



# PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

**FORTY-SIXTH REPORT TO PARLIAMENT**

## **FINAL REPORT ON ENVIRONMENTAL ACCOUNTING AND REPORTING**

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**Public Accounts and Estimates Committee**

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## **PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE**

### **MEMBERSHIP – 54TH PARLIAMENT**

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Ms S Davies, MP

Hon. D Davis, MLC <sup>3</sup>

Hon. W Forwood, MLC <sup>4</sup>

Hon. R Hallam, MLC (Deputy Chairman)

Mr T Holding, MP

Mrs J Maddigan, MP

Hon. G Rich-Phillips, MLC

Hon. T Theophanous, MLC

#### **This Inquiry was undertaken by a Sub-Committee comprising the following Members:**

Hon. G Rich-Phillips, MLC (Chairman)

Hon. D Davis, MLC <sup>5</sup>

Hon. W Forwood, MLC <sup>4</sup>

Hon. R Hallam, MLC

Mr P Loney, MP

Hon. T Theophanous, MLC

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<sup>1</sup> Discharged as a Member of the Committee on 25 September 2001

<sup>2</sup> Appointed as a Member of the Committee on 25 September 2001

<sup>3</sup> Appointed as a Member of the Committee on 6 September 2000

<sup>4</sup> Discharged as a Member of the Committee on 6 September 2000

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## DUTIES OF THE COMMITTEE

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The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the *Parliamentary Committees Act* 1968, as amended.

The Committee comprises ten Members of Parliament drawn from both Houses of Parliament and all parties and includes an independent Member.

The Committee carries out investigations and reports to Parliament on matters associated with State financial management. Its functions under the Act are to inquire into, consider and report to the Parliament on:

- (a) any proposal, matter or thing connected with public administration or public sector finances;
- (b) the annual estimates or receipts and payments and other budget papers and supplementary estimates of receipts and payments presented to the Assembly and the Council.

The Committee also has a consultative role in determining the objectives of performance audits and identifying any particular issues that need to be addressed during these audits.



## GLOSSARY

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Activity based costing	Records the full cost of different activities, including the environmental costs.
Audit	An examination of records or financial accounts to check their accuracy.
Ecologically sustainable development	Using, conserving and enhancing the community's resources so that ecological processes, on which life depends, are maintained, and the total quality of life, now and in the future, can be increased.
Environment	Any of the principle constituent parts of the environment including waters, atmosphere, land, vegetation, climate, sound, odour, aesthetics, fish and wildlife.
Environmental accounting	The process of bringing information about the environment, and the impact of human activities on it, to account in such a way as to provide information that can be incorporated into decision making, at a number of levels. Environmental accounting can be in physical or monetary terms.

Environmental financial accounting	Provides general purpose financial accounting information about an organisation to external stakeholders, such as creditors, potential investors and shareholders.
Environmental management accounting	The identification or recognition of environmental impacts and environmental costs and benefits, used within a company.
Environmental management system	The parts of the overall management system that include organisation, planning, responsibilities, practices, procedures and resources for developing, implementing, achieving, reviewing and maintaining environmental policy.
Environmental satellite accounts	A set of physical environmental accounts that exist as adjuncts to existing national accounts and purely financial indicators.
Levy	An amount of money, such as a tax, that is paid to a government or organisation.
Lifecycle	Considers the environmental impacts associated with the sources of raw materials, the production assessment processes, the useful life of the product and subsequent re-use or recycling of the product.

Materiality	Information which if omitted, misstated or not disclosed has the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report or the discharge of accountability by the management or governing body of the entity.
Public environmental reporting	Public disclosure of information about an organisation's environmental performance, including its impacts on the environment, its performance in managing those impacts and its contribution to ecologically sustainable development.
Verification	Confirming that the data reported and/or the systems used to generate them, are accurate and complete, and that the public environmental report provides a balanced view of the organisation's environmental performance.



## ACRONYMS AND ABBREVIATIONS

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AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACF	Australian Conservation Foundation
AGS	Auditing Guidance Statement
ANZ	Australia and New Zealand
ANZECC	Australian and New Zealand Environment and Conservation Council
ASEC	Australian State of the Environment Committee
CCP	Cities for Climate Change Program
COAG	Council of Australian Governments
CPA Australia	The professional body of certified practicing accountants in Australia
CSIRO	Commonwealth Scientific and Industrial Research Organisation
EMAS	European Eco-Management and Audit Scheme
EPA	Environment Protection Authority
ESD	Ecologically Sustainable Development
ETR	Environmental Tax Reform

FEE	Federation des Experts Comptables Europeens (Representative organisation for the accountancy profession in Europe)
GRI	Global Reporting Initiative
GST	Goods and Services Tax
ISO	International Standards Organisation
ISO 14000 Series	International Standards Organisation standard for environmental management systems
OECD	Organisation for Economic Cooperation and Development
SEEA	System of Integrated Environmental and Economic Accounting (United Nations)
SMEC	Snowy Mountains Engineering Corporation
SoE	State of Environment
SoER	State of Environment Reporting
UN	United Nations
UNEP	United Nations Environment Program

## CHAIRMAN'S INTRODUCTION

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The environmental challenge for all Victorians is to ensure that the State's diverse environment is protected and maintained for future generations.

It will take a collective commitment to achieve this – one shared by every individual, every business and every level of government.

The Committee therefore welcomes the Victorian Government's commitment to:

- develop a triple bottom line approach to decision-making, which aims to integrate sustainable economic growth objectives with social development and environment stewardship;
- appoint a Commissioner for Ecologically Sustainable Development; and
- re-introduce State of Environment reporting.

These are significant developments which will ultimately lead to better environmental planning and involve industry, the community and the government working in partnership to improve the quality of the environment.

This Follow-up Inquiry builds on the work undertaken by the Public Accounts and Estimates Committee in the previous Parliament. Although environmental accounting and reporting in Australia have come a considerable way in a very short time, the stage has now been reached in Australia and Victoria where much wider government and industry support and action is required to develop these concepts.

We believe the 39 recommendations contained in this report will provide a useful guide to government about what further action is required to improve environmental accounting and reporting. The development of this information is integral to improving accountability for environmental management and will make an important contribution to ecologically sustainable development.

I would like to record my appreciation to the Members of the Sub-Committee for the time and energy they contributed to this Inquiry. I would also like to acknowledge the comprehensive research support provided by Mr John Knowles.

I commend the report to the Parliament.

A handwritten signature in black ink, appearing to read 'Peter Loney'. The signature is stylized with large, rounded letters and a prominent loop at the end.

**Peter Loney, MP**  
**Chairman**

## EXECUTIVE SUMMARY

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### *Chapter 1 - Introduction*

Many overseas companies and governments have improved their environmental performance and reduced costs by adopting environmental accounting and environmental reporting practices.

In 1992, the Victorian Government joined other States and Territories and the Commonwealth in endorsing the National Strategy for Ecologically Sustainable Development. One principle of this strategy is that economic, environmental and social considerations should be integrated into decision making.

The Public Accounts and Estimates Committee recognised that environmental accounting and reporting was central to this principle. The Committee initiated an Inquiry into this topic, releasing Issues Paper No. 3 in March 1998.

The Committee tabled its Interim Report to Parliament in June 1999. The Victorian Government responded to the Interim Report in December 1999, making commitments to:

- establish a Commissioner for Ecologically Sustainable Development;
- re-introduce State of Environment (SoE) reporting; and
- require government departments and agencies to produce annual environmental reports.

In light of these developments, in March 2000, the Public Accounts and Estimates Committee adopted new terms of reference for a Follow-up Inquiry. Issues Paper No. 4, outlining the range of matters to be considered by the Committee, was released in June 2000.

The Committee received 42 submissions in response to this Issues Paper and conducted public hearings from August to October 2000 in Melbourne, Sydney and Canberra.

## ***Chapter 2 - Commissioner for Ecologically Sustainable Development***

The Department of Natural Resources and Environment consultation paper, issued in November 2000, proposed that the Victorian Commissioner should promote ecologically sustainable development, act as guardian of Victoria's environment, develop an SoE reporting process and investigate environment and sustainable development matters. The Committee broadly supports this range of functions proposed for the Commissioner.

The Committee's research revealed that there are Commissioners for the environment and/or sustainable development in the Australian Capital Territory, Ottawa, Ontario and New Zealand. Their experience is useful in establishing the purpose, roles, accountability and legislative framework for the Victorian Commissioner. All of these Commissioners are independent of government departments.

The Committee believes that the role of the Victorian Commissioner should not overlap the work undertaken by other agencies or departments. It also believes that the Commissioner should have a referral role in which the Office of the Commissioner refers public complaints against government agencies to those agencies and monitors responses.

Legislation recently passed by the Victorian Parliament enables a Minister to request investigations by the Victorian Environment Assessment Council, this is considered to be more satisfactory than having the investigations conducted by the Victorian Commissioner.

The majority of submissions to the Inquiry suggested that the Victorian Commissioner should be a statutory independent Officer of Parliament. The Committee's research indicated that there are a number of models for a Commissioner for the Environment, the two main models being Officer of Parliament and Statutory Officer. The Committee believes that, as the Commissioner will have an important role in commenting on government policy, the

position should be a statutory officer, reporting to the Parliament through the Premier or the Minister responsible. The Committee also considers that the Victorian Commissioner should have responsibility for making all appointments to the Commissioner's secretariat.

The Committee considers it essential for the independence and integrity of the Office that the Victorian Commissioner's reports and recommendations should be tabled in the Parliament. There should also be a statutory requirement for the government to respond to the Commissioner's recommendations within a specified time. The Committee also believes there would be merit in the Parliamentary Environment and Natural Resources Committee and the Public Accounts and Estimates Committee reviewing the reports of the Commissioner.

It was also pointed out to the Committee that it will be important for the independence and credibility of the Victorian Commissioner that the Commissioner obtain reliable data compatible with other environment databases and have unrestricted access to information. The Committee supports this proposal.

The Committee believes that the legislative framework for the Victorian Commissioner should allow for the appointment of advisory committees in order for the Commissioner to have access to additional resources and expertise.

The establishment of the Office of the Victorian Commissioner will involve considerable costs. The Office will need an information technology system that can accommodate the sophisticated databases held by the Department of Natural Resources and Environment.

The quality of advice and reports of the Victorian Commissioner will depend on adequate resources being allocated to the Office of the Victorian Commissioner.

### ***Chapter 3 – State of Environment reporting***

As recommended by the Committee in its June 1999 Interim Report, the Victorian Government will reintroduce State of Environment reporting to determine whether the environment is improving or deteriorating. This will be the responsibility of the Commissioner for Ecologically Sustainable Development. The Committee welcomes this development and believes SoE reporting will provide a reliable and indispensable source of environmental information for all sections of the community. It will also assist government, industry and community groups to adopt an integrated and longer perspective to natural resource management. In developing the format for SoE reporting, the Committee believes that the Government should consult widely.

The Committee supports Victoria adopting a model of SoE reporting that is compatible with that of other States and with the national system of SoE reporting.

It has been suggested that Victoria use the Australian and New Zealand Environment and Conservation Council's (ANZECC) core indicators as the basis for reporting.

The Committee believes it would be useful if a protocol is developed for State and Local Governments and community groups to access data for SoE reporting.

Within other jurisdictions, advisory bodies have been established to assist in the preparation of SoE reports. The majority of submissions endorsed the release of a draft SoE report for comment and a review process at the end of each reporting cycle. The Committee supports these suggestions.

Regional and local SoE reporting cycles were investigated during the Inquiry. The Committee supports SoE reports being produced on a five-year cycle.

In Victoria, Local Governments are seeking a partnership with the Commissioner to help fulfill their additional environmental responsibilities. Victorian Local Governments were divided over

whether SoE reporting should be compulsory or voluntary, and believe this should be an issue for public debate.

The Committee believes that SoE reporting needs a legislative framework which provides that the Government formally respond to each statewide SoE report.

***Chapter 4 - Environmental Accounting; National Environmental Accounts; Auditing and Verification; and Environmental Performance Reporting***

Environmental management accounting involves organisations internally accounting for environmental impacts, costs and benefits. Converting environmental information into monetary terms is difficult, controversial and in its infancy.

The Victorian Environment Protection Authority, the Institute of Chartered Accountants and PricewaterhouseCoopers have initiated a pilot project with a company to demonstrate the benefits of environmental management accounting.

Environmental financial accounting provides information about an organisation to external stakeholders, usually through an organisation's annual report. At present, Australia does not have an accounting standard for dealing directly and fully with environmental issues, though the Commonwealth Corporations Law was amended to require company directors to report if their performance had environmental significance.

The Institute of Chartered Accountants and CPA Australia are taking steps to promote social and environmental reporting.

The Committee believes an internet site could provide a useful educative role by listing accounting firms providing environmental accounting services; and a channel for sharing experiences. The site could also provide an overview of environmental accounting mechanisms to identify and reduce wastes, as well as identifying and measuring environmental costs.

Internationally, an agency of the United Nations released a recommended methodology designed to help national bodies set standards on environmental disclosures in environmental accounts and reports. In New South Wales, the Eurobodalla Council has worked with a number of organisations to draft an environmental accounting standard for Local Government.

The Committee's Interim Report expressed concern that national accounting measures, such as the Gross National Product, were being inappropriately used as measures of quality of life. The Genuine Progress Indicator and the Compass Index of Sustainability are examples of attempts to create alternative quality of life indicators. However, they are only in an experimental stage of development.

In its Interim Report, the Public Accounts and Estimates Committee favoured the development of national environmental satellite accounts and Victorian satellite accounts. The Australian Bureau of Statistics has developed environmental satellite accounts since the mid 1990s, on topics such as energy, forests and minerals. Internationally, and in Australia, there is a trend to adopt the United Nations' System of Environmental and Economic Accounts. This system is compatible with the financial National System of Accounts. The System of Environmental and Economic Accounts includes accounts for assets, the flow of material and energy and financial accounts.

The Australian Bureau of Statistics is working with Local Government to develop environmental accounts using the System of Environmental and Economic Accounts.

The Committee believes the Victorian Commissioner has a key role to play in the development of measures of quality of life that link environmental, social and economic matters.

The government and various submissions wanted the public sector to lead by example in public environmental reporting.

In Australia, some larger companies are required to report environmental legislative non-compliance under section 299(1)(f)

of the Commonwealth Corporations Law. Many companies must publicly report their emissions through the National Pollutant Inventory. Each State also requires some emissions and environmental protection measures to be reported. If a company in Victoria has an accredited licence or has adopted Environmental Improvement Plans, they must report their environmental performance to their local community.

There is no agreed public environmental reporting standard. The Public Accounts and Estimates Committee identified 12 overseas reporting systems and two Australian sectoral codes in its Interim Report. Since then, the international Global Reporting Initiative and the Business Council for Sustainable Development have released influential reporting systems. Also in Australia, *A Framework for Public Environmental Reporting – An Australian Approach* has been released.

The majority of submissions to the Follow-up Inquiry favoured compulsory private sector environmental reporting. The Committee was advised that companies have given little attention to compulsory reporting under section 299(1)(f) of the Corporations Law. They have found the law confusing, with no guidelines for reporting.

It was pointed out to the Committee that compulsory environmental reporting would ensure both good and bad environmental performers report and it would create greater interest in environmental accounting and reporting. Some witnesses advocated that national legislation for compulsory environmental reporting would be more useful than State legislation as many companies operate in more than one State.

Voluntary public environmental reporting would allow environmental reporting, which is in its infancy in Australia, to be further developed. Only about 80 companies, including some of Australia's largest companies such as BHP, Ford Motor Company, Alcoa and Telstra, publicly report their economic and environmental performance.

The Committee was advised that the quality of environmental reporting is improving in Australia and overseas. Reporting awards are an incentive for reporting environmental performance to the public. There are three main awards in Australia, sponsored by the Australian Minerals and Energy Environmental Foundation, the Annual Reports Awards Australia Inc and the Banksia Environmental Foundation.

There is potential for the public sector to demonstrate the benefits of environmental reporting to the private sector, but while the Government is committed to the public sector leading the private sector by example, the development of environmental indicators for public sector reporting has been slow.

In Victoria, 38 companies have adopted Environment Improvement Plans, which require companies to report their environmental performance to their local communities.

The Committee was advised that environmental reporting should follow on from an organisation adopting an environmental management system, such as ISO 14001. An environmental management system helps an organisation to better manage their environmental impacts and to improve their environmental performance. The Victorian Environment Protection Authority continues to promote these systems in the private sector through its cleaner production program.

Financial statements of companies must be audited by registered company auditors. While there are clear financial laws and auditing standards for financial reporting, there is no explicit auditing standard for the inclusion of environmental matters in financial statements or for the auditing of environmental matters in annual reports.

The verification of public environmental reports assures readers of an accurate representation of the company's environmental performance. However, there are no agreed methods or standards for verifying environmental performance reports in Australia. The Committee is aware that Germany has developed an auditing standard for auditing environmental reports.

In Australia, *A Framework for Public Environmental Reporting* suggests verification can occur at four levels: data, the report's completeness, site level compliance auditing and re-sampling and analysis. Currently, about 12 public environmental reports in Australia are externally verified. The Quality Society of Australasia accredits verifiers of environmental reports.

The Victorian Environment Protection Authority appoints environmental auditors under its Act. Currently, the Authority appoints auditors of land contamination and industrial facilities. Recent changes to the *Environment Protection (Liveable Neighbourhoods) Act 2001* enable accredited auditors to audit any segment of the environment, environmental risk and the protection of the environment.

### ***Chapter 5 – Environmental Levies***

Microeconomic reform, together with innovative policies, is needed to achieve significant environmental change.

A recent American study demonstrated that, at a State level, high environmental standards were associated with high economic performance and vice versa. At a national level, the Organisation for Economic Cooperation and Development has found that environmental policies that encourage better use of a country's resources, such as environmental taxes, may improve that country's long term competitiveness.

The Australian Conservation Foundation has proposed to extend taxation reform at the Commonwealth level by reducing payroll tax and replacing taxes that adversely affect the environment. The Industry Commission also supports the removal of perverse incentives, taxation and subsidy arrangements that cause environmental problems.

The National Strategy for Ecologically Sustainable Development and the Intergovernment Agreement on the Environment include principles that promote greater use of economic instruments in environmental policy. Regulation, community participation and

education and the use of extension services are other policy tools available to governments. These environmental policy tools are best used together rather than in isolation.

The range of economic instruments used in Australia as part of environmental policy includes: charges and taxes, subsidies and tax concessions, deposit refunds and trading schemes. To change behaviour that has negative effects on the environment may require subsidies as encouragement. Later, disincentives can be used to prevent poor behaviour continuing.

Taxation authorities usually oppose linking revenue to expenditure on specific projects, for example, the use of environmental levies for environmental projects. High administrative costs are often associated with these arrangements. Such tied monies build up vested interests that want the levy or subsidy continued after it has achieved its purpose. On the other hand, where revenues from environmental levies are linked to expenditure on environmental projects, the community is more likely to accept the new levy. Experience has shown that transparency leads to greater acceptance.

The Ballarat City Council's proposed beautification levy is an example of a case where the need for the levy was not promoted through adequate community pre-publicity.

In New South Wales, the Minister for Local Government has the discretion to grant local councils permission to raise environmental levies. Eurobodalla Council has an environmental levy, which has significantly improved environmental management in the Shire. The use of the Local Government levy has assisted many community groups interested in the care of the environment.

In Victoria, local councils have used financial incentives and rate rebates to combat salinity and weed problems and to promote integrated land management. These have been funded through the Commonwealth's National Heritage Trust.

The New South Wales Environment Protection Authority has used tradeable licences in nitrogen and phosphorus, and salinity credit trading, for specified water catchment areas. The Murray–Darling Basin Ministerial Council has also proposed a tradeable salinity credit scheme. These are examples of economic measures, used in conjunction with companies and the community, from which Victoria could benefit.



## RECOMMENDATIONS

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### *Chapter 2 - Commissioner for Ecologically Sustainable Development*

**Recommendation 2.1:**

**The Victorian Commissioner, in consultation with the wider community, have a role in devising and monitoring an ecologically sustainable development strategy for Victoria.**

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**Recommendation 2.2:**

**The Victorian Commissioner be responsible for ensuring that the overall environmental management system for Victoria reflects environmental legislative and policy objectives.**

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**Recommendation 2.3:**

**The Victorian Commissioner have primary responsibility for the preparation of the SoE report and for ensuring that the report is tabled in Parliament.**

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**Recommendation 2.4:**

**The Victorian Commissioner have responsibility for referring public complaints about environmental management to government agencies and for monitoring the responses of those agencies.**

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**Recommendation 2.5:**

**The Victorian Commissioner for Ecologically Sustainable Development may not undertake specific purpose investigations at ministerial request.**

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**Recommendation 2.6:**

- (a) Reports of the Victorian Commissioner for Ecologically Sustainable Development be tabled in the Parliament;**
- (b) In order to enhance environmental accounting and auditing, all reports of the Victorian Commissioner be referred to the Parliamentary Environment and Natural Resources Committee and the Public Accounts and Estimates Committee for review; and**
- (c) The Government be required to respond to the recommendations contained in the Commissioner's reports within six months of tabling in Parliament.**

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**Recommendation 2.7:**

- (a) Legislation provide for the Victorian Commissioner to be a statutory officer, reporting to the Parliament through the Premier or other responsible Minister; and**
- (b) Legislation provide that the Premier or other responsible Minister table all reports of the Victorian Commissioner in Parliament within 10 sitting days of receipt.**

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**Recommendation 2.8:**

- (a) The Victorian Commissioner be appointed for a minimum five-year term;**
- (b) A strategic management review of the Office of the Victorian Commissioner be undertaken every three years to ensure the Commissioner has achieved his/her objectives effectively, economically and efficiently and in compliance with legislation; and**
- (c) The report of the review be tabled in the Parliament.**

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**Recommendation 2.9:**

**The definition of the principle of integration of economic, social and environmental considerations as outlined in the *Environment Protection (Liveable Neighbourhoods) Act 2001* be included in the legislation for a Victorian Commissioner.**

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**Recommendation 2.10:**

**The legislation providing for the Victorian Commissioner use the definition of environment contained within the *Environment Protection Act 1970*.**

Page 76

**Recommendation 2.11**

**The Victorian Commissioner be responsible for making all appointments to the Commissioner's secretariat.**

Page 77

**Recommendation 2.12:**

**The Victorian Commissioner should have statutory authority to obtain information, documents and assistance from the public sector, and to request data from the private sector, on matters relating to ecologically sustainable development and the environment.**

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**Recommendation 2.13:**

**Legislation provide for the Victorian Commissioner to appoint and consult an advisory committee or committees, as required.**

Page 78

**Recommendation 2.14:**

**The Victorian Commissioner report annually to Parliament through the Premier or the responsible Minister, on the effectiveness of the Victorian environmental management system and on progress towards sustainable development.**

Page 80

***Chapter 3 - State of Environment (SoE) reporting***

**Recommendation 3.1:**

- (a) **The Victorian Commissioner consult with industry, departments and agencies and the community to determine their needs in relation to SoE reporting; and**

- (b) The Victorian Government adopt the Pressure-State-Response-Implications model of SoE reporting if this model is endorsed by stakeholders.**

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**Recommendation 3.2:**

**Where there are no satisfactory performance measures of an environmental matter and there is a threat of environmental damage, the Victorian Commissioner should recommend the development of relevant indicators and nominate an appropriate body to develop the performance measures and to monitor developments in this area.**

Page 95

**Recommendation 3.3:**

**The Victorian Commissioner work with all levels of government and peak environmental regional and community groups to identify and make available on the internet the data sources for SoE reporting.**

Page 97

**Recommendation 3.4:**

**The Victorian Commissioner establish two Committees to advise on the development of the SoE report: a technical scientific committee and a stakeholder committee.**

Page 100

**Recommendation 3.5:**

**The Victorian Commissioner release a draft SoE report for three months public comment.**

Page 100

**Recommendation 3.6:**

**The expert scientific advisory committee and the stakeholder advisory committee review the SoE reporting process before the start of the next cycle.**

Page 102

**Recommendation 3.7:**

**The cycle of Victorian statewide SoE reports be five years.**

Page 103

**Recommendation 3.8:**

**The Victorian Commissioner, in consultation with advisory committees, have responsibility for determining the specific themes and framework for SoE reporting.**

Page 106

**Recommendation 3.9:**

**The Victorian Commissioner work with local and regional bodies to develop an integrated and coordinated framework for SoE reporting and environmental management.**

Page 109

**Recommendation 3.10:**

**The Victorian Commissioner work with peak Victorian Local Government bodies and Environs Australia to develop education and training materials for regional and local bodies on SoE reporting and environmental management.**

Page 113

**Recommendation 3.11:**

**The Victorian Commissioner work with the Victorian Local Government Division of the Department of Infrastructure, the Victorian Environment Protection Authority and peak Local Government bodies to improve the use of information technology to gather data and produce SoE reports.**

Page 114

**Recommendation 3.12:**

**The Victorian Government encourage Local Government to introduce SoE reporting.**

Page 117

**Recommendation 3.13:**

**The legislation on SoE reporting require the Government to respond to each statewide SoE report within six months of the report being tabled in Parliament.**

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***Chapter 4 - Environmental Accounting; National Environmental Accounts; Auditing and Verification; and Environmental Performance Reporting***

**Recommendation 4.1:**

**The Victorian Government:**

- (a) actively pursue the development of an Australian Environmental Accounting Standard based on international best practice; and**
- (b) seek the support of the Commonwealth Government for a joint approach to the Australian Accounting Standards Board on this matter.**

Page 132

**Recommendation 4.2:**

**The Victorian Government, in consultation with the accountancy professions, the Commonwealth Government and peak industry bodies, examine requirements for larger companies to use environmental financial accounting procedures in their financial statements.**

Page 133

**Recommendation 4.3:**

**The following strategies be adopted by the Victorian Government to encourage the development of environmental accounting:**

- (a) the Victorian Environment Protection Authority with the Institute of Chartered Accountants in Australia and CPA Australia develop appropriate promotional material for accountants and auditors; and**
- (b) the Victorian Government consider funding the Victorian Environment Protection Authority to work with the accounting bodies and the Department of Treasury and Finance to conduct a series of public workshops throughout Victoria.**

Page 136

**Recommendation 4.4:**

**The Victorian Commissioner and the Victorian Advisory Committee on Statistics work with the Australian Bureau of Statistics to:**

- (a) improve the quality of environmental data Victoria supplies to the Australian Bureau of Statistics;**
- (b) improve feedback mechanisms from users of environmental statistical data; and**
- (c) ensure that data collected from State and Commonwealth agencies is useful for SoE reporting at State level.**

Page 145

**Recommendation 4.5:**

**The Government discuss with other State and Territory Governments and the Commonwealth Government a joint approach to the Australian Accounting Standards Board, to establish an Australian environmental auditing standard for auditing environmental information in financial statements and annual reports.**

Page 149

**Recommendation 4.6:**

**The Victorian Government work with the Commonwealth Government to:**

- (a) establish a taskforce with representatives from the professional accounting bodies and the accounting and auditing standard setting boards and relevant stakeholders, to develop key elements of a conceptual framework for the verification of environmental performance reports for publicly listed companies; and**

- (b) pursue the development of standards for auditors of environmental information in public sector annual reports and public sector environmental performance reports.**

Page 157

**Recommendation 4.7:**

- (a) Departments and agencies be required to report annually on their progress towards their environmental objectives;**
- (b) The Department of Treasury and Finance assist departments and agencies to develop environmental indicators to report against in their annual reports; and**
- (c) Annual reports of departments and agencies include information on environmental performance.**

Page 178

**Recommendation 4.8:**

**The Environment Protection Authority continue to support awards for environmental reporting linked to environmental management systems.**

Page 184

**Recommendation 4.9:**

**The Government encourage public and private sector enterprises to adopt environmental management systems and associated reporting by expanding relevant programs of the Environment Protection Authority.**

Page 187

***Chapter 5 - Environmental Levies***

**Recommendation 5.1:**

**Proposals for environmental levies in Victoria be preceded by at least a six months consultation process with stakeholders on the need for the levy, the rate of the levy, as well as the proposed use of the revenue.**

Page 208

**Recommendation 5.2:**

**The Department of Natural Resources and Environment and the Victorian Environment Protection Authority conduct a workshop involving industry groups, local council bodies, regional authorities and groups, environmental groups, academics and the Victorian Commissioner, to discuss and make recommendations for further action on the management of environmental issues and the funding mechanisms to support environmental programs.**

Page 209

**Recommendation 5.3:**

**The Government encourage the Victorian Environment Protection Authority and the Department of Natural Resources and Environment to continue to trial innovative environmental economic policies.**

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# CHAPTER 1: INTRODUCTION AND BACKGROUND

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## 1.1 Introduction

In recent years, increasing pressures and incentives for the adoption of cleaner production processes and pollution prevention measures by business and industry have emerged both internally and externally. Internally, the adoption of cleaner production systems is driven by pressure to reduce the costs of waste, to reduce the cost of compliance with changing regulations, and to position companies as environmentally responsible organisations in the local, national or global marketplace. Externally, corporate environmental performance is increasingly scrutinised by investors, financial analysts, regulatory bodies, and host communities and the public.

In response to these pressures, some companies are reviewing and changing their management practices in order to measure more accurately the costs of environmental impacts and the benefits of environmental protection. With increasingly rigorous environmental protection policies, the costs to business and industry of waste and environmental damage are increasing steadily, but conventional managerial accounting systems do not adequately identify business environmental costs. There is substantial evidence that when organisations can identify and allocate their environmental costs, they take action to reduce those costs.

Environmental accounting and environmental reporting are two mechanisms adopted by many overseas companies and governments to improve environmental performance. Although these are relatively new concepts in Australia, interest is growing as governments and companies recognise the many benefits of better understanding the impact their activities have on the environment and how the cost of these activities can be reduced.

Environmental accounting is a broad term referring to the identification, measurement, organisation, analysis, interpretation and communication of financial information for use by management. Environmental accounting covers a variety of techniques for identifying and measuring the full spectrum of environmental costs of operational and production systems and the economic benefits of pollution prevention or cleaner processes. Those costs and benefits can then be integrated into routine business decision-making.

Environmental reporting is the disclosure of information about an organisation's environmental performance, its impacts on the environment, its performance in managing those impacts and its contribution to ecologically sustainable development.

As there are many potential public benefits that can result from the widespread use of environmental accounting and public environmental reporting by industry and business, government programs and policies can play an important role in encouraging and motivating organisations to adopt environmental accounting and reporting as an integral part of their management practices.

## **1.2 Background to the Inquiry**

In 1992, the Victorian Government and all States and Territories and the Commonwealth endorsed the National Strategy for Ecologically Sustainable Development. A guiding principle of the strategy is:

*The need for decision making processes to effectively integrate long term and short term economic, environmental and social considerations.*<sup>6</sup>

As information is a prerequisite for integrating environmental considerations into decision making the Public Accounts and Estimates Committee resolved, in 1998, to undertake an Inquiry into environmental accounting and reporting.

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<sup>6</sup> Productivity Commission, Implementing Ecologically Sustainable Development by Commonwealth Departments and Agencies, Draft Report, 1999, p. xvii

The terms of reference for that Inquiry required the Committee to:

1. review and seek advice on international and national developments in environmental accounting and reporting;
2. consider the current application of these developments for both private and public organisations in Australia and overseas;
3. investigate the implications of these developments for Victorian public sector accounting and reporting; and
4. review the extent to which public and private sector organisations in Victoria and Australia should be required to disclose information about the negative impacts of their activities on the environment and the positive outcomes of their efforts to protect the environment, control pollution and remediate environmental damage.

In June 1999, the Committee presented an Interim Report into Environmental Accounting and Reporting which contained 35 recommendations. As the issues considered in the Inquiry were so broad, the Committee resolved to seek feedback from government, industry and the community on the matters contained in the report and to present a further report to the Parliament.

A list of the recommendations contained in that report appears at Appendix 1. On 2 December 1999, the Government responded to the recommendations contained in the report. A copy of the response is at Appendix 2.

The Government gave a commitment to:

- establish a Commissioner for Ecologically Sustainable Development;
- re-introduce State of the Environment (SoE) reports in Victoria; and

- introduce annual environmental reporting requirements for all government agencies, in areas such as energy consumption, waste disposal, vehicle fuel efficiency and recycling.

In light of these developments, the Committee resolved to immediately commence the Follow-up Inquiry.

The terms of reference for this Inquiry required the Committee to:

1. review the proposed role and objectives for the Commissioner for Ecologically Sustainable Development and seek advice on:
  - (a) comparable positions in other jurisdictions; and
  - (b) resourcing and reporting arrangements.
2. develop a framework for legislation for:
  - (a) the Commissioner for Ecologically Sustainable Development; and
  - (b) SoE reporting.
3. follow up outstanding issues raised in the *Interim Report on Environmental Accounting and Reporting*, and report on developments in relation to the following matters:
  - (a) methodologies and standards for environmental accounting and reporting;
  - (b) environmental indicators for environmental accounting and reporting;
  - (c) verification processes for environmental accounting and reporting;
  - (d) consistency of reporting environmental impacts in financial statements at the international, national, Victorian, regional and local government levels;
  - (e) consistency in reporting by private enterprise to government agencies; and

- (f) the rate of adoption by private enterprise of environmental reporting and environmental management systems in Victoria.
4. investigate the role of environmental levies and charges in public environmental management.

### **1.3 Process followed by the Committee**

In June 2000, the Committee released Issues Paper No. 4<sup>7</sup> which canvassed the major issues contained in the terms of reference. Comments were sought on a number of matters including the following:<sup>8</sup>

- what information should be included in a set of Australian environmental accounts?
- should Victoria urge the Australian Bureau of Statistics to include State and Territory data in the satellite accounts?
- what should be the purpose of SoE reporting?
- who should have responsibility for preparing the SoE report?
- what should be the role for regional or other groups in the process of developing SoE reports?
- should there be a balance between economic, environmental and social indicators, or should SoE reporting only deal with environmental matters?
- what should be the role of the Victorian Commissioner for Ecologically Sustainable Development?
- how can the Government encourage accounting bodies to develop methods to incorporate environmental costs in the price of goods and services?
- should companies be required to make public environmental reports on their activities?

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<sup>7</sup> Public Accounts and Estimates Committee, Issues Paper No. 4, *Follow-up Inquiry into Environmental Accounting and Reporting*, June 2000

<sup>8</sup> See Appendix 3 for a full list of questions contained in Issues Paper No. 4

- should government departments and agencies lead by example in producing environmental performance reports?
- what body should be given the responsibility for examining and accrediting environmental auditors and verifiers?
- what role should economic instruments play in environmental policy?

Forty-two written submissions were received. A list of submissions appears at Appendix 4 of this report.

The Committee also took evidence at a number of briefings and public hearings in Melbourne, Sydney, Canberra and Wellington, New Zealand. A list of the hearings and the witnesses who gave evidence appears at Appendix 5.

The Committee thanks all those who participated in the Inquiry by appearing as witnesses, providing written submissions and/or assisting with the arrangements for meetings and public hearings. The work of the Victorian Parliament is greatly assisted by community participation.

#### **1.4 Submission provided by the Department of Natural Resources and Environment**

As with all its inquiries, the Committee relied heavily on submissions and factual information received from government departments. It expected to receive a highly informative, detailed and substantial submission from the Department of Natural Resources and Environment. This did not occur. The Department's submission was also received more than three months after the formal closing date for submissions.

In addition, the senior departmental officers who appeared before the Committee declined to comment on key issues such as the Commissioner for Ecologically Sustainable Development and on State of Environment Reporting, as these were the subject of a separate consultation process which the Victorian Government

was initiating through the Department. The Committee was disappointed that the departmental officers were not able to discuss these matters as it would have given the Committee a greater insight into the relative merits of each of the options.

The Committee notes that after the hearings were completed, the Department of Natural Resources and Environment issued on 2 December 2000, a consultative paper on the role and purpose of the Commissioner for Ecologically Sustainable Development.<sup>9</sup>

The Department's consultation paper covers the issues of:

- Commissioners in other jurisdictions;
- current institutional arrangements for managing ecologically sustainable development;
- guiding principles for the new Office of the Victorian Commissioner for Ecologically Sustainable Development (ESD);
- roles and functions of a Commissioner for ESD;
- appointment of the Commissioner; and
- options for all aspects of the new Office.

The Consultation Paper was very similar in content to the Committee's Issues Paper, although very little information was provided in the Department's paper on options for State of Environment Reporting.

The Committee was disappointed that the consultation process initiated by the Department largely duplicated the work undertaken by the Committee.

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<sup>9</sup> State of Victoria, Department of Natural Resources and Environment 2000, *Consultative Paper, The Commissioner for Ecologically Sustainable Development*, Melbourne



## **CHAPTER 2: COMMISSIONER FOR ECOLOGICALLY SUSTAINABLE DEVELOPMENT**

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### **2.1 Introduction**

This chapter addresses the first and second terms of reference:

1. review the proposed role and objectives of the Commissioner for Ecologically Sustainable Development and seek advice on:
  - (a) comparable positions in other jurisdictions; and
  - (b) resourcing and reporting arrangements.
2. develop a framework for legislation for:
  - (a) the Commissioner for Ecologically Sustainable Development.

#### **Key Findings:**

- 2.1 The Commissioners for the environment or sustainable development in the Australian Capital Territory, Federal Canada, Ontario and New Zealand are known for their independence, credibility, neutrality and for the quality of information in their reports.**
- 2.2 A Victorian Commissioner for Ecologically Sustainable Development would assist with the implementation of the *National Strategy for Ecologically Sustainable Development*, to which Victoria is a signatory.**
- 2.3 Some Commissioners in other jurisdictions focus on ecologically sustainable development, that is, the integration of environmental, economic and social policy. Others focus on environmental matters, while recognising the interconnection of environmental, social and economic issues.**

**Key Findings (continued):**

- 2.4 Commissioners for the environment or sustainable development in other jurisdictions act as guardians of the environment by auditing government agencies' activities affecting the environment. Many witnesses and submissions pointed out that the Victorian Commissioner should not duplicate the work of other parliamentary bodies and government agencies that have a role in monitoring the environment.**
- 2.5 Many submissions and witnesses supported the Government's proposal that the Victorian Commissioner produce a State of Environment report.**
- 2.6 All Commissioners in other jurisdictions investigate environmental or sustainable development matters. Some witnesses were concerned that the Victorian Commissioner could be swamped by requests for investigations from the Government or by the Parliament.**
- 2.7 Some Commissioners report directly to Parliament, while others report via a Minister.**
- 2.8 Mechanisms to ensure the independence of the Commissioner was the primary consideration raised in submissions and by witnesses.**
- 2.9 The Committee agrees with the Department of Natural Resources and Environment's proposed legislative objectives for the Commissioner, which include a commitment to ecologically sustainable development and to identify and assess conditions and trends of Victoria's environment.**

**Key Findings (continued):**

- 2.10 Clear definitions in any legislative framework for the Victorian Commissioner are required for ‘ecologically sustainable development’ and the ‘environment’.**
- 2.11 Commissioners for the environment or sustainable development reviewed by the Committee have legislative authority to gain access to data and information and to require people to give them information.**
- 2.12 All Commissioners for the environment reviewed by the Committee produce annual reports that examine the effectiveness of government policies on the environment and/or ecologically sustainable development.**
- 2.13 In many instances, the Parliament has a role in determining the budget for the Commissioners for the environment.**

## **2.2 Government’s proposals**

The Government indicated in its response to the Committee’s Interim Report that it intended to legislate to establish a Commissioner for Ecologically Sustainable Development:

*To assist in delivering a more accountable and transparent environmental management regime for Victorians, the Government will legislate to establish a Commissioner for Ecologically Sustainable Development, who will be responsible for tabling the State of Environment Report in Parliament. The Commissioner will also audit compliance with environmental legislation, including the Flora and Fauna Guarantee Act 1988 and native vegetation retention controls, and provide an Ombudsman type role for considering public complaints.<sup>10</sup>*

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<sup>10</sup> Government response to the Public Accounts and Estimates Committee Thirty-First Report to Parliament, *Interim Report of the Inquiry into Environmental Accounting and Reporting*, p. 2

The Government agencies' submission to the Inquiry indicated that the Commissioner would have the additional function of auditing departments' and agencies' compliance with waste reduction targets.<sup>11</sup>

The 2000-2001 Budget provided \$1 million for the Office of Commissioner and \$1 million each year over the following three years.<sup>12</sup>

This chapter considers the key elements and options for the Office of the Victorian Commissioner for Ecologically Sustainable Development.

### **2.3 Commissioners for the environment and sustainable development**

The Committee's research revealed that Commissioners for the Environment and Sustainable Development have been established in the Australian Capital Territory, Federal Canada, the Province of Ontario and New Zealand.

The roles and functions of the Commissioners in these jurisdictions provided valuable background information for the Committee.

#### ***2.3.1 Australian Capital Territory***

In the Australian Capital Territory, the Commissioner for the Environment was established as a statutory position in 1993 and is appointed by a Minister.

The three main functions of the Commissioner for the Environment are to:<sup>13</sup>

- produce SoE reports every three years;
- act as environmental ombudsman; and

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<sup>11</sup> Victorian Government agencies, submission no. 41, p. 4

<sup>12</sup> Government of Victoria 2000, Budget Paper No. 2, Appendix B, Table B9, p. 278

<sup>13</sup> *Commissioner for the Environment Act 1993 (ACT)*, section 19

- conduct investigations into environmental matters.

The ACT Commissioner advised the Committee:

*Unless there is some mechanism to ensure that action follows at the government level, as result of the SoE report, it could well be useless. I believe that all SoE reports should have recommendations, and that the government receiving the SoE report must comment on those recommendations and indicate the actions they will take on them.*<sup>14</sup>

The Committee was advised that the Commissioner has few resources. One interesting feature of the Australian Capital Territory SoE reporting process is the use of voluntary committees to help develop each chapter of the report. In 2001, the Commissioner had over 50 academics, community and business representatives on voluntary committees to assist with this process.<sup>15</sup>

The 2000 Australian Capital Territory SoE report included comments on ecologically sustainable development.<sup>16</sup> For example, whether or not trends in traffic exhaust emissions, which affect air quality in the ACT, are leading to sustainable air quality.

In order of priority, the Commissioner considers the other functions of the Office to be acting as ombudsman, preparing annual reports, carrying out investigations and interacting with decision makers.<sup>17</sup>

The ombudsman function is shared with the ACT General Ombudsman. Regular meetings between the two officers prevent an overlap of duties. Similarly, the Commissioner shares

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<sup>14</sup> Commissioner for the Environment ACT, submission no. 42, p. 2

<sup>15</sup> Office of the Commissioner for the Environment ACT, *Annual Report 2000-2001*, pp. 41-42, available at the website address <http://www.envcomm.act.gov.au/General/OCE/AnnualReport.htm>.

<sup>16</sup> Dr H Sims, Office of the Commissioner for the Environment ACT, notes of meeting, 18 October 2000, pp. 7-8

<sup>17</sup> Commissioner for the Environment ACT, submission no. 42, p. 2

responsibility for ecologically sustainable development with the ACT Auditor-General.<sup>18</sup>

The Commissioner uses his annual report to comment on the government's responses to recommendations in SoE reports and to outline responses to investigations. Investigations can be initiated by the Minister for Urban Services or the Commissioner.

The Committee was advised that the Commissioner works closely with government agencies and the public, to encourage environmental best practice and sustainable development.<sup>19</sup>

The Commissioner believes that a wide definition of the environment for SoE reporting is essential for the work of the Commissioner.

Section 19 of the *Commissioner for the Environment Act 1993* provides:

- (2) *A State of the Environment Report shall include -*
  - (a) *an assessment of the condition of the environment, including ... following matters ...*
    - (i) *the components of the earth, including soil, the atmosphere and water;*
    - (ii) *any organic or inorganic matter and any living organism;*
    - (iii) *human made or modified structures and areas;*
    - (iv) *ecosystems and their constituent parts, including people and communities;*
    - (v) *the qualities and characteristics of places and areas that contribute to their biological diversity and ecological integrity, scientific value and amenity;*
    - (vi) *the interactions and interdependencies within and between the things mentioned in subparagraphs (i) to (v) (inclusive);*

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<sup>18</sup> Ibid, p. 2

<sup>19</sup> Ibid, p. 2

- (vii) *the social, aesthetic, cultural and economic conditions that affect, or are affected by, the things mentioned in subparagraphs (i) to (v) (inclusive);*
- (b) *an evaluation of the adequacy and effectiveness of environmental management ...*<sup>20</sup>

## Summary

In the Australian Capital Territory, the position of Commissioner for the Environment arose from government concerns that the Territory should be able to independently report to the Commonwealth on the state of the environment and that community concerns for the environment should be adequately addressed. The Commissioner's independence is supported by legislation that gives him access to information. The Commissioner's ability to make recommendations to the ACT Legislative Assembly for action is supported by subsequent annual reporting by the Commissioner on the government's response to the triennial SoE report.

### 2.3.2 Canada

The position of Commissioner for the Environment and Sustainable Development was created by an amendment to the *Canadian Auditor General's Act* in 1993.<sup>21</sup>

The Commissioner for the Environment and Sustainable Development assists the Auditor General in environmental matters and sustainable development matters. The Commissioner assists in overseeing the Canadian Government's protection of the environment and fostering of sustainable development, by tabling in Parliament annual Green Reports and reports of investigations. The Commissioner focuses on:<sup>22</sup>

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<sup>20</sup> *Commissioner for the Environment Act* 1993, section 19(2)

<sup>21</sup> Acting Commissioner of the Environment and Sustainable Development, Office of the Auditor General of Canada, submission no. 12, p. 6

<sup>22</sup> *Ibid*, p. 2

- monitoring government departments' sustainable development strategies;
- conducting audits of environmental and sustainable development issues;
- responding to petitions from the public; and
- reporting to Parliament.

The Commissioner can report any environmental or sustainable development matters to the Parliament. The Commissioner also reports on the degree to which the government is meeting its international and national environmental commitments and managing sustainable development in both the public and private sectors.<sup>23</sup>

The Commissioner reports annually (The Green Reports) to the Canadian House of Commons on behalf of the Auditor General. These reports are automatically referred for consideration to the Standing Committee on Environment and Sustainable Development.<sup>24</sup>

The Commissioner is not involved in SoE reporting, as such reports are produced by Statistics Canada and government departments.<sup>25</sup>

The Auditor General appoints the Commissioner. The Commissioner, on behalf of the Auditor General, reports annually on any matter the Commissioner considers should be brought to the attention of the Parliament in relation to the environment and sustainable development.<sup>26</sup>

## Summary

The Commissioner does not assess policy but the implementation of policy. The Commissioner has an ombudsman role and the role

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<sup>23</sup> Ibid, p. 2

<sup>24</sup> Ibid, p. 4

<sup>25</sup> Ibid, p. 3

<sup>26</sup> *Auditor General Act 1976-77* (Canada), section 15.1 and 23(2)

of critically assessing the performance of government and departments in relation to the environment and sustainable development. The Commissioner is an officer within the Auditor General's Office. The Commissioner's reports are tabled in Parliament.

### **2.3.3 Province of Ontario**

The Environmental Commissioner of Ontario reviews and reports annually to Parliament on the government's compliance with the Environmental Bill of Rights. The Commissioner comments on each Minister's use of discretionary powers and handling of applications by citizens for action on environmental matters. The Commissioner examines how Ministries use public input to draft environmental acts, regulations and policies. The Commissioner also monitors court action over appeals under the Environmental Bill of Rights (EBR) and reviews the use of EBR procedures to protect employees who experience reprisals for whistle-blowing.<sup>27</sup>

The Commissioner assesses each Ministry's Statement of Environmental Values. This document states each Ministry's policy approach to environmental decision-making and how social, economic and scientific considerations are integrated in environmental decision-making.<sup>28</sup>

The Commissioner's Office operates an environmental registry, which allows citizens to comment on proposed legislative and policy changes. The Office acts as a clearing house for citizens to request reviews of Acts, regulations or policies they believe to be harmful to the environment. Public education is another important role.<sup>29</sup>

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<sup>27</sup> Environmental Commissioner of Ontario 2000, *Ontario's Environmental Bill of Rights and You*, ECO, Toronto, p. 6

<sup>28</sup> Ligeti, E. 1997, The Role of the Environmental Commissioner of Ontario and the Environmental Bill of Rights in Environmental Decision Making, in Gary Hawke (ed) *Guardians for the Environment: Proceedings of a Symposium to Mark the First Decade and to Provide Directions for the New Zealand Parliamentary Commissioner for the Environment*, Institute of Policy Studies, Victoria University of Wellington, New Zealand, p. 131

<sup>29</sup> Environmental Commissioner of Ontario 2000, *Ontario's Environmental Bill of Rights and You*, ECO, Toronto, p. 6

The Environmental Commissioner of Ontario does not produce an SoE report.

The Environmental Commissioner reports annually to the Speaker of the Legislative Assembly, who tables the report. The Commissioner can also make special reports to the Parliament.<sup>30</sup>

## **Summary**

The Environmental Commissioner is an independent officer of the Legislative Assembly and is appointed for a five-year term. The Commissioner reports annually to the Legislative Assembly. In this report, the Commissioner reviews and reports on the government's compliance with the Environmental Bill of Rights.

### **2.3.4 New Zealand**

The Parliamentary Commissioner for the Environment in New Zealand has two primary roles – guardian of environmental systems and investigator of citizens' concerns.

As environmental systems guardian, the Parliamentary Commissioner has the statutory power to investigate and review the functioning of the whole environmental system, rather than individual agencies. The Parliamentary Commissioner sees this as important in a deregulated economy:

*... where many environmental functions have been devolved to regional authorities, voluntary industry initiatives and market mechanisms ...*<sup>31</sup>

The Parliamentary Commissioner for the Environment investigates citizens' concerns and also has an ombudsman role. Citizens' concerns are considered a source of intelligence about the

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<sup>30</sup> Ibid, section 58

<sup>31</sup> Dr J. Morgan Williams, New Zealand Parliamentary Commissioner for the Environment, Session 2 Experience in Other Jurisdictions, *Public Participation and the Environment: 5 Years of the Environmental Bill of Rights in Ontario*, Proceedings of the Symposium, 15 February 1999, pp. 69-71; part of the submission by Mr Gord Miller, Environmental Commissioner of Ontario, 7 September 2000

effectiveness of environmental management systems and environmental issues. The Commissioner resists this work, as he believes the focus should remain on the broad environmental management system.

To support the Parliamentary Commissioner's two main roles, the Office also performs the functions of environmental auditor, information provider and facilitator and advisor to Parliament.<sup>32</sup>

The Parliamentary Commissioner's environmental audits focus on how environmental legislation is implemented and how government agencies manage environmental issues.

The Parliamentary Commissioner assists parliamentary committees on environmental matters. In 1996, a protocol was developed to clarify the relationship between Parliament and the Commissioner.<sup>33</sup>

The Parliamentary Commissioner does not produce an SoE report, as this is undertaken by the Ministry for the Environment.<sup>34</sup>

The Parliamentary Commissioner is accountable to the Parliament and makes recommendations directly to Parliament.<sup>35</sup> The Commissioner does not have regulatory powers.

The Parliamentary Commissioner for the Environment is an Officer of Parliament, appointed by the Governor-General on the recommendation of the House of Representatives, for a period of five years.<sup>36</sup>

The Speaker of the House of Representatives determines and approves staff to assist the Commissioner. Public sector staff may

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<sup>32</sup> Ibid, pp. 66-69

<sup>33</sup> Ibid, p. 68

<sup>34</sup> Mr Maurice Hoban, 'From National Indicator Development to Local Implementation', *State of Environment Conference 2000, Conference Papers*, Coffs Harbour NSW, 3-5 May 2000, p. 25

<sup>35</sup> *Environment Act 1986* (New Zealand), section 23

<sup>36</sup> Ibid, sections 4, 6

be seconded to the Office of the Commissioner and consultants may be appointed by the Commissioner.<sup>37</sup>

## Summary

The Parliamentary Commissioner's independence is guaranteed by reporting directly to Parliament. The roles of the Parliamentary Commissioner are guardian of the environment and environmental ombudsman. The office is valued for its independence, credibility, neutrality and for the quality of advice offered to all parties: characteristics many commentators see as essential for all environmental Commissioners.<sup>38</sup>

### **2.4 Common characteristics of Commissioners and their offices**

Characteristics common to the Commissioners from the Australian Capital Territory, federal Canada, the Province of Ontario and New Zealand are presented in Exhibit 2.1.

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<sup>37</sup> Ibid, sections 11-13

<sup>38</sup> Mr Robert Martin, Director, Office of the Ombudsman, United States Environmental Protection Agency, Session 2 Experience in Other Jurisdictions, *Public Participation and the Environment: 5 Years of the Environmental Bill of Rights in Ontario*, Proceedings of the Symposium, 15 February 1999, p. 61

**Exhibit 2.1: Common characteristics of Commissioners and their Offices**

- The independence of the Commissioners is enshrined in legislation and Commissioners operate independently of existing government agencies and departments;
- Commissioners assess the implementation of government policy. They ensure that government departments fulfill their environmental and ecologically sustainable development responsibilities;
- Commissioners ensure that citizen concerns about the environment are addressed;
- Commissioners report annually to Parliament on environment and ecologically sustainable development matters. Their annual reports consider the adequacy of the decision-making of government departments in relation to environmental matters and identify emerging issues and problems;
- Commissioners conduct investigations into environmental and ecologically sustainable development matters and make recommendations to Parliament on how these may be addressed. Investigations are sometimes limited by resource constraints; and
- Commissioners need strong communication systems to ensure all sectors are involved in investigations and understand the role of the Commissioner and the Office.

The Committee believes that the above characteristics are essential to ensure that the Victorian Commissioner is able to effectively discharge the functions of the Office.

## 2.5 Victorian Commissioner for the Environment

### 2.5.1 Background

In 1986, the Victorian Office of the Commissioner for the Environment was established within the Ministry of Planning and Environment. The Commissioner focused on SoE reporting. The Commissioner developed a five year program for these reports,<sup>39</sup> however only two reports were produced: *Victoria's Inland Waters* 1989 and *Agriculture and Victoria's Environment* 1992. In 1992, the staff of the Office of the Commissioner for the Environment resigned and the Office was dismantled.<sup>40</sup>

The current proposal for a Victorian Commissioner was part of the Bracks Government's election commitments.<sup>41</sup> The Commissioner will have a major role in promoting ecologically sustainable development and improving accountability within the framework provided by the National Strategy for Ecologically Sustainable Development.<sup>42</sup>

The Australian Industry Group is keen for the government to adopt a nationally consistent approach to corporate environmental reporting:

*Ai Group strongly supports the development of a nationally consistent approach to corporate environmental reporting which avoids imposition of different reporting requirements in each State and Territory and therefore the imposition of unnecessary administrative burden on industry.*<sup>43</sup>

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<sup>39</sup> Office of the Commissioner for the Environment 1989, *Victoria's Inland Waters*, State of the Environment Report 1988, Melbourne, p. ii

<sup>40</sup> Christoff, P. 1998, Degreening government in the garden state: environmental policy under the Kennett Government, 1992-1997, *Environmental Planning Law Journal*, vol. 15, no. 1, pp. 10-32

<sup>41</sup> Australian Labor Party 1999, Greener Cities: Labor's plans for the urban environment and Our Natural Assets: Valuing Victoria's natural environment, available at the website [http://www.vic.alp.org.au/policy/environment\\_extensions/envi\\_greener.html](http://www.vic.alp.org.au/policy/environment_extensions/envi_greener.html) and [http://www.vic.alp.org.au/policy/environment\\_extensions/envi\\_natural.html](http://www.vic.alp.org.au/policy/environment_extensions/envi_natural.html); The State of Victoria, Department of Natural Resources and Environment 2000, *Consultation Paper, The Commissioner for Ecologically Sustainable Development*, Melbourne, p. 5

<sup>42</sup> Ibid, p. 6

<sup>43</sup> Australian Industry Group, submission no. 34, p. 2

The Group emphasised that the Commissioner's role should not duplicate the work of the Victorian Environment Protection Authority.<sup>44</sup>

The Committee believes that the Victorian Commissioner should ensure consistency between national and Victorian approaches to environmental and ecologically sustainable development policy and programs.

### **2.5.2 Purpose and roles**

The Department's consultation paper laid down the following guiding principles for the Office of the Commissioner for Ecologically Sustainable Development:<sup>45</sup>

- demonstrate independence and impartiality in all actions;
- be committed to open and transparent decision making;
- promote accountability;
- focus on adding value and outcomes;
- target effort to where it has most benefit;
- focus on solutions and improvements, not blame; and
- not be seen to be a panacea for all sustainability issues.

Victoria is a signatory to the National Strategy for Ecologically Sustainable Development 1992. The goal of the strategy is to encourage development that improves the total quality of life, both now and in the future, in a way that maintains the ecological processes on which life depends.<sup>46</sup>

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<sup>44</sup> Ibid, pp. 4-5

<sup>45</sup> State of Victoria, Department of Natural Resources and Environment 2000, *Consultation Paper; The Commissioner for Ecologically Sustainable Development*, Melbourne, p. 12

<sup>46</sup> *National Strategy for Ecologically Sustainable Development* December 1992, Part 1 Introduction, page 2 of 8, available at the website: <http://www.environment.gov.au/psg/igu/nsesd/index.html>

The strategy's core objectives are:<sup>47</sup>

- to enhance individual and community wellbeing and welfare, following a path of economic development that safeguards the welfare of future generations;
- to provide for equity within and between generations; and
- to protect biological diversity and maintain essential ecological processes and life-support systems.

If the Commissioner for Ecologically Sustainable Development is to ensure that the national strategy is implemented in Victoria, then the Committee believes that the core objectives should form the focus for the Office.

### ***2.5.3 Promoting ecologically sustainable development***

Part of the Canadian Commissioner's work is to foster sustainable development. The Canadian Commissioner does this by evaluating government departments' explicit sustainable development strategies, which are required by law.<sup>48</sup>

In Britain, the Government has released its first annual review of progress towards sustainable development. The review uses 15 indicators which are associated with a public service target.<sup>49</sup>

The British Government has developed five priority areas and associated strategies for action. The five priorities are to:<sup>50</sup>

- increase economic growth;
- reduce pollution and use of resources;
- share prosperity more widely and fairly;
- make towns and cities better places to live and work; and

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<sup>47</sup> Ibid, p. 2 of 8

<sup>48</sup> *Auditor General Act 1976-77* (Canada), section 23

<sup>49</sup> Department of the Environment, Transport and the Regions 2001, *Achieving a Better Quality of Life, Review of Progress Towards Sustainable Development*, Government Annual Report 2000, DETR, West Yorkshire, pp. 3-4, 45

<sup>50</sup> Ibid, pp. 59, 67, 80

- contribute to global sustainable development, in particular those in extreme poverty.

In Australia, section 516A of the Commonwealth *Environment Protection and Biodiversity Conservation Act 1999* ensures that Commonwealth departments deal with environmental matters in their annual reports. Section 516A(6) requires departments to report on their activity in accordance with ecologically sustainable development principles and to show how their outcomes contribute to ecologically sustainable development.

A key role for the Victorian Commissioner for Ecologically Sustainable Development could be to evaluate Victorian Government departments' progress toward ecologically sustainable development.

The Victorian Government is already active in developing ecologically sustainable development mechanisms. At the *Growing Victoria Together* Summit, it was agreed that the Victorian Government would develop a triple bottom line strategy with the full participation of business, unions and social and environmental groups.<sup>51</sup>

The Committee was pleased to note that the Budget for 2001-2002 provided \$200,000 for the development of an environmental, economic and social framework which the Government will use as part of the triple bottom line approach to delivery of government services.<sup>52</sup>

The Committee understands that a business leaders roundtable on sustainable development was held in November 2000.<sup>53</sup> Mr Phillip Toyne, Director of Eco Futures (and former head of the Australian Conservation Foundation and former Deputy Secretary of the Commonwealth Department of Environment) assisted in this process. His vision of the Victorian Commissioner is as follows:

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<sup>51</sup> Communique of the Growing Victoria Together Summit, 3 April 2000, p. 2

<sup>52</sup> Transcript of evidence, Inquiry into the Budget Estimates for 2001-2002, Hon. S Bracks, MP, Premier of Victoria, 25 May 2001, p. 4

<sup>53</sup> Ms M Harriss Olson and Mr P Toyne, Directors, EcoFutures, notes of meeting, 18 October 2000, pp. 10-11

*... the Commissioner for Sustainable Development would be an excellent source of advice to government ... in terms of developing strategies and policies that would lead to greater sustainable development outcomes. ...a greater regional plan [was] developed for Canberra and the local region. What was required there was not just a group of bureaucrats deciding on the future of the region but to work out ways of engaging Local Government, local community in developing their own sub-plans to fit within that and I think that's the task in Victoria. ... That's the sort of activity I think you should be looking for the Commissioner to be financing. ... I think that there are much greater opportunities for the Commissioner to provide advice to the Parliament across the whole range of sustainable development initiatives: policies, strategies that go beyond simply preparing a report.<sup>54</sup>*

Accordingly, the Committee recommends that:

**Recommendation 2.1:**

**The Victorian Commissioner, in consultation with the wider community, have a role in devising and monitoring an ecologically sustainable development strategy for Victoria.**

**2.5.4 An ecologically sustainable development or environmental framework**

Ecologically sustainable development can be approached from a holistic perspective, as in Canada, or be based in an environmental framework, as in the Australian Capital Territory. As the Commissioner for the Environment in the Australian Capital Territory noted:

*... the 'E' of ESD sometimes stood for ecologically and sometimes environmental.<sup>55</sup>*

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<sup>54</sup> Mr P Toyne, Director, EcoFutures, notes of meeting, 18 October 2000, pp. 14-16

<sup>55</sup> Dr J Baker, Commissioner for the Environment ACT, submission no. 42, p. 1

The Committee was advised that Bayside City Council is approaching ecologically sustainable development from a holistic perspective. The Council is developing an integrated framework to guide the municipality toward ecologically sustainable development, based on *Local Agenda 21*, the agenda for the twenty-first century that arose from the United Nations Earth Summit.

The Council believes the role of the Commissioner should be to provide a proactive and strategic leadership role in ecologically sustainable development. It will also be important for the Commissioner to develop good relationships with all stakeholders, including Local Government and to promote awareness about ecologically sustainable development.<sup>56</sup>

Most submissions and witnesses assumed that the Commissioner for Ecologically Sustainable Development would focus on environmental matters.

### **2.5.5 Guardian of the environment**

The Government, and the majority of witnesses and submissions wanted the Victorian Commissioner to ensure that environmental management in Victoria was accountable.

The New Zealand Parliamentary Commissioner sees his role as guardian of the environment. In this capacity, the Commissioner investigates environmental matters, whether they involve the private or public sectors.<sup>57</sup>

In Victoria, key environmental sectors, such as energy production and use and public transport, have been privatised. As in New Zealand, many planning decisions which directly impact on the environment are handled in Victoria at the Local Government

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<sup>56</sup> Bayside City Council, submission no. 22, pp. 1, 8

<sup>57</sup> Dr J. Morgan Williams, New Zealand Parliamentary Commissioner for the Environment, Session 2 Experience in Other Jurisdictions, *Public Participation and the Environment: 5 Years of the Environmental Bill of Rights in Ontario*, Proceedings of the Symposium, February 15, 1999, pp. 70-71, part of the submission by Mr Gord Miller, Environmental Commissioner of Ontario, 7 September 2000

level. Therefore the Committee believes that it will be important for the Commissioner to oversee developments across all sectors.

The Department's consultation paper suggests the Victorian Commissioner will have a role in auditing:

- compliance with environmental legislation, including the *Flora and Fauna Guarantee Act* and native vegetation clearance controls;<sup>58</sup> and
- government agencies' compliance with waste management reduction targets.<sup>59</sup>

However, evidence presented to the Committee proposed that detailed auditing of departments and agencies was resource intensive and time consuming.<sup>60</sup> Further, the Committee is aware that the Auditor-General has powers to conduct performance audits of individual government agencies and departments. Between June 1982 and November 2001, eleven of the 74 Auditor-General's performance audits related to environmental matters. For example, salinity (1993 and 2001), urban development (1996) and land use and development (1999).<sup>61</sup> The Victorian Auditor-General also conducts smaller inquiries into matters of public interest that arise from the annual auditing of public service agencies. For example, land stability at Victoria's six alpine resorts in the June 2001 Ministerial Portfolios report and the restoration of mining sites in the May 1999 report.<sup>62</sup>

Evidence presented to the Committee stressed that the work of the Commissioner should not duplicate the work of other parliamentary bodies and government agencies.<sup>63</sup> The Department of Natural Resources and Environment consultation paper called

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<sup>58</sup> State of Victoria, Department of Natural Resources and Environment 2000, *Consultation Paper, The Commissioner for Ecologically Sustainable Development*, Melbourne, p. 16

<sup>59</sup> *Ibid*, p. 17

<sup>60</sup> For example, Mr P Maganov, submission no. 16, p. 8; Bayside City Council, submission no. 22, final page; Transcript of evidence, Mr P Christoff, Lecturer, University of Melbourne, 11 September 2000, p. 79

<sup>61</sup> List of previous reports appears at the back of all performance audit reports

<sup>62</sup> For example, see Victorian Auditor-General's Office, *Report on Ministerial Portfolios*, June 2001, Melbourne, p. 292

<sup>63</sup> For example: Telstra, submission no. 9, p. 2; The International Council for Local Government Initiatives, submission no. 27, p. 4; and Australian Industry Group, submission no. 34, p. 5

for the Victorian Commissioner to recognise existing institutions and to avoid duplication.<sup>64</sup>

The Committee believes the Victorian Commissioner should concentrate on the overall environmental system, rather than on auditing individual departments or authorities (a role of the Auditor-General). The Committee agrees that the new role of Victorian Commissioner should not duplicate the work of other agencies or departments.

Accordingly, the Committee recommends that:

**Recommendation 2.2:**

**The Victorian Commissioner be responsible for ensuring that the overall environmental management system for Victoria reflects environmental legislative and policy objectives.**

**2.5.6 SoE Reporting**

The original Victorian Commissioner for the Environment focused on producing SoE reports (see page 58).

The Australian Capital Territory Commissioner for the Environment sees his main role as producing SoE reports, which recommend to the government changes to the Territory's environmental management system.

The majority of submissions and witnesses were generally supportive of the Victorian Commissioner supervising the SoE report process.<sup>65</sup> The details of the Commissioner's role in SoE reporting are discussed in the next chapter.

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<sup>64</sup> State of Victoria, Department of Natural Resources and Environment 2000, *Consultation Paper, The Commissioner for Ecologically Sustainable Development*, Melbourne, pp. 9-11

<sup>65</sup> For example: Melbourne Water, submission no. 5, p. 2; Save Albert Park, submission no. 13, p. 1; Environment Management Industry Association of Australia, Victorian Network, submission no. 36; and Transcript of evidence, Mr Peter Christoff, Lecturer, Department of Geography and Environmental Sciences, University of Melbourne, 11 September 2000, p. 80

Accordingly, the Committee recommends that:

**Recommendation 2.3:**

**The Victorian Commissioner have primary responsibility for the preparation of the SoE report and for ensuring that the report is tabled in Parliament.**

**2.5.7 Ombudsman**

Commissioners in the Australian Capital Territory, federal Canada, the Province of Ontario and New Zealand all have an environmental ombudsman role.

The Department's consultation paper suggests an ombudsman role for the Commissioner, in which he or she would address complaints about the management of Victoria's environment, to complement the work of the Ombudsman and the Victorian Civil and Administrative Tribunal.<sup>66</sup>

Some witnesses and submissions to the current Inquiry were concerned that the ombudsman function of a Victorian Commissioner could be very resource intensive and time consuming, and so would distract from other functions.<sup>67</sup> However, the Committee believes that the Commissioner for Ecologically Sustainable Development should have a referral role in which the Office refers public complaints against government agencies to those agencies and monitors responses.

Accordingly, the Committee recommends that:

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<sup>66</sup> State of Victoria, Department of Natural Resources and Environment 2000, *Consultation Paper, The Commissioner for Ecologically Sustainable Development*, Melbourne, p. 14

<sup>67</sup> For example, Transcript of evidence, Mr Peter Christoff, University of Melbourne, p. 80; Mr Peter Maganov, submission no. 16, p. 7; and City of Kingston, submission no. 19, p. 1

**Recommendation 2.4:**

**The Victorian Commissioner have responsibility for referring public complaints about environmental management to government agencies and for monitoring the responses of those agencies.**

**2.5.8 Investigations**

The Australian Capital Territory Commissioner can initiate his own investigations on environmental matters or conduct investigations initiated by the (relevant) Minister. The Canadian Commissioner can report to Parliament on any environmental or sustainable development matter, on his own initiative. The New Zealand Commissioner can investigate any environmental matter and report to Parliament. The New Zealand Commissioner can also be directed by the House of Representatives to conduct investigations.

Some witnesses were concerned that the Victorian Commissioner could be swamped by requests from Ministers.<sup>68</sup> For example, Save Albert Park submitted:

*SAP has reservations about legislation providing for requests by a Minister. There is a danger of requests being interpreted as directions and of the Commissioner being snowed by government agenda unless there is a commitment to adequate resourcing of the office. Requests for investigations by individual Ministers are preferably directed to a Minister's department or agency. Subsequent responses could be referred to the Office of the Commissioner for public review and comment as part of the role suggested by the National President of the Environment Institute of Australia (Issues Paper, June 2000, p. 36).<sup>69</sup>*

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<sup>68</sup> Transcript of evidence, Mr Peter Christoff, previous assistant to Victoria's Commissioner for the Environment, 11 September 2000, p. 79; and Save Albert Park, submission no. 13, p. 2

<sup>69</sup> Save Albert Park, submission no. 13, p. 2

The *Victorian Environmental Assessment Council Act 2001*, recently passed by the Victorian Parliament enables the Minister to request investigations by the Victorian Environmental Assessment Council. This legislation provides for the investigations to be resourced by the Department of Natural Resources and Environment.<sup>70</sup> The Committee believes it is more satisfactory for the Council to conduct investigations rather than the Victorian Commissioner.

Accordingly, the Committee recommends that:

**Recommendation 2.5:**

**The Victorian Commissioner for Ecologically Sustainable Development may not undertake specific purpose investigations at ministerial request.**

***2.5.9 Reporting to Parliament***

All Commissioners submit annual reports and reports on their investigations to Parliament. The Australian Capital Territory Commissioner reports through a Minister, and always includes recommendations in reports.<sup>71</sup> (See Exhibit 2.1)

The Ontario Commissioner's reports are presented to Parliament by the Speaker.<sup>72</sup> The New Zealand Commissioner also reports directly to Parliament and includes recommendations in reports.<sup>73</sup>

The Canadian Commissioner reports to the Auditor General and these reports are tabled in the Parliament. All of the Commissioner's reports are automatically referred to the Standing Committee on Environment and Sustainable Development.<sup>74</sup>

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<sup>70</sup> *Victorian Environmental Assessment Council Act 2001* (Act no. 81), sections 15 and 17

<sup>71</sup> Commissioner for the Environment ACT, submission no. 42, p. 2

<sup>72</sup> *Environmental Bill of Rights 1993* (Ontario), section 58

<sup>73</sup> *Environment Act 1986* (New Zealand), section 23

<sup>74</sup> Acting Commissioner for the Environment and Sustainable Development, Office of the Auditor General of Canada, submission no. 12, p. 4

A number of submissions indicated support for the Commissioner to be able to report direct to Parliament, if necessary:<sup>75</sup>

*... the Commissioner should report direct to Parliament. I think that degree of independence is absolutely essential and I think the public at large will treat the findings of such a Commissioner far more seriously if that is the relationship.*<sup>76</sup>

The Committee believes it is essential for the independence and integrity of the Office that the Victorian Commissioner's reports and recommendations are tabled in the Parliament. The importance of the Commissioner's work will also be enhanced if there is a statutory requirement for the government to respond to recommendations within a specified time.

Accordingly, the Committee recommends that:

**Recommendation 2.6:**

- (a) Reports of the Victorian Commissioner for Ecologically Sustainable Development be tabled in the Parliament;**
- (b) In order to enhance environmental accounting and auditing, all reports of the Victorian Commissioner be referred to the Parliamentary Environment and Natural Resources Committee and the Public Accounts and Estimates Committee for review; and**
- (c) The Government be required to respond to the recommendations contained in the Commissioner's reports within six months of tabling in Parliament.**

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<sup>75</sup> For example: City of Kingston, submission no. 19, p. 1; Greenlink Box Hill Inc, submission no. 31, p. 3; and PricewaterhouseCoopers, submission no. 33, p. 4

<sup>76</sup> Mr P Toyne, Director, EcoFutures, notes of meeting, 18 October 2000, p. 13

### ***2.5.10 Independence and accountability***

The key attributes of Commissioners for the environment or sustainable development are defined as independence, credibility, neutrality and ability to provide a high level of expertise in environmental matters.<sup>77</sup>

The Commissioners for New Zealand and Ontario both emphasised that the proposed legislation for a Victorian Commissioner must make it clear that the position is independent and impartial.<sup>78</sup>

The majority of submissions supported that the Commissioner should be a statutory independent officer of Parliament, 'like the Auditor-General'.<sup>79</sup> Submissions and witnesses argued that the Commissioner must be seen to be independent of departments and to be able to scrutinise the actions of Executive Government and departments and agencies in relation to environmental matters.

To ensure both real and perceived independence of the Victorian Commissioner, some witnesses suggested that the Commissioner should be part of the Auditor-General's Office, as is the case with the Canadian Commissioner, or have the same status as the Auditor-General.<sup>80</sup>

Ms Molly Harriss Olson, former head of US President Clinton's Council on Sustainable Development, told the Committee:

*... the thing that's good about the Canadian model again is that it has survived and gone through several different iterations of various governments. ... to be successful in the long term ... it needs to be bipartisan multi party approach and it needs to be*

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<sup>77</sup> Dr J. Morgan Williams, New Zealand Parliamentary Commissioner for the Environment, Session 2 Experience in Other Jurisdictions, *Public Participation and the Environment: 5 Years of the Environmental Bill of Rights in Ontario*, Proceedings of the Symposium, February 15 1999, p. 71.; Part of the submission by Mr Gord Miller, Environmental Commissioner of Ontario

<sup>78</sup> Ibid, p. 71

<sup>79</sup> Of the 24 submissions commenting on the Commissioner, 13 wanted a statutory officer of parliament or someone independent of any Government Department or Agency

<sup>80</sup> Associate Professor Gregory Rose, submission no. 25, p. 4; Mr Jon Nevill, submission no. 24, p. 5

*able to survive the ups and downs of various governments and the only really [way] to do that is to have the full support in a bipartisan way of the Parliament that can back it.<sup>81</sup>*

The philosophy behind this independent role was reinforced by Mr Simon Molesworth, National President of the Environment Institute of Australia:

*Environmental Commissioners ... have the important task of publicly reviewing and reporting on the role and operations of governments as they affect the environment. ... In this age of devolution, delegation, outsourcing, corporatising and privatising, it is essential for overt balance to be built into the new structures and procedures which will provide opportunities for the independent auditing of government functions while at the same time bolster public confidence. ... 'auditing' is used in the sense of independent, objective and apolitical assessment which will not only be seen to have those attributes but will in fact do so.<sup>82</sup>*

There are a number of models for a Commissioner for the Environment, the two main models being Officer of Parliament and Statutory Officer. The Committee believes that the Victorian Commissioner must be in a position to give independent advice to the Parliament.

However, an Officer of Parliament usually does not comment on government policy,<sup>83</sup> and this is a constraint on the Office. On the other hand, a statutory officer can report directly to Parliament and is not subject to ministerial directive. If the Victorian Commissioner is required to report to Parliament through a Minister, there would have to be statutory limits on the time a

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<sup>81</sup> Ms M Harriss Olson, Director, EcoFutures, notes of meeting, 18 October 2000, p. 16

<sup>82</sup> Quoted from a paper by Mr Simon Molesworth, National President of Environment Institute of Australia, Public Accounts and Estimates Committee 2000, *Issues Paper No. 4: Follow-up Inquiry into Environmental Accounting and Reporting*, PAEC, Melbourne, p. 36

<sup>83</sup> For example, section 16 (5C) (6) of the *Audit Act 1994* states: *Nothing in this section entitles the Auditor-General to question the merits of policy objectives of the Government.* Section 16 (5C) (9): *In sub-section (6), "policy objectives" includes – (a) a Government policy direction of a Minister; (b) a policy statement in any Budget Paper; (c) a statement of objectives in a corporate plan of an authority approved by a Minister; or (d) or any other document evidencing a policy decision of the Government of a Minister*

Minister took to forward the Commissioner's reports to Parliament.

The Australian Capital Territory Commissioner for the Environment pointed out to the Committee that the functions of the Commissioner are more a whole-of-government responsibility, and so should report through a Premier or Chief Minister.<sup>84</sup> A check on the authority of the Executive Government to delay presenting the report, would be the requirements that:

- (a) the report must be tabled within a specified timeframe; and
- (b) the government be required to formally respond to the recommendations contained in the report and the response must be tabled in the Parliament within a specified timeframe.

Another check would be the requirement that the government must respond to all recommendations made by the Commissioner. Finally, all reports made by the Commissioner could also be referred to the Parliamentary Environment and Natural Resources Committee and the Public Accounts and Estimates Committee for review.

Accordingly, the Committee recommends that:

**Recommendation 2.7:**

- (a) Legislation provide for the Victorian Commissioner to be a statutory officer, reporting to the Parliament through the Premier or other responsible Minister; and**
- (b) Legislation provide that the Premier or other responsible Minister table all reports of the Victorian Commissioner in Parliament within 10 sitting days of receipt.**

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<sup>84</sup> Commissioner for the Environment ACT, submission no. 42, p. 5

The credibility and quality of advice offered by a Victorian Commissioner depends on the Commissioner's ability to access data, information and expert advice. These issues are discussed in the following sub-sections.

### ***2.5.11 Legislative framework***

The Committee's research has revealed that common to all Commissioners is legislation that guarantees independence and grants powers to gather information.

The Department of Natural Resources and Environment's consultation paper proposes the following objectives for an Act of Parliament relating to the Commissioner:

Commitments to:

- ecologically sustainable development;
- open and transparent decision making processes;
- promoting sustainability; and
- promoting accountability for environmental performance.

Indicative objectives to:

- identify and assess conditions and trends of Victoria's environment;
- increase community awareness of "complex issues affecting the environment";
- promote decision making that encourages ecologically sustainable development; and
- monitor and assess the quality of environmental decision making; and responses promoting ecologically sustainable development.<sup>85</sup>

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<sup>85</sup> State of Victoria, Department of Natural Resources and Environment 2000, *Consultation Paper, The Commissioner for Ecologically Sustainable Development*, Melbourne, p. 13

The consultation paper proposed that the Victorian Commissioner be appointed for a renewable five-year term, in line with other senior executive positions in Victoria.<sup>86</sup>

The Committee generally endorses the legislative framework commitments and objectives outlined in the consultation paper. However, it believes that:

- the Office should be independently reviewed at least once during the term of the Commissioner to ensure that the Office is operating efficiently and effectively (similar to the independent performance audit of the Victorian Auditor-General's Office);
- SoE reporting must be the first priority; and
- promoting community awareness should not be a role of the Commissioner for Ecologically Sustainable Development.

Accordingly, the Committee recommends that:

**Recommendation 2.8:**

- (a) The Victorian Commissioner be appointed for a minimum five-year term;**
- (b) A strategic management review of the Office of the Victorian Commissioner be undertaken every three years to ensure the Commissioner has achieved his/her objectives effectively, economically and efficiently and in compliance with legislation; and**
- (c) The report of the review be tabled in the Parliament.**

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<sup>86</sup> Ibid, p. 19

The Australian Capital Territory Commissioner for the Environment saw as a strength the wide definition contained in the Territory's legislation, outlining what must be included in the SoE report.

The Committee is of the opinion that there are two terms which must be clearly defined in legislation for a Victorian Commissioner: 'ecologically sustainable development' and 'the environment'.

All State and Territory Governments in Australia have agreed to the National Strategy for Ecologically Sustainable Development. The three core objectives of the national strategy encompass the three elements of ecologically sustainable development and provide a balanced approach to the integration of economic, environmental and social concerns.

Recent amendments to the *Environment Protection Act 1970* inserted a definition of ecologically sustainable development that reflects triple bottom line reporting:

- 1B. Principle of integration of economic, social and environmental considerations.*
- (1) Sound environmental practices and procedures should be adopted as a basis for ecologically sustainable development for the benefit of all human beings and the environment.*
  - (2) This requires the effective integration of economic, social and environmental considerations in decision making processes with the need to improve community well-being and the benefit of future generations.*
  - (3) The measures adopted should be cost-effective and in proportion to the significance of the environmental problems being addressed.<sup>87</sup>*

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<sup>87</sup> *Environment Protection (Liveable Neighbourhoods) Act 2001*, Part 2, section 3

Accordingly, the Committee recommends that:

**Recommendation 2.9:**

**The definition of the principle of integration of economic, social and environmental considerations as outlined in the *Environment Protection (Liveable Neighbourhoods) Act 2001* be included in the legislation for a Victorian Commissioner.**

The *Environment Protection Act 1970* (s. 4) defines the environment as:

*... any of the principal constituent parts of the environment including waters, atmosphere, land, vegetation, climate, sound, odour, aesthetics, fish and wildlife.*

Accordingly, the Committee recommends that:

**Recommendation 2.10:**

**The legislation providing for the Victorian Commissioner use the definition of environment contained within the *Environment Protection Act 1970*.**

The consultation paper proposed three options for secretariat support for the Victorian Commissioner:<sup>88</sup>

1. to be provided by government departments;
2. to be provided by staff seconded from government departments; or
3. to be provided by a stand alone secretariat appointed by the Commissioner.

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<sup>88</sup> State of Victoria, Department of Natural Resources and Environment 2000, *Consultation Paper, The Commissioner for Ecologically Sustainable Development*, Melbourne, p. 22

The Committee believes that all staff should be appointed by the Commissioner and that this officer should make whatever appointments are necessary to meet the needs of the Office. Therefore, the Committee believes that it is absolutely essential that the Commissioner is adequately resourced because without sufficient staff it will be impossible to discharge the functions and responsibilities assigned to the position.

Accordingly, the Committee recommends that:

**Recommendation 2.11:**

**The Victorian Commissioner be responsible for making all appointments to the Commissioner's secretariat.**

Witnesses and submissions suggested that it was very important for the independence and credibility of the Commissioner that the Commissioner obtain reliable data in a compatible format and have access to information.<sup>89</sup>

The Australian Capital Territory Commissioner for the Environment has power to obtain information and documents, to enter premises and acquire assistance.<sup>90</sup> The New Zealand Parliamentary Commissioner has similar powers. The Canadian Commissioner for the Environment and Sustainable Development has the same powers of access to information and people as those of the Canadian Auditor General.

There is a need for the Victorian Commissioner to have access to data from the public and private sectors. The Victorian Commissioner must also be able to employ consultants to provide quality technical information. This will be as important for preparing SoE reports as it will be for investigations into sustainable development and environmental matters.

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<sup>89</sup> Commissioner for the Environment ACT, submission no. 42, p. 4; and Transcript of evidence, Mr Peter Christoff, Lecturer, Department of Geography and Environmental Sciences, University of Melbourne, 11 September 2000, p. 82

<sup>90</sup> *Commissioner for the Environment Act 1993* (ACT), sections 16 – 18

Accordingly, the Committee recommends that:

**Recommendation 2.12:**

**The Victorian Commissioner should have statutory authority to obtain information, documents and assistance from the public sector, and to request data from the private sector, on matters relating to ecologically sustainable development and the environment.**

The credibility of the Office of the Victorian Commissioner depends on obtaining the best advice available. Legislation should enable the Victorian Commissioner to appoint an advisory committee or committees to assist on any matter associated with the duties and responsibilities of the Office.

Accordingly, the Committee recommends that:

**Recommendation 2.13:**

**Legislation provide for the Victorian Commissioner to appoint and consult an advisory committee or committees, as required.**

The Committee is aware that the summaries of findings and recommendations of reports and performance audits by the Victorian Auditor-General must be sent to the agency being audited before the report is completed. The final reports of the audits must include a summary of the comments received from the relevant authority in response to the draft report.<sup>91</sup> This provides an opportunity for the information contained in the report to be correct and ensures transparency and accountability.

The Australian Capital Territory Commissioner for the Environment is protected from being sued under legislation. This is important if, through lack of complete information, the Victorian

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<sup>91</sup> *Audit Act 1994* (Vic), sections 15, 16

Commissioner makes a finding in an investigation that adversely affects a department or private organisation.

The Committee believes that the integrity of the Office of the Victorian Commissioner will be enhanced if the findings and recommendations of the Victorian Commissioner's reports (like those of the Auditor-General) have been scrutinised by the agencies and organisations reported on, and those agencies or organisations have an opportunity to comment, before the report is tabled in Parliament.

As previously mentioned, submissions were concerned to avoid duplication between the Victorian Commissioner and other departments, agencies and offices. In New Zealand, a protocol has been developed between the Parliamentary Commissioner and the Parliament. To avoid duplication, the Committee believes that the Victorian Commissioner should develop protocols with the following offices:

- the Ombudsman Victoria;
- the Victorian Auditor-General;
- the Victorian Regulator-General;
- the Victorian Environmental Assessment Council;
- the Department of Natural Resources and Environment;
- the Parliamentary Environment and Natural Resources Committee and the Public Accounts and Estimates Committee; and
- the Environment Protection Authority.

## **2.6 Resourcing and reporting arrangements**

### ***2.6.1 Reporting***

A key reporting mechanism for all Commissioners is their annual report. The annual report enables a Commissioner to draw the attention of Parliament to urgent matters, including changes to the environment that cannot wait for a four to five yearly SoE report. It is through the annual Green Reports that the Canadian

Commissioner for the Environment and Sustainable Development and the Ontario Environmental Commissioner review government agencies' performances.

The ACT Commissioner for the Environment uses annual reports to report progress, or lack of progress, on the recommendations that have been made in SoE reports and in investigative reports. The New Zealand Parliamentary Commissioner reports how well the environmental management systems for New Zealand are operating and the responses departments have given to citizens' environmental concerns.

The Committee views the Victorian Commissioner's reports as essential information for the Parliament, Executive Government and the community, in monitoring the implementation of policy on environmental and ecologically sustainable development issues.

Accordingly, the Committee recommends that:

**Recommendation 2.14:**

**The Victorian Commissioner report annually to Parliament through the Premier or the responsible Minister, on the effectiveness of the Victorian environmental management system and on progress towards sustainable development.**

**2.6.2 Resourcing**

The New South Wales Environment Protection Agency estimates that it costs about \$500,000 to produce an SoE report.<sup>92</sup>

In the Australian Capital Territory, the Commissioner for the Environment is unable to pay the SoE advisory committees

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<sup>92</sup> Mr D Collins, Executive Director, Economics and Environmental reporting, NSW Environment Protection Authority, notes of meeting, 17 October 2000

because of a lack of funds. The Commissioner is a part-time position, with only two permanent staff.<sup>93</sup> As a result, the Australian Capital Territory Commissioner is unable to conduct many investigations.

In contrast, the Canadian Commissioner for the Environment and Sustainable Development has approximately 40 auditors and can plan a program of audits and special studies three years ahead. The Canadian Commissioner is well resourced as a senior member of the Auditor General's office.<sup>94</sup>

The establishment of the Office of the Victorian Commissioner will involve considerable costs. The Office of the Victorian Commissioner will need an information technology system that can accommodate the sophisticated databases held by the Department of Natural Resources and Environment.

The method of determining the budgets of Commissioners of the environment varies in each jurisdiction. The budget of the Australian Capital Territory Commissioner for the Environment is a cost centre within the budget of the Department of Urban Services. Funding allocated for that cost centre cannot be used for other purposes, nor is the Commissioner's Office subject to departmental cost cutting. The estimates for the Commissioner's budget are submitted to the relevant department.<sup>95</sup>

The Budget of the Canadian Commissioner for the Environment and Sustainable Development forms part of the Budget of the Auditor General. The Auditor General must annually submit a budget estimate to Parliament.<sup>96</sup> The budget is reviewed by the Standing Committee on Public Accounts of the Canadian Parliament. Where the Auditor General is of the opinion that the amounts provided for the Office are inadequate for him to fulfill

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<sup>93</sup> Dr H Sims, Office of the Commissioner for the Environment ACT, notes of meeting, 18 October 2000

<sup>94</sup> Associate Professor G Rose draft article: Environmental performance auditing of government: the role for an Australian Commissioner for the Environment, October 2000, pp. 28, 42

<sup>95</sup> Dr H Sims, Office of the Commissioner for the Environment ACT, notes of meeting, 18 October 2000

<sup>96</sup> *Auditor General Act 1976-77* (Canada), section 19

his responsibilities, the Auditor General may submit a special report to the House of Commons.<sup>97</sup>

The Budget of the Environmental Commissioner in Ontario is approved by the Board of Internal Economy. This Board consists of Government and Opposition Members of the Ontario Parliament. The Board considers the Budgets of the House of Assembly, the Clerk's Department, the Speaker's Office, the Ombudsman, the Auditor General and the Environmental Commissioner.<sup>98</sup>

The Budget of the New Zealand Parliamentary Commissioner is submitted to the Officers of Parliament Committee, a Select Committee of the House of Representatives.<sup>99</sup>

The Committee believes that the independence, credibility and quality of advice and reports of the Victorian Commissioner will depend on adequate resources being allocated to the Office of the Victorian Commissioner.

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<sup>97</sup> Ibid, section 19

<sup>98</sup> Hon J Johnson, Ontario Legislative Assembly, *Ontario Hansard*, 10 December 1998, page 31 of 32, available at the website [http://gateway.ontla.on.ca/handsard/36\\_parl/session2/L068A\\_3.html](http://gateway.ontla.on.ca/handsard/36_parl/session2/L068A_3.html)

<sup>99</sup> *Report of the Parliamentary Commissioner for the Environment, To Kaitiaki Taiao a Te Where Pāremata, for the Year Ended 30 June 2000*, p. 9

## **CHAPTER 3: STATE OF ENVIRONMENT (SoE) REPORTING**

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### **3.1 Introduction**

This chapter addresses term of reference 2(b):

2. develop a framework for legislation for:
  - (b) State of Environment reporting.

#### **Key Findings:**

- 3.1 The Department of Natural Resources and Environment has established minimum principles for SoE reporting, including: transparency, adding value to decision making and recognising existing reporting by government departments.**
- 3.2 The Commonwealth and Western Australian SoE reports use a Pressure-State-Response-Implications model of reporting.**
- 3.3 Most SoE reports now contain a section on ecologically sustainable development.**
- 3.4 The Australian and New Zealand Environment and Conservation Council has released its *Core Indicators for Reporting on the State of the Environment*.**
- 3.5 Gaining access to data for SoE reporting and the cost of the data were major issues for many witnesses.**

**Key Findings (continued):**

- 3.6 Local Government advocates the development of protocols between Local Governments, community groups and State departments and agencies to ensure access to data for SoE reporting at all levels.**
- 3.7 It is common in other States and the Commonwealth for an expert advisory body to assist with the preparation of SoE reports.**
- 3.8 The majority of submissions favoured the release of a draft SoE report for public comment.**
- 3.9 Submissions supported the release of an SoE report every two to five years.**
- 3.10 Local Government in Australia spends an estimated \$2.1 billion annually on environmental protection. Several Victorian local councils have environmental staff, environmental programs and ecologically sustainable development programs.**
- 3.11 Local council bodies are seeking partnerships with the State Government through the Victorian Commissioner to develop a framework for sustainable development.**
- 3.12 New South Wales has compulsory SoE reporting for local councils and requires local councils to integrate ecologically sustainable development principles into their activities. Local councils in New South Wales have various difficulties in fulfilling these obligations, as a result of variations in knowledge, expertise, leadership and resources.**
- 3.13 Local councils in Victoria are very positive about SoE reporting at the local level.**

**Key Findings (continued):**

**3.14 In submissions and hearings of this Inquiry, some Victorian local council bodies wanted SoE reports made compulsory in Victoria, while some did not.**

**3.15 The *Local Government (Best Value Principles) Act 1999* requires Victorian local councils to make all services responsive to community needs. Local Governments want local communities involved in the development of local SoE reporting.**

**3.16 The Western Australian Government formally responds to SoE reports.**

### **3.1 Background**

The Government will reintroduce SoE reporting in Victoria to provide regular snapshots of the environment's condition. This report will:

- allow the government and the community to judge whether or not the environment is improving or deteriorating; and
- review the objective scientific information about environmental quality and the progress made on improvement strategies.<sup>100</sup>

The SoE report will be tabled by the Commissioner for Ecologically Sustainable Development.<sup>101</sup>

### **3.2 Interim Report**

The Committee's Interim Report (see chapter 4) outlined the rationale for reintroducing SoE reporting at the State level and discussed the need for adequate environmental indicators.

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<sup>100</sup> Victorian Government agencies, submission no. 41, p. 3

<sup>101</sup> Ibid, p. 4

### **3.2.1 Why have SoE reporting?**

SoE reports can be used to:<sup>102</sup>

- assess threats to the environment;
- increase understanding of the environment;
- track progress toward environmental goals;
- provide a measure of effectiveness of environmental policy; and
- provide a means of adjusting policy direction.

### **3.2.2 An SoE reporting model**

The Organisation for Economic Cooperation and Development model for SoE reporting is the Pressure-State-Response model. Human activities exert pressures on the environment which changes its state or condition; society responds by implementing strategies that modify the pressures. The 1996 Australian SoE report included cultural aspects of the environment and made other modifications to the Organisation for Economic Cooperation and Development model. Those Australian States and Territories who produce SoE reports use modified versions of the Pressure-State-Response model.<sup>103</sup>

### **3.2.3 Developments with SoE reporting**

Australia, Canada, New Zealand, the United Kingdom, China and Norway produce SoE reports. State Governments within Canada and the United States produce SoE reports. At the time the Interim Report was tabled, only the Northern Territory and Victoria did not produce SoE reports.<sup>104</sup>

The Commonwealth of Australia SoE report forms part of the National Strategy for Ecologically Sustainable Development. The

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<sup>102</sup> Public Accounts and Estimates Committee, Report No. 31, *Interim Report on Environmental Accounting and Reporting*, June 1999, pp. 38-39

<sup>103</sup> Ibid, pp. 40-41

<sup>104</sup> Ibid, pp. 41-42

Commonwealth aims to produce a report that has scientific rigour, presents unbiased data, and uses data from a variety of sources. The Commonwealth SoE report presents data in an international and national context. It presents issues against the principles of ecologically sustainable development. However, there is insufficient information on environmental quality and data to evaluate the effectiveness of environmental strategies.<sup>105</sup>

The Committee's research revealed that early State and Territory SoE reports were criticised for the lack of useful information in return for the amount of time and money spent producing them. More recent reports have included substantial stakeholder involvement and this has improved the overall value of the reports. For example, in Western Australia, regional focus groups established environmental priorities, using the Pressure-State-Response model.<sup>106</sup>

The Victorian Catchment and Land Protection Council, with the Department of Natural Resources and the Environment and the Environment Protection Authority published *Know Your Catchments, Victoria 1997*, which used indicators of the condition of catchment environments. Social and economic indicators were included.<sup>107</sup>

### ***3.2.4 Collecting and reporting environmental information***

Information on many aspects of the environment is collected in Victoria and published by a range of statutory and community groups such as:

- the Department of Natural Resources and Environment;
- the Environment Protection Authority;
- the Catchment Management Authorities;
- the National Parks Association;

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<sup>105</sup> Ibid, pp. 42-43

<sup>106</sup> Ibid, pp. 44-45

<sup>107</sup> Ibid, pp. 48-49

- Landcare;
- Coastcare; and
- Saltwatch.

Some agencies have extensive databases; for example, Victoria's corporate Geospatial Data Library contains over 120 natural resources data sets.<sup>108</sup> Much of the Victorian information is also used in the preparation of the Commonwealth SoE report.

### ***3.2.5 Administration of SoE reporting***

An SoE reporting period of three to five years was proposed for Victoria, as occurs throughout Australia. A five-year cycle would lack the timeliness of economic reports; however frequent reporting would place a strain on resources and may not identify longer term changes in the environment.<sup>109</sup>

The Committee recommended in the Interim Report, that an SoE report for Victoria should be produced on a regular cycle of five years. A number of submissions wanted technical information included in the reports for the scientific audience and other witnesses wanted a summary report for community groups.<sup>110</sup>

The Committee recommended in the Interim Report, that to maximise the resource efficiency, the SoE report should be based, as far as possible, on existing information and any additional data collection processes should be integrated, as far as possible, with existing investigations.<sup>111</sup>

### ***3.2.6 SoE reporting by Local Government***

The Committee's research revealed that Canada produces guides and evaluation documents to enable local councils to evaluate the usefulness of SoE reporting as a management tool. New South Wales legislation requires local councils to produce comprehensive

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<sup>108</sup> Ibid, pp. 49-50

<sup>109</sup> Ibid, pp. 56-57

<sup>110</sup> Ibid, pp. 57-58

<sup>111</sup> Ibid, p. 59

SoE reports every four years and annual updates. Rolling environmental audits and management plans feed into those SoE reports.<sup>112</sup> The Committee was advised that a few local councils are well advanced in environmental decision making.<sup>113</sup>

At the time of the Interim Report, submissions suggested Victorian local councils be encouraged or required to produce SoE reports. It was also suggested that the Victorian State Government could support regional SoE reporting and the development and use of environmental indicators and data collection. Several submissions identified catchment boundaries as appropriate regional boundaries.<sup>114</sup>

The Committee recommended in the Interim Report that:<sup>115</sup>

- Catchment Management Authorities' reporting should be consistent with Victorian SoE reporting, to ensure efficient and effective environmental reporting;
- local council SoE reporting should be encouraged, but not mandatory; and
- resources should focus on SoE reporting at the State level and on the collection of necessary data.

### ***3.2.7 Environmental indicators***

Environmental indicators are a consistent and comparable means of identifying and communicating environmental change. In its draft core set of environmental indicators, the Australian and New Zealand Environment and Conservation Council identified a range of core indicators, covering the themes of the atmosphere, biodiversity, the land, inland waters, estuaries and the sea, and human settlements. Indicators were also being developed for natural and cultural heritage.<sup>116</sup>

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<sup>112</sup> Ibid, pp. 59-60

<sup>113</sup> Ibid, p. 60

<sup>114</sup> Ibid, pp. 61-62

<sup>115</sup> Ibid, pp. 62-63

<sup>116</sup> Ibid, pp. 63-64

Victoria also has a catchment condition indicators program. The Committee saw the development of agreed environmental indicators as critical for a common approach to SoE reporting.

### **3.3 Government response**

The Government response stated that:

*SOE reporting ensures that the general public and individual decision-makers are well informed about the state of environment and that there is transparent monitoring to assess the effectiveness of policies and environmental improvement strategies.<sup>117</sup>*

### **3.4 Follow-up Inquiry**

#### **3.4.1 Issues Paper**

The Public Accounts and Estimates Committee's Issues Paper No. 4 sought submissions on the management of the SoE reports, the development of environmental indicators and whether Local Government should be required to produce SoE reports.

#### **3.4.2 Re-introduction of statewide SoE reporting in Victoria**

The Government agencies' submission re-affirmed the commitment to reintroduce SoE reporting. It confirmed that Victoria's SoE reporting would be the responsibility of the Commissioner for Ecologically Sustainable Development. As SoE reporting will be included in the legislation for the Commissioner, officers from the Department of Natural Resources and Environment declined to discuss any of the matters raised in the Committee's Issues Paper.<sup>118</sup>

The consultation paper prepared by the Department of Natural Resources and Environment proposes that SoE reporting in

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<sup>117</sup> *Government Response to the Public Accounts and Estimates Committee Thirty-First Report to Parliament, Interim Report of the Inquiry into Environmental Accounting and Reporting*

<sup>118</sup> Victorian Government agencies, submission no. 41, p. 3

Victoria should include current environmental reporting activity by Victorian Government departments and agencies. The Department proposes that SoE reporting should adopt the Australian and New Zealand Environment and Conservation Council (ANZECC) indicators and consider the National Headline Sustainability Indicators, triple bottom line reporting and environmental health indicators. A three-year reporting cycle was proposed. Advisory committees could contribute to the development of SoE reporting.<sup>119</sup>

The Department has established the following minimum principles for SoE reporting:<sup>120</sup>

- a commitment to open and transparent decision making and accountability;
- adding value to decision making;
- recognising the existing environmental reporting processes undertaken by government departments; and
- a commitment to identifying improvements and targeting effort to where it has the most benefit.

The Department saw a significant part of the \$1 million annual allocation to the Commissioner's Office being spent on SoE reporting. The Committee was interested to learn that no costing has been done on data collection, interpretation and reporting. Nor have the additional costs to departments and agencies for providing information been estimated. The Committee was advised:

*'Know Your Catchments' document cost around \$50,000 to produce, although significant in-kind support was provided from approximately 35 major contributors, that may have been in the order of some hundreds of thousands of dollars.*<sup>121</sup>

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<sup>119</sup> State of Victoria, Department of Natural Resources and Environment 2000, *Consultation Paper, The Commissioner for Ecologically Sustainable Development*, Melbourne, p. 15

<sup>120</sup> Victorian Government agencies, submission no. 41, p. 3

<sup>121</sup> Ms Chloe Munro, Secretary, Natural Resources and Environment, Response to Additional Questions, September 2000, p. 4

### **3.4.3 *Developments in the SoE model***

Most submissions to this Inquiry saw SoE reporting as an aid to decision makers in industry, government and the community. For example:

*Shell is strongly supportive of State of Environment Reporting at Commonwealth and State level, as it provides data for sound policy development and environmental decisions.*<sup>122</sup>

*SoE reporting ... has provided a useful tool for documenting and communicating the nature and extent of environmental change in Australia and in guiding decision-making.*<sup>123</sup>

*SoE reporting must also be designed to lead to effective responses.*<sup>124</sup>

To maximise the benefit of the SoE reports, the Committee believes that government and industry should be consulted on the content and form of the reports. Criticism of previous SoE reports has been that they are good scientific documents, but are not in a useful form for decision makers.<sup>125</sup>

The Commonwealth is adding 'Implications' to the Pressure-State-Response model for their 2001 report, for the purpose of informing government policy.<sup>126</sup> The Western Australian SoE report has already done so.<sup>127</sup>

Some SoE reports now contain a section on ecologically sustainable development. The next ACT SoE report will contain a comment for each theme on whether the trends in that

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<sup>122</sup> The Shell Company of Australia Limited, submission no. 11, p. 1

<sup>123</sup> Australian Industry Group, submission no. 34, p. 3

<sup>124</sup> Environment Liaison Office, submission no. 32, p. 2

<sup>125</sup> For example: Mr D Collins and Mr P Maganov, New South Wales Environment Protection Authority, notes of meeting, 17 October 2000; and Associate Professor R Harding, University of New South Wales and Dr S Dovers, Australian National University, notes of meeting, 18 October 2000

<sup>126</sup> Dr G Newton-McKay 2000, National SoE Reporting and the Environmental Indicator Program, *State of Environment Conference 2000: Conference Papers*, Coffs Harbour NSW, 3-5 May, p. 10

<sup>127</sup> Government of Western Australia 1998, *Environment Western Australia 1998, State of Environment Report*, Department of Environmental Protection, Perth, p. 4

environmental area are supporting or detracting from progress towards ecologically sustainable development.<sup>128</sup> It was suggested to the Committee that SoE reporting could become ecologically sustainable development reporting by extending the set of indicators used in reporting from environmental to environmental, social and economic indicators.<sup>129</sup>

One submission noted that the Organisation for Economic Cooperation and Development now incorporated pressures, states and responses in broader environmental performance reviews.<sup>130</sup> Environment performance reviews compare stakeholder policy objectives to indicators of environmental condition. They report on the relationship of household, business and government expenditure of environmental resources to technical or best practice benchmarks. The reviews compare stakeholder policy objectives to policy instruments of environmental performance, for example, regulation, planning and education.

The Committee believes that SoE reporting is only useful if it adds value to decision making on environmental and ecologically sustainable development matters. The Committee supports the view that decision makers' opinions should be obtained on the content and forms of SoE reporting. The Committee supports Victoria adopting a model of SoE reporting that is compatible with that of other States and with the national system of SoE reporting.

Accordingly, the Committee recommends that:

**Recommendation 3.1:**

- (a) The Victorian Commissioner consult with industry, departments and agencies and the community to determine their needs in relation to SoE reporting; and**

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<sup>128</sup> Dr J Baker, Commissioner for the Environment ACT, submission no. 42, p. 2

<sup>129</sup> Associate Professor R Harding, University of New South Wales and Dr S Dovers, Australian National University, notes of meeting, 18 October 2000, p. 3

<sup>130</sup> Green Measures, submission no. 14, p. 15. Also proposed by Municipal Association of Victoria, submission no. 38, p. 5

- (b) The Victorian Government adopt the Pressure-State-Response-Implications model of SoE reporting if this model is endorsed by stakeholders.**

### ***3.4.4 Indicators and data collection for SoE reporting***

The Interim Report noted the development of draft core indicators by ANZECC. Since then, ANZECC has released a more definitive set of 75 indicators - the Core Indicators for Reporting on the State of the Environment.<sup>131</sup> The indicators have been chosen for their scientific validity. They are not compulsory and will continue to change over time. State and Local Governments are expected to add indicators to the core set for their own purposes, to accommodate particular management needs, scale or environmental issues.<sup>132</sup> The next New South Wales SoE report will use 60 of the 75 ANZECC indicators.<sup>133</sup>

Most submissions and witnesses commented on the use of environmental indicators in SoE reports and suggested Victoria use the ANZECC indicators as the basis for reporting.<sup>134</sup> Most submissions were concerned that Victoria should adopt indicators that are meaningful for Victoria and only after consultation with key stakeholders.<sup>135</sup>

The Committee believes that where there are no satisfactory measures of the pressures, states or responses of the environment, the precautionary principle of the National Strategy for Ecologically Sustainable Development should be used. That is:

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<sup>131</sup> Australian and New Zealand Environment and Conservation Council State of Environment Reporting Task Force 2000, *Core Environmental Indicators for Reporting on the State of Environment*, Environment Australia, Canberra

<sup>132</sup> *Ibid*, pp. 1, 5, 7

<sup>133</sup> Mr D Collins and Mr P Maganov, New South Wales Environment Protection Authority, notes of meeting, 17 October 2000

<sup>134</sup> Save Albert Park, submission no. 13, p. 2; The Shell Company of Australia Ltd, submission no. 11, p. 3; and Associate Professor R Harding, University of New South Wales and Dr S Dovers, Australian National University, notes of meeting, 18 October 2000, p. 3

<sup>135</sup> For example: Environment Management Industry Association of Australia, Victorian Network, submission no. 36, p. 4; Victorian Water Industry Association, submission no. 20, p. 3; Greenlink Box Hill Inc, submission no. 31, p. 2; Municipal Association of Victoria, submission no. 38, p. 5

*Where there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation.*<sup>136</sup>

The Committee sees a role for the Victorian Commissioner in following up environmental concerns.

Accordingly, the Committee recommends that:

**Recommendation 3.2:**

**Where there are no satisfactory performance measures of an environmental matter and there is a threat of environmental damage, the Victorian Commissioner should recommend the development of relevant indicators and nominate an appropriate body to develop the performance measures and to monitor developments in this area.**

Submissions supported the Committee's recommendation to use existing data for indicators.<sup>137</sup> Local Government was concerned that environmental information collected should not be ignored, but neither should it be assumed that local and regional data could be aggregated to the State level.<sup>138</sup> The Committee is aware that some local councils have been innovative in developing SoE reports and indicators for ecologically sustainable development.

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<sup>136</sup> Part One Introduction, *National Strategy for Ecologically Sustainable Development*, December 1992, available at the website: <http://www.environment.gov.au/psg/igu/nsesd/index.html>

<sup>137</sup> For example: Telstra, submission no. 9, p. 1; and Victorian Government agencies, submission no. 41, p. 3

<sup>138</sup> Municipal Association of Victoria, submission no. 38, p. 5; and Transcript of evidence, Dr Phillip Johnstone, representing Bayside City Council and the Metropolitan Environment Forum of the International Council for Local Environmental Initiatives, 12 September 2000, p. 110

A major problem raised by witnesses was the cost of collecting data and gaining access to data in a form suitable to SoE reporting.<sup>139</sup>

The Committee is aware that the New South Wales Environment Protection Authority is developing the Integrated Community Mapping and Information Support System (ICMISS).<sup>140</sup> The system provides a guide to all databases that could be used for State, regional and local SoE reporting. It tells the reader where each database is held, the access requirements and the cost (if any) of data. This is a shared information technology network that gives local councils and community groups direct access to State, and some Commonwealth, data. Local councils will be able to take data from this distributed network and also load information on to the network. Data security is monitored and the scientific value of the data is assessed.

In the future, it will be possible to download free software from the Internet, to gain access to the data.

The Committee was advised that the Department of Natural Resources and Environment is developing a regional based system which will allow Local Governments and selected community groups in Victoria to access, free of charge, selected departmental data sets.<sup>141</sup> Ten regional centres had this facility by June 2001.

At an SoE reporting for Local Government forum, workshops called for a protocol between Local Governments, community groups and the State departments and agencies to ensure that data was accessible and in a form that could be used for SoE reporting.<sup>142</sup> The workshop called for reciprocal arrangements for:

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<sup>139</sup> Transcript of evidence, Mr P Christoff, Lecturer, Department of Geography and Environmental Science, University of Melbourne, 11 September 2000, p. 80; Dr H Sims, Office of the Commissioner for the Environment ACT, notes of meeting, 18 October 2000, pp. 2-3, 6-7

<sup>140</sup> The ICMISS website address is: [http://nrims.nsw.gov.au/icmiss/about\\_icmiss.html](http://nrims.nsw.gov.au/icmiss/about_icmiss.html)

<sup>141</sup> Statement of Mr Martin Bluml, Department of Natural Resources and Environment to a workshop group at the State of Environment Reporting for Local Government forum, City Hall, City of Greater Geelong, 29 November 2000

<sup>142</sup> Plenary session, State of Environment Reporting for Local Government Forum, held at City Hall, City of Greater Geelong, Geelong, 29 November 2000

- the use of data;
- the exchange of data;
- scales at which data was available; and
- the timing of data collections.

The Committee believes that environmental data held by the public sector is a community asset and should be publicly available.

Accordingly, the Committee recommends that:

**Recommendation 3.3:**

**The Victorian Commissioner work with all levels of government and peak environmental regional and community groups to identify and make available on the internet the data sources for SoE reporting.**

***3.4.5 Administration of SoE reporting in Victoria***

The administrative arrangements for producing SoE reports in other States and Territories provide useful background information for developing a system in Victoria. The Commonwealth, Western Australia and Australian Capital Territory arrangements are discussed below.

## Commonwealth arrangements

SoE reporting at the Commonwealth level is overseen by an independent committee of experts appointed by the Minister for the Environment and Heritage. The independent committee members are appointed from government organisations and the private sector. This State of Environment Committee:

*... will endeavour to ensure the Report's scientific credibility, balance, coverage, independence and quality of work ... and prepare the synthesis chapter ... The Committee will also evaluate the state of environment reporting process and the effectiveness of the 2001 SoE Report as a comprehensive source of information.*<sup>143</sup>

Interesting aspects of Commonwealth SoE reporting include:<sup>144</sup>

- each chapter of the SoE report has a lead or coordinating author. Some authors form small teams;
- expert reference panels for each chapter review the work of the authors;
- State and Territory data coordinators help identify data sources, establish data availability and ensure the efficient transfer of data; and
- where data is not available or is out of date, experts are contracted to collect and collate the information.

## Western Australia arrangements

In Western Australia, the Minister appointed an SoE reference group, drawn from government and regional organisations, to steer the SoE reporting process. The Department of Environmental Protection coordinated the reporting process,<sup>145</sup> and regional focus groups identified issues around which indicators were

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<sup>143</sup> Terms of Reference for ASEC, *State of the Environment Australia Statements*, No. 9, September 1999, p. 2

<sup>144</sup> Production of the 2001 Australian State of the Environment report underway, *State of the Environment Australia Statements*, No. 10, April 2000, p. 2

<sup>145</sup> Government of Western Australia, *Environment Western Australia 1998: State of Environment Report*, Department of Environmental Protection, Perth, p. 1

developed.<sup>146</sup> The 1998 report used a Condition–Pressure–Response–Implications model and includes a five-star rating system for each issue.<sup>147</sup> A draft report was issued for a three-month public comment period.<sup>148</sup>

A year after tabling the SoE report in Parliament, the Western Australian Minister for the Environment released the government’s response - the government’s major environmental policy statement.<sup>149</sup>

### **Australian Capital Territory arrangements**

The Commissioner for the Environment in the Australian Capital Territory has the statutory responsibility to produce an SoE report.<sup>150</sup> The Commissioner consults widely among groups in the ACT to determine the issues and indicators to be included in the report. The Commissioner uses a voluntary, independent panel to assist with the preparation of the report. The report is tabled in the ACT Legislative Assembly by the Minister for Urban Services and the government responds to the report within six months.<sup>151</sup>

### **Victorian arrangements**

Other jurisdictions have established an advisory body to assist in the preparation of SoE reports. The Committee supports this approach. SoE reports need to have scientific rigour as well as information relevant to a range of stakeholders.

Accordingly, the Committee recommends that:

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<sup>146</sup> Ibid, p. 1

<sup>147</sup> Ibid, p. 8

<sup>148</sup> Ibid, p. 1

<sup>149</sup> Government of Western Australia 1999, *Environmental Action: Government’s Response to the State of Environment Report*, Department of Environmental Protection, Perth

<sup>150</sup> *Commissioner for the Environment Act 1993*, section 19

<sup>151</sup> Dr H Sims, Office of the Commissioner for the Environment ACT, notes of meeting, 18 October 2000, pp. 11-12

**Recommendation 3.4:**

**The Victorian Commissioner establish two Committees to advise on the development of the SoE report: a technical scientific committee and a stakeholder committee.**

The majority of submissions endorsed the release of the draft SoE report for comment.<sup>152</sup> Some submissions argued that a draft report should not be released, as it could result in the whole process being questioned and the credibility of the report being challenged.<sup>153</sup> It was argued that a robust stakeholder engagement process throughout the report preparation would remove the need to release a draft report.<sup>154</sup> The Committee believes that a report that takes four to five years to prepare should be subject to rigorous review by potential users, before the government receives it. Review of a draft will ensure that the government receives well-considered information.

The Committee was impressed by the Western Australian model, which includes both a publicly available draft report and a government response to the final report. This demonstrates a commitment to openness and transparency in the SoE reporting process.

Accordingly, the Committee recommends that:

**Recommendation 3.5:**

**The Victorian Commissioner release a draft SoE report for three months public comment.**

A submission on behalf of PricewaterhouseCoopers pointed out that verification of private sector reports was becoming standard practice. While acknowledging the expensive and time-consuming nature of external verification by teams of consultants, the

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<sup>152</sup> For example: Mr P Maganov, submission no. 16, p. 3; Manningham City Council, submission no. 21, p. 1; Greenlink Box Hill Inc, submission no. 31, p. 1

<sup>153</sup> Mr M Drerup, submission no. 4, p. 1; and Mr J Nevill, submission no. 24, p. 4

<sup>154</sup> PricewaterhouseCoopers, submission no. 33, p. 3

submission suggested that the SoE report should be professionally verified.<sup>155</sup> The purpose of verification is to ensure that the data and its interpretation is accurate and reasonable. The Committee's proposed process to use an expert advisory committee, a stakeholder advisory committee and to publicly release a draft report, should ensure sufficient accuracy for decision makers.

### **Review of the SoE reporting process**

*All good management systems require periodic reviews to ensure the necessary or useful changes be incorporated for future application.*<sup>156</sup>

The first Tasmanian SoE report was produced in 1997. The public was invited to review the process. The review sought to improve data gathering for SoE reporting and so improve the capacity of governments, industry and the community to protect and manage Tasmania's natural resources and environment.<sup>157</sup>

In New South Wales, a five-person independent advisory council reviews the SoE report processes six months after the report is issued.<sup>158</sup> In 1996, a discussion paper, *The Future of NSW State of Environment Reporting*, invited public input on proposed changes to the SoE reporting process.<sup>159</sup>

The Committee believes there is merit in having a revision process prior to the commencement of the next cycle of SoE reporting. This would review:

- the appropriateness of the indicators used for Victoria;
- the need to retain indicators to determine trends over time;

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<sup>155</sup> Ibid

<sup>156</sup> Mr P Maganov, submission no. 16, p. 6

<sup>157</sup> State of Environment Tasmania reports, page 1 of 2, available at the website [http://www.rpd.tas.gov.au/soe\\_reporting/soe\\_docs/soe\\_tas\\_soe\\_reports.htm](http://www.rpd.tas.gov.au/soe_reporting/soe_docs/soe_tas_soe_reports.htm)

<sup>158</sup> Mr D Collins, Executive Director, Economics and Environmental Reporting, New South Wales Environment Protection Authority, notes of meeting, 17 October 2000

<sup>159</sup> Environment Protection Authority 1996, *Discussion Paper, The Future of NSW State of Environment Reporting*, EPA, Chatswood

- the need to extend data collecting or monitoring and the determination of the body who would be responsible for this;
- the ‘usefulness’ of the SoE publications to users (via ongoing user surveys);
- the efficiency of the SoE report preparation;
- the adequacy of liaison with local, regional, Commonwealth and other State and Territory bodies; and
- the capacity to extend the scope of the report into social and economic areas and into environmental performance reviews.

The Committee believes that the SoE reporting process, and the materials produced from it, should be reviewed at the end of each cycle. The expert scientific advisory committee and the stakeholder advisory committee could conduct these reviews.

Accordingly, the Committee recommends that:

**Recommendation 3.6:**

**The expert scientific advisory committee and the stakeholder advisory committee review the SoE reporting process before the start of the next cycle.**

**Cycle of Reporting**

The Committee’s Interim Report recommended a five-year cycle.<sup>160</sup> Many of the submissions to the current Inquiry suggested two to five years.<sup>161</sup>

The consultation paper proposed a reporting interval of three years:

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<sup>160</sup> Public Accounts and Estimates Committee, Report No. 31, *Interim Report of the Inquiry into Environmental Accounting and Reporting*, June 1999, p. 57

<sup>161</sup> For example: Save Albert Park, submission no. 13, p. 2; Environment Liaison Office, submission no. 32, p. 5; and Melbourne Water, submission no. 5, p. 2

*... as this provides a sufficient interval to be able to report on progress with response activities, and is consistent with project and Parliamentary cycles, as well as providing a time scale within which environmental trends may be able to be picked up.*<sup>162</sup>

The *Environment Protection and Biodiversity Conservation Act 1999* (s. 516B) requires the Commonwealth to produce an SoE report once every five years. In 1998, s. 10 of the New South Wales *Protection of the Environment Administration Act 1991* changed the cycle of SoE reporting in that State from two years to three years. Under the Australian Capital Territory *Commissioner for the Environment Act 1993* (s. 19 (3)), an SoE report must be submitted to the Legislative Assembly by 30 September in each pre-election year (that is, every three years).

The Committee endorses the views contained in its Interim Report that supported SoE reports being produced on a five-year cycle.

Accordingly, the Committee recommends that:

**Recommendation 3.7:**

**The cycle of Victorian statewide SoE reports be five years.**

**Themes and framework for SoE reporting**

In the Australian Capital Territory, the broad matters that must be reported in SoE reports are specified in the *Commissioner for the Environment Act*.<sup>163</sup> In Western Australia, the State of Environment Reference Group and the regional focus group determine the key environmental issues to report on.<sup>164</sup> At the Commonwealth level, the themes were developed from the Organisation of Economic Cooperation and Development model, by the State of Environment

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<sup>162</sup> State of Victoria, Department of Natural Resources and Environment 2000, *Consultation Paper, The Commissioner for Ecologically Sustainable Development*, Melbourne, p. 15

<sup>163</sup> *Commissioner for the Environment Act 1993* (ACT), section 19

<sup>164</sup> Government of Western Australia 1998, *Environment Western Australia 1998: State of Environment Report*, Department of Environment Protection, Perth, p. 1

Advisory Council and the State of Environment Reporting Unit of the Department of Environment, Sport and Territories.<sup>165</sup> In New South Wales, the Environment Protection Authority determines the chapter themes of their SoE report.<sup>166</sup>

Exhibit 3.1 lists the headings used in the SoE reports of other jurisdictions.

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<sup>165</sup> State of Environment Advisory Council 1996, *Australia State of Environment 1996*, CSIRO Publishing, Collingwood, pp. 1-5 to 1-10

<sup>166</sup> Environment Protection Authority 1997, *New South Wales State of Environment 1997*, EPA, Chatswood, pp. 5-6

**Exhibit 3.1: Classifications used in Commonwealth and State SoE reports**

	<b>Australia 1996</b>	<b>New South Wales 2000</b>	<b>Western Australia 1998</b>	<b>Queensland 1999</b>	<b>Tasmania 1997</b>	<b>South Australia 1998</b>	<b>A.C.T. 2000</b>
<b>CLASSIFICATIONS</b>			State of Environment reporting in WA				
			Fundamental Pressures				
	Introduction			Introduction	Introduction	Introduction	Introduction
	Portrait of Australia		Western Australia's Environment				
	Human Settlements	Human Settlements		Human Settlements	Human Settlements	Human Settlements	Human Settlements
	Biodiversity	Biodiversity	Biodiversity	Biodiversity	Biodiversity	Biodiversity	Biodiversity
	The Atmosphere	Atmosphere	Atmosphere	Atmosphere	Atmosphere	Atmosphere	Atmosphere
	Land Resources	Land	Land	Land	Land	Land Resources	Land
	Inland Waters	Water	Inland Waters	Inland Waters	Inland Waters and Wetlands	Inland Waters	Water
	Estuaries and the Sea		Marine	Coastal Zone	Coastal, Estuarine and Marine	Estuaries and the Sea	
	Natural and Cultural Heritage			Cultural Heritage	Cultural Heritage	Cultural Heritage	
	Towards Ecologically Sustainable Development	Toward Environmental Sustainability	Progress towards Ecologically Sustainable Development				
				Energy Resources			

All SoE reports include an analysis of the physical segments of the environment (atmosphere, land, water etc). The social elements of human settlements and cultural heritage are found in most reports. Ecologically sustainable development is an emerging consideration.

Accordingly, the Committee recommends that:

**Recommendation 3.8:**

**The Victorian Commissioner, in consultation with advisory committees, have responsibility for determining the specific themes and framework for SoE reporting.**

### **3.5 Local Government and regional SoE reporting**

Local Governments are important environmental managers in Victoria. Submissions by Local Government bodies placed Local Government SoE reporting within the context of the need for partnerships between the Victorian Government and Local Governments.

#### ***3.5.1 Importance of Local Government in environmental management***

In 1998-1999, Local Government in Australia spent an estimated \$2.1 billion to protect the environment. This represented about 20 per cent of all council current expenditure and 21 per cent of their capital works budget. In the subset 'environmental protection', ratepayers contributed 90 per cent of funds (\$1.6 billion) and other levels of government 8 per cent.<sup>167</sup>

In Victoria, at least 35 per cent of councils have developed an environmental strategy, 37 per cent have dedicated environment officers and many have developed by-laws on domestic species

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<sup>167</sup> Municipal Association of Victoria, submission no. 38, p. 7

control, weeds and tree clearing. About 9 per cent of councils produce SoE reports.<sup>168</sup> At least 14 councils in Victoria have adopted Local Agenda 21 programs<sup>169</sup> and several councils have adopted Cities for Climate Change programs.<sup>170</sup>

At the regional level, Victoria's 10 regional catchment groups produce catchment condition reports.<sup>171</sup>

### **Partnerships**

Submissions to the Inquiry called for a partnership between the Victorian Commissioner and Local Governments.<sup>172</sup> Bayside Council outlined the nature of that relationship:

*The Commissioner should provide leadership in developing a Victorian ecologically sustainable development strategy. The Commissioner needs to facilitate and co-ordinate that strategy and provide a focal point for information and understanding on ESD issues. The Commissioner's office should become a means of sharing relevant State, regional and local data on pressures, states and responses for SoE reporting; supporting joint data analysis and interpretation by the State and local councils. A joint State and local council framework needs to be established, for describing environmental performance that can lead to improved environmental outcomes.*<sup>173</sup>

The Metropolitan Environment Forum, conducted by the International Council for Local Environment Initiatives, wanted support for the provision of, or access to, financial, technical and statutory resources. These are needed to effectively meet the additional demands placed on local councils for environmental

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<sup>168</sup> Ibid, pp.2, 4

<sup>169</sup> Environs Australia 1999, *Local Government Environment Yearbook 1999*, Melbourne, p. 10

<sup>170</sup> Cr M Brennan 2000, From National Indicator Development to Local Implementation, *State of Environment Conference 2000: Conference Papers*, Coffs Harbour NSW, 3-5 May, pp. 136-139

<sup>171</sup> Victorian Government agencies, submission no. 41, p. 3

<sup>172</sup> Bayside City Council, submission no. 22, p. 8; The International Council for Local Environmental Initiatives, submission no. 27, p. 2; Municipal Association of Victoria, submission no. 38, p. 6; also Transcript of evidence, Cr J Hanson and Cr D Chambers, Victorian Local Governance Association and Mr B Potter and Mr S Ray, Environs Victoria, 9 October 2000, p. 27

<sup>173</sup> Bayside City Council, submission no. 22, pp. 3, 4, 8

services and responsibilities.<sup>174</sup> They wanted to help build a comprehensive and effective SoE reporting framework.<sup>175</sup>

The Municipal Association of Victoria wanted the Victorian Commissioner to:

*... recognise and support existing strategic environmental and sustainability focused approaches of Local Government. They wanted the Victorian Commissioner to report on State Government support for Local Governments to develop their local sustainability development approach.*<sup>176</sup>

A forum titled State of Environment Reporting for Local Government was organised by peak organisations and others in November 2000, to develop a Local Government position on a framework for SoE reporting in Victoria.<sup>177</sup> The Forum workshops concluded that there was a need for a common shared framework and proposed that:

- the State Government, in partnership with Local Government, should develop a sustainable development policy framework, which SoE reporting can inform (for example, Local Agenda 21, Heritage Studies, Health Plans and CCP);
- the framework should be action oriented, cooperative, coordinated (that is, have someone with explicit responsibility for SoE reporting), open (not an elite document; governing bodies open to scrutiny), regional (environmental issues outside local borders are taken into account), decentralised, devolved, and on a distributed network on the Internet; and

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<sup>174</sup> The International Council for Local Environmental Initiatives, submission no. 27, p. 2

<sup>175</sup> Ibid, p. 3

<sup>176</sup> Municipal Association of Victoria, submission no. 38, p. 6

<sup>177</sup> Forum, State of Environment Reporting for Local Government, sponsored by: Environs Australia, City of Greater Geelong, Geelong Environment Council, The International Council for Local Environmental Initiatives, Municipal Association of Victoria, Environment Victoria Inc, and Victorian Local Governance Association

- the model of the SoE framework be practical, cost-effective, consistent with broader SoE principles, located within Local Government management systems and with clear measurable targets. It should have an interpretative framework and use meaningful data and budget and corporate planning information.

The Committee recognises the pioneering work of local and regional bodies in SoE reporting. The Victorian Commissioner can learn from this experience with SoE reporting.

Accordingly, the Committee recommends that:

**Recommendation 3.9:**

**The Victorian Commissioner work with local and regional bodies to develop an integrated and coordinated framework for SoE reporting and environmental management.**

**3.5.2 *SoE reporting at the local level***

Since 1993, the New South Wales *Local Government Act* has required local councils to produce comprehensive SoE reports in the financial year following each election and to update them annually. The local SoE report must include information on the general region in which the local council is located, if requirements of the legislation are not satisfied by information on the council's own area.<sup>178</sup>

A comprehensive report must include all major environmental impacts and related activities, including management plans relating to the environment and special council environmental projects. Councils must use the pressure-state-response model in their reports.<sup>179</sup> Further, they must involve the community in

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<sup>178</sup> Department of Local Government 2000, *State of the Environment Reporting by Local Government, Promoting Ecologically Sustainable Development*, DLG, Bankstown, pp. 1, 10

<sup>179</sup> *Ibid*, pp. 10, 13

monitoring changes to the environment over time. All SoE reports must be submitted to the Minister for Local Government.

The regulation under the Act requires councils to consider their SoE report when preparing environment protection activities in their management plan.<sup>180</sup> Councils can fulfill their obligations by joining in a regional report, provided it covers all eight areas required to be reported under the Act and includes each local council's management plans for the environment. Some regional organisations of councils and total catchment management areas produce such reports.<sup>181</sup>

Appropriate regions include:<sup>182</sup>

- water catchments or airsheds;
- bioregions;
- geographical regions;
- administrative or organisational regions;
- areas under environmental pressure from increased development; and
- regions sharing a common socioeconomic identity.

Since 1998 in New South Wales, the *Local Government Act* has also required councils, councillors and employees to have regard to ecologically sustainable development principles in carrying out all their responsibilities (s. 7). Councils must also have regard to ecologically sustainable development when determining applications for approval (s. 89). Council management plans must reflect activities to manage, protect, restore, enhance and conserve the environment in a manner that promotes the principles of ecologically sustainable development (s. 403(2)).<sup>183</sup>

Difficulties faced by New South Wales local councils included lack of expertise in SoE reporting and lack of knowledge of ecologically

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<sup>180</sup> Ibid, p. 4

<sup>181</sup> Ibid, p. 11

<sup>182</sup> Ibid, pp. 8, 11-12

<sup>183</sup> Ibid, p. 7

sustainable development. Some councils lacked resources, while others lacked leadership on environmental matters. Some councils were unable to see how SoE could contribute to their management plans.<sup>184</sup> Initially, there was a lack of guidelines for Local Government SoE reporting, and there was no feedback from the State Local Government Department on SoE reports submitted to them. As there were no sanctions for not reporting, some councils ceased SoE reporting. Local councils experienced problems accessing data, either through cost or licensing arrangements. Those councils that lacked information technology expertise faced serious problems in gathering data from State and other sources and in producing templates for SoE reports. The Committee was advised that some councils in New South Wales still see themselves as only concerned with local roads and waste disposal and have stretched resources.<sup>185</sup>

The New South Wales Local Government Department did not provide any extra resources to local councils to fulfill these new obligations.<sup>186</sup>

The New South Wales experience highlights the need for:

- an integrated framework for SoE reporting;
- education on the value of local and regional SoE reporting and how it can contribute to environmental management;
- guidelines for SoE reporting;
- local leadership and expertise in SoE reporting; and
- local expertise in the use of information technology to gather data and to produce SoE reports that are linked to environmental management.

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<sup>184</sup> Ms M Craig, Manager, Policy and Research Branch, Department of Local Government, NSW, notes of meeting, 17 October 2000, p. 12

<sup>185</sup> Mr R Verhey, Environment Officer and Team Leader – Planning and Environment Staff, NSW Local Government and Shires Associations, notes of meeting, 17 October 2000

<sup>186</sup> Ms M Craig, Manager, Policy and Research Branch, Department of Local Government, NSW, notes of meeting, 17 October 2000

According to the Department of Natural Resources and Environment consultation paper, the role of Local Government in SoE reporting in Victoria needs to be carefully considered, as:

*... there are also many decisions made that are beyond the influence of Local Governments, and significant resources are required for SoE reporting.*<sup>187</sup>

However, the Committee is aware that the State of the Environment Reporting for Local Government forum was very positive about SoE reporting at the local level. At the plenary session, the workshops resolved that:<sup>188</sup>

- SoE reporting should be part of an integrated system of ecological sustainability, considering triple bottom line and reporting environmental matters at an appropriate scale. It should be part of mainstream Local Government management, and placed within existing Local Government responsibilities;
- SoE should be an audit or report on the current state of play, presented as a discussion paper which highlights both environmental 'good' and 'bad';
- SoE reporting should be integrated into existing management practices, for example Local Agenda 21, environmental management systems, and planning schemes. It should be linked to corporate plans and municipal strategic statements;
- SoE should be used to analyse ecologically sustainable management needs and responsibilities of local councils;
- a flexible package of mechanisms should be developed, including guidelines, accreditation schemes, courses, incentives, legislation and training;

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<sup>187</sup> State of Victoria, Department of Natural Resources and Environment 2000, *Consultation Paper, The Commissioner for Ecologically Sustainable Development*, Melbourne, p. 15

<sup>188</sup> Plenary session, State of the Environment Reporting for Local Government forum, City Hall, City of Greater Geelong, Geelong, 29 November 2000

- the resources needed for SoE reporting by local councils should be considered up front, within the context of efficiency of information use and sharing, and coordinated access to material, with the resource differences between councils acknowledged;
- protocols should standardise the data collection methods for all local councils;
- training should be conducted in the methods and use of geographic information system, prior to the collection of data and its use in SoE reporting;
- an infrastructure should support access to, and reporting of, data for SoE reporting. This includes information technology databases, graphics programs, and geographic information system; and
- the State Government should provide support and some funding for councils, especially rural councils, and give a commitment to share staff in regional areas.

Environs Australia, the Local Government environment network, is a peak national organisation assisting Local Government to move towards sustainability. It could also play a key role in assisting Victorian local councils to further develop SoE reporting.

The Committee sees a positive role for the Victorian Commissioner in working with Victorian Local Government bodies and promoting mutual interests in SoE reporting.

Accordingly, the Committee recommends that:

**Recommendation 3.10:**

**The Victorian Commissioner work with peak Victorian Local Government bodies and Environs Australia to develop education and training materials for regional and local bodies on SoE reporting and environmental management.**

**Recommendation 3.11:**

**The Victorian Commissioner work with the Victorian Local Government Division of the Department of Infrastructure, the Victorian Environment Protection Authority and peak Local Government bodies to improve the use of information technology to gather data and produce SoE reports.**

**3.5.3 *Should Local Government SoE reporting be compulsory in Victoria?***

Many councils in Victoria have developed their own SoE reporting systems and ecologically sustainable development approaches. Equally, many councils do not see the need to give special attention to environmental issues and environmental management.

Exhibit 3.2 gives the responses by some local councils and peak Local Government organisations in Victoria to the question of whether SoE reporting should be compulsory or voluntary.

**Exhibit 3.2: Should SoE reporting be compulsory or voluntary – Responses by Local Councils**

<b>Organisation</b>	<b>Summary of response</b>
City of Whittlesea	Voluntary <sup>189</sup>
Team leader- Environment and Planning, City of Kingston	Voluntary <sup>190</sup>
Manningham City Council	Voluntary, as resources are limited for many councils <sup>191</sup>

<sup>189</sup> City of Whittlesea, submission no. 15, p. 1

<sup>190</sup> City of Kingston, submission no. 19, p. 1

<sup>191</sup> Manningham City Council, submission no. 21, pp. 3-4

**Exhibit 3.2 (continued)**

<b>Organisation</b>	<b>Summary of response</b>
Bayside City Council	An integrated and coordinated approach, where local and regional bodies participate in SoE reporting <sup>192</sup>
Metropolitan Environmental Forum, The International Council for Local Environmental Initiatives	An integrated and coordinated approach to SoE reporting <sup>193</sup>
Colac Otway Shire	Compulsory or not at all. If SoE reporting is made compulsory, there should be funding and training from the State Government <sup>194</sup>
Municipal Association of Victoria	SoE reporting at the local level needs to be encouraged where it will add to an understanding of the physical condition of the local environment and guide councils' policy priorities. Need an integrated framework that links local, regional and State SoE reporting to environmental management <sup>195</sup>
Environs Australia	SoE will be a hotchpotch, based on money available, unless a model is developed. Some practitioners do not want SoE legislation, but many do <sup>196</sup>

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<sup>192</sup> Bayside City Council, submission no. 22, p. 3

<sup>193</sup> The International Council for Local Environmental Initiatives, submission no. 27, p. 3

<sup>194</sup> Colac Otway Shire, submission no. 30, p. 3

<sup>195</sup> Municipal Association of Victoria, submission no. 38, p. 5

<sup>196</sup> Transcript of evidence, Mr B Potter, Environs Australia, 9 October 2000, p. 15

**Exhibit 3.2 (continued)**

<b>Organisation</b>	<b>Summary of response</b>
Victorian Local Governance Association	There is a need for an Australian and Victorian agreed strategy, involving State departments, regional groups and local councils. State Government needs to show leadership in defining the roles of the Commissioner for Ecologically Sustainable Development. Legislation on reporting should be enabling, similar to the Best Value legislation; not big stick legislation. There is a need for pilot projects. <sup>197</sup>

The State of the Environment Reporting for Local Government Forum resolved that the question of whether Local Government SoE reporting should be mandatory or voluntary, should be publicly debated.<sup>198</sup>

The *Local Government (Best Value Principles) Act* was passed in 1999. This amendment to the *Local Government Act 1989* requires councils in Victoria to make all services responsive to the needs of the community and continuously improve services (s. 208B). Factors that councils need to take into account in applying Best Value principles include community expectations and values and the potential environmental advantages for the councils municipal district (s. 208C). It follows that those municipalities where the local community considers environmental matters to be important will integrate an environmental management system into their general management processes and produce SoE reports.

The alternative is for Victoria to adopt a system similar to New South Wales and ensure that all councils are interested in working

<sup>197</sup> Transcript of evidence, Cr Julie Hanson, Victorian Local Governance Association, 9 October 2000, pp. 24-25, 27

<sup>198</sup> Plenary session, State of the Environment Reporting for Local Government forum, City Hall, City of Greater Geelong, Geelong, 29 November 2000

with the State Government to protect environmental values and to operate on sustainable development principles.

Participants at the State of the Environment Reporting for Local Government forum wanted local community members to be considerably involved in the development of SoE reporting, including in the development of the environmental and social indicators and in establishing the needs of the local people.<sup>199</sup>

One option would be for local councils to consult their local communities and then report on the condition of their environment. Another option would be for local councils to have an externally accredited environmental management system which includes environmental reporting.<sup>200</sup>

Accordingly, the Committee recommends that:

**Recommendation 3.12:**

**The Victorian Government encourage Local Government to introduce SoE reporting.**

### **3.6 Legislative framework for SoE reporting**

Victorian needs legislation to re-establish SoE reporting. The Committee believes that SoE reporting would be a major asset for Government environmental decision makers. In Western Australia, the Government has recognised the important role of SoE reports and formally responds to these reports.

Accordingly, the Committee recommends that:

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<sup>199</sup> Ibid

<sup>200</sup> Dr Phillip Johnstone, State of the Environment Reporting for Local Government forum, City Hall, City of Greater Geelong, Geelong, 29 November 2000

**Recommendation 3.13:**

**The legislation on SoE reporting require the government to respond to each statewide SoE report within six months of the report being tabled in Parliament.**

# **CHAPTER 4: ENVIRONMENTAL ACCOUNTING; NATIONAL ENVIRONMENTAL ACCOUNTS; AUDITING AND VERIFICATION; AND ENVIRONMENTAL PERFORMANCE REPORTING**

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## **4.1 Introduction**

The third term of reference required the Committee to:

3. follow up outstanding issues raised in the Interim Report on Environmental Accounting and Reporting, and report on developments in relation to:
  - (a) methodologies and standards for environmental accounting and environmental reporting;
  - (b) environmental indicators for environmental accounting and reporting;
  - (c) verification processes for environmental accounting and reporting;
  - (d) consistency of reporting environmental impacts in financial statements at the international, national, Victorian, regional and Local Government levels;
  - (e) consistency in reporting by private enterprise to government agencies; and
  - (f) the rate of adoption, by private enterprise, of environmental reporting and environmental management systems in Victoria.

**Key Findings:**

- 4.1 The Environment Protection Authority promotes environmental management accounting systems.**
- 4.2 The incorporation of environmental costs into the price of goods and services is at an experimental stage.**
- 4.3 The European Union has called for the prices of goods and services to reflect total costs, including environmental costs. It is hoped this will stimulate international interest in establishing methods for achieving this.**
- 4.4 An Internet site with information promoting commercial services that can help set up environmental accounting systems, information about environmental accounting and organisations willing to share their experiences, would encourage the use of environmental accounts.**
- 4.5 Environmental financial accounting should be prescribed by Australian Accounting Standards. There are no accounting standards dealing directly and fully with environmental issues in Australia. However, standards exist in the United States, Canada and the United Kingdom.**
- 4.6 The development of environmental accounting standards is not on the Australian Accounting Standards Board's agenda.**
- 4.7 The United Nations' International Standards on Accounting and Reporting Group has released a paper on environmental financial reporting methodology.**
- 4.8 At the local level, Eurobodalla Council in New South Wales has worked with CPA Australia and others to develop a draft environmental accounting Code and Schedule for AAS27 Financial Reports for Local Government.**

**Key Findings (continued):**

- 4.9 Non-accounting groups want a broad group of stakeholders involved in the workshops on environmental accounting, proposed by the Public Accounts and Estimates Committee.**
- 4.10 National Environmental Accounts need to reflect Australia's quality of life. Two experiments in developing quality of life indicators are the *Genuine Progress Indicator* and the *Compass Index of Sustainability*.**
- 4.11 The Australian Bureau of Statistics continues to develop environmental satellite accounts using the United Nations System of Environmental and Economic Accounts (SEEA). The most recent satellite account is the water account, released in May 2000.**
- 4.12 The Australian Bureau of Statistics advised the Committee that water quality data from Victoria was excellent but other environmental measures were of lesser quality.**
- 4.13 The Australian Bureau of Statistics is working with regional bodies and local councils to determine if consistency in environmental accounting can be achieved using the SEEA system.**
- 4.14 Many submissions advocated a Victorian break down of data in the national environmental accounts.**
- 4.15 The Victorian Commissioner has a role in the development of quality of life measures that link environmental, economic and social matters.**

**Key Findings (continued):**

- 4.16** The Government and a number of submissions wanted the public sector to lead environmental performance reporting by example. The Environment Protection Authority and the Department of Treasury and Finance are developing guidelines for departmental and agency annual reports.
- 4.17** The majority of submissions favoured making environmental reporting compulsory. However, compulsory reporting under section 299(1)(f) of the *Corporations Law* has not lead to widespread disclosure of environmental legal compliance in directors' reports.
- 4.18** National clarification of environmental reporting requirements is preferable to a state based system.
- 4.19** It is desirable that each industry sector develops its own code for environmental reporting.
- 4.20** The Commonwealth Government has allocated funding to support the appointment of environmental reporting extension officers in key industry and business groups. These officers mainly assist small to medium sized enterprises.
- 4.21** Internationally, voluntary reporting has resulted in 35 per cent of Global 250 companies issuing environmental reports. In the United Kingdom, the Environment Minister 'names and shames' non-reporting companies in Parliament.
- 4.22** The Australian water industry already produces high quality public environmental reports. The Victorian Water Industry Association is developing a framework for environmental accounting and reporting.

**Key Findings (continued):**

- 4.23** If the Victorian Public Sector is to lead environmental reporting by example, best practice requires the sector to produce stand alone public environment performance reports.
- 4.24** In Australia, the Snowy Mountains Engineering Corporation has conducted two surveys of public environmental reports that show an improvement in the quality of reporting.
- 4.25** There are no agreed international or national standards for writing about environmental matters in annual reports or stand alone public environmental performance reports.
- 4.26** Environmental performance reporting awards encourage reporting. There are three major awards (Australian Minerals and Energy Environmental Foundation, the Annual Reports Awards Australia Inc and the Banksia Environmental Foundation) in Australia.
- 4.27** Good environmental reporting, environmental management systems and environmental policies do not guarantee that a sector will be perceived as good environmental performers. The mining sector leads in the quality of environmental reports. However, they were rated by environmental groups as poor environmental performers in various media surveys.
- 4.28** The Victorian Environment Protection Authority continues to promote environmental management systems, especially through their Cleaner Production program. Systems include the ISO 14000 series and the European EMAS system.

**Key Findings (continued):**

- 4.29** The Victorian Environment Protection Authority has specified eight criteria for determining the adequacy of a company's environment management system. They include: a statement of environmental policy, training of key personnel and continuous improvement.
- 4.30** There are no firm figures for the adoption rate of environmental management systems or environmental reporting by the Victorian private sector. More Victorian companies are producing stand alone environmental reports than they are including environmental information in their annual reports. Australia wide, about 80 companies produce public environmental performance reports. In Victoria, 38 companies have adopted Environment Improvement Plans, which include reporting environmental impacts to the local community. A further 11 companies are preparing Environment Improvement Plans.
- 4.31** There are no Australian auditing standards for environmental issues in financial statements or annual reports.
- 4.32** The verification of public environmental reports assures those who prepare reports, and those who read them, that the reports are credible and provide an accurate representation of the company's environmental performance.
- 4.33** Germany has a verification standard know as *Generally Accepted Standards for Audits of Environmental Reports*. The European accountancy body's discussion paper on the issue closely parallels this standard.

**Key Findings (continued):**

- 4.34** The Global Reporting Initiative has established a verification working group that is considering the issues of: a formal system of accreditation of verifiers; the need for stakeholder panels; the use of internal audits; and the involvement of independent experts from a variety of disciplines.
- 4.35** *A Framework for Public Environmental Reporting: An Australian Approach* recognises 4 levels of verification: data: the report's completeness; site level compliance auditing; and re-sampling and analysis. This implies the use of multidisciplinary teams in the verification process.
- 4.36** Very few public environmental performance reports in Australia are externally verified, but the number is increasing.
- 4.37** The Victorian Environment Protection Authority has expanded its guidelines for the appointment of environmental auditors. It has been appointing auditors of contaminated sites and industrial facilities. This will be expanded to cover auditing any segment of the environment, auditing environmental risk and auditing the protection of the environment.
- 4.38** The Quality Society of Australasia Ltd now includes a category of environmental verifier in its accreditation scheme.

## **4.2 Environmental accounting by industry**

### **4.2.1 Interim Report**

Chapter 5 of the Committee's Interim Report discussed the trends in private sector environmental reporting for internal decision making and for use by external stakeholders. Amendments already made to the Commonwealth Corporations Law, requiring directors to report their compliance with the requirements of this legislation, is considered the first step toward compulsory environmental reporting.

#### **Environmental management accounting**

Environmental management accounting is the identification or recognition of environmental impacts, costs and benefits. Company decision makers can use the financial and physical data from environmental management accounts to plan and control company processes. In addition, the company's efficiency can be improved by using environmental information in the budgeting process.<sup>201</sup>

Environmental costs and benefits are not easy to identify in traditional accounting systems because they are not recognised, or because certain costs are included within general 'overhead' accounts. Activity based costing is one example of how these costs can be identified, controlled and reduced. Each activity, such as cleaning up a chemical spill, is recorded and costed separately.<sup>202</sup>

However, converting environmental information into monetary terms is difficult, controversial and in its infancy. One controversial system is lifecycle assessment. In lifecycle assessment, the environmental impacts of each stage of the 'life' of a product are assessed, from extracting the raw materials to the final disposal of the product when its useful life is over.

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<sup>201</sup> Public Accounts and Estimates Committee, Report No. 31, *Interim Report of the Inquiry into Environmental Accounting and Reporting*, June 1999, pp. 67-68

<sup>202</sup> *Ibid*, p. 69

Theoretically, all these costs could be included in the price of the product, but accountants argue it is difficult to completely identify the flow-on effects of all processes.<sup>203</sup>

The European Union, however, has called for the price of a product to fully reflect the product's full costs.<sup>204</sup> The Committee is aware that a number of large international companies, such as Baxter International (medical products and technologies), have used a scaled down version of full cost accounting.<sup>205</sup>

In Australia, in 1998, the Environmental Accounting Task Force of the Institute of Chartered Accountants released a discussion paper *The Impact of Environmental Matters on the Accountancy Profession*, which called for the accountancy profession to further develop environmental management accounting. The Victorian Environment Protection Authority, with the Institute of Chartered Accountants and PricewaterhouseCoopers, initiated an environmental accounting demonstration project to work with a pilot company to demonstrate the benefits of environmental management accounting.<sup>206</sup>

In its earlier report, the Committee recommended that:<sup>207</sup>

- the government encourage the accounting profession to develop methodologies to incorporate environmental costs into the price of goods and services; and
- the government provide funds to develop an Internet site containing information on environmental management accounting.

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<sup>203</sup> Ibid, pp. 70-71

<sup>204</sup> Ibid, p. 72. The European Union has argued that if prices reflect the full cost of production, including environmental costs, then full costs would flow through production and consumption cycles, leading to more sustainable consumption patterns

<sup>205</sup> Ibid, p. 72

<sup>206</sup> Ibid, pp. 73-74

<sup>207</sup> Ibid, p. 75. Management accounting provides information for use within an organisation, and is not regulated by government

## **Environmental financial accounting**

Environmental financial accounting provides information for external stakeholders, such as creditors, potential investors and shareholders. This is usually provided in the company's annual report.<sup>208</sup>

The existing accounting standards for financial reports (balance sheets, profit and loss statements and statements of cash flows) generally apply to environmental matters. For example, there is a general requirement that all contingent liabilities be disclosed, which includes environmental contingent liabilities. However, there are no accounting standards dealing directly and fully with environmental issues.<sup>209</sup>

The Committee was advised that accountants are required to report information if it is deemed to be 'material'. Something is deemed to be material if its omission or non-disclosure is likely to affect the allocation of resources made by the users of the financial reports. If something is not deemed to be material, then it does not need to be disclosed. In Australia, guidance is provided in the Australian Accounting Standard, AASB 1031 'Materiality'.

The guidelines indicate that if an amount is more than 10 per cent of the total equity, or is 10 per cent of the operating profit or loss, then the item is 'material' and a separate disclosure is required. As many environmental impacts cannot be quantified in monetary terms, or are difficult to quantify, most environmental information is omitted from financial reports. In an attempt to redress this situation, the United States, Canada and the United Kingdom have released accounting standards relating to environmental issues.<sup>210</sup>

In 1998, the Commonwealth Corporations Law was amended, requiring directors to report on their companies' environmental

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<sup>208</sup> Ibid, p. 75. Environmental financial accounts also provide information for those without a financial stake in the organisation, such as conservation groups and local communities

<sup>209</sup> Ibid, pp. 76-77

<sup>210</sup> Ibid, p. 78

performance in relation to any particular and significant environmental regulation. The criterion for disclosure was not whether the performance was material to the financial accounts, but whether the performance had an environmental significance. This development is seen as a first step toward compulsory environmental reporting by private companies.<sup>211</sup>

The Committee previously recommended that:<sup>212</sup>

- the government should encourage accounting bodies and stakeholders to consider revised concepts of materiality, assets, liabilities, revenues and expenses, appropriate for environment accounting;
- the government should encourage the development of a new accounting standard that specifically dealt with environmental issues; and
- the government should consider sponsoring workshops on environmental accounting and reporting for industries and stakeholders.

#### **4.2.2 Government response**

The Government response to the recommendations was that it would initiate discussions with peak bodies in the accounting profession to ensure that environmental factors are considered in business performance reporting.<sup>213</sup>

#### **4.2.3 Issues Paper**

The Committee's Issues Paper No. 4 sought ideas on how the government could encourage companies to:

- (a) incorporate environmental costs in their goods and services; and
- (b) use environmental accounting systems.

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<sup>211</sup> Ibid, p. 85

<sup>212</sup> Ibid, pp. 85-86

<sup>213</sup> *Government Response, Public Accounts and Estimates Committee Thirty-First Report to Parliament, Interim Report of the Inquiry into Environmental Accounting and Reporting*

#### **4.2.4 Follow-up Inquiry**

Responses to Issues Paper No. 4 concentrated on the recommendations made by the Committee in the Interim Report. However, some comments were made on environmental management accounting and the role of the accounting profession.

#### **Responses to the Committee's recommendation to develop accounting standards**

Several witnesses emphasised the need for guidance on how environmental accounting can be used and the urgent need for an accounting standard to be developed for use by external stakeholders.<sup>214</sup>

CPA Australia and the Institute of Chartered Accountants in Australia suggested governments allocate resources to assist with the development of relevant accounting standards:

*The Commonwealth, states and territories should allocate resources to the accounting and auditing standard setting bodies in Australia to assist in the development of specific standards covering environmental disclosure and the auditing of environmental matters.*<sup>215</sup>

Internationally, accountants have tried to reach agreement on best practice in environmental accounting. In August 2000, the United Nations Conference on Trade and Development released the work of its International Standards on Accounting and Reporting Group, *Integrating Environmental Financial Performance at the Enterprise Level: A Methodology for Standardizing Eco-Efficiency Indicators*. The document is designed to help national bodies set standards on environmental disclosures in environmental accounts and reports. The work extends the conventional accounting model and links environmental performance with financial performance.

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<sup>214</sup> Mr R Burritt, submission no. 2, p. 2; Victorian Water Industry Association, submission no. 20, p. 3; and City of Whitehorse, submission no. 23, p. 4

<sup>215</sup> Transcript of evidence, Mr G Meade, for CPA Australia, The Institute of Chartered Accountants in Australia and the Legislation Review Board of the Australian Accounting Research Foundation, 9 October 2000, p. 64

It includes guidance on such issues as materiality, prudence, verifiability and computability.<sup>216</sup>

In Australia, local councils have already taken the initiative to establish an environmental accounting code for Local Government. Eurobodalla Council in New South Wales has sought the support of the Federal Minister for the Environment and the State Minister for Local Government to introduce an Environmental Accounting Code of Accounting Practice and a Special Schedule to the Australian Standard AAS27 Financial Reports for Local Government. A number of organisations including Eurobodalla Council, Green Measures, the Australian Bureau of Statistics, and CPA Australia have worked together to draft the code and schedule, based on the United Nations System of Integrated Environmental and Economic Accounting (SEEA).<sup>217</sup>

The Committee understands that the Australian Accounting Standards Board is reviewing AAS27, but they are not addressing environmental accounting issues as part of that review.<sup>218</sup> This code will assist councils to assess their environmental programs and assist communities to judge their council's environmental management performance.

The Committee understands that the schedule:<sup>219</sup>

- tracks expenditure and revenues for each SEEA classification;
- monitors actual versus planned maintenance for each SEEA classification; and
- identifies actual and planned improvement or degradation of environmental assets.

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<sup>216</sup> United Nations Conference on Trade and Development 2000, *Integrating Environmental and Financial Performance at the Enterprise Level: A Methodology for Standardizing Eco-efficiency Indicators*, United Nations, New York and Geneva, pp. v to vi and viii

<sup>217</sup> Eurobodalla Shire Council, submission no. 29, pp. 1-2

<sup>218</sup> Mr Robert Keys, Australian Accounting Standards Board, presentation to Workshop on Environmental Accounting in Local Government, held 1 December 2000 in Canberra, Draft Summary of Discussion and Outcomes, p. 12

<sup>219</sup> Eurobodalla Shire Council, submission no. 29, pp. 1-2

The Committee welcomes this initiative.

Accordingly, the Committee recommends that:

**Recommendation 4.1:**

**The Victorian Government:**

- (a) actively pursue the development of an Australian Environmental Accounting Standard based on international best practice; and**
- (b) seek the support of the Commonwealth Government for a joint approach to the Australian Accounting Standards Board on this matter.**

Overseas, the European Parliament has commissioned a White Paper on environmental liability for damage to nature, to complement the laws on damage to persons and goods and laws on liability to clean up contaminated sites.<sup>220</sup> In Australia, section 299(1)(f) of the Corporations Act requires directors to disclose non-compliance with environmental laws and regulations. However, this section of the Corporations Act is broad. The Committee was advised that this has created frustration for industry and has not led to meaningful environmental reporting.<sup>221</sup> A majority report of the Parliamentary Joint Committee on Corporations and Securities has recommended that this section be repealed.<sup>222</sup>

An alternative legislative approach, proposed to the Committee, was to require entities to declare all site-specific environmental issues as contingent liabilities. This would go well beyond the current legal requirement to declare material contingent liabilities

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<sup>220</sup> The European Commission, White Paper on Environmental Liability, on the website: <http://europa.eu.int/comm/environment/liability/index.htm>

<sup>221</sup> Transcript of evidence, Ms L Hicks, Lawyer, Maddock Lonie and Chisholm, 9 October 2000, pp. 32-33

<sup>222</sup> Parliamentary Joint Committee on Corporations and Securities, 1999, *Report on Matters arising from the Company Law Review Act 1998*, Parliament of the Commonwealth of Australia, Canberra, p. 23

and would look at, for example, all sites that contained asbestos and would consider how the company will deal with that problem in the long term.<sup>223</sup>

In the United States, companies are required under the Securities and Exchange Commission legislation to disclose future uncertainties and trends that may materially alter financial performance. However, peak industry bodies and large companies stressed to the Committee that they were opposed to legislation for more disclosure of environmental liabilities and risks if it is just confined to Victoria.<sup>224</sup> The Committee believes that Victoria should not act alone in developing environmental accounting requirements.

Accordingly, the Committee recommends that:

**Recommendation 4.2:**

**The Victorian Government, in consultation with the accountancy professions, the Commonwealth Government and peak industry bodies, examine requirements for larger companies to use environmental financial accounting procedures in their financial statements.**

**Environmental management accounting**

There is a number of environment management accounting systems that companies can use internally. The problem is not the lack of accounting systems, but the motivation of senior managers to identify environmental costs. Even when managers want to identify costs, they often do not know where to obtain advice on what to measure or how to undertake measurements.

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<sup>223</sup> Transcript of evidence, Mr C Davey, Associate Director, Project and Structured Finance, National Australia Bank, 25 August 2000, pp. 33-34

<sup>224</sup> For example, Australian Industry Group, submission no. 34, p. 5; and Telstra, submission no. 9, p. 1

The Committee is aware of the very significant contribution that the Environment Protection Authority has made over the past 15 years by promoting environmental management accounting through its Cleaner Production Program.<sup>225</sup>

As previously mentioned, incorporating environmental costs into the price of goods and services is still at the experimental stage. Some of the different methods are discussed below.

The Committee was advised that lifecycle costing costs the environmental impact of the product, from the extraction of raw materials to final disposal.<sup>226</sup> One of the difficult issues in lifecycle costing is identifying and then costing the environmental effects of extraction, processing and manufacturing.

Full cost accounting integrates environmental and economic information in decision making.<sup>227</sup> There are various approaches to full cost accounting, depending on the extent to which a company wants to fully cost its various social and environmental impacts. However, the Committee understands full cost accounting relies on many judgements and estimates.

Activity based costing was discussed in some detail in the Committee's Interim Report.<sup>228</sup>

The cost of control method involves companies estimating the cost of controlling their pollution.<sup>229</sup> Again, many estimates are required.

While some individual companies have adopted various experimental approaches to quantifying environmental costs and benefits for management accounting purposes, progress has been slow. The Committee reiterates its encouragement to the accounting profession to promote international consensus on the

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<sup>225</sup> Victorian Government agencies, submission no. 41, p. 5

<sup>226</sup> Dr J Raar, submission no. 26, p. 2

<sup>227</sup> Ibid, p. 2

<sup>228</sup> Public Accounts and Estimates Committee, Report No. 31, *Interim Report of the Inquiry into Environmental Accounting and Reporting*, June 1999, pp. 69-70

<sup>229</sup> Professor M Mathews, submission no. 6, attachment

best methods to incorporate the costs of environmental impacts into the costs of goods and services.

### **The accounting profession**

The Institute of Chartered Accountants has promoted its Triple Bottom Line Issues Group to a 'Special Interest Group'. There are only four Special Interest Groups within the Institute, demonstrating the significance the Institute places on social and environmental reporting.<sup>230</sup>

The Committee understands that CPA Australia is taking steps to promote awareness of environmental management and accounting, focusing on management accounting (for example, the use of the balanced scorecard).<sup>231</sup>

### **Internet site and environmental accounting workshops**

The accounting bodies support the Committee's previous recommendation that accounting firms which provide environmental accounting services be listed on an internet site, together with a list of audit and review services. A list of organisations willing to share their experience on environmental accounting and an environmental accounting discussion group would also be helpful.<sup>232</sup>

The Victorian Environment Protection Authority advised the Committee that an internet site should contain an overview of environmental accounting and mechanisms to identify and reduce waste. The Government agencies' submission suggested that it would be useful to have an overview of the methods to identify and measure environmental costs with international examples and case studies. The internet site should promote opportunities and

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<sup>230</sup> Professor C Deegan, personal communication, 22 January 2001

<sup>231</sup> Mr Adam Awty, CPA Australia, Workshop on Environmental Accounting in Local Government, held 1 December 2000 in Canberra, Draft Summary of Discussion and Outcomes, p. 13

<sup>232</sup> The Institute of Chartered Accountants in Australia and CPA Australia, submission no. 37, pp. 3-4

benefits of implementing the environmental managerial accounting demonstration project.<sup>233</sup>

The Committee believes that accountants need information that is readily accessible. The internet site should be complemented with brochures, newsletters, loose leaf additions to manuals etc. It will also be important to advertise and promote the site. Some witnesses were keen for workshops on environmental accounting to be extended to a wide range of groups. The groups that could be included in the workshops include:<sup>234</sup>

- industry;
- regional groups;
- community;
- Local Government;
- university students;
- accountancy bodies;
- the Department of Treasury and Finance; and
- the Environment Protection Authority.

Accordingly, the Committee recommends that:

**Recommendation 4.3:**

**The following strategies be adopted by the Victorian Government to encourage the development of environmental accounting:**

- (a) the Victorian Environment Protection Authority with the Institute of Chartered Accountants in Australia and CPA Australia develop appropriate promotional material for accountants and auditors; and**

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<sup>233</sup> Victorian Government agencies, submission no. 41, p. 5

<sup>234</sup> Australian Industry Group, submission no. 34, p. 5; Environment Management Industry Association of Australia, Victorian Network, submission no. 36, p. 5; and Victorian Government agencies, submission no. 41, p. 6

- (b) **the Victorian Government consider funding the Victorian Environment Protection Authority to work with the accounting bodies and the Department of Treasury and Finance to conduct a series of public workshops throughout Victoria.**

### 4.3 National environmental accounts

#### 4.3.1 *Interim Report*

##### Quality of life

The Committee's Interim Report expressed concern that gross national product, consumer price index and other economic measures were being used inadequately or inaccurately as measures of quality of life. Further, Australia's national accounting system, which focused on economic measures, needed to incorporate environmental and community issues, as these have a significant impact on quality of life.<sup>235</sup>

Two options were proposed to reflect environmental issues in the national accounts. The gross domestic product could be modified, by incorporating the financial cost of environmental pollution and degradation. Alternatively, separate environmental accounts, satellite accounts, could be developed.<sup>236</sup>

If the gross domestic product was modified to produce a green gross domestic product, it would impact on an existing measure that serves an important role in analysing national economic changes. The Committee understands that at present there is no agreed method for developing a green gross domestic product. Submissions suggested that valuing environmental matters in financial terms was highly controversial, as placing an economic

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<sup>235</sup> Public Accounts and Estimates Committee, Report No. 31, *Interim Report of the Inquiry into Environmental Accounting and Reporting*, June 1999, pp. 21-22

<sup>236</sup> *Ibid*, p. 23

value on ecosystems or biodiversity does not represent their contribution to people's quality of life.<sup>237</sup> The Committee decided not to pursue this option.

### **Environmental satellite accounts**

Environmental satellite accounts use both physical and financial measures to provide information about such matters as water, energy and minerals. Satellite accounts complement economic measures, such as gross domestic product. The gross domestic product itself is not modified, but separate environmental accounts are consolidated into an environmental balance sheet which depicts change to natural capital stocks.<sup>238</sup>

As mentioned, one methodology developed by the United Nations for environmental satellite accounts is SEEA. This framework extends the United Nations System of National Accounts, which is already used in Australia.<sup>239</sup>

In the Committee's Interim Report, concern was expressed at the lack of integration of environmental and economic accounts. This lack of integration may contribute to environmental matters being considered as outside the mainstream of government decision making.<sup>240</sup> However, the Committee recommended that the Australian Bureau of Statistics develop a national system of satellite accounts.<sup>241</sup>

### **Victorian satellite accounts**

Arguments were presented to the Committee for and against Victoria developing its own measures of standard of living. Victoria already places a financial value on natural assets if they have a physical nature and if they are useful beyond the current accounting period. For example, a dollar value is placed on forests

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<sup>237</sup> Ibid, pp. 23-24

<sup>238</sup> Ibid, pp. 27-28

<sup>239</sup> Ibid, pp. 28-29

<sup>240</sup> Ibid, p. 31

<sup>241</sup> Ibid, p. 32

and public buildings. This requirement is in existing accounting standards. However, the Committee considered that there were major problems in putting environmental information into financial accounts, and that these problems needed to be addressed.<sup>242</sup>

The Committee recommended that:<sup>243</sup>

- the Victorian Government should consult the Australian Bureau of Statistics and other relevant stakeholders on the feasibility of developing satellite accounts for Victoria; and
- the data collected for satellite accounts should be compatible with data collected by the Australian Bureau of Statistics from other States.

### **Local Government environmental accounts**

The Interim Report noted that Local Governments were working with the Australian Bureau of Statistics and others in applying SEEA methodology. Local Governments were incorporating their environmental balance sheet into their conventional balance sheet. This could help make environmental considerations part of Local Government mainstream decision making.<sup>244</sup>

The Committee understands that some Local Governments were cooperating with the Australian Bureau of Statistics in an environment and natural resources survey that will help identify Local Governments' environment protection accounts. However, most local councils found they could not produce this data easily. This information is important as reporting income and expenditure on environmental matters in monetary accounts would assist local councils to respond to environmental issues.<sup>245</sup>

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<sup>242</sup> Ibid, pp. 33-34

<sup>243</sup> Ibid, p. 34

<sup>244</sup> Ibid, pp. 34-35

<sup>245</sup> Ibid, p. 34

### **4.3.2 Government response**

The Government response stated that the community was becoming increasingly aware of the importance of the environment to their quality of life. People were aware of the environment's role in the sustainability of economic and social activity. The Government believed that quality of life depended on properly managing the environment and protecting precious natural, urban and historical heritage.<sup>246</sup>

There was no response from the Government to the Committee's specific recommendations on national environmental accounting.

### **4.3.3 Issues Paper**

The Committee's Issues Paper No. 4 invited comment on the content of environmental satellite accounts. It also asked what the relationship should be between satellite accounts, SoE reports and public sector reporting.<sup>247</sup>

### **4.3.4 Follow-up Inquiry**

#### **Quality of life**

The debate over developing a single number for environmental quality and social quality, similar to the gross domestic product, is continuing. Two examples of these measures are the genuine progress indicator and the compass index of sustainability.

The genuine progress indicator emphasises environmental costs as a measure of welfare. The genuine progress indicator adjusts gross domestic product by taking into account monetary values of unemployment, crime, pollution, household work and volunteer work. It shows Australia's wellbeing declining over recent

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<sup>246</sup> *Government Response, Public Accounts and Estimates Committee Thirty-First Report to Parliament, Interim Report of the Inquiry into Environmental Accounting and Reporting*, p. 1

<sup>247</sup> *Public Accounts and Estimates Committee, Issues Paper No. 4, Follow-up Inquiry into Environmental Accounting and Reporting*, June 2000, p. 14

years.<sup>248</sup> The promoter of this index did not consider it appropriate for use by the Australian Bureau of Statistics, as it had too many unresolved assumptions about how to cost matters and what should and should not be included.<sup>249</sup>

The compass index of sustainability aggregates measures under four categories, using the initial letters of the categories to form the four points of the compass:

N	-	Nature
S	-	Society
E	-	Economy
W	-	Wellbeing

A single number is derived for each category, using rating scales for a host of measures. The final single number is the sum of the four category numbers.

The index has been used to assess the wellbeing of Orlando and Orange County, Florida, USA.<sup>250</sup> The benefit of the index is that it stimulates people to ask how the figures were derived and leads to requests for interpretation of the figures. Trends in all four areas can be determined over time to answer the question: 'Are we getting better?'

The Committee regards these attempts to measure quality of life with a single number as interesting experiments, but sees greater value in the work of the Australian Bureau of Statistics on environmental satellite accounts.

### **Environmental satellite accounts**

A number of prominent international organisations such as the United Nations, Organisation for Economic Cooperation and

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<sup>248</sup> Dr C Hamilton, Executive Director, The Australia Institute, notes of meeting, 18 October 2000, pp. 7-10

<sup>249</sup> Ibid, p. 10

<sup>250</sup> Florida Hospital and Orlando Regional Healthcare System, *Legacy 2000*, Healthy Community Initiative of Greater Orlando, Orlando

Development, World Bank and the European Commission are adopting the United Nations System of National Accounts with a core set of sustainable development and environmental indicators, and protocols to put monetary values on environmental assets. Recent developments have indicated that:<sup>251</sup>

- statistical bodies are overtaking the accountancy profession in setting environmental accounting standards;
- national statistical agencies are taking over accounting responsibilities from environmental agencies;
- training providers and market forces are reducing the number of methods of providing environmental information to decision makers;
- SEEA 2000 will be used more at national and sub-national level for environmental accounting; and
- EMAS, ISO 14000 series (environmental standard) and ISO 9000 series (quality standard) are harmonising. A more comprehensive view of both environmental impacts of policies and the condition of the environment will result from combining results of SEEA and SoE reporting processes.

This report will only comment on the role of the SEEA as a means of establishing consistency at all levels.

The Committee welcomes the Australian Bureau of Statistics continued production of environmental satellite accounts. A water account was produced in May 2000 and an energy account in February 2001. These publications are accessible through the Australian Bureau of Statistics or local libraries.<sup>252</sup> Wherever possible, the Committee would like to see Victorian data specified in national environmental satellite accounts. The Committee noted that Victoria supplies excellent water data to the Australian

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<sup>251</sup> Green Measures, submission no. 14, p. 11

<sup>252</sup> A list of current publications is available on the website <http://www.abs.gov.au>, publications

Bureau of Statistics, but is behind in the quality of data it supplies for many other environmental measures.<sup>253</sup>

The Bureau is using the SEEA to compile environmental satellite accounts. The system has been under review, with a London based group making major changes in June 2000. The revised system has three sets of accounts:<sup>254</sup>

- asset accounts;
- flow of materials and energy accounts; and
- financial accounts.

The asset accounts include natural resources and environmental systems. They record both physical and financial stocks of assets, their quality and change over time. The flows of materials and energy accounts include the origin, use and waste produced from material and energy.<sup>255</sup>

Asset, materials and energy accounts are linked to financial accounts using definitions and methods compatible with existing financial accounting systems. For example, using the same industry classification in both environmental and financial accounts, it is possible to calculate the water used in the rice growing industry (environmental accounts) and the dollar return per unit of rice production (financial accounts). The two figures can be combined in the statistic: amount of water used per dollar return per unit of rice production.<sup>256</sup>

Mr Richard Osborn suggested to the Committee that many countries would use SEEA in the future.<sup>257</sup>

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<sup>253</sup> Mr Z Abbasi, Regional Director, Victoria, Australian Bureau of Statistics and Mr B Harrison, Director, Environment Statistics Section, Australian Bureau of Statistics, notes of meeting, 18 October 2000, pp. 4, 15

<sup>254</sup> Ms B Vernon, Australian Bureau of Statistics, presentation to workshop on Environmental Performance Reviews at the Regional Level, St Kilda, 28 September 2000

<sup>255</sup> Ibid

<sup>256</sup> Ibid

<sup>257</sup> Green Measures, submission no. 14, p. 11

## Victorian satellite accounts

The Committee believes that national and other levels of environmental accounts must be developed for some specific purpose. National environmental accounts must provide data for SoE reporting at the national and state levels, and the data would be useful for private and public sector annual and environmental reporting.

Industry is required by law to provide information to the Australian Bureau of Statistics and other Commonwealth and State agencies. It was pointed out to the Committee that industry does not want to provide the same information to various levels of government. Industry would prefer one agency to collect data and supply it to other government agencies.<sup>258</sup>

The Australian Industry Group believes that the Australian Bureau of Statistics should be the major coordinator of national environmental accounts, and that this information should be communicated within the context of national and regional SoE reports:

*... since these have proved to be useful tools for disseminating information on the environment to a wider audience.*<sup>259</sup>

Many submissions emphasised that environmental satellite accounts should include a Victorian data breakdown.<sup>260</sup>

While the Committee believes the development of Victorian environmental satellite accounts is important, it recognises the need to rationalise the data collection. There is a need to improve the collection of environmental data in a manner that is useful to the Australian Bureau of Statistics, Environment Australia and the Victorian Commissioner.

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<sup>258</sup> Telstra, submission no. 9, p. 1; and Australian Industry Group, submission no. 34, p. 2

<sup>259</sup> Australian Industry Group, submission no. 34, p. 2

<sup>260</sup> For example: City of Whitehorse, submission no. 23, p. 1; Greenlink Box Hill Inc, submission no. 31, p. 1; and Environment Liaison Office, submission no. 32, p. 1

The Committee believes that there is a role for the Victorian Commissioner in improving environmental data collection.

Accordingly, the Committee recommends that:

**Recommendation 4.4:**

**The Victorian Commissioner and the Victorian Advisory Committee on Statistics work with the Australian Bureau of Statistics to:**

- (a) improve the quality of environmental data Victoria supplies to the Australian Bureau of Statistics;**
- (b) improve feedback mechanisms from users of environmental statistical data; and**
- (c) ensure that data collected from State and Commonwealth agencies is useful for SoE reporting at State level.**

**Local Government environmental accounts**

The Committee's Interim Report reported on experiments by the Australian Bureau of Statistics and Local Governments using the SEEA. The Australian Bureau of Statistics is evaluating whether this national system of accounts can be used at the local and regional level. No country has implemented the whole SEEA, so it is expected that local or regional bodies will selectively choose which SEEA elements suit their own local values.<sup>261</sup>

The National Office of Local Government has funded a consultant to work with selected local councils and regional bodies in New Zealand, Queensland and Victoria to apply SEEA based

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<sup>261</sup> Presentation by Ms B Vernon, Australian Bureau of Statistics, Workshop on Environmental Performance Reviews at the Regional Level, St Kilda, 28 September 2000

classifications to their activities. This is part of a larger project looking at environment performance reviews at the local and regional level.<sup>262</sup>

The Australian Bureau of Statistics is continuing its work on attracting local councils to its environment protection and natural resources survey (as mentioned in the Committee's Interim Report). The survey now uses SEEA categories. The Australian Bureau of Statistics proposes that this will become a five-year census survey of Local Government activity on environment protection.<sup>263</sup> However, one survey found that 40 per cent of urban councils and 50 per cent of rural councils are not using the survey estimates in their own decision making.<sup>264</sup>

The Committee encourages the use of the SEEA at the national, regional and local level as it will ensure consistent reporting of environmental impacts in financial statements.

### **Role of the Victorian Commissioner**

In its response to the Committee's report, the Government proposed a direct link between environmental matters, economic and social matters and people's quality of life. The link between environmental, economic and social matters forms the basis of ecologically sustainable development.

The Committee believes the Victorian Commissioner should have a role in developing quality of life measures that link environmental, economic and social matters.

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<sup>262</sup> Green Measures, submission no. 14, pp. 15-16

<sup>263</sup> Presentation by Ms Barbara Vernon, Australian Bureau of Statistics, Workshop on Environmental Performance Reviews at the Regional Level, St Kilda, 28 September 2000

<sup>264</sup> Mr Richard Osborn, Green Measures, presentation to Workshop on Environmental Accounting in Local Government, held on 1 December 2000 in Canberra, Draft Summary of Discussion and Outcomes, p. 8

## 4.4 Auditing and verification of financial statements and annual reports

Chapter 8 of the Committee's Interim Report was concerned with the external auditing of environmental information in financial statements, the verification of company environmental performance reports, and the certification of environmental auditors and verifiers.<sup>265</sup>

### 4.4.1 *Interim Report*

*By law, financial statements of organisations must be audited by registered company auditors. Auditing of environmental information in financial statements assists in giving the information credibility. Fifty per cent of readers of annual reports, in Australia, considered environmental audits as important.*<sup>266</sup>

Generally accepted accounting principles, auditing standards, accounting standards and regulatory requirements provide the framework for financial statement auditing. There are no specific auditing standards for environmental information in financial statements. Internationally, discussion papers on this topic have been released in The Netherlands, Canada and by the International Federation of Accountants.

In Australia, the Auditing Guidance Statement AGS 1036, *The Consideration of Environmental Matters in a Financial Report* was released in 1998. The guidance note showed how traditional considerations, such as knowledge of business and financial controls, could be applied to environmental issues. The statement noted that breaches of environmental laws were relevant when they affect a company's financial position. Similarly, the company's use of an environmental management system was

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<sup>265</sup> Public Accounts and Estimates Committee, Report No. 31, *Interim Report of the Inquiry into Environmental Accounting and Reporting*, June 1999, p. 135

<sup>266</sup> *Ibid.*, p.136. Public companies and large proprietary companies will have their financial statements audited, but the reports of small proprietary companies might only be audited if holders of at least 5 percent of the voting shares make a formal request that the reports be audited

relevant if the system affected financial contingencies and accounting estimates.<sup>267</sup>

Financial statement auditors should therefore have some knowledge of environmental laws and environmental management systems because of the financial implications that various environmental impacts might cause. However, the auditor may require expert assistance from lawyers, engineers and environmental experts in undertaking this task.<sup>268</sup>

As pointed out in the Committee's Interim Report, the lack of an auditing standard and a conceptual framework for environmental accounting and reporting means that environmental auditing is not as straightforward as financial auditing.<sup>269</sup>

#### **4.4.2 Government response**

In response to the relevant recommendations in the Interim Report, the Government advised that it would:

*... continue to encourage the use and development of auditing processes in relation to environmental issues.*<sup>270</sup>

#### **4.4.3 Follow-up Inquiry**

There is still no Australian auditing standard for environmental issues in financial statements or annual reports. The Committee considers that the development of an auditing standard is overdue and is concerned to ensure that the Government follows through its response to the Committee's Interim Report.

Accordingly, the Committee recommends that:

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<sup>267</sup> Public Accounts and Estimates Committee, Report No. 31, *Interim Report of the Inquiry into Environmental Accounting and Reporting*, June 1999, pp. 137-139

<sup>268</sup> *Ibid.*, p. 139

<sup>269</sup> *Ibid.*, p. 139

<sup>270</sup> *Government response, Public Accounts and Estimates Committee, Thirty-First Report to Parliament, Interim Report of the Inquiry into Environmental Accounting and Reporting*

**Recommendation 4.5:**

**The Government discuss with other State and Territory Governments and the Commonwealth Government a joint approach to the Australian Accounting Standards Board, to establish an Australian environmental auditing standard for auditing environmental information in financial statements and annual reports.**

**4.5 Verification of company environmental reports****4.5.1 Interim Report**

The verification of public environmental reports provides some assurance to those who prepare reports, and those who read them, that the reports are credible and provide an accurate representation of the company's environmental performance. As pointed out in the Committee's Interim Report, non-verified environmental reports are often self-laudatory, with minimal disclosure of negative information.<sup>271</sup>

Verification of environmental reports may assist a company to improve its environmental management as well as its reports. Verification can identify areas for improvement for the company to act upon.<sup>272</sup>

**European frameworks**

The frameworks for verification in Europe include the European EMAS eco-management system and the Danish Green Accounts Regulations. However, there are no generally accepted standards for the presentation of environmental reports or their verification.<sup>273</sup>

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<sup>271</sup> Public Accounts and Estimates Committee, Report No. 31, *Interim Report of the Inquiry into Environmental Accounting and Reporting*, June 1999, pp. 139-140

<sup>272</sup> Ibid, p. 140

<sup>273</sup> Ibid, p. 141

The lack of agreed methods of verification and lack of standards produces an unsatisfactory variation in the verification of company environmental reports. Certification of environmental management systems and endorsement letters were used by some companies, but these should not be considered as verification.<sup>274</sup>

### **Need for verification standards**

Verification standards are needed to determine the scope of verification, the criteria to compare results, and the level of assurance given.

Verification statements in company environmental reports ranged in scope from assuring that the data was correct through to assuring that all major environmental issues had been addressed. Criteria used to compare company environmental reports includes the United Nations Environment Program/Sustainability checklist for the contents of reports. However, there are no standards for criteria to compare company data. The level of assurance given by the verification process is reflected in the scope and objectives of the verification process, which should always be stated.<sup>275</sup>

This lack of standards means companies set their own scope, criteria and assurance levels for the verification of their own environmental reports, which casts doubt on the credibility of many reports.<sup>276</sup>

The Committee recommended that:<sup>277</sup>

- the Government should establish a taskforce, involving accounting and standard setting boards and stakeholders, to develop basic standards for environmental performance reports for publicly listed companies; and

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<sup>274</sup> Ibid, pp. 142-144

<sup>275</sup> Ibid, pp. 143-145

<sup>276</sup> Ibid, p. 146

<sup>277</sup> Ibid, p. 148

- auditors should be required to audit and accredit best practice reporting models.

### **4.5.2 Government response**

The Government recognised the important role of verification in environmental performance reports. The Government indicated it would continue to encourage the use and development of verification processes.<sup>278</sup>

### **4.5.3 Follow-up Inquiry**

The lack of a generally accepted framework for the verification of environmental reports reflects the absence of a conceptual framework for environmental reporting. A conceptual framework would establish such things as the objectives of environmental reporting, who should report, the qualitative characteristics that the information should possess and the target audience. Financial reporting, by contrast, is subject to various conceptual frameworks developed within various countries, and by the International Accounting Standards Committee. These conceptual frameworks are all very similar.<sup>279</sup>

Some progress has been made towards establishing standards and guidelines for the verification of environmental performance reports, since the Committee first reported on this matter.

### **European frameworks**

Germany has adopted a verification standard, *IDW Auditing Standard: Generally Accepted Standards for Audits of Environmental Reports*. The standard covers:<sup>280</sup>

- a definition of an environmental report;

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<sup>278</sup> *Government Response, Public Accounts and Estimates Committee, Thirty-First Report to Parliament, Interim Report of the Inquiry into Environmental Accounting and Reporting*

<sup>279</sup> Professor Craig Deegan, personal communication, 22 January 2001

<sup>280</sup> Fédération des Experts Comptables Européens 1999, *FEE Discussion Paper – Providing Assurance on Environmental Reports*, FEE, Bruxelles, Appendix 3, p. 40; available on the website: <http://www.euro.fee.be/OtherPubs/Environment.PDF>

- acceptance, scope and conditions for an engagement to audit an environmental report;
- planning and scoping audit procedures;
- auditing:
  - accuracy of information in the report;
  - presentation of facts;
  - presentation of assumptions, conclusions and intentions;
  - environmental impacts;
  - environmental information systems; and
  - aggregation of information in the report;
- minimum reporting requirements;
- compliance with environmental laws and regulations;
- overall presentation of report;
- using the work of third parties;
- supervision of engagement and documentation; and
- attestation report.

The European accountancy body, the Federation des Experts Comptables Europeens, has produced a discussion paper on the same topic, which parallels the German standard.<sup>281</sup>

In Europe, the essential ingredient for verification is whether accounting records at sites have been inspected and compared to the actual environmental performance at those sites. Site visits are essential.<sup>282</sup>

The Global Reporting Initiative (GRI) is a long-term, multi-stakeholder, international undertaking, whose mission is to develop and disseminate globally applicable sustainability reporting guidelines for voluntary use by organisations reporting

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<sup>281</sup> Ibid, p. 40

<sup>282</sup> News: European environmental reporting awards 1999 – report of the panel of judges, *Environmental Accounting and Auditing Reporter*, vol. 5, no. 5, May 2000, p. 2

on the economic, environmental and social dimensions of their activities, products and services.

Since 1997, the group responsible for GRI, which includes international companies, has worked to design a common framework for companies to report on their economic, environmental and social impacts.<sup>283</sup> The GRI has a verification working group to produce a paper on verification. Two of the elements of verification the working group sees as important are:<sup>284</sup>

- a formal system of accreditation of verifiers; and
- the need for external stakeholder panels, internal audits and the involvement of independent experts from a variety of disciplines.

The GRI group recognises the need for a verification standard, but does not see its role as establishing such a standard. However, its influence is considerable.<sup>285</sup>

Current international best practice is illustrated by the verification process adopted by Neste Fortum, which won the 1999 European environmental reporting awards. The judges commented that the important characteristics of the report included its extensive verification.<sup>286</sup> The report has a two-page verification statement from Dr Jennings, Director, SustainAbility Ltd, London. His company had been commissioned to validate the numerical data, to verify statements made in the report, and to comment on the company's overall environmental performance. This was achieved by:<sup>287</sup>

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<sup>283</sup> Global Reporting Initiative 2000, *Sustainability Reporting Guidelines on Economic, Environmental and Social Performance*, GRI, Boston, p.1, available at the website <http://www.globalreporting.org/Guidelines/June2000/June2000GuidelinesDownload.htm>

<sup>284</sup> Global Reporting Initiative – Boston outcomes, *Environmental Accounting and Auditing Reporter*, vol. 5, no. 3, March 2000, p. 4

<sup>285</sup> Global Reporting Initiative 2000, *Sustainability Reporting Guidelines on Economic, Environmental and Social Performance*, GRI, Boston, p.47, available at the website <http://www.globalreporting.org/Guidelines/June2000/June2000GuidelinesDownload.htm>

<sup>286</sup> News: European environmental reporting awards 1999 – report of the panel of judges, *Environmental Accounting and Auditing Reporter*, vol. 5, no.5, May 2000, p. 1

<sup>287</sup> Neste Fortum Group 1998, *Corporate Environmental Report 1998*, Fortum Oil and Gas Oy, Finland, pp. 52-53

- examining the company's policies, procedures and objectives;
- interviewing key personnel at the company's head office;
- onsite interviews at five sites;
- examining the data collection, monitoring and reporting procedures;
- examining how data was compiled for the report;
- conducting an audit trail of selected reported data; and
- assessing the appropriateness of environmental performance indicators and their relevance to the company's policy statements and targets.

### **Australian framework**

Australia has not produced a standard for the verification of environmental reports. However the Commonwealth Government has produced guidelines in *A Framework for Public Environmental Reporting, An Australian Approach*. The framework states that verification is part of a company's accountability to its stakeholders.<sup>288</sup> It recognises four forms of verification, summarised in Exhibit 4.1.<sup>289</sup>

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<sup>288</sup> Natural Heritage Trust 2000, *A Framework for Public Environmental Reporting, An Australian Approach*, Environment Australia, Canberra, p. 39

<sup>289</sup> Ibid, p. 40

**Exhibit 4.1: Forms of Verification**

<b>Level</b>	<b>Description</b>
1. Data verification	Checking randomly selected data trails, ensuring data and statements are accurate and fair
2. Completeness of reporting	Comparing the level of reporting against the organisation's policy, aspects, impacts, objectives, targets and identified significant environmental impacts
3. Site level compliance auditing	Site level auditing, to determine if the report represents the actual performance of the organisation
4. Re-sampling and analysis	Re-sampling and analysis of data streams at site level

If companies move to triple bottom line reporting (integrating environmental, financial and social data) there will be an even greater need for a multi-disciplinary approach.

Exhibit 4.1 does not include verification from a stakeholders point of view or the involvement, for example, of community based environmental groups. The engagement of stakeholders in the verification process can give some assurance of the company's overall environmental performance.

The Committee was advised that about 12 environmental reports in Australia are externally verified.<sup>290</sup> However, this number is likely to increase as companies become more accustomed to issuing environmental reports.

The lack of consistency in verification of environmental reports in Australia is illustrated by the following two cases.

Western Mining Corporation (WMC) has produced five annual environmental reports. The last two have been ranked by the

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<sup>290</sup> Transcript of evidence, Mr T Jeyaretnam and Mr K Fung, Snowy Mountains Engineering Corporation, 12 September 2000, p. 127

Snowy Mountains Engineering Corporation (SMEC) as the best in Australia.<sup>291</sup>

In its *Environment Progress Report 1999*, WMC reported the independent assessment by the World Wide Fund for Nature *Scorecard* and the SMEC's ranking of its previous report. The company used two forms of verification: PricewaterhouseCoopers selected three sites for review and an advisory group of eminent environmentalists provided '*critical, diverse and expert advice on WMC's environmental report*'.<sup>292</sup>

The PricewaterhouseCoopers verification statement included a scoping statement, stating that they had selected three sites. They verified the completeness and accuracy of the performance data, providing qualitative and quantitative statements for each site. They compared WMC's management processes to the Australian Minerals Industry Environmental Code.<sup>293</sup> WMC advised that the verifier was a qualified environmental auditor.<sup>294</sup>

Another example is Pasminco which has produced only one public report on its environmental impacts, *Pasminco Environment Report 1999*. The report included a statement that local community representatives, peak environmental group representatives and Pasminco employees had advised Pasminco on the contents and length of the report.<sup>295</sup> The number of people in each category was not specified. The verification report stated that Dames and Moore, who verified the report, had:<sup>296</sup>

- participated in the external reference group;
- facilitated public forums of local people to identify issues of importance;
- guided data gathering processes;

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<sup>291</sup> Jeyaretnam, T., Tunney, J. & Hughes, T. 1999, *Public Environmental Reporting: Where Does Australia Stand?*, SMEC Victoria; and Jeyaretnam, T. 2000, *Public Environmental Report Benchmarking Program 1999/2000*, SMEC Victoria

<sup>292</sup> WMC Limited, *Environment Progress Report 1999*, Melbourne, pp. 18-19

<sup>293</sup> Ibid, p. 19

<sup>294</sup> Ibid, p. 19

<sup>295</sup> Pasminco 1999, *Pasminco Environment Report 1999*, Pasminco, Melbourne, p. 29

<sup>296</sup> Ibid, p. 30

- conducted onsite reviews to verify the environmental performance of the company;
- not conducted a formal validation of numerical data or key performance indicators (KPI) data, or of data collection and reporting systems; and
- verified that the report was consistent with the requirements of the Australian Minerals Industry Environmental Code.

The qualifications of the Dames and Moore verifier were not given.

The Committee is concerned about the lack of a standard for the verification of reports. However, the Committee recognises that the pre-condition for a standard is an agreed conceptual framework.

Accordingly, the Committee recommends that:

**Recommendation 4.6:**

**The Victorian Government work with the Commonwealth Government to:**

- (a) establish a taskforce with representatives from the professional accounting bodies and the accounting and auditing standard setting boards and relevant stakeholders, to develop key elements of a conceptual framework for the verification of environmental performance reports for publicly listed companies; and**
- (b) pursue the development of standards for auditors of environmental information in public sector annual reports and public sector environmental performance reports.**

## **4.6 Certification and accreditation of auditors and verifiers**

### **4.6.1 Interim Report**

Auditors of financial statements are registered by the Australian Securities and Investments Commission in accordance with the Corporations Law. They may seek the assistance of experts, such as environmental scientists.<sup>297</sup>

Environmental auditors can receive international certification through the Quality Society of Australasia Ltd.<sup>298</sup> The Environment Protection Authority can also appoint environmental auditors under its Act. Environmental auditors can assist financial auditors in the auditing of financial statements.

At the time the Interim Report was written, there was no regulation or accreditation system for verifiers of company environmental reports.<sup>299</sup>

The Committee recommended that:<sup>300</sup>

- the Government encourage the certification of verifiers of environmental performance reports through the Quality Society of Australasia; and
- the Government pursue the development of standards for auditors of environmental information in public sector annual reports and public sector environmental performance reports.

### **4.6.2 Government response**

The Government did not respond to the issue of certification and accreditation of environmental auditors and verifiers.

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<sup>297</sup> Public Accounts and Estimates Committee, Report No. 31, *Interim Report of the Inquiry into Environmental Accounting and Reporting*, June 1999, p. 148

<sup>298</sup> Ibid, p. 149

<sup>299</sup> Ibid, pp. 149-150

<sup>300</sup> Ibid, pp. 151-152

### 4.6.3 *Follow-up Inquiry*

The Environment Protection Authority is expanding its guidelines for the accreditation of environmental auditors under its Act. Under section 57 of the *Environment Protection Act 1970*, the Environment Protection Authority may appoint environmental auditors. Currently, the Authority appoints auditors of contaminated land and auditors of industrial facilities.<sup>301</sup> It is revising its guidelines for the appointment of environmental auditors in consultation with stakeholders, including:<sup>302</sup>

- existing appointed environmental auditors;
- major industry associations;
- companies producing environment reports; and
- accounting bodies, such as The Institute of Chartered Accountants.

As previously mentioned, the *Environment Protection (Liveable Neighbourhoods) Act 2001* (part 4) adds new sections, 53R to 53ZE, to the *Environment Protection Act 1970*, relating to environmental audits (and changes s. 57 of the Act). The new section provides for the appointment of environmental auditors, with an expanded scope of auditing, which includes auditing any segment of the environment, auditing environmental risk and auditing the protection of the environment.<sup>303</sup>

The Committee welcomes the extension of the Victorian Environment Protection Authority's scheme of appointing environmental auditors.

The Committee's recommendation that the Quality Society of Australasia Ltd include a category of environmental verifier in its accreditation scheme has been adopted. The Quality Society of Australasia now has the following environmental audit category:

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<sup>301</sup> Dr Brian Robinson, Chairman, Environment Protection Authority, answers to follow-up questions, 20 September 2000, p. 12

<sup>302</sup> Victorian Government agencies, submission no. 41, p. 13

<sup>303</sup> *Environment Protection (Liveable Neighbourhoods) Act 2001* (No. 7 of 2001), section 12

## **Environmental Report Verification**

*Establishing the completeness and accuracy of quantitative environmental performance data, through examining the company's internal data gathering systems and controls, for public or other reporting.*<sup>304</sup>

### **4.7 Private and public sector environmental performance reporting**

The Committee received evidence that the public sector should lead environmental reporting by example. Apart from this distinction, submissions wanted the private and public sector to be treated the same.<sup>305</sup>

#### **4.7.1 Interim Report**

##### *(a) Private sector reporting*

#### **Purpose of environmental performance reporting**

The objectives of environmental performance reports are to provide information to any member of the public or industry on an organisation's environmental impact and performance. Environmental performance reports are usually stand alone documents.<sup>306</sup> Companies often report their environmental policies, information about their environmental management systems, risks and impacts, levels of emissions, any legal non-compliance and stakeholder engagement in their environmental processes and environmental awards in their environmental reports. Limited financial information may also be provided, on such matters as money spent on recycling, land restoration costs and fines for legal non-compliance.<sup>307</sup>

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<sup>304</sup> How to Apply: Environment, Environmental Auditor Certification, page 2 of 2, available at the website: <http://www.qsanet.com/auditors/envlist.html>

<sup>305</sup> For example: Professor Martin Mathews, submission no. 6, p. 2.; Telstra, submission no. 9, p. 3; and Environment Management Industry Association of Australia, Victorian Network, submission no. 36, p. 6

<sup>306</sup> Public Accounts and Estimates Committee, Report No. 31, *Interim Report of the Inquiry into Environmental Accounting and Reporting*, June 1999, p. 87. Increasingly, environmental performance reports are being issued with social reports (for example BHP, Coal and Allied, Rio Tinto) or as part of broader sustainability reports (for example Placer Dome Asia Pacific)

<sup>307</sup> Ibid, pp. 87-88

### **Compulsory reporting - overseas experience**

In Denmark, about 1400 polluting companies are required to prepare annual green accounts detailing their use of water, energy, raw materials and production of pollution. The intention of the Green Accounts Regulation is to assist companies to improve their environmental performance and to provide the public with information on environmental performance and the use of resources.<sup>308</sup>

Companies in Canada, Mexico, the United States and Britain are required to report annually on their discharge of emissions to the environment.<sup>309</sup>

### **Compulsory reporting - Australian experience**

Australian corporate annual reports are subject to the Corporations Law and Accounting Standards issued by the Australian Accounting Standards Board. Section 299(1)(f) of the Corporations Act requires directors of larger companies to disclose legal non-compliance with environmental laws. Land restoration activities of extracting industries are the only environmental accounting activities that have an accounting standard.<sup>310</sup>

Legislation in the Commonwealth and all States requires companies to disclose a limited number of substances emitted to air, land and water, under the National Pollutant Inventory.<sup>311</sup>

The New South Wales Environment Protection Authority requires companies to include in their annual report, information on their licence compliance. This covers about 5,000 premises. Under load based licences, about 1,000 companies are required to report on emissions of assessable pollutants. These disclosures are publicly available on the Internet.<sup>312</sup>

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<sup>308</sup> Ibid, p. 89

<sup>309</sup> Ibid, p. 90

<sup>310</sup> Ibid, p. 90

<sup>311</sup> Ibid, p. 91

<sup>312</sup> Ibid, p. 92

In Victoria, over the past 10 years, the Victorian Environment Protection Authority has also required licence compliance reports by companies. Recently, it has encouraged more comprehensive reporting, through the Environment Improvement Plan program. This program requires participating companies to understand their environmental impacts and plan to reduce these impacts. Ongoing reporting to the company's local community is part of all improvement plans.<sup>313</sup>

In Victoria, companies which use an environmental management system and environment improvement plans can apply for accredited licences, which have a reduced fee. An accredited company must produce an annual environmental report, authorised by a senior executive.<sup>314</sup>

Companies producing prescribed waste must report annually on the management of that waste.<sup>315</sup>

The Committee was concerned that all these Victorian environmental reports should provide consistent and comparable information and the Interim Report contained a number of recommendations aimed at achieving consistency in reporting requirements.

### **Voluntary reporting – overseas experience**

The Interim Report identified 12 systems for voluntary environmental performance reporting by companies.<sup>316</sup> For example, the UNEP/ SustainAbility system lists 50 reporting criteria that companies should report against, including finance, stakeholder relationships and sustainable development. The GRI designed its reporting guidelines to link economic, environmental and social reporting. Its guidelines are designed to be globally

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<sup>313</sup> Ibid, pp. 91-92

<sup>314</sup> Ibid, p. 92

<sup>315</sup> Ibid, p. 92

<sup>316</sup> Ibid, appendix 5, pp. 171-172

applicable and to raise sustainable development reporting to the same level of acceptance as financial reporting.<sup>317</sup>

In Europe, voluntary public environmental performance reporting is part of the European Economic Community's EMAS system of environmental management. The scheme encourages companies to establish environmental policies, programs and management systems at each of their sites. Environmental performance reports to the public provide an objective evaluation of these elements. If a company adopts the EMAS system, the company's environment management system must be externally audited, including its environmental report.<sup>318</sup>

International industry codes, which include environmental reporting, have been developed by the chemicals, forestry, oil, gas and minerals sectors.<sup>319</sup>

### **Voluntary reporting – Australian experience**

In Australia, the Minerals Council of Australia has developed the Australian Minerals Industry Code for Environmental Management. Most Australian mineral exploration and development companies have adopted the code, which requires signatories to publicly report the company's implementation of the code and its environmental performance.<sup>320</sup> Although the minerals industry is a leader in environmental performance reporting in Australia, the World Wide Fund for Nature found a lack of comparative assessment of their reports.<sup>321</sup>

### **Environmental reporting awards**

Environmental reporting awards provide criteria on significant issues for companies to report against. Britain, The Netherlands, Denmark, Norway and other European countries have award

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<sup>317</sup> Ibid, pp. 94-95

<sup>318</sup> Ibid, pp. 96-97

<sup>319</sup> Ibid, p. 97

<sup>320</sup> Ibid, pp. 97-98

<sup>321</sup> Ibid, p. 98. The World Wide Fund for Nature also criticised the lack of information about community involvement and the quality and extent of verification of the reports

schemes. In Australia, the Australian Minerals and Energy Environmental Foundation and the Annual Reports Award Inc. issue environmental performance reporting awards. The awards reflect the quality of reporting.<sup>322</sup>

### **Standards for environmental reporting**

The benefits of company environmental performance reporting would be enhanced if the reporting process was transparent, consistent and comparable across companies, industry sectors and countries. The Committee believes that a common set of criteria and standards is desirable. The European Federation of Accountants has acknowledged that a formal set of reporting principles and a standardised reporting framework are needed to overcome any perception that the environmental reports lack credibility.<sup>323</sup>

In Australia, in 1998, the Commonwealth Government developed national guidelines for public environmental reporting. These guidelines cover the costs and benefits of environmental reporting and propose generic environmental performance indicators and a methodology for producing environmental reports, as well as production by small and medium sized organisations.<sup>324</sup>

Australian national guidelines eliminate the need for Victorian guidelines. The Committee is aware that many multinational companies may prefer to follow international guidelines. The guidelines need to be flexible to be applicable to different industry sectors. Best practice in reporting should also be followed. Industry based minimum reporting standards may be desirable.<sup>325</sup>

The Committee recommended that the Victorian Government support the development of national guidelines for public environmental reporting.<sup>326</sup>

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<sup>322</sup> Ibid, p. 99

<sup>323</sup> Ibid, p. 101

<sup>324</sup> Ibid, p. 102

<sup>325</sup> Ibid, pp. 103-104

<sup>326</sup> Ibid, p. 104

The Committee recommended that the Government encourage voluntary environmental reporting by publicly listed companies and the public sector. The Committee wanted to mandate the disclosure of environmental information through the *Environment Protection Act* within 10 years and require detailed reporting under the Corporations Law.<sup>327</sup>

The Committee believed that meaningful information will be provided when voluntary reporting incorporates compulsory reporting elements, such as emissions reported under the National Pollutant Inventory.<sup>328</sup>

The Interim Report contained two recommendations: to promote environmental reporting awards and to encourage the adoption of national public environmental reporting guidelines.

### **Environmental management systems**

An environmental management system involves planning activities, allocating environmental responsibilities, resourcing and implementing environmental policy. An environmental accounting system is necessary for an adequate environmental management system and both can result in high quality environmental reporting. An environmental management system assists the business to manage its environmental impacts and to improve its environmental performance.<sup>329</sup>

Increasingly, the community and international markets are requiring companies to demonstrate their environmental commitment. The adoption by a company of an externally certified environment management system, such as ISO 14000, shows that commitment.<sup>330</sup>

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<sup>327</sup> Ibid, p. 106

<sup>328</sup> Ibid, p. 107

<sup>329</sup> Ibid, pp. 109-110

<sup>330</sup> Ibid, pp. 110-111

In Australia, a number of companies are adopting ISO 14001, but not all have sought external accreditation. Companies should strive to exceed this minimum standard, as ISO 14001 is not best practice. The National Office of Local Government has published a guide to ISO 14001 for Local Government, but few councils have taken up the standard.<sup>331</sup>

The Committee recommended that, within the next 10 years, all Victorian businesses over a certain size (to be determined in consultation with the business community) should be required to adopt an environment management system to a certifiable standard.<sup>332</sup>

*(b) Public sector reporting*

**Public sector to lead by example**

The Committee's Interim Report noted that all government departments and agencies are responsible for operating within the environmental policies adopted by the Victorian Government, including the National Strategy for Ecologically Sustainable Development and the Victorian Industrial Waste Strategy.

The Committee's research revealed that public sector reporting of environmental performance, worldwide, is not as common as private sector reporting. As in the private sector, public sector departments and agencies should be reporting environmental information in their financial statements, annual reports and in stand alone environmental reports.<sup>333</sup>

**Financial statements and annual reports**

In the public sector, there are no accounting standards for the inclusion of environmental matters in financial statements, as in the private sector.<sup>334</sup> Environmental matters that are disclosed

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<sup>331</sup> Ibid, pp. 115-116

<sup>332</sup> Ibid, p. 118

<sup>333</sup> Ibid, p. 122

<sup>334</sup> Ibid, pp. 121-122

include heritage, infrastructure and natural assets and liabilities for the remediation of contaminated sites, under guidelines issued by the Department of Treasury and Finance.<sup>335</sup>

There is no requirement for environmental disclosures in annual reports by government departments and agencies, under the *Financial Management Act 1994*. The Department of Natural Resources and Environment and the Environment Protection Authority disclose environmental information in their annual reports.<sup>336</sup>

The Committee recommended that the Government encourage the accounting profession, the accounting standards setting board, and other stakeholders, to develop a new accounting standard for public sector reports on environmental issues.<sup>337</sup>

### **Environmental performance reporting**

Various overseas governments require the public sector to report on their environmental impacts and action taken to reduce those impacts. Some States require public sector activity to be reported against performance indicators in annual reports. In Victoria, the public sector must report financial and general information about its operations and performance.<sup>338</sup>

The Committee, in a report on Annual Reporting in the Victorian Public Sector, recommended that agencies should include in their annual reports environmental disclosures, where the activities would have a material impact on the environment. The Committee also recommended that the public sector disclose:<sup>339</sup>

- their level of compliance with Environment Protection Authority regulations;

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<sup>335</sup> Ibid, pp. 122-123

<sup>336</sup> Ibid, p. 123

<sup>337</sup> Ibid, p. 125

<sup>338</sup> Ibid, pp. 125-126

<sup>339</sup> Ibid, pp. 126-127

- a description of projects requiring environmental impact assessment, site remediation or rehabilitation;
- indicators of environmental impacts;
- audited statements of their environmental management systems; and
- performance measures for waste minimisation.

The Australian Accounting Standard on Financial Reporting by government departments encourages publication of performance information in relation to major projects. In New South Wales, the Environment Protection Authority can advise public authorities on performance targets for environment protection. Where public authorities fail to publicly report on their achievements against performance targets, the Authority must report on their behalf.<sup>340</sup>

The NSW Waste Reduction and Purchasing Policy requires departments and agencies to adopt environmentally responsible waste reduction and purchasing practices. Agencies must report their achievements to the NSW Environment Protection Authority every two years.<sup>341</sup>

In Victoria, the Environment Protection Authority has applied an environmental management system to its own use of paper, energy, buildings, motor vehicle fleet, waste and laboratory and field operations, including an Environment Improvement Plan for paper use.<sup>342</sup>

Measure 3.1 of the National Greenhouse Strategy commits Australian governments to:

- reduce their own greenhouse emissions by developing an inventory of greenhouse emissions;
- develop an action plan to reduce those emissions;
- independently verify the information; and

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<sup>340</sup> Ibid, pp. 127-128

<sup>341</sup> Ibid, p. 128

<sup>342</sup> Ibid, p. 128

- report publicly on performance.

At the time of the Interim Report, only the Victorian Department of Justice had developed an inventory of greenhouse emissions and set targets for reducing energy use.<sup>343</sup>

### **Content of environmental performance reports**

Submissions to the Interim Inquiry agreed that the public sector should report on a range of environmental performance indicators. However, there was no agreement on what those indicators should be.

The Interim Report contained six recommendations to improve environmental performance reporting.

#### **4.7.2 Government response**

The Government responded to the Committee's Interim Report recommendations by stating it would strongly encourage private sector organisations to undertake environmental performance reporting and to develop and use environment management systems:

*Openness and accountability of both public and private sector organisations to the community is high on the government's policy agenda. In the area of environmental performance reporting, the government will lead by example. The government is working towards the implementation of annual environmental performance reporting for public sector agencies in line with the principles of ecologically sustainable development. This will enable agencies to demonstrate leadership in public openness and also encourage environmental performance on the part of the public sector agencies.*<sup>344</sup>

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<sup>343</sup> Ibid, p. 130

<sup>344</sup> *Government Response, Public Accounts and Estimates Committee, Thirty-First Report to Parliament, Interim Report of the Inquiry into Environmental Accounting and Reporting*

### **4.7.3 *Issues Paper***

The Committee's Issues Paper No. 4 asked whether all private companies and all public sector organisations should be required to publicly report their environmental performance. It raised the issue of whether there should be universal guidelines for environmental reporting, or whether guidelines should be sector-specific (for example, separate guidelines for the mining sector). Another key issue was whether the public sector should lead environmental reporting by example. There was a discussion on indicators for the public sector and of whether reporting should be in annual reports or stand alone environmental reports.

### **4.7.4 *Follow-up Inquiry***

The Follow-up Inquiry addressed five outstanding issues from the Interim Report:

- compulsory or voluntary reporting;
- the public sector leading environmental reporting by example;
- improvements in the quality of environmental reports;
- the presentation of awards; and
- the adoption of environmental management systems.

### **Increasing incentives for private sector environmental disclosure**

Many ethical investment funds now use environmental performance screens. An American survey found that professionally managed funds that use social investment strategies had increased investments by 238 per cent from 1995 to 1999 (to US\$2.16 trillion), compared to a general market investment increase of 133 per cent. This represents one in every US\$8.00 of professional management investment. In Japan, six eco-funds were launched in the 18 months to February 2001, attracting

US\$1.6 billion.<sup>345</sup> In Australia, a KPMG survey found that one in 10 investors had bought or sold shares in the past 12 months on the basis of a company's record of environmental and/or social responsibility.<sup>346</sup>

In Australia, ethical funds were yielding between 10.9 per cent and 22.3 per cent on investment in the 12 months to 31 January 2001.<sup>347</sup> Australian funds use the full range of screening devices. AMP recently purchased MPI, an investment group offering 15 funds. Sixty per cent of investors in MPI choose the negative screening fund, which does not invest in tobacco, armaments, companies contributing to climate change and companies felling old-growth forest. Best-of-sector positive screening funds, such as Westpac's Eco-Share Fund, choose the best environmentally performing companies in each sector, for example the mining, chemical and banking sectors. Other groups, such as Australian Ethical Investment and Bendigo Bank only invest in companies that make positive contributions to the environment or to social wellbeing.<sup>348</sup>

Two of Australia's biggest superannuation funds now have ethical investments. HESTA's Eco-Pool option is the most popular fund and has \$2.6 billion in assets.<sup>349</sup> Unisuper has invested \$100 million in an English ethical fund. In the United Kingdom, superannuation funds must state in writing to their investors how they take into account social, ethical and environmental concerns.<sup>350</sup> Similar amendments were included in the recent Commonwealth Financial Services Reform Act.<sup>351</sup>

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<sup>345</sup> Investing Ethically: Getting the Greenest Bang for Your Buck, transcript from *Earthbeat*, ABC radio broadcast of 24 February 2001, pages 7 and 8 of 14, available on the website <http://www.abc.net.au/rn/science/earth/stories/s252586.htm>

<sup>346</sup> Peter Fries, Sustainability keeps on growing, *The Australian Financial Review*, 6 March 2001, p. 48

<sup>347</sup> Tim Blue, Sharing of the green, *The Weekend Australian*, 24-25 February 2001, Money Guide, p. 35

<sup>348</sup> Investing Ethically: Getting the Greenest Bang for Your Buck, transcript from *Earthbeat*, ABC radio broadcast of 24 February 2001, pages 2, 3, 6, 9 of 14, available on the website <http://www.abc.net.au/rn/science/earth/stories/s252586.htm>

<sup>349</sup> Barrie Dunstan, Plunging into the Eco Pool, *The Australian Financial Review*, 6 February 2001, p. 25

<sup>350</sup> Investing Ethically: Getting the Greenest Bang for Your Buck, transcript from *Earthbeat*, ABC radio broadcast of 24 February 2001, pages 5, 7 of 14, available on the website <http://www.abc.net.au/rn/science/earth/stories/s252586.htm>

<sup>351</sup> *Financial Services Reform Act 2001* (No. 122), Schedule 1, sections 1013D(1) and 1013DA

## Compulsory and voluntary reporting

Governments in Europe, Denmark, The Netherlands and Sweden have made environmental reporting compulsory. The European Commission has drafted recommendations for environmental disclosures in the annual report and accounts, which are likely to become compulsory if the takeup of voluntary measures is less than satisfactory.<sup>352</sup>

As noted in the Interim Report, there is already compulsion on private enterprises in Victoria to report on their compliance with licence conditions, their emissions to air, water and land (through the National Pollutant Inventory) and their management of prescribed wastes. At the national level, directors of larger companies must report environmental legal compliance under the Corporations Law.

Witnesses suggested to the Committee that the compulsory reporting of environmental legal compliance by directors of companies, under section 299(1)(f) of the Corporations Act, had created confusion in industry, for there were no clear guidelines on what was to be reported. Accountants had suggested to companies that only environmental matters under environmental regulations that were material to the financial accounts needed to be reported. The Australian Securities and Investments Commission clarified the situation, stating that disclosure of legal non-compliance was required regardless of the material impact of the resulting fine – it was a question of the environmental significance of the non-compliance.<sup>353</sup> The Committee was advised that companies have either ignored, or given minimal attention to, section 299(1)(f) reporting in their directors' reports.

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<sup>352</sup> Editorial: 50 issues on, *Environmental Accounting & Auditing Reporter*, vol. 5, no. 6, June 2000, p. 1

<sup>353</sup> Australian Securities and Investments Commission 1998, *Practice Note 68*

Compulsory reporting under section 299(1)(f) only affects public companies or proprietary companies with a gross revenue of more than \$10 million and gross assets of more than \$5 million or over 50 employees.<sup>354</sup>

The lesson drawn by witnesses from the Corporations Act case study of compulsory environmental reporting, was that legal requirements needed to be clearly written and guidelines on what was required of companies were essential. It was not good enough to tell companies to report on their environmental impacts; they needed to know exactly what to report on.

In the Interim Report, it was noted that national guidelines for public environmental reporting were being developed. The results of that project are now available. A consortium, led by the SMEC and the Australian Industry Group, prepared *A Framework for Public Environmental Reporting – An Australian Approach*, which was released in March 2000.<sup>355</sup> Four hundred and fifty organisations, government bodies, non-government groups and academics participated in workshops in five Australian capital cities as part of the development of the framework.<sup>356</sup> The framework is voluntary. It gives instructions on how to prepare a public environmental report and the possible content of the report. The framework recognises that each company will have different circumstances. Because of the flexibility of the framework, it is suitable for small, medium and large companies.

The Committee was advised that compulsory reporting ensures that both good and bad performers report. Conscientious firms who are already reporting their environmental performance are then not at a market disadvantage. Compulsory environmental reporting would stimulate the uptake of environmental reporting by companies and increase accountants' interest in this area. The

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<sup>354</sup> Australian Industry Group, submission no. 34, p. 6

<sup>355</sup> Natural Heritage Trust 2000, *A Framework for Public Environmental Reporting: An Australian Approach*, Environment Australia, Canberra, Acknowledgements page; available at the website [http://www.environment.gov.au/epg/envirnet/eecp/pubs/per\\_framework.pdf](http://www.environment.gov.au/epg/envirnet/eecp/pubs/per_framework.pdf)

<sup>356</sup> Jeyaretnam, T. 2000, *Public Environmental Report Benchmarking Program 1999/2000*, SMEC Victoria, p. 19

status of environmental matters would be raised to the same status as financial matters.

However, a State-based compulsory system has its problems. The Australian Industry Group stressed the need for national, not State, requirements on environmental reporting.<sup>357</sup>

The Committee is aware that there is a move for the States to hand over all corporations matters to the Commonwealth.<sup>358</sup> At the State level, the Environment Protection Authority already has powers to compel poorly performing industry to produce environment improvement plans, which demand public reporting to the local community.<sup>359</sup>

One option put to the Committee was the recently developed packaging legal framework whereby industry sectors, with support from government agencies, can devise their own packaging codes to abide by within a given time or face compulsory packaging management requirements.<sup>360</sup> Similarly, companies could be required to publicly report their environmental performance, based on industry sector guidelines developed by each sector. Where guidelines were not developed within a specified period, companies in that sector would be required to use all provisions of *A Framework for Public Environmental Reporting – An Australian Approach*, with lesser requirements for medium to small sized businesses. While the guidelines are broad and generic, the Committee is concerned that some sectors may find them difficult to apply.

Those supporting voluntary reporting of environmental performance noted that the content and form of environmental reporting continues to evolve. Environmental reports are produced for the company's various stakeholders: shareholders,

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<sup>357</sup> Australian Industry Group, submission no. 34, p. 7

<sup>358</sup> Editor, Corporations Law botch-up, *The Australian Financial Review*, 21 November 2000, p. 50; Hon. R Hulls, MP, Victorian Attorney-General, New scheme will give certainty, *The Australian Financial Review*, 19 January 2001, p. 41

<sup>359</sup> *Environment Protection Act 1970*, section 31C

<sup>360</sup> Transcript of evidence, Ms L Hicks, Lawyer, Maddock Lonie and Chisholm, 9 October 2000, p. 34

potential investors, employees, local communities, financiers and community groups.<sup>361</sup> Companies need the flexibility to report on matters that will add value to their information requirements; they do not wish to report information of no use to them or to their stakeholders.<sup>362</sup> As pointed out to the Committee, good environmental reporting goes beyond compliance with laws.<sup>363</sup>

The Committee was advised that there are approximately 900,000 small businesses in Australia with an average employment of 6.3 people. These are often family businesses which already face disproportionate administrative costs in complying with government regulations, compared to medium to large businesses. The Council of Small Business Organisations of Australia argued that it was important that any laws passed in relation to environmental reporting take this into account.<sup>364</sup>

*When A Framework for Public Environmental Reporting – An Australian Approach* was launched, \$240,000 was provided to allow the appointment of environmental reporting extension officers to work with key industry and business groups.<sup>365</sup> These officers mainly provide assistance to small to medium sized enterprises, to develop public environmental reports. The extension officers were placed with peak business organisations such as the Australian Industry Group and Business Australia.

Internationally, voluntary reporting has resulted in 35 per cent of Global 250 companies issuing environmental reports. To encourage voluntary environmental reporting, the British Minister for the Environment now ‘names and shames’ non-reporting

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<sup>361</sup> For example, see Transcript of evidence, Mr David Sinclair, Group Manager, Environment, Pasmenco, 11 September 2000, p. 53

<sup>362</sup> Telstra, submission no. 9, p. 2; and Victorian Water Industry Association, submission no. 20, p. 2

<sup>363</sup> Australian Industry Group, submission no. 34, p. 8

<sup>364</sup> Transcript of evidence, Mr Rob Bastian, Chief Executive, Council of Small Business Organisations of Australia, 19 October 2000, p. 19

<sup>365</sup> Public environment reporting: Going for the green bottom line, Press Release, Senator the Hon Robert Hill, Minister for the Environment and Heritage, 6 March 2000

companies in Parliament.<sup>366</sup> This practice has also been adopted by the US organisation, the Council on Economic Priorities.<sup>367</sup>

The Committee believes there is a need for industry to produce public environmental reports that are of use to stakeholders. While guidelines for public environmental reports are new and environmental and sustainable development reports are also still evolving, the Committee believes that government should assist industry to produce public environmental reports.

### **Public sector leading by example**

It has been noted in the response to the Interim Report that the Government is implementing annual environmental performance reporting for public sector agencies. The proposal was expanded in the Government agencies' submission to this Inquiry:

*The Government is committed to leading by example with respect to environmental performance reporting. The Government is working towards the implementation of annual environmental performance reporting for public sector agencies in line with the principles of ESD. This will enable government agencies to lead by example in public openness and also encourage improved environmental performance on the part of public sector agencies. The framework for public sector environmental performance reporting is in the process of being developed.*<sup>368</sup>

The Environment Protection Authority is working with the Department of Treasury and Finance towards developing environmental indicators for public sector annual reports.<sup>369</sup> However, the progress on this development seems very slow. The Committee was given no timetable for this work to be completed. The development of annual report guidelines is only a small step,

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<sup>366</sup> Editorial: 50 issues on, *Environmental Accounting & Auditing Reporter*, vol. 5, no. 6, June 2000, p. 1

<sup>367</sup> Professor Craig Deegan, personal communication, 22 January 2001

<sup>368</sup> Victorian Government agencies, submission no. 41, p. 11

<sup>369</sup> Written responses by Dr Brian Robinson, Chairman, Environment Protection Agency, to additional questions from the Public Accounts and Estimates Committee, 20 September 2000, p. 10

compared to requiring public bodies to produce stand alone full environmental performance reports.

The water sector is leading the production of environmental performance reports. A recent survey of Australian environmental performance reports put Sydney Water, City West Water, WA Water, Melbourne Water and SA Water in the top 20 companies for public environmental reporting in Australia.<sup>370</sup>

The Victorian Water Industry Association is discussing with a consultant a framework for the Victorian water industry sector on environmental accounting and reporting.<sup>371</sup> This framework will be added to the Association's "best practice" accounting and legal manuals and regularly updated.<sup>372</sup> The Committee commends this initiative.

One role proposed for the public sector was to demonstrate the practicability and benefits of environmental reporting and actively promote environmental reporting to the segments of the private sector they are in touch with. The public sector could demonstrate how compliance with environmental requirements and targets could be achieved. They could show how policy, and opportunities to improve environmental performance, could be converted to desired environmental outcomes. The public sector could document the environmental consequences of their operations.<sup>373</sup>

The Committee believes that if public bodies are to lead by example, they should be using best practice in environmental reporting.

Accordingly, the Committee recommends that:

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<sup>370</sup> Jeyaretnam, T. 2000, *Public Environmental Report Benchmarking Program 1999/2000*, Snowy Mountains Engineering Corporation, Victoria, Melbourne, table 3.5, p. 11

<sup>371</sup> Transcript of evidence, Ms Toni McCormack, Chief Executive Officer, Victorian Water Industry Association, 25 August 2000, p. 43

<sup>372</sup> Victorian Water Industry Association, submission no. 20, p. 4

<sup>373</sup> Bayside City Council, submission no. 22, p. 6; and Victorian Government agencies, submission no. 41, p. 7

**Recommendation 4.7:**

- (a) Departments and agencies be required to report annually on their progress towards their environmental objectives;**
- (b) The Department of Treasury and Finance assist departments and agencies to develop environmental indicators to report against in their annual reports; and**
- (c) Annual reports of departments and agencies include information on environmental performance.**

**Improvements in environmental reports**

The judges of the 10<sup>th</sup> United Kingdom Environmental Reporting Awards, presented by the Association of Chartered Certified Accountants, reported that not only has there been a steady increase in the number of environmental reports submitted for the awards (60), but the quality of reports has also improved dramatically.<sup>374</sup>

Twenty-four reports from 12 countries were submitted for the European Environmental Reporting Awards 2000.<sup>375</sup>

In Australia, the SMEC has carried out two surveys of public environmental reporting in Australia - in 1999 and 2000.<sup>376</sup> For the 2000 report, 65 Australian organisations that produce environmental performance reports were requested to voluntarily submit their reports for assessment. Twenty-one organisations did so,<sup>377</sup> from the mining/resources, water, energy and

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<sup>374</sup> ACCA UK Environmental Reporting Awards 2000, Report of the Judges

<sup>375</sup> European Environmental Reporting Awards 2000, Report of the Judges, available at [http://www.acca.uk/images/soc\\_env/EERA2000-1-72](http://www.acca.uk/images/soc_env/EERA2000-1-72)

<sup>376</sup> Jeyaretnam, T., Tunney, J. & Hughes, T. 1999, *Public Environmental Reporting: Where Does Australia Stand?*, SMEC Victoria; and Jeyaretnam, T. 2000, *Public Environmental Report Benchmarking Program 1999/2000*, SMEC Victoria

<sup>377</sup> Jeyaretnam, T. 2000, *Public Environmental Report Benchmarking Program 1999/2000*, SMEC Victoria, p. 3

manufacturing sectors. Overall, the quality of reporting has improved, with the mining sector leading all other sectors.<sup>378</sup>

The trend in environmental reporting overseas has been towards triple bottom line or sustainability reporting. The development, over the past five years, of the GRI reporting framework (see next sub-section) has assisted this trend.<sup>379</sup> In Australia, WMC produces separate environmental, financial and social reports. It aims to integrate these in approximately two years.

### **Reporting methodologies and standards**

There are no internationally or Australian agreed methodologies or standards for reporting on environmental matters in annual reports or stand alone environmental performance reports.

Three influential guidelines have been further developed since the Interim Report was written.

Throughout the 1990s, a number of environmental (and subsequently, sustainability) reporting frameworks were developed to assist organisations to report information about their environmental performance. These are particularly useful given that nationally and internationally, most reporting is voluntary and in an area of reporting that is relatively new. Internationally, environmental reporting guidelines have been released by various organisations, including:

- Confederation of British Industry (UK), *Introducing Environmental Reporting – Guidelines for Business* (1993);
- Environmental Task Force of the European Federation of Accountants, *FEE Discussion Paper Towards a Generally Accepted Framework for Environmental Reporting* (1999);

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<sup>378</sup> Ibid, pp. 3, 10-11

<sup>379</sup> Editorial: 50 issues on, *Environmental Accounting & Auditing Reporter*, vol. 5, no. 6, June 2000, p. 1

- Environment Australia, *A Framework for Public Environmental Reporting: An Australian Approach* (2000);
- European Chemical Industry Council, *Responsible Care: Health Safety and Environmental Reporting Guidelines* (1998);
- Global Environmental Management Initiative (USA), *Environment Reporting in a Total Quality Management Framework* (1994);
- United Nations Environmental Program (and SustainAbility), *Engaging Stakeholders – Second International Progress Report on Company Environmental Reporting* (1996);
- Public Environmental Reporting Initiative (USA), *The PERI Guidelines* (1992);
- UK Government’s Advisory Committee on Business and the Environment (UK), *Environmental Reporting and the Financial Sector – An Approach to Good Practice* (1997); and
- World Council for the Environment (now part of World Business Council for Sustainable Development), *Environmental Reporting – a Manager’s Guide* (1994).

In recent times there has been an increased propensity for organisations to provide social and economic information alongside their environmental disclosures. Linked to the joint consideration of environmental, social and economic performance is the notion of sustainability reporting. The most influential guidance document in the area of sustainability reporting is the sustainability Reporting Guidelines produced by the Global Reporting Initiative (GRI).<sup>380</sup> As stated in the ‘Report of the Judges: ACCA UK Environmental Reporting Awards 2000’:<sup>381</sup>

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<sup>380</sup> These guidelines also have relevance to reporters who want to restrict their reporting to environmental reporting (without the broader social issues).

<sup>381</sup> The ACCA (Association of Chartered Certified Accountants), environmental reporting awards have been in operation for 10 years and are considered to be the most established environmental reporting awards internationally.

*It is clear that the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines are having an impact on the reporting community. Two reporters have followed the guidelines wholeheartedly: TXU-Europe Group plc and Vauxhall Motors Ltd. A number of other reporters have referred to the GRI Guidelines to various degrees, including British Airways, Shell International, Carillion plc, Thames Water plc, Biffa Waste Services Ltd and Royal and Sun Alliance Insurance Group plc.*

The GRI was originally convened by the United States-based organisation Coalition for Environmentally Responsible Economies in partnership with the United Nations Environmental Program with subsequent inputs from ACCA (United Kingdom); Tellus Institute; World Business Council for Sustainable Development; World Resources Institute; Canadian Institute of Chartered Accountants, Institute of Social and Ethical Accountability (United Kingdom); Council on Economic Priorities (United States), plus other organisations and corporate bodies from around the world. Given its representation, the initiative is 'global' in nature.

In June 2000, the GRI released its revised *Sustainability Reporting Guidelines on Economic, Environmental and Social Performance*.<sup>382</sup>

In relation to performance the GRI Guidelines recommend various performance indicators, with some being generally applicable indicators, as well as some sector-specific indicators. As stated in the June 2000 Guidelines, the guidelines are expected to continually evolve:

*The GRI will strive to improve the Guidelines over time. It will continue to broaden its base of stakeholders, to engage those interested in pursuing the GRI mission, and to advance the usefulness of the Guidelines to all stakeholders. It will encourage reporters and users alike to review and apply the Guidelines and to bring feedback and experiences to the GRI's attention. The Guidelines will be updated taking this*

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<sup>382</sup> Global Reporting Initiative 2000, *Sustainability Reporting Guidelines on Economic, Environmental and Social Performance*, GRI, Boston, available at the website address <http://www.globalreporting.org/Guidelines/June2000/June2000GuidelinesDownload.htm>

*feedback into account, probably in 2002. Unless otherwise indicated, the GRI will assume that all such feedback is a matter of public record.*

*Beginning after the release of these Guidelines, the GRI will periodically publish notes containing more detailed information on definitions, interpretation, and measurement of items covered in the Guidelines. By 2002, the GRI will be established as a new, permanent, independent, international body, with a multi-stakeholder governance structure. Its core mission will be stewardship of the Guidelines through their continuous enhancement and dissemination.*

The Committee was advised that the GRI Guidelines is the initiative attracting the most attention from environmental and sustainability reporting entities worldwide.

The Committee understands that 39 American financial management funds, collectively worth \$140 billion, have sent letters to chief executive officers of the 500 largest US companies urging them to use GRI as their standard reporting mechanism.<sup>383</sup>

The World Business Council for Sustainable Development released its more modest methodology in June 2000, *Measuring Eco-Efficiency: a Guide to Reporting Company Performance*. This methodology has been used by 22 companies from 10 industrial sectors and 15 countries.<sup>384</sup>

As previously mentioned, in Australia *A Framework for Public Environmental Reporting – An Australian Approach* was released in March 2000.

## **Environmental performance reporting awards**

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<sup>383</sup> CEO's urged to adopt standard for sustainability reporting, *Sustainable Business.com, News Briefs*, December 2000, p. 5 of 8

<sup>384</sup> Verfaillie, H. and Bidwell, R. 2000, *Measuring Eco-Efficiency, A Guide to Reporting Company Performance*, World Business Council for Sustainable Development, Conches-Geneva, available at the website <http://www.wbcsd.ch/publications/measuring.htm>

In its Interim Report, the Committee recommended that the Government fund awards for environmental reporting. There are several award schemes in Australia and Victoria, some supported by the Victorian Environment Protection Authority.<sup>385</sup>

In Australia, the Australian Minerals and Energy Environment Foundation presents Environmental Excellence Awards for the minerals, petroleum and electricity industries. One of the categories of these awards is the communication award for a project or activity that demonstrates an organisation's commitment to better environmental management and allows public scrutiny of environmental performance.

The Annual Report Awards Australia Inc. made its first award for corporate environmental performance reporting in 1997. The criteria for this award cover environmental management, environmental performance, financial information, research and development initiatives and independent verification.<sup>386</sup>

The Banksia Awards is a Melbourne based group of corporate, government and community sector groups and individuals who support and recognise people in the community who make a positive contribution to addressing environmental improvement. The group has an annual awards program that has been operating for 12 years.

The Victorian Environment Protection Authority has the Cleaner Production Awards, the Clean Air Award and the Clean Water Award to encourage environmental excellence and initiatives. The Authority is considering extending its environmental award scheme to include a new business system award.<sup>387</sup>

The Committee reiterates its support for awards for environmental reports as a means of promoting public environmental reporting.

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<sup>385</sup> Public Accounts and Estimates Committee, Report No. 31, *Interim Report of the Inquiry into Environmental Accounting and Reporting*, June 1999, p. 108

<sup>386</sup> Annual Report Awards 1999, *ARA Criteria 2000*, ARA, Sydney, pp. 2, 11

<sup>387</sup> Dr Brian Robinson, Chairman, Victorian Environment Protection Authority, responses to follow-up questions from the Public Accounts and Estimates Committee, 20 September 2000, p. 9

Accordingly, the Committee recommends that:

**Recommendation 4.8:**

**The Environment Protection Authority continue to support awards for environmental reporting linked to environmental management systems.**

Awards reflect the quality of the reporting and not necessarily the actual environmental performance, as the following case study illustrates.

The Victorian Environment Protection Authority participated in the *The Age / Sydney Morning Herald* Good Reputation Index, environmental performance sub-index. They used the criteria of having an effective environmental policy; environmental management system; public communication; and a low environmental prosecution record. A number of minerals companies were rated very highly by the Environment Protection Authority. However, there was a large discrepancy between the positive ratings of policy and systems by the Environment Protection Authority and the very poor ratings of environmental impact and action by the environmental groups.<sup>388</sup>

**Environmental management systems**

The Environment Protection Authority actively encourages companies to use environmental management systems. International systems, such as ISO 14000 series and EMAS accreditation, are the main environmental management systems accepted by the Victorian Environment Protection Authority. The Authority has sponsored the development of tailor-made

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<sup>388</sup> Carolyn Batt, Companies far from passing the clean and green test, *The Age*, 30 October 2000, The Good Reputation Index, pp. 10-11

environmental management systems for particular industries, such as the automotive and smash repair industry.<sup>389</sup>

The Authority seeks the following elements in a company's environment management systems:<sup>390</sup>

- a statement of environmental policy;
- identification of a company's environmental impacts and aspects;
- performance targets;
- an environment management program to address environmental impacts;
- a reporting mechanism providing information to key decision makers;
- training of key personnel;
- integration with other management systems; and
- continuous improvement.

#### **4.8 Rate of adoption of environmental reporting and management**

The private enterprise adoption rate for environmental reporting and environmental management systems in Victoria was a term of reference for this Inquiry.

There are no firm figures on the takeup rates in Victoria for either environmental reporting or environmental management systems.

A 15-year study (1983-1997) of 41 publicly listed Australian companies found that the proportion of companies reporting environmental information changed from 46 per cent in 1983 through a low of 27 per cent in 1986 to a high of 94 per cent in 1996. In 1997, 90 per cent of companies reported some

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<sup>389</sup> Dr Brian Robinson, Chairman, Environment Protection Authority, answers to follow-up questions, 20 September 2000, p. 9

<sup>390</sup> Ibid, p. 9

environmental information. The first separate, detailed environmental reports began to appear around 1994.<sup>391</sup>

The authors speculate that the improvement in reporting in different sectors was the result of an accounting standard in the extractive industries - reactions to the Exxon Valdez incident and the Coode Island explosions (1991) and the requirement in the Commonwealth Corporations Act for environmental legal compliance.<sup>392</sup>

The SMEC found that, of the 50 top profit earning companies in Australia, 13 produced stand alone environmental reports.<sup>393</sup> SMEC estimated that approximately 80 companies publicly report their economic/financial and environmental performance; less than 10 report their social performance; and

*... no reports that adequately manage to integrate these dimensions and report on sustainability performance...*<sup>394</sup>

The Environment Protection Authority advised the Committee that, in Victoria, more companies were preparing separate environment reports rather than including environmental information in their annual reports. Thirty-eight companies have adopted Environment Improvement Plans, which require the company to report locally. A further 11 companies are preparing Environment Improvement Plans.<sup>395</sup>

In Victoria, the Australian head offices of multinational companies such as Shell, produce international environmental reports, as well as local reports (for example, for their Geelong site).<sup>396</sup>

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<sup>391</sup> Gibson, K and O'Donovan, G. c2000, Environmental disclosures in Australia: A longitudinal study, draft paper, pp. 10, 11, 13, 19

<sup>392</sup> Ibid, pp. 15-17

<sup>393</sup> Jeyaretnam, T. 2000, *Public Environmental Report Benchmarking Program 1999/2000*, SMEC Victoria, pp. 12-13

<sup>394</sup> Ibid, p. 26

<sup>395</sup> Dr Brian Robinson, Chairman, Environment Protection Authority, answers to follow-up questions, 20 September 2000, pp. 6-7

<sup>396</sup> Transcript of evidence, Dr David Bowman, Senior Environmental Adviser, Shell Australia, 25 August 2000, p. 29

As mentioned, the Environment Protection Authority encourages companies to adopt environmental management systems through such programs as the Cleaner Production program.

The Committee recognises that the ideal situation is that companies adopt environmental accounting and an environmental management system, which leads to public environmental reporting as a byproduct of the system.

Accordingly, the Committee recommends that:

**Recommendation 4.9:**

**The Government encourage public and private sector enterprises to adopt environmental management systems and associated reporting by expanding relevant programs of the Environment Protection Authority.**



## CHAPTER 5: ENVIRONMENTAL LEVIES

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### 5.1 Introduction

The fourth term of reference required the Committee to:

4. investigate the role of environmental levies and charges in public environmental management.

#### **Key Findings:**

- 5.1 **The *National Strategy for Ecologically Sustainable Development* and the *Intergovernment Agreement on the Environment* contain principles that promote the use of economic instruments in environmental policy and programs.**
- 5.2 **Regulation, community participation and education, and extension services, as well as economic instruments, are part of the policy mix necessary to change environmental behaviour.**
- 5.3 **Public acceptance of levies and charges is increased when people can see where the revenue is being used.**
- 5.4 **Revenues from environmental levies and charges can be used to fix a related environmental problem or to offset the loss of economic productivity as a result of the levy or charge.**
- 5.5 **In New South Wales, local councils can raise environmental levies at the discretion of the Minister for Local Government. For example, Eurobodalla Council levies each property \$15, raising \$500,000 per year. The introduction of the levy followed extensive local consultation. The money is only used for environmental purposes (for example catchment management and out of pocket costs of local environmental groups).**

**Key Findings (continued):**

- 5.6** Some local Victorian councils would like to raise an environmental levy. Several currently use National Heritage Trust funds for salinity control, weed control and integrated land management rebates but this source of funding ceased in 2001.
- 5.7** New South Wales uses tradeable licences in nitrogen and phosphorous to reduce pollution of the Hawkesbury-Nepean system. The South Creek Bubble licence covers three sewerage treatment plants and avoids the need for a licence for each plant. This gives the sewerage authority the flexibility to find cost-effective solutions across all three plants, while achieving the regulator's overall discharge limits. Savings of \$45 million have been estimated.
- 5.8** The Hunter River catchment tradeable licence system allows miners and electricity generating plants that discharge salty water to the river system, to trade salt credits among themselves. Salty water can be discharged when the river levels are high. In 2000, the Hunter River Salinity Trading Scheme became the world's first Internet based 24 hour trading system.
- 5.9** A salinity credit system is being trialled in the Macquarie Valley in New South Wales, as a pilot for a Murray-Darling Basin scheme.
- 5.10** The Australian Industry Group has designed criteria for evaluating proposed economic instruments for environmental purposes, including the evaluation of environmental economic instruments against other available market-based mechanisms.

## 5.2 Economic measures

While economic instruments have not been widely used for environmental purposes to date, governments and councils have increased support for their use over recent years. In part, this has resulted from broader policy initiatives based on international and national commitments, as well as an increasing realisation by governments that economic instruments can achieve environmental objectives more cost-effectively than traditional regulatory mechanisms.

For example, many Local Governments have introduced landfill fees as a disincentive to indiscriminate dumping. At the State level, some governments have introduced pollution licensing fees based on the quantity and quality of the pollutant discharged. Several States are trialling emission trading schemes, which encourage industry to cut pollutant loads. Victoria, Queensland and New South Wales require mining companies to take out environmental performance bonds that are forfeited if minesite rehabilitation is inadequate.

This chapter reviews environmental levies and charges as a motivation to improve environmental management.

## 5.3 National Competition Policy

The National Competition Policy Agreement between the States and the Commonwealth distributed \$1.2 billion of Commonwealth funding to States that changed legislation and implemented competitive neutrality policies by agreed dates. It involved the implementation of electricity reform, free and fair trade in gas, road transport reforms and water industry reforms.<sup>397</sup>

The following case study illustrates the complex relationship between national competition policy, microeconomic reform and

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<sup>397</sup> Painter, Martin, 1998, *Collaborative Federalism, Economic Reform in Australia in the 1990's*, Cambridge University Press, Cambridge, pp. 129-130

the environment. It highlights the relationships between policy and economic instruments.

### **5.3.1 National Competition Policy, economic reforms in water and the environment**

Microeconomic reform has delivered some positive environmental changes through the National Competition Council's enforcement of the Council of Australian Governments' Water Resources Policy.<sup>398</sup> The aim of the policy was to arrest widespread natural resource degradation by implementing a strategic framework for an efficient and sustainable water industry.<sup>399</sup> The policy includes the following requirements:<sup>400</sup>

- allocation of water to the environment, based on best scientific knowledge;
- reduced consumption of water from stressed rivers;
- flexibility in allocating water over time;
- improved water quality management;
- protection of rivers of high environmental value;
- research into rivers; and
- review of groundwater management.

The Council of Australian Governments (COAG) recognised that water markets were not perfect and so were not open to unrestricted competition. The reform was supported by formal financial disincentives for those States which have not carried out the reforms, and by the requirement for States to legislate for water reforms consistent with COAG policy.<sup>401</sup>

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<sup>398</sup> Fisher, T. 2000, Lessons from Australia's first practical experiment in integrated microeconomic and environmental reform, *Microeconomic Reform and the Environment, Workshop Proceedings*, workshop held 8 September, Productivity Commission, Melbourne, p. 16

<sup>399</sup> Council of Australian Governments *Communique* of 25 February 1994, p. 19

<sup>400</sup> Fisher, T. 2000, Lessons from Australia's first practical experiment in integrated microeconomic and environmental reform, *Microeconomic Reform and the Environment, Workshop Proceedings*, workshop held 8 September, Productivity Commission, Melbourne, p. 16

<sup>401</sup> *Ibid*, p. 17

The reforms have worked well in urban areas, where water is drawn from point sources and wastewater is returned to point sources.<sup>402</sup> However, the financial reforms found in urban water corporations have not been fully implemented by rural water authorities. For example, the COAG water policy requires that the maintenance and refurbishing of water infrastructure be factored into annual water payments. This has not occurred in rural areas, which often have ageing dams.<sup>403</sup> States continue to make capital subsidies for dams.<sup>404</sup>

In Melbourne, consumers make a compulsory contribution to the rehabilitation of urban creeks, the construction of wetlands and the reduction of urban stormwater pollution. Rural water authorities do not levy similar charges on those who have contributed to the environmental damage of rivers and creeks.<sup>405</sup>

A balance needs to be struck between direct consumers of water (for example, irrigators), those who depend on water being available for their livelihoods (for example, commercial fisheries and the tourism industry) and the need for water to maintain the ecosystems of rivers and wetlands. The sale of secure water to farmers may pre-empt the availability of water for other purposes during low flow years and raise the possibility of compensation at market values.<sup>406</sup>

Legislation planned in New South Wales will recognise environmental flows for five river systems in New South Wales, based on environmental monitoring programs.<sup>407</sup> In Victoria, there

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<sup>402</sup> Evans, D. 2000, Microeconomic reform and the environment: a view from the water sector, *Microeconomic Reform and the Environment, Workshop Proceedings*, workshop held 8 September, Productivity Commission, Melbourne, p. 65

<sup>403</sup> Fisher, T. 2000, Lessons from Australia's first practical experiment in integrated microeconomic and environmental reform, *Microeconomic Reform and the Environment, Workshop Proceedings*, workshop held 8 September, Productivity Commission, Melbourne, p. 27. See also Water storage management by non-metropolitan urban and rural water authorities in Victorian Auditor-General's Office 2000, *Report on Ministerial Portfolios*, Part 3 Audit of Ministerial Portfolios, pages 8 - 20 of 39, available on website <http://www.audit.vic.gov.au/mp2000/mp00nr&e.htm>

<sup>404</sup> Fisher, T. 2000, Lessons from Australia's first practical experiment in integrated microeconomic and environmental reform, *Microeconomic Reform and the Environment, Workshop Proceedings*, workshop held 8 September, Productivity Commission, Melbourne, pp. 28-29

<sup>405</sup> Ibid, p. 32

<sup>406</sup> Ibid, p. 39

<sup>407</sup> Ibid, pp. 41-42

is no legislation stating the purpose of environmental flows; environmental flows can be altered administratively, there are no enforcement mechanisms and no one is responsible for monitoring the environmental condition of rivers.<sup>408</sup>

The Commonwealth Government releases or withholds compensation monies to States, depending on the degree to which each State has implemented competition policy. For example, Queensland's second tranche payment of \$15 million was withheld by the National Competition Council for six months, until Queensland stopped subsidising new water projects.<sup>409</sup>

The Committee believes that the above case study illustrates that while national competition policy has achieved significant environmental change through the use of potential environmental sanctions, microeconomic reform, by itself, cannot be expected to deliver all the desired outcomes, especially in rural areas. Innovative policies are needed.

Summarising a workshop on microeconomic reform and the environment, a representative from the CSIRO stated:

*Environmental objectives need to become an integral part of microeconomic reform. This will require stronger environmental and social signals in the frameworks that guide development and assessment of compliance with National Competition Policy. In doing this, it will be necessary to consider how best to integrate concepts such as the maintenance of intergenerational equity and the precautionary principle with economic concepts (such as the discount rate) and standard assumptions (such as that the relative price of environmental and marketable assets will remain constant through time).*<sup>410</sup>

In February 2001, a report on catchment management was tabled in the Commonwealth Parliament. The report was concerned with

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<sup>408</sup> Ibid, p. 44

<sup>409</sup> Fisher, op cit, pp. 54-55

<sup>410</sup> Mr Mike Young, CSIRO Land and Water, Summary section, *Microeconomic Reform and the Environment, Workshop Proceedings*, workshop held 8 September, Productivity Commission, Melbourne, p. 240

water and land degradation from salinity, acid soils, sodic soils, erosion and falling water quality. The report estimated the cost of these at \$1.3 billion a year.<sup>411</sup> The report's recommendations included:<sup>412</sup>

- legal reform to provide for ecologically sustainable use of Australia's water catchment system;
- an audit to identify counterproductive incentives in promoting ecologically sustainable land use;
- tax incentives for landcare activities;
- a public inquiry into tax disincentives for ecologically sustainable use of Australia's landscape; and
- consideration of a 25-year taxation levy to be used to implement the policy of the ecologically sustainable use of Australia's catchment systems.

#### **5.4 Revenue-neutral environmental taxation reform and market distorting incentives**

A paper sponsored by the Australian Conservation Foundation, The Australia Institute and the Australia and New Zealand Society for Ecological Economics proposed that Australia continue taxation reform by extending into environmental taxation reform.<sup>413</sup> The paper proposes a 'double dividend' of tax reform discouraging activities that lead to environmental damages through increased taxation, while reducing taxes that discourage employment and investment, such as payroll tax.

Economic advisers to Environment Australia suggest that the validity of the double dividend from environmental tax reform assumes that:

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<sup>411</sup> House of Representatives Standing Committee on Environment and Heritage 2000, *Co-ordinating Catchment Management, Report of the Inquiry into Catchment Management*, Parliament of the Commonwealth of Australia, Canberra, p. 11

<sup>412</sup> Ibid, pp. xv-xxi

<sup>413</sup> Hamilton, C., Schelgemilch, K., Hoerner, A. and Milne, J. 2000, *Environmental Tax Reform, Using the tax system to protect the environment and promote employment*, sponsored by The Australian Conservation Foundation, The Australia Institute, The Australia and New Zealand Society for Ecological Economics, TELA: environment, economic and society, issue 4, ACF, Fitzroy

*... in the presence of real wage reductions caused by environmental taxation, labour inputs will rise ... These conditions, however, are not common and opportunities for achieving a double dividend may be limited.*<sup>414</sup>

A recent American study ranked 50 States of the United States on two sets of indicators: 20 economic indicators and 20 environmental indicators. Economic indicators included workplace deaths, unemployment rate, households in poverty and business startups. Environmental indicators included hazardous waste generation, air quality, state spending on the environment and emissions-to-jobs ratio.<sup>415</sup>

Seven states rank in the top 15 on both economic and environmental health. Ten states rank in the bottom 15 on both economic and environmental health. The study concluded:

*States with the highest environmental standards also boast the best economic performance.*<sup>416</sup>

Environmental taxes help internalise the cost of repairing the environment in the prices that polluters pay for the use of that environment. For example, through an electricity energy tax of 15 euro per megawatt hour, Sweden internalises about 36 per cent of the external environmental costs of producing and distributing electricity. The Netherlands has a 13 euro per megawatt hour tax, internalising 32 per cent of the external environmental costs of electricity.<sup>417</sup>

The Committee is aware that there are at least two concerns with environmental taxes: they may send companies offshore to avoid

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<sup>414</sup> Gordon, S. and Hatfield-Dodds, S. Environment Economic Units, Environment Australia 2000, Development in the design and use of economic instruments since 1997, Proceedings of the Second Environmental Economics Round Table, held in Canberra, 5 July, Environmental Economics Research Paper No. 7, Environment Australia, Canberra, page 6 of 9, available on the website <http://www.ea.gov.au/psg/economics/round2/gordon.htm>

<sup>415</sup> Gold and Green 2000 methodology, available on the website <http://www.southernstudies.org/gg2000methodology.html>

<sup>416</sup> Ernst, K, Kromm, C & Battica, J. 2000, *Green and Gold 2000*, Institute of Southern Studies, available at the website <http://www.southernstudies.org/goldgreen2000.html>

<sup>417</sup> Op cit, p. 9

the taxes and they may discriminate against low-income households.

Environmental taxes will increase prices or decrease profits for some firms, while other firms will experience decreased prices or increased profits. The revenue from the taxes can be used to reduce economic distortions and allow better allocation of resources. Environmental taxes based on the polluter pays principle will ensure that some of the external costs of environmental pollution are reflected in market prices.<sup>418</sup>

A 1999 Organisation for Economic Cooperation and Development review of economic instruments concluded that:

*There is no clear evidence that high or relatively high environmental standards have had a systematic negative impact on competitiveness of firms, industries or economies ... To the extent that environmental policies encourage better utilisation of a country's resources, that country's overall long term competitiveness may actually be improved.*<sup>419</sup>

The problems low-income households face from environmental taxes, especially taxes on energy, are that they spend a greater proportion of their income on energy than higher income households.<sup>420</sup> For example, a survey in the United States found that the lowest quartile (lowest one-fifth in income) spend 10.71 per cent of their total expenditure on energy, whereas the richest quartile spend 7.91 per cent of their total expenditure on energy.

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<sup>418</sup> Ibid, p. 17

<sup>419</sup> OECD 1999, *Economic Instruments for Pollution Control and Natural Resource Management in OECD Countries: A Survey*, Revised working paper, OECD Environment Directorate, quoted in Hamilton, C., Schelgemilch, K., Hoerner, A. and Milne, J. 2000, *Environmental Tax Reform, Using the tax system to protect the environment and promote employment*, sponsored by The Australian Conservation Foundation, The Australia Institute, The Australia and New Zealand Society for Ecological Economics, TELA: environment, economic and society, issue 4, ACF, Fitzroy

<sup>420</sup> Hamilton, Schelgemilch, Hoerner and Milne, op cit, p. 22

The view of the Australian Conservation Foundation, The Australia Institute and the Australian and New Zealand Society for Ecological Economics is that:

*... it is better to compensate low-income households with reduced income taxes and higher social security payments than to provide tax exemptions. Tax exemptions remove the incentive to change the behaviours leading to environmental damage that taxes impose.*<sup>421</sup>

*The flow on benefits to low-income households from environmental taxes should be greater employment opportunities, if revenues from the taxes are used to remove payroll taxes and similar labour discouraging measures. Low income people should also benefit from reduced local pollution.*<sup>422</sup>

The Australian groups propose the following environmental tax reform in Australia:

- that a system of annually auctioned greenhouse gas emission permits be introduced, raising about \$7 billion per year;<sup>423</sup>
- that this revenue be used to reduce payroll tax;
- that the Commonwealth also enter into an agreement with the States to:
  - (a) levy differentiated vehicle taxes based on fuel efficiency;
  - (b) extend loadbased pollution licensing;
  - (c) encourage user charges for urban water;
  - (d) permit trading for irrigation water; and
  - (e) implement full cost recovery for landfill.

The revenue from these levies and taxes should be used to:<sup>424</sup>

- invest in water conservation and recycling;

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<sup>421</sup> Ibid, p. 22

<sup>422</sup> Op cit, p. 23

<sup>423</sup> Ibid, p. 33

<sup>424</sup> Ibid, p. 33

- create rebates on water bills for low income households;
- speed up the Cleaner Production programs;
- extend curbside recycling; and
- fund the protection and repair of conservation areas.

Taxes proposed by the Australian Conservation Foundation to replace taxes that adversely affect the environment include:<sup>425</sup>

- a land and water restoration levy;
- a greenhouse gas emissions trading scheme and/or a carbon tax;
- taxes on vehicles skewed to encourage fuel-efficient vehicles; and
- employer-provided tax-exempt public transport passes.

The Industry Commission also supports the removal of perverse incentives, taxation and subsidy arrangements that cause environmental problems.<sup>426</sup>

The Committee believes that any changes to environmental levies or charges need public discussion, debate and publicity, to maximise public acceptance. The wider consideration of economic measures in environmental management is not just about taxes; it can also be a positive part of environmental policy.

## **5.5 Economic instruments and environmental policy and management**

In 1998, the Organisation for Economic Cooperation and Development commented:

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<sup>425</sup> Australian Conservation Foundation, 2000, *Natural Advantage: A Blueprint for a Sustainable Australia*, model 3, Taxing Waste, not Work, available at the website: <http://www.acfonline.org.au/blueprint/B4SA3.htm>

<sup>426</sup> Industry Commission 1997, *Role of Economic Instruments in Managing the Environment*, Staff Research Paper, Industry Commission, Melbourne, pp. 55-56

*... economic instruments such as pollution charges, user charges, differential taxes, levies and fees, deposit refunds, tradeable permits, eco-taxes and tax incentives are not extensively used in Australia for environmental purposes...*<sup>427</sup>

They recommended increased charges to recover the full cost of sewage and domestic waste collection, resource use charges to internalise environmental costs, market based incentives such as emission trading, and energy taxes.<sup>428</sup>

The 1992 *Intergovernmental Agreement on the Environment* includes the principle:

- 3.5.4 improved valuation, pricing and incentive mechanisms –*
- *environmental factors should be included in the valuation of assets and services;*
  - *polluter pays i.e. those who generate pollution and waste should bear the cost of containment, avoidance, or abatement;*
  - *the users of goods and services should pay prices based on the full life cycle costs of providing goods and services, including the use of natural resources and assets and the ultimate disposal of any wastes; and*
  - *environmental goals, having been established, should be pursued in the most cost effective way, by establishing incentive structures, including market mechanisms, which enable those best placed to maximise benefits and/or minimise costs to develop their own solutions and responses to environmental problems.*<sup>429</sup>

The Government agencies' submission to this Inquiry noted that economic instruments are just one tool of environmental policy.

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<sup>427</sup> Organisation for Economic Co-operation and Development 1998, *Environmental Performance Reviews, Australia*, OECD, Paris, p. 140

<sup>428</sup> Ibid, pp. 140, 147-150

<sup>429</sup> *Intergovernmental Agreement on the Environment*, 1 May 1992, pages 9 and 10 of 27, available at the website: <http://www.environment.gov.au/psg/igu/pubs/igae.html>

Regulation, community participation and education and extension services formed part of the package of policy options.<sup>430</sup>

For example, the Victorian Environment Protection Authority consulted with industry to develop a finance assurance scheme, to ensure money was available to clean up contaminated sites when polluters became insolvent or were unable to fund clean up work. The better the company's system of preventing site contamination, the lower the financial assurance required by the Victorian Environment Protection Authority.

This project illustrates how one initiative can involve several policy instruments. The sliding financial assurance fees are an economic incentive. Financial assurance is a regulation. The scheme was developed on a cooperative basis between the Environment Protection Authority and the affected industry. The program involved information and education.<sup>431</sup>

Economic instruments are administered under the *Environment Protection Act 1970* using the principles of 'polluter pays' and 'user pays'.<sup>432</sup> User pays is a major principle of broader microeconomic reform.<sup>433</sup>

Other available policy mechanisms are:<sup>434</sup>

- market based approaches, where a market is created for an environmental item, such as water, and individuals respond to marginal costs and benefits and so limit environmental change;

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<sup>430</sup> Victorian Government agencies, submission no. 41, p. 15

<sup>431</sup> Ibid, p. 15

<sup>432</sup> Ibid

<sup>433</sup> Morton, A. 1998, *Environmental Financing Options for Australian Local Government*, Working Paper No. 7, Australian Centre for Regional and Local Government Studies, University of Canberra, Canberra, p. 3

<sup>434</sup> Stoneham, G. Department of Natural Resources and Environment Victoria, 2000, Policy mechanism selection for environmental management, Proceedings of the Second Environmental Economics Roundtable, held in Canberra, 5 July, Environmental Economics Research Paper No. 7, Environment Australia, Canberra, pages 4 to 8 of 11, available on the website <http://www.ea.gov.au/psg/economics/round2/stone.htm>

- taxes and subsidies, such as subsidies for solar hot water, which are applied as an incentive to change environmental activities;
- tradeable emissions permits, such as permits to emit sulphur dioxide, which have reduced the cost of achieving air quality targets by US\$225–237 million in the United States; and
- auctions of, for example, the degree of compensation for changing land uses. Landholders bid at auction for compensation to actively manage remnant vegetation. Where the landholder is successful at the auction, they then contract to fence remnant vegetation or to revegetate an area of land. Contracts are signed with those landholders who are producing best environmental value for money. An auction system to conserve remnant vegetation is being developed in Victoria.

The range of economic instruments already used in Australia is highlighted in Exhibit 5.1.<sup>435</sup>

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<sup>435</sup> Industry Commission, 1997, *Role of Economic Instruments in Managing the Environment*, Staff Research Paper, Industry Commission, Melbourne, Box 3.1, p. 26

**Exhibit 5.1: Range of economic instruments**

**Charges and taxes**

- Marine effluent charges in South Australia;
- Load based licensing schemes in Victoria, and Western Australia covering air, water and land pollutants;
- Sydney Water's Trade Waste Program;
- Product tax operating on ozone depleting substances.

**Subsidies and concessions**

- Tax concessions for improved land and water management under the Commonwealth Income Tax Act;
- Local Government rate concessions to encourage sustainable land management;
- Subsidies and grants from various sources for tree planting and vegetation protection;

*Financial enforcement incentives*

- Performance bonds under the Queensland environmental policy for mining;

*Deposit refund system*

- South Australia's beverage container deposit scheme;

**Property rights and market creation**

- Hunter River Salinity Trading Scheme;
- Murray-Darling Basin Commission Salinity and Drainage Strategy;
- South Creek Bubble Licence Scheme to reduce phosphorus levels in the Hawkesbury-Nepean river system;

**Other economic instruments**

- Victorian accredited licensee scheme;
- Murray-Darling Basin Commission cost-sharing framework for onground works.

One submission suggested that where there is a need to change environmental behaviour, subsidies are useful early in the cycle of reform and financial disincentives are useful later in the cycle. Subsidies encourage and reward innovators. There is less political resistance to subsidies than disincentives. Early in the reform cycle, those who are not sure what changes they should make and wish to stick to the old ways can do so. It is easier for them to copy the innovators later in the cycle.<sup>436</sup>

It was also suggested that:

*As reform continues, subsidies become less effective, as organisations find ways of attracting the subsidy with the minimum of environmental behavioural change and the bureaucracy administering the subsidy becomes less stringent in policing the required positive change. The innovative environmental behaviour becomes the norm, the methods to achieve the behaviour have become well known. The subsidy should now be withdrawn and disincentives imposed on the poor behaviour of the laggards.*<sup>437</sup>

Mr Graeme Samuel of the National Competition Council has also suggested that a ‘carrot and stick’ model was worth adopting to achieve environmental reform, given the success of this method in promoting national competition policy.<sup>438</sup>

## **5.6 Use of revenues from environmental levies and taxes**

Levies and taxes can be raised as a general supplement to revenue for a government or government agency, or some of the money goes to consolidated revenue. For example, more than 40 per cent of the \$100 million a year drainage rate collected by Melbourne Water is directed to consolidated revenue as tax equivalents and

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<sup>436</sup> Mr Philip Sutton, answers to follow up questions to the Environment Liaison Office, 2 November 2000, p. 2

<sup>437</sup> Ibid, p. 2

<sup>438</sup> Panel discussion, *Microeconomic Reform and the Environment, Workshop Proceedings*, workshop held 8 September 2000, Productivity Commission, Melbourne, p. 232

dividend. This reduces the value of the rate to control drainage problems.<sup>439</sup>

Where the levy or charge is used to alter human behaviour, the revenue from environmental levies and taxes is designed to decline over time, as the environmentally undesirable activities are reduced or abandoned.<sup>440</sup>

The submission from the Director of the Environment Liaison Office stated that:

*Taxation departments usually oppose the raising of money to be used for special purposes in perpetuity. Once there is a sizeable revenue stream, there is a vested interest to keep that stream going to the purpose, long after the basic need for the purpose has been satisfied. For example, road taxes for maintaining roads builds up interest groups in road maintenance and the construction of more roads, long after we have enough roads. Community needs should be satisfied from consolidated revenue. There can also be high administrative costs in accounting for relatively small sums of money.*<sup>441</sup>

However, as long as there are not high administrative costs from a large number of small levies and charges, some link between revenues and environmental expenditure can help gain public acceptance of the levy or charge, and of the need to change environmental practices.<sup>442</sup>

Another view of environmental levies and charges is that they are rent on environmental assets. The use of the revenues from these rents depends on whether the asset can be degraded or needs restoration.<sup>443</sup>

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<sup>439</sup> Bayside City Council, submission no. 22, p. 7

<sup>440</sup> Environment Liaison Office, submission no. 32, p. 11

<sup>441</sup> Ibid pp. 11-12

<sup>442</sup> Dr S Hatfield-Dodds, Director, Environmental Economics Unit, Environment Australia, notes of meeting, 18 October 2000, p. 15

<sup>443</sup> Ibid, p. 14

Examples of levy revenues tied to specific purposes include the Victorian landfill levies, which are linked to funding regional waste management groups and EcoRecycle.<sup>444</sup> Anglers' licence fees are now being used in Victoria to restock Lake Eildon, the Goulburn River and other popular fishing spots.<sup>445</sup> Melbourne Water's drainage levy is used to fund drainage improvements.<sup>446</sup>

Submissions argued that there was a need for transparency in environmental levies, which could be achieved by linking levy revenues to expenditures on environmental projects.<sup>447</sup>

The Committee believes that, if levies are implemented, revenues for environmental levies or charges should be used to solve the environmental problem that led to the levy or charge; or to offset the loss of economic productivity as a result of the imposition of the levy or charge. If the levy or charge is highly effective in changing behaviour, and there is no loss of economic productivity, the revenue can be returned to the taxed community in the least inflationary way (for example, to reduce payroll tax).<sup>448</sup>

## 5.7 Regional and local levies

Catchment Management Authorities were established in 1997 to create a whole-of-catchment approach to natural resource management in each of their areas.<sup>449</sup> The responsibilities of the authorities under the *Catchment and Land Protection Act 1994*, included catchment and land protection, river and salinity management, water quality and sustainable regional development.<sup>450</sup>

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<sup>444</sup> Public Accounts and Estimates Committee, *Issues Paper No.4: Follow-up Inquiry into Environmental Accounting and Reporting*, June 2000, pp. 93-94

<sup>445</sup> Baker, R., New lure for Victoria's anglers, *The Age*, 19 October 2000

<sup>446</sup> Bayside City Council, submission no. 22, p. 7

<sup>447</sup> Australian Industry Group, submission no. 34, p. 12; Environment Liaison Office, submission no. 32, p. 11; Bayside City Council, submission no. 22, p. 7; and City of Whitehorse, submission no. 23, p. 7

<sup>448</sup> Environment Liaison Office, submission no. 32, p. 11

<sup>449</sup> Catchment Management in Victoria, Internet site, <http://www.nre.vic.gov.au/4.../C35E39DE033300D24A25679E00010CIF?OpenDocumen>

<sup>450</sup> Victorian Auditor General's Office, *Report on Ministerial Portfolios*, June 2000, Part 3 Audit of Ministerial Portfolios, Catchment Management Authorities' Funding Arrangements, pp. 4, 5

Authorities were permitted to levy a local charge. In the 1998-1999 financial year, about 68 per cent of funds were provided by the Commonwealth and State authorities for the catchment bodies, and 28 per cent came from local levies on commercial, industrial and residential properties.<sup>451</sup>

In November 1999, the Catchment Management Authorities were directed to discontinue charging levies.<sup>452</sup> Eighteen million dollars had come from catchment levies, which was replaced by the government grant of \$12.9 million plus a \$1.4 million grant associated with the abolition of the levies. As a result, delays will occur in implementing some waterway management works.<sup>453</sup>

A significant source of local funding of local projects has been removed. The abolition of the regional catchment levy has been seen as a move away from funding regional environmental projects at a regional level to a State level.<sup>454</sup>

An example at the local level, of the need to involve local people in devising a levy, is illustrated by the City of Ballarat's proposal to raise a \$20 levy on each rateable property for beautification purposes.<sup>455</sup>

With very little publicity, the City of Ballarat Council decided to place a levy on properties for the beautification of the environment. This levy would have raised \$650,000 a year for three years. The money would have been spent on planting 23,000 trees and residents would have had a say in how the money would be spent.<sup>456</sup> The proposal received a strong negative public response and the Council has decided not to proceed with the proposal.

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<sup>451</sup> Ibid, p. 5

<sup>452</sup> Ibid, p. 6

<sup>453</sup> Ibid, p. 7

<sup>454</sup> Bayside City Council, submission no. 22, p. 7

<sup>455</sup> Stuart Howie, "Cash grab has a whiff of emotional blackmail", *The Courier*, 8 July 2000, Weekend Magazine, p. 68

<sup>456</sup> Ibid, p. 68

Accordingly, the Committee recommends that:

**Recommendation 5.1:**

**Proposals for environmental levies in Victoria be preceded by at least a six months consultation process with stakeholders on the need for the levy, the rate of the levy, as well as the proposed use of the revenue.**

The Industry Commission considered it vital that industry and community be involved in environmental management:

*... [to] help overcome the credibility gap which exists when decisions are made by governments in the face of uncertainty and limited information, and can also provide valuable leverage to government funds in terms of community input of time and resources.*<sup>457</sup>

Environmental issues need to be addressed at the appropriate level; for example water catchment issues need to be addressed at the regional catchment level. Accountability for taxpayers' funds and transparency is achieved at the regional level by:

*... setting goals and performance indicators against which performance could be measured, along with regular reporting requirements and periodic independent auditing. There is also potential to use cross compliance mechanisms to force agencies to collate the appropriate data to demonstrate, in a transparent manner, that they are meeting agreed environmental objectives.*<sup>458</sup>

A recent report reviewing the *Decade of Landcare* proposed that the regional level was the most appropriate for land management.<sup>459</sup>

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<sup>457</sup> Industry Commission 1997, *Role of Economic Instruments in Managing the Environment*, Staff Research Paper, Industry Commission, Melbourne, p. 93

<sup>458</sup> Ibid

<sup>459</sup> Toyne, P. and Farley, R. 2000, *The Decade of Landcare: Looking Backward – Looking Forward*, Discussion Paper No. 30, The Australia Institute, Canberra, p. 17

The Commonwealth Government's discussion paper on the future of natural resource management endorsed this view.<sup>460</sup>

Accordingly, the Committee recommends that:

**Recommendation 5.2:**

**The Department of Natural Resources and Environment and the Victorian Environment Protection Authority conduct a workshop involving industry groups, local council bodies, regional authorities and groups, environmental groups, academics and the Victorian Commissioner, to discuss and make recommendations for further action on the management of environmental issues and the funding mechanisms to support environmental programs.**

In New South Wales, local councils may propose to the Minister of Local Government to raise an ongoing environmental levy from ratepayers. The Minister has the discretion to approve or reject the proposal. These levies are favoured because they can be above the rate cap of a local council.<sup>461</sup>

Eurobodalla Shire was one of the first councils in that State to introduce an environmental levy. Six years ago, it levied \$10 on every property assessment; in 2001 it levied \$15 per property. The introduction of the levy followed a community survey showing natural environment and pollution were their highest concerns. Eurobodalla Council spends the money on catchment management and out-of-pocket costs of volunteer groups (for example, Coastal Care, Bushcare and Creek Care) and the costs of specific

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<sup>460</sup> Commonwealth of Australia 1999, *Managing Natural Resources in Rural Australia for a Sustainable Future – A Discussion Paper for Developing a National Policy*, Agriculture, Fisheries and Forestry, Canberra

<sup>461</sup> Transcript of evidence, Mr R Verhey, Environmental Officer and Team Leader, Planning and Environment Staff, Local Government and Shires Associations, 17 October 2000, p. 24

environmental projects.<sup>462</sup> All the revenue from the environmental levy is put back into environmental activities.

Often environmental project funds attract monies from State or Commonwealth Government on a dollar for dollar basis. The levy has been most successful in stimulating citizen volunteer environmental care groups – there were six groups six years ago; now there are 66.<sup>463</sup>

Some Victorian councils would like the power to raise environmental levies.<sup>464</sup> Currently, they need the permission of both the Minister for Local Government and the Minister for Environment and Conservation. They may strike a special rate or special charge, under section 162 or 163 of the *Local Government Act 1989*.

Environs Australia has recently released guidelines on financial incentive schemes for Australian local councils. It covers financial incentive mechanisms, such as rate rebates, motivational incentives, such as awards, and planning incentives, such as transferable development rights. Supporting mechanisms can include property right initiatives, such as management agreements, and revenue raising arrangements, such as levies.<sup>465</sup>

## **5.8 Environmental economic measures at the State level**

In addition to the use of economic instruments by the Victorian Government in such areas as prescribed waste and water levies, there are examples of innovative levies at the State level in New South Wales.

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<sup>462</sup> Presentation by Mr Peter Tegart, Director, Environment and Administrative Services, Eurobodalla Shire Council, to the workshop on Environmental Performance Reviews at the Regional Level, St Kilda Hall training room, 28 September 2000

<sup>463</sup> Ibid

<sup>464</sup> Transcript of evidence, Cr Gordon Chambers, Victorian Local Governance Association, 9 October 2000, pp. 27-28

<sup>465</sup> Bateson, P. 2000, *Incentives for Sustainable Land Management: Community Cost Sharing to Conserve Biodiversity on Private Lands*, Environs Australia: The Local Government Environment Network and Environment Australia, Melbourne

The New South Wales Environment Protection Authority issued Sydney Water with the South Creek bubble licence in June 1998 to limit emissions from three sewage treatment works. The individual sewage plants do not have emission limits, only the three together. This provides more flexibility in finding cost-effective solutions while achieving the regulator's overall discharge limits. The aggregate load limits in the bubble licence will be reduced over eight years. Load limits for 2004 will represent an 83 per cent reduction in predicted phosphorus loads and about 50 per cent reduction in nitrogen loads.<sup>466</sup>

To July 2000, phosphorus discharges have been reduced by 75 per cent and nitrogen discharges by 75 per cent. The estimated saving to Sydney Water, comparing the bubble licence to traditional regulatory processes, is \$45 million.<sup>467</sup>

This case study illustrates innovative policies to protect the environment. The flexible licence allows the industry to control its cashflow, while conforming to environmental standards.

In the Hunter River catchment, scientific studies and tradeable saline water credits, combined with a rigorous and comprehensive monitoring scheme, have dramatically reduced saline levels. The Hunter River catchment is the largest coastal catchment in New South Wales; it drains an area of 22,000 square kilometres.<sup>468</sup>

The Hunter River Salinity Trading Scheme was the first water emissions trading scheme in the world to operate on the internet. Twenty-four hour trading replaces an office hours paper system. Previously, if there was a high water flow in the river at midnight or on a Sunday, industry could not use that opportunity to trade their salt discharge rights.<sup>469</sup>

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<sup>466</sup> Davies, Betts, O'Shea, Smith and Collins, New South Wales Environment Protection Authority, and Izmir, Department of Fair Trading, 1996, *Environmental Regulation in NSW through the use of Economic Instruments*, article, section 5, attachment to the submission by Mr Neil Shepherd, Director-general, NSW EPA, 24 July 2000

<sup>467</sup> NSW Environment Protection Authority, submission no. 10, p. 2

<sup>468</sup> Ibid, attachment, p. 3

<sup>469</sup> Salinity trading scheme goes online, *EIA Newsletter*, issue no. 8, October 2000, p. 19

The Committee supports the view of the Australian Industry Group that the appropriateness of any environmental economic instrument should be evaluated against other market based mechanisms. The extent of the environmental effect being addressed should also be taken into account. Further, the ability of the polluting source to reduce emissions by changing equipment or work practices within reasonable time frames and costs, is another factor that must be assessed. The degree to which other non-taxed sources contribute to the environmental problem must also be evaluated. Finally, the benefits to others not being levied, and price elasticity and similar variables should also be taken into account.<sup>470</sup>

Accordingly, the Committee recommends that:

**Recommendation 5.3:**

**The Government encourage the Victorian Environment Protection Authority and the Department of Natural Resources and Environment to continue to trial innovative environmental economic policies.**

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<sup>470</sup> Ibid

**APPENDIX 1: LIST OF RECOMMENDATIONS  
CONTAINED IN PAEC'S  
INTERIM REPORT ON  
ENVIRONMENTAL  
ACCOUNTING AND REPORTING**

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***Chapter 3: National Environmental Accounting***

**Recommendation 3.1:**

**The Victorian Government support the development of a national system of satellite accounts by the Australian Bureau of Statistics.**

**Recommendation 3.2:**

**The Victorian Government consult with the Australian Bureau of Statistics and other relevant stakeholders on the feasibility of developing satellite accounts for Victoria.**

**Recommendation 3.3:**

**The Government ensure that data collected for Victorian satellite accounts is comparable with data collected by the Australian Bureau of Statistics relating to other states.**

**Chapter 4: State of the Environment Reporting**

**Recommendation 4.1:**

**The Government reintroduce State of the Environment reporting for Victoria on a statewide basis.**

**Recommendation 4.2:**

**Victoria's State of the Environment report should be based on the OECD pressure-state-response model. The Victorian SoE report should be similar to the SoE reports of the Commonwealth and other states and territories.**

**Recommendation 4.3:**

**The Government develop core environmental indicators for State of the Environment reporting which are based on the Victorian Catchment Indicators Project and consistent with the Core Environmental Indicators developed by ANZECC and the core indicators included in the Commonwealth State of the Environment report.**

**Recommendation 4.4:**

**A data verification process should be built into the State of the Environment process.**

**Recommendation 4.5:**

**A State of the Environment report for Victoria be produced on a regular cycle of five years.**

**Recommendation 4.6:**

**The State of the Environment report should be primarily provided through an Internet site and a concise report printed and tabled in the Parliament.**

**Recommendation 4.7:**

**To maximise the efficiency of resources the State of the Environment report should be based, as far as possible, on existing information and any additional data collection processes should be integrated, as far as possible, with existing environmental investigations.**

**Recommendation 4.8:**

**To ensure efficient and effective environmental reporting, Catchment Management Authorities' reporting should be consistent with the Victorian State of the Environment reporting.**

**Recommendation 4.9:**

**Whilst State of the Environment reporting should be encouraged at the local council level, it should not be mandatory; resources should be focused on SoE reporting at the state level and on the collection of necessary data.**

***Chapter 5: Environmental Accounting at the Organisational Level***

**Recommendation 5.1:**

**The Government encourage the accounting profession to develop, as a future project, methodologies to incorporate environmental costs into the prices of goods and services.**

**Recommendation 5.2:**

**The Government provide funding to develop an Internet site containing information on environmental management accounting.**

**Recommendation 5.3:**

**The Government encourage the professional accounting bodies and the accounting standards setting board and other relevant stakeholders to consider a revised concept of materiality and revised definitions of assets, liabilities, revenues and expenses appropriate for environmental accounting.**

**Recommendation 5.4:**

**The Government encourage the professional accounting bodies and the accounting standards setting board and other stakeholders to develop a new accounting standard that specifically deals with environmental issues.**

**Recommendation 5.5:**

**The Government consider sponsoring a series of workshops on environmental accounting and reporting specifically targeted at the needs of different industries and stakeholder groups.**

***Chapter 6: Environmental Performance Reporting***

**Recommendation 6.1:**

**The Environment Protection Authority ensure consistency in reporting requirements under EPA licenses, EPA accredited licences and the Prescribed Waste Regulations.**

**Recommendation 6.2:**

**The Environment Protection Authority liaise with the National Environment Protection Council to ensure consistency between EPA reporting requirements and National Pollutant Inventory requirements.**

**Recommendation 6.3:**

**The Environment Protection Authority liaise with the Australian Securities and Investments Commission and other relevant stakeholders to ensure consistency between EPA reporting requirements and requirements under the Corporations Law.**

**Recommendation 6.4:**

**The Government support the development by Environment Australia of National Guidelines for Public Environmental Reporting.**

**Recommendation 6.5:**

**The Government encourage voluntary environmental reporting by publicly listed companies and the public sector (not already subject to mandatory reporting requirements) with the intention of mandating, within 10 years, disclosure of environmental information through the Environment Protection Act and require more detailed reporting under the Corporations Law.**

**Recommendation 6.6:**

**The Government give consideration to financially supporting and promoting environmental reporting awards.**

**Recommendation 6.7:**

**The Victorian Government support the Federal Government incentives to industry groups to assist their members to implement the National Public Environmental Reporting Guidelines.**

**Recommendation 6.8:**

**Within the next 10 years all Victorian businesses, over a certain size (to be determined in consultation with the business community) be required to adopt an environment management system (based on ISO 14001, or EMAS, or an industry best practice model) to a certifiable standard.**

***Chapter 7: Public Sector Environmental Reporting***

**Recommendation 7.1:**

**The Government encourage the accounting profession and the accounting standards setting board and other stakeholders to develop a new accounting standard for public sector reporting on environmental issues.**

**Recommendation 7.2:**

**The Government establish a core set of environmental performance measures applicable to all departments and agencies eg. energy and vehicle usage, including those under the National Greenhouse Strategy (Measure 3.1).**

**Recommendation 7.3:**

**Each Government department and agency should identify environmental performance measures specific to their department or agency.**

**Recommendation 7.4:**

**The Government require all Victorian departments and agencies to implement an environment improvement plan which includes the core environmental performance measures and any specific measures identified and include targets for each environmental performance measure.**

**Recommendation 7.5:**

**The Government develop an integrated environmental and financial reporting framework for the public sector, which will:**

- **use physical indicators to convey useful information to decision makers; and**
- **present a balanced perspective of the Victorian Government’s environmental performance.**

**Recommendation 7.6:**

**The Government publicly report annually on environmental performance across the whole-of-government.**

***Chapter 8: Environmental Auditing and Verification***

**Recommendation 8.1:**

**The Government establish a taskforce, with representatives from the professional accounting bodies and the accounting and auditing standard setting boards and relevant stakeholders, to develop basic standards for verification of environmental performance reports for publicly listed companies.**

**Recommendation 8.2:**

**To ensure a degree of consistency in future environmental reporting, auditors be required to audit and accredit industry best practice reporting models.**

**Recommendation 8.3:**

**The Government should encourage the certification of verifiers of environmental performance reports through the Quality Society of Australasia.**

**Recommendation 8.4:**

**The Government pursue the development of standards for auditors of environmental information in public sector annual reports and public sector environmental performance reports.**

**APPENDIX 2: GOVERNMENT RESPONSE TO  
PAEC'S INTERIM REPORT ON  
ENVIRONMENTAL  
ACCOUNTING AND REPORTING**

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## **APPENDIX 3: LIST OF QUESTIONS CONTAINED IN ISSUES PAPER NO. 4**

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### ***Chapter 2 - National Environmental Accounting***

- A1** What information should be included in a set of Australian environmental accounts?
- A2** What is your opinion of the satellite accounts produced by the Australian Bureau of Statistics?
- A3** Should Victoria urge the Australian Bureau of Statistics to include data at a State and Territory level in the satellite accounts?
- A4** Are there any other matters that should be canvassed in a set of Victorian environmental satellite accounts, which may be additional to matters in the national environmental satellite accounts?
- A5** What should be the relationship between the Australian Bureau of Statistics (ABS) satellite accounts and the Victorian State of the Environment report, and ABS satellite accounts and the Victorian public sector reporting on environmental impacts?

### ***Chapter 3 - State of the Environment (SoE) Reporting***

- B1** Which of the following purposes do you see State of Environment reporting serving?
- An environmental alert system – a report that records changes in the environment?
  - A scientifically sound record of trends in the environment?

- A document that looks at key issues for the community, industry and government?
- A document that assists community, industry and government decision makers?
- A means of assessing the performance of the community, industry and government?
- All of these? How would you prioritise these functions?

**B2** Should the State of the Environment report be the responsibility of:

- the Commissioner for Ecologically Sustainable Development, as an Officer of the Parliament (similar to the Auditor-General); or
- an independent panel, selected by the Minister for the Environment; or
- a government department or agency; or
- other – please provide details.

**B3** Should there be two stages - a management process that involves a reference group which reviews the development of State of the Environment reporting, and prepares the final report – followed by the Commissioner tabling the report in Parliament?

What should be the role of the Reference Group?

What should be the composition of this group?

**B4** Should a complete report be released for public comment, or should there be a draft report for public comment?

**B5** What should be the role for regional or other groups in the process of developing State of the Environment reports?

- B6** What should be the content of a State of the Environment report?  
Should it always cover the same topics?  
Should it only address key issues, with details provided on other topics on an Internet site? Who should decide this?
- B7** The verification of content (checking the reliability of the information provided) is a problem in State of the Environment reporting, because of the time and costs involved. Information can be verified by: a committee of experts, a committee of representatives of government, industry and the community, a public consultation process, or consultants. What verification process should be used, and why?
- B8** For many parts of the environment there are no indicators, or there is no means of consistently measuring the indicator in a representative fashion.  
Should resources be allocated to develop such indicators, or case studies be used to illustrate the problems?
- B9** How should new situations be reported? – wait to develop indicators, or report these situations in some other way?
- B10** In developing environmental indicators for Victoria, should the criteria for selection of indicators in box 2 (page 23) be used? Should criteria be added or deleted from this list?
- B11** Should there be a balance between economic, environmental and social indicators, or should SoE reporting only deal with environmental matters?
- B12** What core indicators should Victoria use - ANZECC core indicators, the Victorian Catchment Management Indicators , both, or another set of indicators?

- B13** Should the government be required to respond to State of the Environment reports? State of the Environment reports would cover activity by communities and industry – should they respond? If so, how?
- B14** Many State of the Environment processes in Australia involve a review of the process after the final report is released. Is this necessary and who should be responsible for the review?
- B15** Should there be any other action that should flow from State of the Environment reporting?
- B16** Should local councils be reporting their State of the Environment on a compulsory or voluntary basis? Who should provide the funds for this?
- B17** Is a cycle of five years for State of the Environment reporting reasonable? Could there be a continuous program which alternates between collecting information about different components of the environment? For example, water, land, and air.
- B18** What degree of detail should be provided in a printed report and what degree of detail should be provided on an Internet site?
- B19** What degree of consistency should there be between Catchment Management Authorities and State of the Environment reporting?  
How different is the purposes and audiences for each type of report?

***Chapter 4 - Commissioner for Ecologically Sustainable Development***

- C1** What should be the roles of the Victorian Commissioner for Ecologically Sustainable Development?

- C2** What other matters should be included in the legislation for the operations of the Victorian Commissioner for Ecologically Sustainable Development?
- C3** Should the Victorian Commissioner for Ecologically Sustainable Development be a statutory independent Officer of Parliament (similar to the Auditor-General)?  
OR Should the position report to the Minister for Environment and Conservation?  
OR Are there other options?

***Chapter 5 - Environmental Accounting***

- D1** How can the government encourage accounting bodies to develop methods to incorporate environmental costs in the prices of goods and services?
- D2** What initiatives could government implement to encourage organisations to scrutinise their operations to determine hidden environmental costs and to put in place mechanisms to determine the financial benefits that might arise from environmental protection measures?
- D3** What information on environmental management accounting would accountants need on an Internet site?
- D4** How should the concepts of: materiality, assets, liabilities, revenues and expenses be developed to incorporate environmental matters into accounting?
- D5** Which government body should sponsor the proposed series of workshops on environmental accounting?
- D6** What categories of stakeholders should be involved in these proposed workshops?

***Chapter 6 - Private Sector Environmental Performance Reporting***

- E1** Should companies be required to make public environmental reports on their activities?
- E2** What should be the content of environmental reports?
- E3** Should companies be reporting more than their financial and environmental situation? Why? What additional information should they report on?
- E4** If you are a manager in a company, what are the incentives and disincentives you have for reporting the environmental implications of the activities of your company? Would you describe your company as large, medium or small?
- E5** Should the Victorian Government promote any particular type of reporting in the private sector? For example, environmental or ecologically sustainable development or social responsibility reporting?
- E6** Should environmental reporting by private sector companies be mandatory or voluntary? Why?
- E7** Should guidelines be prescriptive or flexible?
- E8** Should guidelines be developed for each sector or industry, or should there be universal environmental guidelines for all private sector companies?
- E9** Should external verification of environmental reports by the private sector be compulsory or voluntary?

***Chapter 7 - Public Sector Environmental Reporting***

- F1** Should government departments and agencies lead by example in producing environmental performance reports?
- F2** What purposes do public sector environmental performance reports serve?
- F3** Should government departments and agencies report their environmental performance in annual reports, or produce separate environmental reports?
- F4** What key environmental matters should the public sector be reporting?
- F5** Should all government departments and agencies, by law, report their environmental performance?
- F6** How should environmental performance indicators be developed? Should there be stakeholder consultation? What documents and other sources should be used in developing these indicators?
- F7** What degree of environmental performance detail should the public sector be reporting? How should this information be presented? (eg. printed report, Internet etc). Should all agencies be required to report to the same extent?
- F8** What comparative period should be used for reporting – compared to last year, last 5 years?
- F9** What, if any, minimum set of indicators should all agencies and departments be reporting against?

### ***Chapter 8 - Environmental Auditing and Verification***

- G1** Who should be involved (who are the stakeholders) in the development of qualifications, standards, training and accreditation of environmental auditors and verifiers?
- G2** What body should be given the responsibility of examining and accrediting environmental auditors and verifiers?
- G3** Should there be limits on the skills environmental auditors and verifiers can advertise?
- G4** What mechanisms should environmental auditors and verifiers of public sector environmental reports use to report breaches of environmental laws to Parliament?
- G5** What level of verification do you expect in environmental reports – the numbers, quantitative data on performance indicators, or verifying performance? (see text for details of each of these levels).
- G6** Should the accounting profession or other professions be involved in the development of environmental auditing guidance?

### ***Chapter 9 - Environmental Levies***

- H1** What role should economic instruments play in environmental policy?
- H2** What do you think about the list of OECD specific suggestions (on pages 94 and 95) to increase the use of economic instruments in Australia's environmental programs?
- H3** Are tax and direct subsidies for environmentally desirable behaviour more effective than levies on environmentally undesirable behaviour?

- H4** Should all environmental revenues (including permit charges, levies and fines) be directed to environmental protection accounts?
  
- H5** What types of economic instruments will provide the greatest environmental benefits and will there be significant social costs or benefits associated with such instruments?



## APPENDIX 4: LIST OF INDIVIDUALS/ ORGANISATIONS PROVIDING SUBMISSIONS

	<b>Submission number</b>
Astronomical Society of Victoria Inc.	18
Australian Bureau of Statistics	7
Australian Industry Group	34
Mr Joe Baker, Commisioner, Office of the Commissioner for the Environment A.C.T	42
Bayside City Council	22
Mr Roger Burritt, Department of Commerce, Australian National University	2
City of Kingston	19
City of Whitehorse	23
City of Whittlesea	15
Colac Otway Shire	30
Mr Martin Drerup	4
Eco Recycle Victoria	28
Environment Management Industry Association of Australia, Victorian Network	36
Eurobodalla Shire Council	29
Dr Geoff Frost, School of Business, Faculty of Economics & Business, University of Sydney	17
Golden Plains Shire	3
Green Measures	14
Greenlink Box Hill Inc.	31
Mr Peter Grieve	8
Institute of Chartered Accountants in Australia and CPA Australia	37
International Council for Local Environmental Initiatives	27

	<b>Submission number</b>
Mr Peter Maganov	16
Manningham City Council	21
Professor Martin Mathews, School of Accountancy, Massey University, New Zealand	6
Melbourne Water	5
Mr Gord Miller, Environmental Commissioner of Ontario	39
Municipal Association of Victoria	38
National Australia Bank	35
New South Wales Environment Protection Authority	10
Mr Jon Nevill	24
Pricewaterhouse Coopers	33
Dr Jean Raar, Faculty of Business & Law, Deakin University	26
Associate Professor Gregory Rose, Faculty of Law, University of Wollongong	25
Save Albert Park	13
Shell Company of Australia Limited	11
Mr Richard Smith, Acting Commissioner of the Environment and Sustainable Development, Office of the Auditor-General of Canada	12
Snowy Mountains Engineering Corporation Victoria	1
Steering Committee on Sustainability Indicators for Regional Development	40
Telstra	9
Victorian Government agencies (Department of Natural Resources and Environment and Environment Protection Authority)	41
Victorian National Parks Association Inc.	32
Victorian Water Industry Association	20

## **APPENDIX 5: LIST OF WITNESSES WHO GAVE EVIDENCE**

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### *4 August 2000 – New Zealand*

Office of the Commissioner  
for the Environment

Dr J. Morgan Williams,  
Parliamentary Commissioner

Ms H Beaumont, Assistant  
Parliamentary Commissioner for  
the Environment, and

Mr B McClymont, Director,  
Citizens Concerns

### *25 August 2000 - Melbourne*

Deakin University

Dr J Raar, Lecturer, Faculty of  
Business and Law

National Australia Bank

Mr C Davey, Associate Director,  
Project and Structured Finance

Shell Australia Ltd

Dr D Bowman, Senior  
Environmental Adviser

Telstra

Mr C Senese, Group Manager,  
Corporate Environment Group;  
Ms J Saleeba, Environmental  
Analyst; and  
Ms A Learmonth, Government  
Relations Group

Victorian Water Industry  
Association

Ms T McCormack, Chief Executive  
Officer; and  
Mr A Cooney, Industry Officer

*11 September 2000 - Melbourne*

Commonwealth Scientific  
and Industrial Research  
Organisation

Dr F Solomon, Research Fellow,  
Minerals Division

Environment Institute  
of Australia

Mr S Molesworth, President

Environment Management  
Industry Association of  
Australia, Victorian network

Ms L Chaplin, Co-convenor; and  
Mr T Thornton

Pasminco Ltd

Mr D Sinclair, Group Manager,  
Environment

PricewaterhouseCoopers

Mr D Belfield, Team Leader; and  
Ms C Proske, Manager, Global  
Environmental Solutions

Productivity Commission

Dr N Byron, Commissioner; and  
Mr R Kerr, Head of Office

Save Albert Park

Mr K Wiltshire and Dr R Ulman

University of Melbourne

Mr P Christoff, Lecturer,  
Department of Geography and  
Environmental Sciences

*12 September 2000 – Melbourne*

Bayside City Council

Dr P Johnstone, Manager,  
Environmental Policy, and  
representing Metropolitan  
Environment Forum of the  
International Council for Local  
Environmental Initiatives

Environment Liaison Office  
(Victorian National Parks  
Association, Australian  
Conservation Foundation,  
Friends of the Earth,  
Environment Victoria, and  
The Wilderness Society Victoria)

Professor D Yencken

Municipal Association  
of Victoria

Cr L Johnstone; and Mr P Lyon,  
Senior Policy Adviser –  
Environment

Snowy Mountains  
Engineering Corporation  
Victoria

Mr T Jeyaretnam, Manager,  
Corporate Environmental  
Services; and  
Mr K Fung, Manager, Planning  
and Environment

*9 October 2000 - Melbourne*

Australian Accounting  
Research Foundation

Mr S Neild, Manager,  
Legislation Review

Department of Natural  
Resources and Environment

Ms M Van Rees, Executive  
Director, Parks Flora and Fauna;  
Mr P Sutherland, Executive  
Director, Catchment and Water;

and Mr S Jacoby, Director, Land Information Group

Environment Protection Authority

Mr R Joy, Executive Director; and Mr T A'Hearn, Manager, Policy Co-ordination Branch

Green Innovations Inc

Mr P Sutton

Maddock, Lonie and Chisholm

Ms L Hicks

Victorian Local Government Association and Environs Australia

Mr B Cotter; Ms J Hansen; and Mr S Ray

*17 October 2000 - Sydney*

Australian Business

Mr M Carolin, Environment Advisor; and Ms I Williamson, Environmental Reporting Extension Office

Australian Industry Group

Ms V Filling, General Manager, Environment and Energy Services; and Mr D Bell, Public Environmental Reporting Extension Officer

Futures Foundation

Ms J Lee Martin, Director

NSW Environment Protection Authority

Mr D Collins, Executive Director, Economics and Environmental Reporting

NSW Department of Local Government

Ms M Craig, Manager, Policy and Research Branch

NSW Local Government and Shires Association	Mr M Verhey
PricewaterhouseCoopers	Mr M Newson, Principal Consultant on Environmental Accounting and Member of the Environmental Accounting Taskforce, Institute of Chartered Accountants
University of Wollongong	Associate Professor G Rose, Faculty of Law
<i>18 October 2000 - Canberra</i>	
Australia Institute Ltd	Dr C Hamilton, Executive Director
Australian Bureau of Statistics	Mr B Harrison, Director, Environment Statistics Section; and Mr Z Abbasi, Regional Director, Victoria
Australian Ethical Investment Ltd	Mr D Paterson, Researcher, Corporate Ethics
Council of Small Business Organisations of Australia	Mr R Bastian, Chief Executive
EcoFutures	Ms M Harriss-Olson; and Mr P Toyne
Environment Australia	Mr C Boekel, Head, Environment and Technology Strategies Branch; and Ms J Boshier, Director, State of Environment Reporting Section

**Public Accounts and Estimates Committee**

Environment Australia

Mr M Forbes, Assistant Secretary;  
and  
Mr D Pinch, Sustainable Industries  
Branch

Green Measures

Mr R Osborn, Principal

Office of the Commissioner  
for the Environment,  
Australian Capital Territory

Dr H Sims, Office Manager

University of  
New South Wales

Associate Professor R Harding,  
Director, Institute of  
Environmental Studies; and  
Mr S Hatfield-Dodds, Director,  
Environmental Economics Unit,  
Environment Australia