and cultural grounds a number of the actions taken in this case were simply wrong.

Because the processes involved in 'the turtle incident' are not necessarily complete at the time of writing, this paper is therefore also intended partly as an action-research intervention aimed at promoting different behaviours in similar future events.

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MERGING SUSTAINABILITY COSTS AND BENEFITS WITH GOVERNMENT PLANS AND BUDGETS

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Abstract

This article is intended to assist governments to integrate sustainability into public sector management. The authors are mindful that there can be a conflict between short-term interests and sustainable society. This article proposes that the costs and benefits of sustainable policies be merged into government plans and budgets and explains how this can be achieved. Costs and benefits of sustainability will be made transparent and enable accountability for long-term, intergenerational interests.

Keywords

Whole-of-government framework, Sustainability reporting, Accountability, Governance

Introduction

The Institute of Chartered Accountants of England and Wales (ICEAW) in *Sustainability: the role for Accountants* states 'The concept of sustainability involves operating in a way that takes full account of an organisation's impacts on the planet, its people and the future' (ICAEW 2004, p. 4). In his book *Collapse,* Diamond (2005, p. 276) provides a stark example of what can happen through failure to reconcile short- and long-term interests: 'Norse society created a conflict between the short-term interests of those in power, and the long-term interests of the society as a whole…The last right "the chiefs" obtained for themselves was the privilege of being the last to starve'.

This article addresses the 'disconnect' between the interests of a sustainable society and the annual budget that legitimises governments and public sector entities. Triple bottom line reports, sustainable development

[7] This paper represents the views of the authors and of no organisation or government.

reports or corporate responsibility reports are tools that some entities are introducing to assist them to address the challenges of managing for sustainability. Some sustainability reports are being prepared within a common reporting framework that 'incorporates goals and objectives set at a broader international level into the consideration of internal management processes' (GRI, 2006, p. 22). Private sector corporations, for example BP*, Thiess Pty Ltd, Proctor and Gamble, Vodafone* are preparing sustainability reports (for details see http://www.enviroreporting.com and http://www.environment.gov.au/settlements/industry/corporate/reporting/reports/index.html). Public sector agencies are also preparing them (for example, local governments in New Zealand and Australia and statutory bodies like Landcom and Sydney Water). The question is, how can the required long-term sustainability outcomes for whole geographic areas and the nation states they support, be developed and integrated into short-term policy and financial decision-making?

This paper discusses the processes necessary to report sustainability costs and benefits, proposes public sector agencies prepare sustainability reports, and establishes a framework that merges sustainability reporting in whole-of-government plans and budgets and hence into the reporting structures associated with government accountability.

Collaborating with government

Governments are seeking to deliver sustainability outcomes to communities and constituents for example environmental outcomes such as 'clean air resulting from the reduction of CO2 emissions by 4-7% (van Vuuren, 2006*).'* The steps they are taking are: (1) to get agreement on the outcomes to be achieved, (2) to fund and deliver outputs designed to achieve the outcomes, (3) to monitor and report on the outputs and (4) to evaluate the contribution of the funded and delivered outputs to achieving the outcomes. There are, however, challenges to governments' ability to deliver sustainability outcomes. First, agencies do not control all factors affecting outcomes. Indeed, some of the risks to be managed may be outside the jurisdiction of the elected Parliament and Congress. Second, management tools that rely on legislation and the power of the state may be inappropriate to negotiate outcomes across jurisdictions, professions and communities. What is required is a management tool that monitors the achievements of independent actors on each outcome. The adoption of such a tool requires the extension of the concept of accountability from individual agencies delivering outputs and managing inputs in accordance with Parliament's approved budget, to the public and private sectors' collective stewardship of resources and their achievement of those outcomes.

While government has a stewardship role, the 'real' politic of the 21st century means that civil society bodies, industry bodies, corporations and educational institutions have to work with the government to achieve outcomes. It is the collective input of the community, civil society, industry, and universities to achieving outcomes that attracts political support. In working collaboratively (Kemmis, 2006), agenda setters learn to articulate clearly in layman's language the link between the desired behaviour and the resulting outcomes.

Government and the public sector share a leadership role for achieving sustainability outcomes with the private and household sectors, as well as civil society. Ultimately, it is the government that is held accountable for outcomes, for example, the adequacy and security of water supply.

To collaborate successfully, actors need broad based support obtained through perseverance, knowledge of public sector processes, education programs and engagement with the community. Integrating fully costed practical policies into government plans and budgets is part of democratic process. What follows is an overview of a methodology proposed that can enable the community to assess the

sustainability of outcomes given priority by the government.

Plans and budgets in government

It is a challenge to remove the 'disconnect' between the annual budget cycle and achieving sustainable, inter-generational outcomes. Public sector agencies responsible for infrastructure planning have established procedures for linking their long-term strategic goals and the plans to achieve these, to short-term funding proposals. See, for example, the Strategic Infrastructure Plan for South Australia 2005/6 to 2014/15, *Building South Australia* (Government of South Australia, 2005). However, these strategic plans have yet to fully incorporate sustainability costs and benefits into their strategic infrastructure planning. Some public sector agencies in Australia have begun to prepare triple bottom line reports. (http://www.environment.gov.au/settlements/government/reporting.html). While most sustainable goals have been considered in relation to individual projects, some environmental planning agencies are beginning to prepare multi-project inter-generational strategic plans (EPA, 2004) (OPCE, 2002), though some of these 'strategic plans' are still more akin to business plans (EPA, 2006).

The *European Union* has developed the concept of *Strategic Environmental Assessment* out of regional development and land-use planning. New Zealand's *Resource Management Act 1991* has, as a principle objective, the aim of sustainable management. Governments can identify the drivers of future sustainability, for example energy efficiency, assess their impact and prepare long-term strategic plans to deliver a sustainable environment. Similarly, other agencies can identify long-term strategic outcomes, the specific objectives and the risks associated with achieving these, in similar documents. These strategic plans can then proceed to identify annual goals to be funded in the budget.

While some infrastructure plans are effective, there are issues that will arise in shorter time periods or over subsequent generations. For example, these plans now should address the effects of possible market failure as well as inter-generational cost shifting in pricing infrastructure projects (NZIER, 2004).

There are challenges in applying a strategic planning approach to the environment. *The New South Wales State of the Environment 2006* report stated,

> The issues still outstanding are generally more dispersed and diffuse, and less amenable to individual decision-making frameworks. Future solutions will need to be based on a sophisticated integration of regulatory, economic, technological and persuasive approaches (*Department of Environment and Climate Change,* 2006).

This 'integration challenge' requires simultaneous attention to, and improvement of, the four challenges of ecological effectiveness, social effectiveness, and eco-efficiency and socio-efficiency' identified by Schaltegger and Burritt (2005, pp. 192-193). This integration is best achieved through governance frameworks. While governance for sustainability is about working through formal and informal arrangements (Kemp, Parlo and Gibson, 2005, p. 19) policy integration can be achieved if formalised in national plans and annual budgets.

National budget process

A government's budget is an annual vehicle that provides authority to spend monies or provide outputs in the coming year and is a formal signal of approved policy. The ability to obtain parliamentary / national assembly approval for a budget gives government its legitimacy. Each country's constitution establishes institutional responsibilities for public finances for both the legislature and government. The rules of the legislature embody its procedures for considering the budget, and financial legislation contains the financial strictures parliaments place on governments.

Annual budgets are subject to annual review and short-term criteria. Expenditure with long-term mandates, for example

pensions, is paid by permanent appropriation, approved outside the annual budget cycle but recorded in the budget papers (Horn 1995, pp. 83-84). Expected trends in revenue (or receipts) and expenditure (or expenses) may also be tabled in the Medium Term Revenue and Expenditure Framework documents.

Medium term frameworks

The *Medium Term Budget Framework* (MTBF), incorporating a *Medium Term Expenditure Framework* (MTEF), a *Medium Term Revenue Framework* (MTRF) and a *Medium Term Development Framework* (MTDF), contains the current policies, sources of revenue and cost of current and approved policies for more than two cycles of government, i.e. seven or eleven years. The aim of these documents is to provide policy certainty and an estimate of the longer-term financial implications of government policies. But MTEFs do not usually include the expenditures of government corporations and statutory bodies, unless they are budget funded. Outcomes sought, while outside the control of government, must be supported by the policies of that government. The MTEF and MTRF should clearly link these policies to the long-term outcomes sought. For outcomes to be considered in national plans, MTEF and annual budgets, they need to be the focus of budget submissions by public sector agencies.

Budget submissions

Individual agencies, including government corporations and statutory bodies, prepare budget submissions and are allocated funding depending on the revenue available, government priorities and their program's or project's contribution to achieving the government's or corporation's goals and objectives.

Management is generally responsible for preparing budgets. If stakeholders wish to influence this process to obtain sustainable outcomes, they need to make specific approaches to the Minister and Chief Executive Officers of agencies, and gain the support of managers and the Minister of Finance. When leaders within the community and industry become advocates for the achievement of sustainable outcomes, much of the work is done.

Annual budget cycles apply to projects designed to achieve sustainable outcomes. Integrating ecological, social, and economic costs and benefits into the project management cycle is a challenge. It is at the planning stage that scientists can have most influence. But good ideas alone will not result in government action. A business case format that incorporates social, ecological and economic costs and benefits should provide the basis for discussion.

The *Cabinet Budget Committee* or Board may look more favourably on the proposal if they are informed about it early, for example in the mid-term budget review prior to the budget in which it will be included, or in a mid-term review of a major project. *The Treasury* and *Ministry of Finance* must be involved early if this is to be achieved. Project sponsor and project manager should plan to work with public sector or other independent scientists to validate costs and benefits. They may also establish inter-governmental support and funding for the project.

Political and public sector agency support for an initiative will be built on the foundations described above. Without these foundations carefully built and nurtured, requests for funding are less likely to be successful.

Recognition of costs

The cost of any budget-funded proposal is weighed against a set of criteria that includes financial and political considerations. Politicians often include intuitive social and ecological criteria in their consideration of financial criteria. However unless these costs can be reliably quantified, there is no means of including them in budgets, which by definition are quantitative.

The Minister of Finance will be advised of costs. To be included in the budget and subsequently reported in financial statements, these costs must meet recognition and

measurement requirements of professional accounting bodies. For example, to be included in a set of accrual financial statements, an item must (1) meet the definition of an element (revenue, expense, asset, liability); (2) be measurable; and (3) be controlled by the entity (IPSAS, 2006, p. 6). To be included in the financial statements, items must previously have been approved in the budget.

The elements of a financial statement apply to a single reporting entity. However, a complication arises in that sustainability outcomes, for example a reduction in air pollution, call for collaboration by numbers of public sector agencies, the private sector and individuals. The outcome under discussion runs the risk of becoming, a 'free good', that is, it cannot be controlled by one entity, so no-one 'owns' it.

Summary

Individual departmental and corporation budgets are the sources of funding for individual initiatives. Many air pollution initiatives, like other sustainable initiatives, require the collaboration of a number of public sector agencies (Health, Transport, Environment, Treasury and the Executive or Cabinet). They also require objectives with a scope wider than that for which an individual public sector agency is responsible. For example, there is as yet no budget process for quarantining funds to be spent by a number of agencies in the pursuit of a joint outcome, e.g. air quality. The challenge of collaboration and integration into the policies and budget processes is the responsibility of individual managers.

To achieve sustainable outcomes, enhancements to the planning, budgeting and reporting structures are proposed in the following sections.

Limitations

Many outcomes do not feature in economics or finances. For example, unless the costs of policies are (1) specific to a public sector reporting entity, (2) able to be measured and (3) likely to occur within the period covered by the annual budget or the MTEF, they will not be recognised by government through this process.

Estimates of the value of an educated population may be reported in Economic Reports tabled in the legislature, but these estimates do not appear in the government's financial reports. At best, these estimates are 'soft' measures, and would fail the measurement tests of accounting requirements.

Budgets legitimise the annual spending of public sector agencies, but they do not dictate the relationships between that agency and other agencies nor with private and voluntary sector entities. While these relationships may result in financial transactions of the agency, the quality of these relationships and their impact on the outcome sought is not reported to the legislature.

Some of this non-economic and 'soft' information may be included in annual reports. However, we argue that sustainability reports provide the most robust framework for reporting previously non-measurable impacts or those that are not 'owned' by any single agency.

Progress in sustainability reporting

Governments are beginning to develop plans to address sustainability goals and targets, and actively to report information related to their activities, for example New Zealand's *Programme of Action for Sustainable Development* (MFE, 2003), and the *European Union Energy Initiative* (INSE, 2006). A number of initiatives have encouraged corporations and public sector agencies to report publicly their impact on sustainability. These include the *Global Reporting Initiative* (GRI) *Guidelines on Sustainability Reporting*, the *International Federation of Accountants* (IFAC) *International Guidelines on Environmental Management Accounting*, the *United Nations Conference on Trade and Development* (UNCTAD) *Guidance Manual: Accounting and Financial Reporting for Environmental Costs and Liabilities*. They began with *Environmental Management Accounting: Procedures and Principles* by

the *United Nations Division for Sustainable Development*. The GRI issued a *Sector Supplement for Public Agencies* in 2005, which stated that

> Governments have the mission of enhancing public goods and welfare, and are custodians of national resources and have the right to make and uphold laws, they have an obligation quite different to corporations' (GRI, 2005, p. 9).

They have 'responsibility for their own operations as well as administrative and governing responsibilities in relation to a public policy area or jurisdiction'. The supplement identifies three types of information in 'triple bottom line and sustainability' reports: (1) organisational performance, (2) external public policies and implementation measures of the agency that relate to sustainable development and their performance, and (3) economic, environmental, or social conditions within the agency's mandate or area of jurisdiction. The focus of the GRI framework is on the first and second types of information (GRI, 2005, pp. 9-10).

The supplement, in 2005, noted, 'sustainability reporting is still in its infancy in the public sector context' (GRI, 2005, p. 15). *The Centre for Public Agency Sustainability Reporting* was established in 2005 to 'build capacity in public agencies to undertake sustainability reporting and to facilitate the development of best practice in sustainability reporting' (CPASR, 2007). Sustainability reporting by public sector agencies will occur when reports address key national environmental goals that have an eager audience of scientists, community and industry groups and members of the legislature. A growing group of stakeholders who identify with sustainability outcomes provides agencies with the incentive to develop and implement systems for tracking and reporting sustainability costs and benefits.

The framework, created in the private sector, has not yet been adopted by the public sector. The GRI framework does not yet incorporate accountability conventions that support the initiative's long-term political effectiveness. Civil society, industry, educationalists and the legislature need assurance that the information reported is reliable, complete, timely and accurate. It is the role of the *Supreme Audit Institution* (SAI) to provide assurance on formal accountability reports tabled in the legislature. The *International Organisation of Supreme Audit Institutions* (INTOSAI, 2007) has begun to establish competence to report on these reports. INTOSAI has established a *Working Group on Environmental Auditing* to prepare SAI to develop environmental auditing tools and techniques. Some Auditor-Generals already report sustainability matters. (Auditor-General, 2005)

Whole-of-government framework

The public sector sustainability-reporting framework has been designed 'to be applied to government and international organisations' (GRI, 2005, p. 7).

The timing of such integration now needs to be addressed. The steps are: (1) develop a mechanism for agencies to prepare sustainability reports, (2) prepare national and or international sustainability strategic plans, (3) prepare specific strategic plans, networks and systems to achieve the sustainability goals, (4) implement management systems to monitor and report on achievement, (5) develop a means for consolidating achievements of the public sector, private sector, households and civil society into a national and international report, (6) provide the SAI with the mandate to report on these reports, and (7) develop legislative processes to receive and review the reports. Figure 1 (page 16) provides an overview of the key steps in an integrated, whole-of-government framework for managing sustainability.

The first step requires that sustainability costs and benefits be integrated into the core public sector accountability instruments – the budget and financial statements. Challenges include, but are not limited to, the ability of agencies to apply funds to sustainability outcomes achieved by a number of agencies

in collaboration with civil society, industry and households. Another challenge is for ecological and social as well as economic assessments to be completed at the strategic planning stage of infrastructure projects. Demands by the legislature for this information will hasten the adoption of sustainability planning and reporting by governments.

Legislature

Public sector agencies will table sustainability reports when legislatures require it. The private sector has already made substantial progress through individual corporations including sustainability reports in their annual reports, and often, as in the UK, having these reports independently attested.

The public sector has a more complex challenge. The conditions that led to the voluntary adoption of GRI reporting in the private sector (growing stakeholder activism, and a risk management response from many boardrooms) do not apply in the public sector where agencies are funded to comply with legislation and achieve policy objectives.

Public sector sustainability reports could include for example, a government or agency contribution to meeting international or regional environmental goals, such as Kyoto goals for reduction in greenhouse emissions. Legislation calling for public sector sustainability reporting would ultimately need to include a requirement that the SAI has a mandate to carry out environment audits as part of their audit of sustainability reports.

If sustainability reports are prepared outside the financial governance structure, they will not then be subject to the same public scrutiny given to budgets and financial statements. The legislature reviews the budget and the government's achievement against its plans recorded in the budget. It has a mandate to investigate issues arising from its review. There will be only ad hoc legislative and public review of sustainability reports until they are merged into the annual planning and budgeting process, with its consequent reporting in annual reports by individual agencies and whole-of-government financial statements, an ultimate audit by the SAI.

Central agencies

Central agencies responsible for fiscal and environmental policies need to collaborate to develop budget tools for funding sustainable outcomes, to include sustainability goals in budget papers, and to establish a system for incorporating sustainability objectives into the national planning process. Figure 1 illustrates how the current planning structure of a national government can incorporate the larger strategic goals to achieve sustainability. It shows how the annual national and entity budget can fund these objectives and how entities can report on achievement against plans. The political 'will' relies on bureaucratic competence to plan, deliver against plans, and to report their achievements, making capacity building a requirement before implementation can be successful. System implementation is enhanced if it is subject to external audit.

Conclusion

With G8 members formally encouraging GRI (2007) reporting as a means to yield good governance and transparency, and thereby achieve poverty reduction, conflict prevention, support sustainable investment decisions, and promote development in emerging economies there will be pressure for sustainability reporting by public sector agencies. This paper encourages decision-makers to consider building a framework for governments to achieve a sustainable nation through planning for sustainability, and reporting on achievements against those plans. With a framework for inter-agency collaboration and attention to issues of cost and measurement, plans can be incorporated into the annual budget process.

This paper has described the government budget process. It canvasses the need to establish as a matter of course links between sustainability goals, national plans, and government systems as a pre-condition to

achieving sustainability outcomes. When such a framework is in place, scientists should find it easier to gain access to the funding and implementation mechanisms of government.

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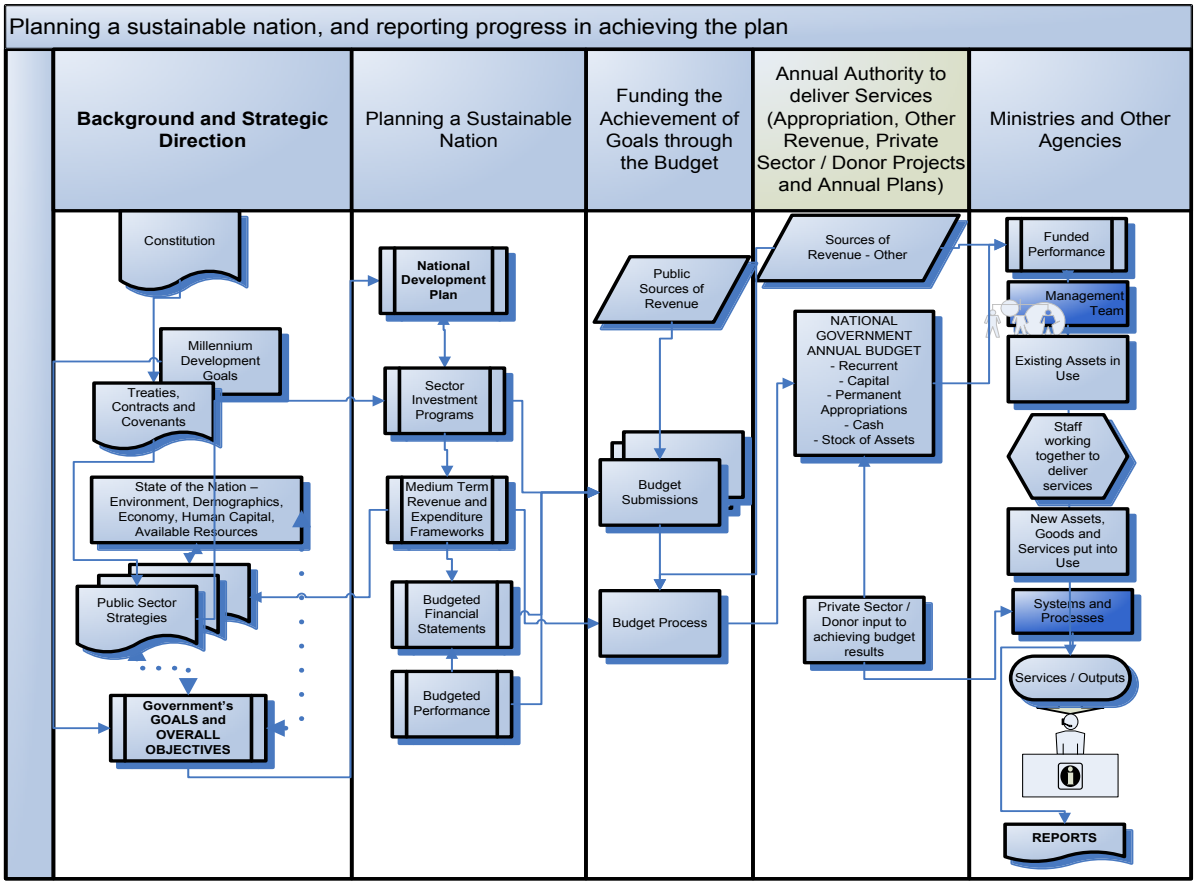
Figure 1: Managing a sustainable nation



Source: K McGovern & Associates 2006