

Sustainable cost accounting at the Local Authority Pen...

Published: January 14, 2026, 4:04 am

I spoke at the Local Authority Pension Fund Forum conference yesterday on sustainable cost accounting :

These were my slides:

Sustainable cost accounting

Richard Murphy

**Professor of Practice in International Political Economy, City University,
London**

Director, Corporate Accountability Network

Climate change is a fact

- * The Intergovernmental Panel on Climate Change says so
- * The UK Committee on Climate Change agrees urgent action is required
- * The UK has declared a climate crisis
- * The requirement is to be net carbon neutral by 2050 at the very latest
- * **And so far accountancy has not noticed**

How we know accountancy has not noticed

- * 46% of UK boards will spend zero hours discussing climate change this year
- * 32% feel little or no responsibility for climate issues

- * 29 investor groups — led by Sarasin — have not yet got an adequate response to their demand for better climate change reporting and have had to go public on the issue
- * Not a single proposal for disclosure puts climate change onto the balance sheet — and so within the scope of mandatory reporting and audit
- * Sustainable cost accounting is designed to tackle this last issue by making financial reporting for climate change mandatory

The climate crisis and business

- * Two current responses are worth looking at:
- * The Task Force on Climate-related Financial Disclosures
- * <https://www.fsb-tcfd.org/>
- * EU taxonomy for sustainable activities
- * https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en

The TCFD

- * Completely voluntary
- * Promoted by the Bank for International Settlements under the direction of Mark Carney, from its Financial Stability Board
- * Aimed at investors alone
- * Reports outside the accounting framework
- * 80% of multinationals claim to be complying according to Mark Carney in 2019
- * But for key data indicators disclosure is done by less than 10% of companies
- * Carney says they have two years to comply or mandatory action is required

The European Taxonomy

- * Driven by the EU
- * Intended solely to meet the needs of investors
- * Provides a framework for appraising whether a company is likely to become net carbon neutral - and is welcome for that
- *

And then provides a labeling mechanism for whether financial products are green or not

- * But all suggested financial disclosure - and it is only turnover by type of climate emitting activity - is expressly stated to be voluntary

Conclusion

- * No one is really doing accounting for climate within the general ledger framework of accounting that leads to inclusion of that recognition in an entity's financial statements
- * The Institute of Chartered Accountants in England and Wales has confirmed to me that they agree with that conclusion

Possibilities within IFRS

- * The Financial Reporting Council suggests that climate change is within the IASB framework because two standards indicate possible routes to action:
 - * IAS 36
 - * Impairment of assets
- * IAS 1
- * Presentation of financial statements
- * Specifically with regards to going concern

IAS 36

- * IAS 36 says that impairment of the value of an asset may be required when:
 - * ***significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.***
- * I suggest that the climate crisis creates the significant change with an adverse effect that requires impairment

IAS 1

- * IAS 1 says that:
 - * ***When preparing financial statements, management shall make an***

assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

* Is a company that cannot adapt to the climate crisis and the requirement implicit within it that its activities be net carbon neutral really able to trade as a going concern, and for how long?

The need for a better response

* IAS 1 and IAS 36 might be a useful basis from which to work but they are not climate related

* The need is for a specific response

* And given that the climate crisis is the biggest issue facing humankind at present an accounting response that is restricted to the interests of investors alone is wholly inappropriate

* Business has to be accountable to all its stakeholders on this issue

Stakeholder reporting

* This thinking is based on that of 'The Corporate Report' issued by the UK based Accounting Standards Steering Committee in 1975

* The logic is that business should be accountable to all stakeholders i.e. their
* Suppliers of capital to entities

* Trading partners

* Current, past and potential employees

* Regulators

* Tax authorities

* and those:

* Civil societies that grant them limited liability and a licence to operate

The basis of sustainable cost accounting

* That the cost of transition to a sustainable, net-zero carbon, business model must be provided upfront by all reporting entities

- * Upfront provision incentives early action to address the issue
- * This cost must be reflected in the accounts
- * The obligation to stakeholders requires this to be on a country-by-country reporting basis
- * The disclosure must be mandatory
- * The data must be audited - which no other framework requires as yet

Sustainable cost accounting - 1

- * The reporting entity will prepare a plan to be net zero carbon by a date - we suggest by 2030
- * The entity must cost the plan
- * That provision is audited
- * The cost is then reflected on the balance sheet
- * Each year the provision is reappraised
- * Costs incurred to achieve the goal are charged against the provision
- * Changes in estimate are recorded as gains / income or costs / losses
- * The entities progress towards its goal can then be appraised

Sustainable cost accounting -2

- * The provision is for the entity itself and its supply chain
- * The provision is in two parts:
 - * The entity's own costs
 - * The cost the entity imposes through its supply chain —upward and downward - that it could change by altering its business model
- * Offsetting is not allowed unless state-sanctioned — i.e. a licence to permit offsetting has to be granted
- * A precautionary principle applies — only proven technology can be used

Sustainable cost accounting - 3

- * The provision for costs might exceed the net assets of the entity
- * If it does then the entity has to say how it will make good the deficiency:
- * Dividend cuts

- * New capital

- * If auditors cannot be satisfied of the plan to raise new capital or the company itself thinks it cannot make the transition then the company becomes 'carbon insolvent'
- * Unless given a licence to continue without being net zero carbon its affairs will have to be wound up before the net zero carbon deadline

What SCA does

- * Shows who can, and cannot, use the capital available to transition to net zero carbon
- * Shows which entities are at risk
- * Properly indicates an entity's ability to pay returns in the current environment
- * Puts all parties on notice of risk
- * Says where that risk arises because of country-by-country reporting
- * Lets the impact on tax revenues be planned

One provision: one massive change for accounting

- * SCA will fundamentally change the perception of value of most companies
- * And will challenge the wellbeing of those who live on what will be shown to be unsustainable income streams
- * It would change almost all investment criteria
- * And in the process might radically redirect capital
- * Whilst changing the profile of employment in many industries
- * But if accounting is to do its real job — and report on what is, and is not, viable business activity in the interests of all stakeholders - then that is exactly what needs to happen