what rating tools or metrics apply. This program will depend upon the relevant phase of a property's life-cycle, for example, whether the building is a 'new build' or an existing building.

### 3. Establish reporting responsibilities, processes and procedures

The third step is to establish reporting responsibilities, processes and procedures. This requires the development of a system to determine how and to whom performance will be reported. A key priority at this stage is to ensure the process for collecting and measuring data is consistent across the portfolio and over time.

Another key issue to be resolved is to determine the areas of control and influence in terms of sustainability performance. For example, a building owner can develop a high-performance asset, however the tenant's use of the building, via the agreed terms of the lease, will be a major factor in determining its ultimate performance. Having a clear and unambiguous resolution of these issues will enable reporting responsibilities and procedures to be clearly defined and the impact of tenant and owner initiatives/ changes to be measured.

### 4. Identify normalisation factors

Use of relevant normalisation factors is a key to identifying trends that are appropriate for an organisation. Data analysis needs to take into account variables such as weather patterns, changes in occupancy levels and operating hours, business growth or number of full-time employees. Any of these variables can have a significant impact on accurate building performance assessment and may distort the picture of overall performance if not used correctly.

### 5. Establish benchmark performance

Step five is to conduct an assessment of benchmark performance to date. This includes a comparative analysis report on property performance to establish consumption key performance indicators (KPIs) and to set benchmarks for future trend analysis. Benchmarking is crucial in order to be able to provide ongoing performance validation of sustainability initiatives.

Tracking and managing performance is critical in enabling reporting on performance changes year-on-year and identifying potential risks and opportunities that add value or achieve further performance improvements.

Many companies at this stage identify environmental performance rating tools such as ABGR / NABERS as benchmarking tools for a property portfolio. This particularly applies where a large number of buildings are

rated to establish a benchmark of actual performance based on 12-months' of operational data.

### 6. Track baseline performance over 12 months

The next step is to track the baseline performance over a defined monitoring period. For example, this may include a 12-month baseline consumption for the following:

- > Energy consumption (electricity, gas and diesel)
- > Water consumption
- > Waste volume reduction
- > Paper consumption
- > Travel emissions

After aligning the baseline consumption data with the reporting schedule, access should be available to a monitoring and reporting system that is capable of automatically collecting and validating the data. This will streamline the collection process and allow best use of resources. Implementation of such a system will enable more rapid knowledge transfer and also reduce the risk of errors, while enhancing opportunities to respond to exceptions quickly and maximise sustainability performance.

### 7. Set performance targets

This then allows the sustainability team to set performance targets, the seventh stage in the sustainability reporting process. Previously established benchmarks and analysis are used to identify which properties in a portfolio have the most potential for improvement. Once opportunities have been identified, it is important to analyse the time, resources and investment required to achieve performance uplifts. From there, it is possible to use this information as part of an asset repositioning strategy or aid in the disposal/ upgrade of the asset. Having resolved the performance targets and developed a list of initiatives as part of the asset repositioning plan owners and occupiers can determine the following:

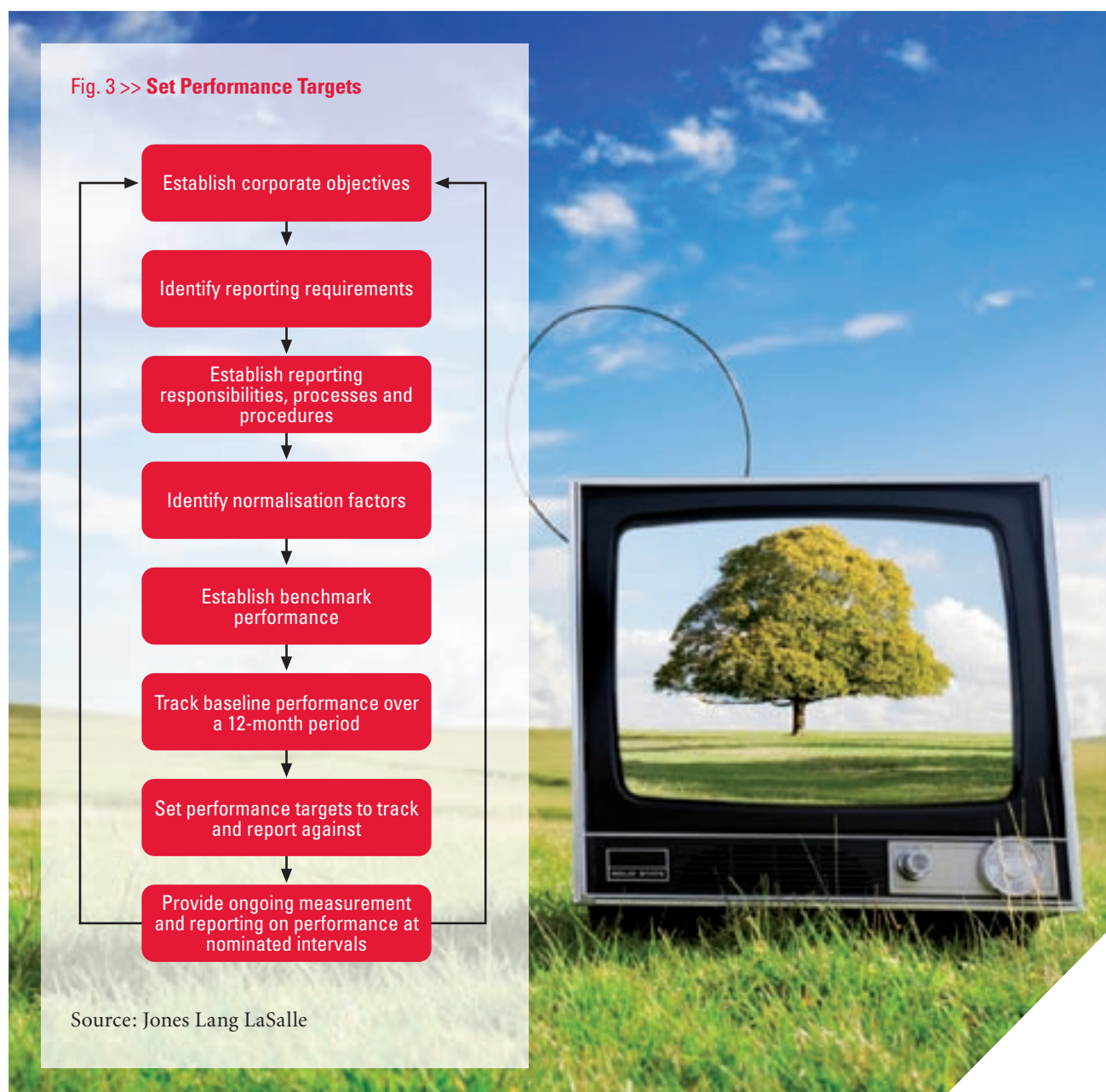
- > The performance of assets against established criteria
- > How properties can meet current and future tenant requirements
- > How assets fit within the existing portfolio
- > The impact a building will have on overall portfolio performance
- > How the property strategy supports the overall corporate objectives



If you require a new build, this could be an opportunity to innovate around sustainable technologies and to maximise your investment in the new space. If you are looking at existing space, there are many initiatives that can be implemented to improve performance to best practice standards and achieve environmental gains across a portfolio.

### 8. Provide ongoing measurement and reporting

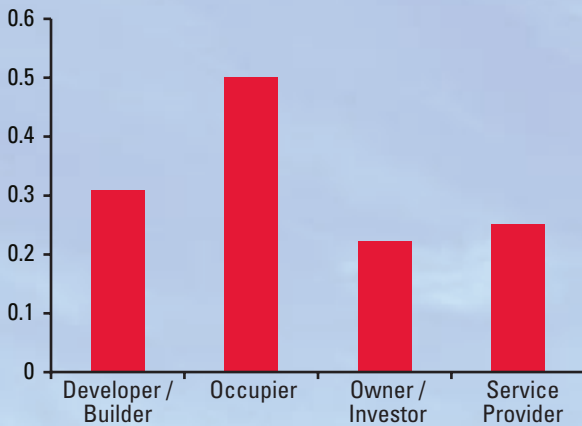
The final phase is the ongoing measurement and reporting process. This includes undertaking formal reporting on consistent performance data over the nominated time periods. Constantly reviewing and refining this process will help to ensure the asset or space is operating at peak efficiency and will minimise the room for error. Benchmarking prior to undertaking sustainability initiatives, combined with ongoing measurement and review, will also enable tracking and validation of investment decisions (Fig. 3).



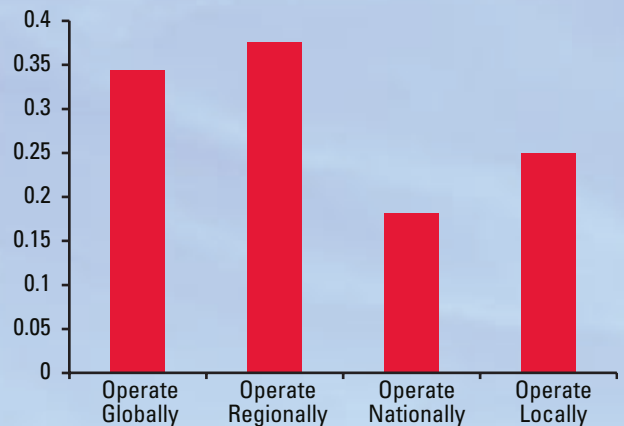
**Increasing level of sustainability reporting requirements in Australia**

In the Australian Sustainability Survey 2007, a study of sustainability sentiment within the Australian real estate industry, Jones Lang LaSalle found that 28% of respondents were facing high-level sustainability reporting requirements. The responses indicated that those facing the highest level reporting requirements were occupiers and companies operating either regionally or globally. Furthermore, 37.5% of local operators indicated they were facing strong reporting requirements. This reflects a trend in the market where multinational companies have typically had a bigger focus on sustainability reporting, with this now cascading down to local and smaller operators over time.

**Percentage of respondents with high-level reporting requirements**



**Percentage of respondents with high-level reporting requirements – by scope of operations**



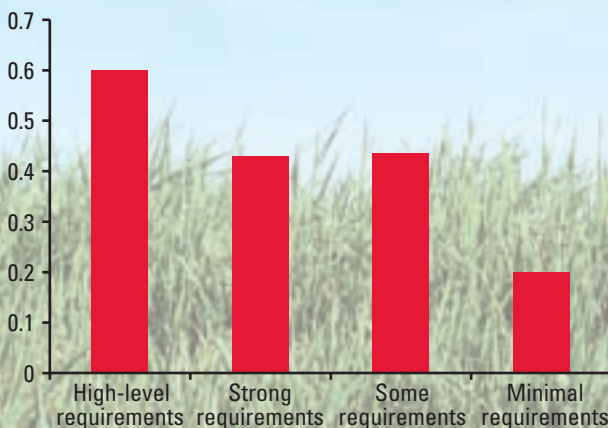
Source: Jones Lang LaSalle Australian Sustainability Survey 2007

**The cost of sustainability reporting in Australia**

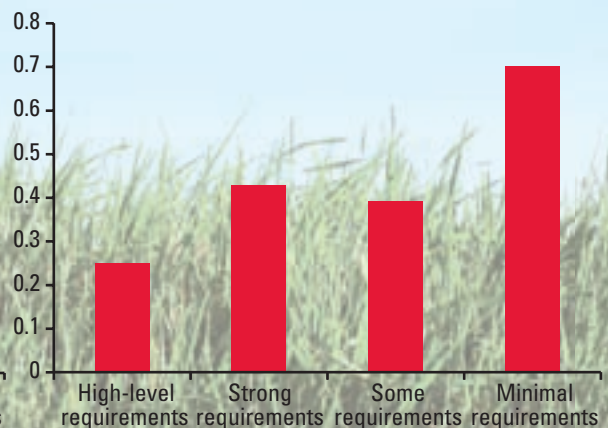
The survey also found that 58% of respondents estimated that sustainability reporting requirements added additional costs to their annual reporting processes. 48% of respondents said sustainability reporting cost them up to 5% more, while 10% said sustainability reporting was costing them over 5% more.

Conversely, 43% of respondents believed that sustainability reporting did not result in any additional costs to their annual reporting processes. Further analysis found that those with minimal reporting requirements were more likely to respond that they saw no additional costs. This would suggest that the higher the level of reporting required, the more costly the reporting exercise becomes.

**Percentage of respondents who say sustainability reporting adds 0% - 5% more onto the costs of annual reporting processes**



**Percentage of respondents who say sustainability reporting does not add to the cost of annual reporting processes**



Source: Jones Lang LaSalle Australian Sustainability Survey 2007



**Conclusion**

Environmental reporting requirements are becoming more stringent and complex, and this will intensify as the reporting thresholds are lowered over the coming years. Organisations will require robust and auditable data in order to meet these reporting requirements, and processes will need to become more accurate and efficient.

To date, measurement and reporting are seen as an add-on to the cycle in most industries, when in fact, these serve as a foundation for meaningful performance improvement and consequent reduction in a company’s environmental footprint as part of an overall sustainability focus.

Accurate, consistent and unbiased reporting will allow for a broad scope, covering a range of social, environmental and economic indicators. The proper measurement and reporting processes allow corporates to be accountable and to demonstrate the improvements that they are able to achieve for stakeholders and the community while validating their investment.

Fully integrated reporting and analysis systems are likely to be instrumental for corporates around the globe in managing and verifying their sustainability reporting moving forward. The organisations that will be best placed to benefit in this environment will be those that plan ahead and invest in the right methodologies from the outset.

## About Jones Lang LaSalle

Jones Lang LaSalle (NYSE: JLL), the only real estate money management and services firm named to Forbes magazine's "400 Best Big Companies" for three consecutive years, has approximately 170 offices worldwide and operates in more than 700 cities in over 60 countries. With 2007 revenue of USD2.7 billion, the company provides comprehensive integrated real estate and investment management expertise on a local, regional and global level to owner, occupier and investor clients. Jones Lang LaSalle is an industry leader in property and corporate facility management services, with a portfolio of approximately 1.2 billion square feet worldwide.

LaSalle Investment Management, the company's investment management business, is one of the world's

largest and most diverse real estate money management firms, with approximately USD49.7 billion of assets under management. For further information, please visit our Web site, [www.joneslanglasalle.com](http://www.joneslanglasalle.com)

Jones Lang LaSalle has over 50 years of experience in Asia Pacific, with over 15,000 employees operating in more than 70 offices in 13 countries across the region.

The Little Book of Real Estate Definitions - Asia Pacific by Jones Lang LaSalle is a useful resource to gain a better understanding of the most commonly used real estate terms in the region. To enhance your knowledge, please visit [www.joneslanglasalle-dictionary.com](http://www.joneslanglasalle-dictionary.com)



Jones Lang LaSalle is a strong advocate of creating a more sustainable environment for current and future generations. As an industry leader in property and facilities management, the Firm recognises that the commercial real estate industry has the capacity to drive real change and innovation to ensure that our buildings are environmentally sustainable. At Jones Lang LaSalle, sustainability means making the right decisions today to achieve long-term commercial benefits for property assets while making a positive and lasting contribution to enhancing our environment.

Jones Lang LaSalle's Energy and Sustainability Services provides practical advice, backed up by a range of integrated sustainability services. This enables our clients to make sound commercial decisions that support their sustainability objectives and provide clarity in the reporting of their sustainability performance.

Our clients benefit from a sophisticated infrastructure platform, access to global best practice as well as our hands-on experience with the operational and cultural sustainability challenges that face today's real estate decision makers.