

LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL
TERRITORY

*ENVIRONMENTAL ACCOUNTING FOR THE
ACT GOVERNMENT*

REPORT NO.22
OF THE
STANDING COMMITTEE ON PLANNING AND ENVIRONMENT
DECEMBER 1996

Resolution of appointment of the Standing Committee on Planning and Environment:

[that] a Standing Committee on Planning and Environment [be established] to examine matters related to planning, land management, transport, commercial development, industrial and residential development, infrastructure and capital works, science and technology, the environment, conservation, heritage, energy and resources...

[And that the committee] inquire into and report on matters referred to [it] by the Assembly or matters that are considered by the committee to be of concern to the community.

Minutes of Proceedings (Third Assembly) No.1 - 9 March 1995, amended 22 June 1995

Committee Membership

Mr Michael Moore MLA (Chair)
Mr Trevor Kaine MLA (Deputy Chair)
Ms Lucy Horodny MLA
Ms Roberta McRae OAM, MLA

Inquiry Secretary: Mr Jim Corrigan
Assistance: Mrs Anne Munns

Introduction

1. On 2 February 1996 the Standing Committee on Planning and Environment resolved as follows:

to inquire into and report on matters raised in the *1995 ACT State of the Environment Report*, including the Government's response, and any related matter.

2. The *1995 ACT State of the Environment Report* was produced by the ACT's Commissioner for the Environment. The Government's response to the Report was tabled in the ACT Legislative Assembly on 29 August 1996. At the time of preparing the report, the Committee had held four public hearings and received twelve public submissions in relation to its inquiry.

3. The Committee will shortly issue a report on the matters raised during its inquiry into the Commissioner's report. This report has been produced separately from the matters raised during the inquiry to provide a focus for initial discussion by the Legislative Assembly and the Government.

Environmental Accounting and Environmental Indicators

4. Environmental accounting and environmental indicators are two different approaches to providing environmental information.

Environmental indicators tend to give comprehensive information with respect to environmental issues. They are typically in physical units and have been developed by those from scientific backgrounds.

Accounting approaches are less environmentally comprehensive but provide more systematic and rigorous treatment for those topics that are included. This approach reflects a more economic based thinking and methodology rather than a science based approach.

Environmental accounts and indicators differ in their relative emphasis on scope and purpose. Environmental accounts focus on the interface between economic and social dimensions and the environment with the purpose of linking environmental considerations to economic and social policy considerations and decision making. The focus of environmental indicators, including state of the environment indicators, is on providing measures of the quality of environmental media and other environmental issues with the purpose of identifying problem areas for decision makers and identifying the appropriateness and effectiveness of responses to environmental issues.¹

Environmental Accounting

¹ Hendriks C. & Harding R. 1996, *'Macro Briefing Paper'*, 1996 Australian Academy of Science Fenner Conference on the Environment, 'Tracking Progress - Linking Environment and Economy through Indicators and Accounting Systems', p4

5. An important issue that has been raised during the Committee's inquiry into the *ACT State of the Environment Report* is the concept of environmental accounting and, more broadly, concern about integrating Ecological Sustainable Development principles into Government decision making. Evidence from written submissions to the Committee and subsequent public hearings suggest that environmental accounting is at the formative or even embryonic stage in its development and will take some time before the concept is put into practise. Nevertheless, the Committee believes that the ACT Government has an opportunity to be a leader in what is emerging as an important issue. The Committee notes that other countries, including The Netherlands and Germany, have trialed systems of environmental accounting.

6. The motivation for environmental accounting rises from the concern about conserving resources and, more broadly about sustainability.²

7. A theme of sustainability is that it involves integrating a range of social, economic and environmental goals. The Governments of the Commonwealth and all States are also committed to achieving ecologically sustainable development, through the National Strategy for Ecologically Sustainable Development (ESD), accepted by the Council of Australian Governments in 1992.

8. There have been attempts to shift policy focus away from consideration of economic, social and environmental policy as separate issues, to an integrated approach aimed at sustainable development. Environmental accounting has arisen from the corresponding demand for an integrated information system to support this shift in policy focus³.

9. For decisions (especially at the public policy level) to be sustainable requires relevant and factual social, economic and environmental information. Increased concern for the condition of the environment and the notion of sustainability has led to the accumulation of a large volume of environmental data, which is not always complete or in a format that is useful to decision makers and the public⁴.

10. In 1992, 178 nations gathered at the United Nations Conference on Environment and Development to determine an international plan of action to achieve sustainable development. The resultant plan, 'Agenda 21', was agreed to by the Australian Government. Agenda 21 proposes "a program to develop national systems of integrated environmental and economic accounting in all countries".⁵

11. The Committee is aware that organisations of some size and importance are grappling with these issues. For example, a senior officer of ACTEW Corporation, believes that problems with establishing environmental accounting lie with implementing the principles of ecological sustainable development. He considers that organisations should:

²ibid p1

³Australian Bureau of Statistics 1995, *Environmental Accounts Discussion Paper*, para 7

⁴Hendriks C. & Harding R. op cit, p4

⁵ Australian Bureau of Statistics op cit, para 10

....not try to set up an environmental accounting system, rather explore the changes from where we have been to where we have to be if we are going to inbed sustainable development in the process....

12. The ACTEW officer stated that he considered Canberra demonstrated very well a city on the path to sustainability:

....Canberra is the best at environmental management or what I call the journey towards sustainable cities. The difficulty is, sustainable development concepts have been prostituted, if you will excuse the term, because everybody who is keen on some issue demand immediacy and they think in the old paradigm of one state to another in one step, but it is not, it is a journey. If you look at our achievements here in Canberra compared with cities of the world....I have not found one yet in the world that comes anywhere near Canberra.⁶

13. The ACTEW officer considered the problem of environmental accounting was not environmental accounting itself but that governments and business generally needed to apply an investment approach to policy making and accounting systems. In relation to public works investment issues and existing accounting systems, he stated:

Under an holistic approach water recycling here is paid for by our consumers without government support. We [ACTEW] have developed an environment improvement plan that for an investment of \$100m allows us to keep our waste water treatment at world-best technology for as far ahead as we can predict technology....At the same time, that investment of \$100m will deliver something in the order of \$22m in direct applied research and development....It also provides the benefit of putting off the need for augmentation of water supply to Canberra for about 20 years. That is a saving in investment terms of \$200m. If you look at the big picture, the investment comes out right....No accounting systems presently in place in Australia takes into account the fact that to put off building water supply for 15 to 20 years is a bonus.⁷

14. The ACTEW officer suggested that the current study by ACTEW of the Environmental Costs of Water Supply (expected to be completed in March 1997) demonstrates an holistic view and the investment accounting approach. The study attempts to estimate the environmental costs of water supply in order that these costs might be integrated within future investment planning for water supply by ACTEW. Valuation of environmental costs associated with water supply is consistent with the principles of Ecological Sustainable Development which are listed in ACTEW's Charter, the principle objectives of ACTEW in the *Territory Owned Corporations Act* and the Australian Inter-government Agreement on the Environment.

15. A further major issue concerning the implementation of environmental accounting is the method of reporting. The Territory's Auditor General conducts audits of financial statements prepared in accordance with the Australian Accounting

⁶ *Transcript of proceedings 29/11/96 pp3-4 - Mr Paul Perkins (Deputy Chief Executive ACTEW Corporation)*

⁷ *Transcript of Proceedings The 1996 National Conference of Australian Parliamentary Public Works Committees and Environment committees p33 - Mr Paul Perkins (Deputy Chief Executive ACTEW Corporation)*

Standards. Unless provision is made for environmental accounting to be included in the Australian Accounting Standards, the Auditor General will not audit those statements. So until the Australian Accounting Standards are changed, another mechanism needs to be investigated to account for environmental costs and benefits.

16. One suggestion is that as a first step, the Budget Overview and Forward Estimates section of the Budget papers contain a separate section outlining environmental accounting information.

Activity in the ACT

17. The Australian Bureau of Statistics (ABS) is investigating environmental accounting as an integrated information system for Australia that links environmental and resource issues to the National System of Accounts. The ACT Commissioner for the Environment is developing environmental indicators as part of the State of the Environment reporting process and a senior Government official has indicated that environmental accounting is being investigated by the Office of Financial Management, Chief Minister's Department.⁸

18. It is desirable that indicators developed by the ACT Government and/or the Commissioner are consistent with the national indicators being developed by the ABS to allow comparison of environmental pressures and effectiveness of government responses. The Committee notes that a National Environmental Indicators Taskforce has been established, and also that the National State of the Environment Advisory Council has come up with a list of criteria that are most useful for the selection of indicators.⁹ In the development of indicators for the ACT it would be appropriate that these criteria are taken into consideration and also that contact is maintained with the National Environmental Indicators Taskforce.

“A key use of indicators is to enable policy makers to determine the extent to which society is responding to environmental changes and concerns. This includes individual and collective actions aimed at mitigating, adapting to or reversing negative impacts on the environment as well as repairing damage already done. It also includes actions to improve the conservation of the environment. The use of environmental indicators in monitoring programs to report on the condition of the environment can therefore service a range of objectives, including identifying where present social behaviour and economic policies might lead to future environmental degradation and associated economic and social costs”¹⁰

19. The Committee notes however, that the main emphasis of the ABS program is on developing environmental accounting in parallel to the National System of

⁸ *Transcript of proceedings Estimates Committee 9/10/96 pp138-139 - Mr Mick Lilley (Executive Director, Office of Financial Management)*

⁹ Lowe I. 1996 *'National Overview of State of the Environment Reporting in Australia: Challenges in Developing and Integrated System'*, 1996 Australian Academy of Science Fenner Conference on the Environment, 'Tracking Progress - Linking Environment and Economy through Indicators and Accounting Systems', p4

¹⁰ *ibid*, p4

Accounts which the Commonwealth Government use regularly. It is not clear to what extent the ACT Government can use the environmental accounts and indicators being developed by the ABS that would benefit ACT Government decision makers. Use of the ABS work could assist comparisons being made between Australian States and Territories; could avoid duplication of research; and could help the ACT Commissioner for the Environment develop State of the Environment reporting indicators.

20. It is widely accepted that environmental issues do not stop at State, Territory and local government boundaries. The Committee notes that the Regional Leaders' Forum has endorsed a regional State of the Environment Reporting process. Should environmental accounting be feasible for the ACT, it may be possible that in time, environmental accounting be extended to the Capital Region.

Indicator Development in the ACT Budget

21. The Government's new financial management model is based on specified outputs linked to outcomes. This highlights the absence of environmental performance indicators. The Committee notes that the past two Estimates Committee Reports have recommended that the Government further develop environmental indicators. The committee reiterates this recommendation.

22. One of the aims of introducing environmental accounting into the ACT public sector would be to ensure that resources are better conserved. The Committee believes that better monitoring of energy and resource use would encourage the wiser use of resources.

Conclusion

23. The above issues are only some of the challenges in putting environmental accounting into practise that have come to the attention of the Committee in its inquiry into the 1995 ACT State of the Environment report and the Government's response. The Committee notes the complexities in introducing environmental accounting, but believes the difficulties should not be an excuse for inaction.

24. *The Committee recommends that the Government prepare an Options Paper on environmental accounting for tabling in the June 1997 sittings. The Options Paper should:*

- *include opportunities for implementing environmental accounting, taking account of both the existing financial management framework and Australian (and international) Accounting Standards;*
- *investigate the feasibility of using environmental indicators developed by the Australian Bureau of Statistics in the ACT; and*
- *in the context of the ACT and the Capital Region, the Government consider how environmental accounting could be implemented on a regional basis.*

Further, the committee urges the Government to carefully consider the principles of the ACTEW Environmental Costs of Water Supply Study (when it becomes available), and any other relevant models or information in the context of introducing ecological sustainable development principles in Government accounting processes and decision making.

26. The Committee reiterates Recommendation No. 5 of the 1996 Estimates Committee, particularly in relation to the development of appropriate environmental indicators, and urges the Government to make the development of indicators of sustainability a high priority issue. In developing indicators of sustainability, the government should consider the criteria developed by the State of the Environment Advisory Council where appropriate.

Michael Moore MLA
Chair

December 1996