

Forcing business to face its responsibilities with rega...

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I was asked by a person with a political persuasion to prepare some slides for them so that they might present my ideas on what I call [Sustainable Cost Accounting](#). These are what I sent them. They were meant to explain what was being said, and not illustrate them so they should, in themselves provide the narrative flow:

The essential idea

- * To make business a partner in the transition we all have to go through;
- * To require this by changing accounting rules ideally via an amendment to the Companies Act 2006;
- * The essential logic is that 'what counts matters';
- * The aim is to make sure that the transition to net-zero carbon matters by counting its cost in the accounts of companies.

The requirement

- * That all large and maybe medium-sized companies prepare a plan to become net-zero carbon by 2030;
- * That they cost this plan - literally saying how much they think it will cost to become net-zero carbon emitters;
- * They must have this cost audited;
- * And then they must:
- * Publish the plan;
- * Include all the estimated costs in their accounts by 2022 as a provision, with the actual spend to be recorded against this provision over the years that follow.

Why do it this way?

- * Because it makes clear the scale of the practical issues that these companies face;
- * It makes clear the scale of the costs that they will have to meet;
- * It highlights whether or not they will need new capital to finance the transition and makes them plan for that e.g. by
 - * Cancelling dividends;
 - * Raising new funding;
- * It lets markets, shareholders, pension funds, employees, government and regulators know the scale of the risk that we face, company by company.

The options for companies

- * If they can show they can afford the transition then they simply have to get on and do it;
- * If the plan shows the company has to restrict dividends to pay for the transition then it will have to do so;
- * If instead the business needs to raise new capital to pay for being net zero carbon it has to say how, and when, and who it expects to get that money from, and get its auditors to agree that's plausible;
- * And if it can't either:
 - * Make the transition, or;
 - * Convince its auditors that it can do so on the basis of currently known technology (and a precautionary principle must apply to the assumptions made), or;
 - * Work out how to raise the funding to make the transition;

Then its declared carbon insolvent and it has to have its affairs wound up in an orderly fashion.

The benefits

- * Every large company has to address the climate crisis: it will have no choice by do so;
- * Markets can reallocate capital from companies who cannot survive to those who can, which is precisely what is required by society and is the proper function that accounting should assist;

- * The scale of the capital required to fund the transformation can be assessed and planned for;
- * Employees with uncertain futures can begin to make plans for change;
- * If the government is going to need to assist some business then that too can be planned;
- * And the scale of the new green jobs required to replace those that will be lost can be estimated.

The risks

- * It will become apparent that some companies are overvalued, and might even be carbon insolvent and have no future. This will create a cost for pension funds. But we need to know that now;
- * Dividends may go down, and that will also impact pension funds - but unless the planet survives pension funds have no role anyway;
- * It's too late;
- * The forecasts might not be right:
- * Things could cost more than expected (they usually do);
- * Technology might not solve the problems not the ways forecast;
- * More capital is needed than planned;
- * More alternative jobs are required;
- * But if we don't try we get nowhere.

The alternative is extinction

- * There will be objections to this suggestion, of course;
- * The alternative is extinction;
- * The question is whether we face economic reality now or extinction later;
- * I know the option I prefer.