

To report or not to report? That is the question here.

Municipal utilities and sustainability reporting

Due to their special position in the market, German municipal utilities are involved with many topics in the area of sustainable development on a daily basis. But how actively are the often considerable efforts communicated to the public? The answer is clear: too little. A DNK declaration of conformity offers the option of presenting information comprehensively and compactly at the same time.

Framework

Municipal utilities (SW) have historically played an essential role in Germany. Not only in ensuring the high-quality, stable and environmentally friendly provision of public services by municipalities, but they also have a special social responsibility as public-sector enterprises. Their economic and legal framework conditions must be seen as a challenge.

While privately managed companies determine their objectives independently, municipal companies are predominantly expected to fulfill a statutory public mission while remaining competitive in the liberalized and competitive electricity market. Furthermore, SW are active players in the energy transition - among other things by providing the energy and mobility service, decentralizing the energy supply, providing a growing share of renewable energies in their own portfolios. This has resulted in a strong legal regulatory framework. Pressure of competition on SW is significantly increased by legislation.

Fields of action and management systems

High demands and challenges mean that SWs are generally well organized. They sometimes operate several management systems: quality, environmental and energy management, EMAS, compliance and risk management. Following legal requirements, IT security according to ISO 27001 also becomes mandatory. Great value is placed on the workforce: SW are known as excellent, safe and reliable employers. Social commitment, such as support for sports and cultural clubs, sponsorship of events and local projects are also part of the typical annual agenda of many municipal utilities.



International
Organization for
Standardization



In general, when choosing an electricity supplier, the price offered is an essential but not the only criterion. Many customers pay attention to the mix of renewable and conventional power generation in the products offered or are aware of SW's special role as one of the cornerstones of the economy in their region. Decisions are based on available information and, above all, on the reputation of the respective supplier.

What do consumers actually know about the special position of municipal utilities? How actively are the often considerable efforts communicated to the public? The answer is clear: too little.



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Previous and possible communication channels

Usually, the communication of the SW with various relevant interest groups (stakeholders) is broadly diversified: Owners and donors are informed through official channels and at regular meetings; politically relevant issues are brought out to the political arena in the working groups and associations; the image to the general public is organized through the internet presence and individual publications as well as sponsoring. EMAS-validated SW also publish an annual environmental statement, which contains detailed information on environmental performance and developments, but (usually) only highlights the environmental dimension.

Comprehensive (CSR or sustainability) reporting, on the risks and opportunities arising from the company's environment, not related to individual topics and fields of action, but to all three dimensions of stable or sustainable development - economic, environmental and social - hardly takes place. Research conducted by GUTcert last year showed that less than five percent of German municipal utilities produce a regular CSR or sustainability report.

What strategic orientation does the corporate context bring? What goals and measures are derived from this and implemented? What does this mean in concrete terms for municipalities and communities? These are the key questions from sustainability reporting, which makes coherent and transparent communication for the municipality, customers, partners, NGOs, citizens' initiative and not least for own employees and is of interest.

Much of the information relevant to sustainability has been part of SW's annual reports for years. This is where key risks and opportunities are explained and a large number of so-called non-financial indicators are published (i.e., those indicators that represent performance related to the business). Legislation only requires the company to refer to non-financial indicators in the management report if these are relevant for assessing the current situation or the expected development of the company and the reporting company is a large corporation as defined by the German Commercial Code (HGB). Since 2017, a reporting obligation on "non-financial"

aspects has applied in Germany for large capital market-oriented companies - i.e. if more than 500 employees are employed and sales or profits are greater than 40 or 20 million euros. This means that most German SWs are generally exempt from the reporting obligation.

In this context, however, the following questions arise: If the SW don't have to report, shouldn't they? Or are there valid reasons that justify the effort?

ACTUAL situation

Due to their special position in the market, German SEs deal with many issues in the field of sustainable development on a daily basis anyway. Data collection of non-financial indicators is available for the most part (through the operation of various management systems). There is also a need to communicate about their own performance to the outside world,

Gesetz
zur Stärkung der nichtfinanziellen Berichterstattung
der Unternehmen in ihren Lage- und Konzernlageberichten
(CSR-Richtlinie-Umsetzungsgesetz)
Vom 11. April 2017



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has already been recognized. What is missing is systematic and comprehensive reporting on the issues that are generally recognized as relevant to sustainable development.

Opportunities

A bundled, interesting, balanced and structured presentation of the company's situation and strategy gives SWs an opportunity to talk about their own deeds and to position themselves more clearly among the competition and raise their own profile. Experience shows that such reports are also seen as one of the most important sources of information, especially for potential employees and junior staff.

The internal power of reporting should not be underestimated. This involves systematic and periodic reporting: as a rule, a sustainability report goes out every two years at the latest. Goals, achievements and developments are accounted for, new goals are set and backed up with measures. This means that in the background of CSR or sustainability reporting, an internal sustainability management system (NMS) must be in place to manage and control the planned activities. A growing transparency about own activities in all areas brings the development. A comprehensive corporate strategy finds its traits. In the optimal case, the issued report is only the 'by-product' of the existing NMS.

Risks

Reporting means comparability and benchmarking. For example, a published report can be analyzed and ranked without further corporate approval. How big are the risks here?

A distinction should be made: Some ratios or indicators have been benchmarked for a long time, including economic ratios such as turnover or profit; specific values such as percentage of renewable energy in the energy mix; unavailability of electricity and gas per connection; damage rate in the water pipe network or delay rate in public transport companies (if relevant); number of occupational accidents, etc. Other indicators, mainly non-financial, are not benchmarked even after the report publication. What work models are preferred and offered? Which associations or events are supported? Which projects are sponsored? All these actions depend on a very concrete local situation and cannot be compared per se with other municipalities and regions. What can be compared at this point is the quality of reporting.

Quality and effort of reporting

Quality and comparability in reporting is made possible by applying recognized catalogs, for example from Global Reporting Initiative (GRI) or the German Sustainability Code (DNK). Since SW operates nationwide, they can draw on the German reporting standard. The DNK is defined in a much more compact way than the GRI indicator set and is particularly suitable for those new to this subject. Nevertheless, it fulfills all requirements of the reporting obligation on non-financial indicators in Germany and the EU.



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The sustainability declaration according to the Sustainability Code consists of four areas: strategy, process management, environment and society. These contain a total of 20 criteria, which must be reported on quantitatively and qualitatively as well as systematically. This means that a common thread must be traceable for each topic area: from a strategic decision by the management to the implementation and presentation of the associated key figures as well as a subsequent reflection of the results by the company management.



Deutscher
NACHHALTIGKEITS
Kodex

Strategie Kriterien 1-4	Prozessmanagement Kriterien 5-10	Umwelt Kriterien 11-13	Gesellschaft Kriterien 14-20
<ul style="list-style-type: none">Strategische Analyse und MaßnahmenWesentlichkeitZieleTiefe der Wertschöpfungskette	<ul style="list-style-type: none">VerantwortungRegeln und ProzesseKontrolleAnreizsystemeBeteiligung von AnspruchsgruppenInnovations- und Produktmanagement	<ul style="list-style-type: none">Inanspruchnahme natürlicher RessourcenRessourcenmanagementKlimarelevante Emissionen	<ul style="list-style-type: none">ArbeitnehmerrechteChancengerechtigkeitQualifizierungMenschenrechteGemeinwesenPolit. EinflussnahmeGesetzes-/richtlinienkonformes Verhalten

In addition, the "comply or explain" approach applies.

A company reports how it complies with the Code criteria (comply) or plausibly explains why a criterion is not reported (explain). To illustrate, "The indicator cannot be reported if the required data are not yet available for the first publication." However, such an answer becomes plausible with an addition: "The data will now be systematically collected and highlighted in the next report."

It is not a matter of perfection in presentation right from the first issue. The development process is much more important: a conscious discussion with relevant stakeholders, the determination of essential topics and fields of action, and a systematic processing of own goals and measures. True to the motto: The path is the goal.

When a declaration is completed (numerically documented performance indicators and textually described parts are put together for it), a rather formal review process takes place on the part of the DNK team. After a correction loop, the contents of the declaration are published on the DNK [platform](#). In this way, the DNK participants also receive a public appearance via this channel, which also ensures good comparability with other reports due to the specified format. Positive effects of a DNK report as a communication tool internally and externally are not yet sufficiently recognized by SW: only the Göttingen SW are present on the DNK platform with two statements (2013 and 2015).

On the positive side, it should be noted that a large part of the content of the GSC requirements is already covered by SW's existing internal reports. The more management systems are maintained, the less effort is required for the necessary data collection. The decisive factor is the depth of the reporting. Readers should be able to get an accurate picture, not superficial information. A world-famous PDCA cycle by Deming is not only applicable here, but also necessary.



How to conduct a GAP analysis

Last year we were asked this question by many companies. It is recommended to start with the selection of the reporting standard.

Which of the recognized catalogs best suits your company? Although "free" reporting is possible outside the reporting obligation, it is not advisable.



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It may reduce the effort, but it limits the possibilities for later marketing of the report, e.g. by participating in competitions or in various rankings.



Regardless of the choice of format, the premise of inclusivity in reporting applies. This means that the company does not just develop the strategy from its own perspective, but first carries out an analysis of the stakeholders in its own context. This is the only way to ensure the stability of future development. Such a stakeholder analysis brings openness and creativity. The participation of the company's management is indispensable in this process. In this process, the course for the strategic orientation is set or reviewed: Which stakeholders play an important role for SW? What risks and opportunities are involved? What answers do we already have and what

decisions still need to be made in order to avoid any "new" risks and take advantage of the opportunities?

Once the decision regarding the reporting format has been made, request the respective checklist with the requirements of the respective reporting standard. To conduct a gap analysis most effectively, organize a workshop at which employees with relevant knowledge (management representatives, department heads, etc.) are present. Discussions make it easier and more efficient to compile strategic priorities, planned and implemented measures, and the key figures for the queried indicators, and to fill out the corresponding questionnaires.

Based on the completed checklists, the report is written (internally or externally). Is verification of the report required? No. Verification is a voluntary, yet useful assurance of report quality, especially for beginners. Not only possible errors in the key figures and their interpretation, but much more the selection of essential topics and balanced presentation of the performance should be the subject of external verification.

The authors

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Both authors are happy to answer any questions on the topic of sustainable development, report validation or related [training](#) and workshops (also [in-house](#)).

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