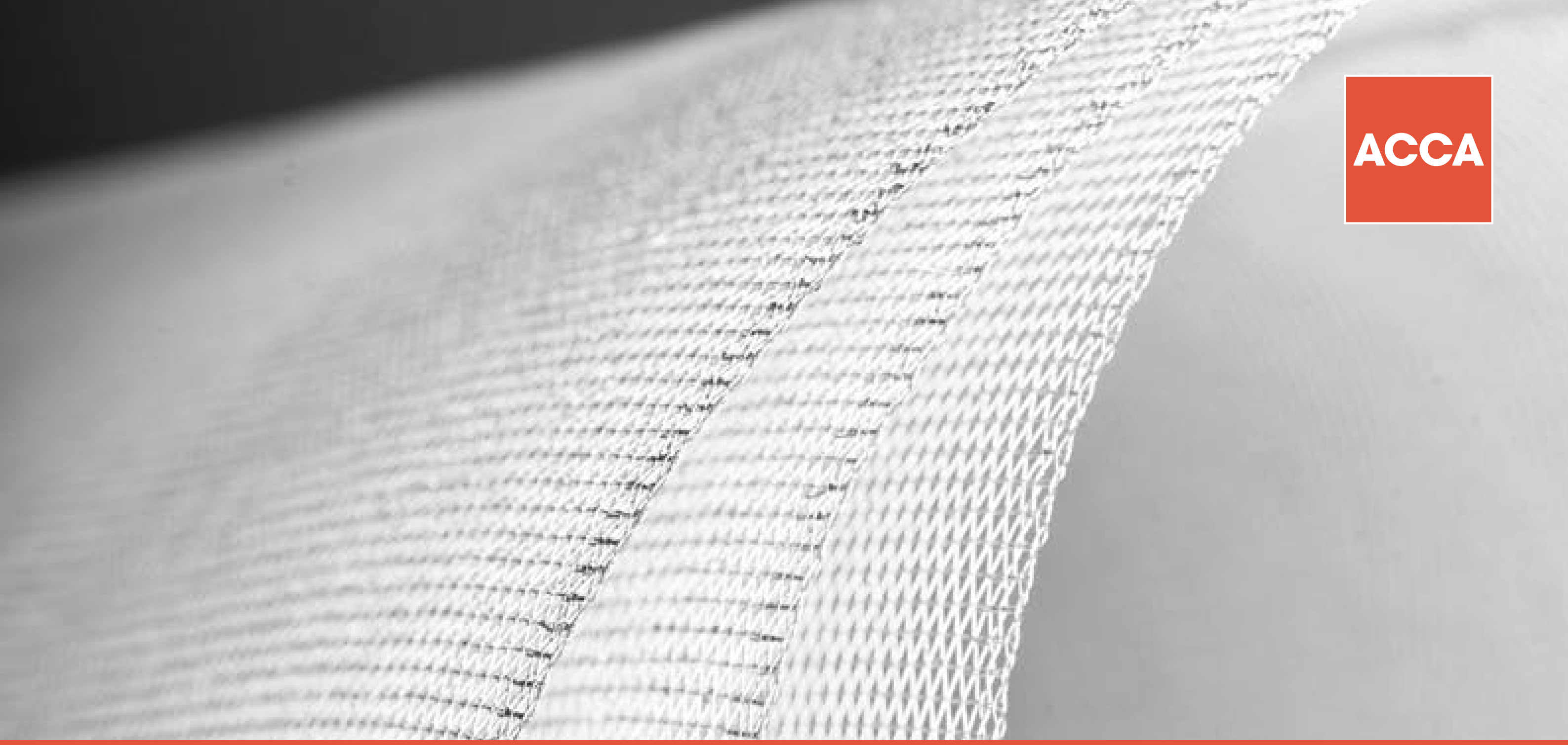

ACCA

Sustainability reporting matters

WHAT ARE NATIONAL GOVERNMENTS DOING ABOUT IT?

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA recognises that the concept of sustainable development is critical to society and business today. The accountancy profession has an important role in defining and delivering the means by which sustainable development is measured and reported.

ACCA has been actively involved in the unfolding debate on corporate social responsibility since 1990. We promote transparency and best practice, and aim to help businesses and organisations realise the growing importance of sustainability to them. ACCA champions the extension of corporate reporting to include the social and environmental aspects of a business. We launched sustainability reporting awards with partners in Australia, Canada, New Zealand, Hong Kong, Ireland, Malaysia, Pakistan, Singapore, South Africa, Sri Lanka, the UK, and the US.

In 2002, ACCA became the first professional body to be awarded the prestigious Queen's Award for Sustainable Development. We are also members of the advisory group of the Climate Disclosure Standards Board. ACCA was represented on the Global Reporting Initiative's board from inception until 2007, and our representative now chairs the GRI's technical advisory committee. ACCA is also a member of the executive board of the 'Accounting for Sustainability' project launched by HRH the Prince of Wales.

Sustainability reporting matters: what are national governments doing about it?

by Hannah Jones

The Association of Chartered Certified Accountants (London), 2010

Contents

The accountancy profession has an important role in defining and delivering the means by which sustainable development is measured and reported.

Executive summary

The sustainability challenges of today are unprecedented. Taxpayers and citizens want to know public sector organisations are addressing them. This paper reviews how sustainability reporting is understood and managed in the public sector with an emphasis on national government reporting. ACCA believes that sustainability reporting gives national governments an opportunity to show how in their thinking and actions they are dealing with the social, economic and environmental challenges ahead.

Sustainability reporting and corporate social responsibility (CSR) activity has grown rapidly in the private sector. While the CSR industry is increasingly showing interest in expanding into public sector reporting, ACCA believes that the differences between the sectors should be recognised as they vary in purpose, motivation and responsibility. For example, the key purpose of the public sector is to focus on the public good/interest, which is very different from the profit motive of private companies. This might affect the approach taken to sustainability reporting and the adaptation of private sector guidelines and frameworks.

The paper makes a number of recommendations for national governments and organisations that are responsible for developing guidelines and frameworks for sustainability reporting in the future. Also, it outlines:

- definitions of sustainability
- what is specific about the public sector in relation to sustainability
- the different approaches adopted by governments to sustainability reporting, drawing upon five specific case studies; Canada, Mexico, Philippines, Sweden and the United Kingdom
- the role of the accountant, and the challenges and opportunities that sustainability reporting presents
- the merits of some of the frameworks and guidelines which underpin sustainability reporting.

DEFINITION OF SUSTAINABILITY

While most definitions include a nod to social and economic elements, in many cases accounting practices have focused largely on environmental issues. Most national and international definitions of sustainability begin from the 1987 UN definition, in what is commonly known as the Brundtland Report.

> *Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.* (Brundtland 1987)

This definition emphasises that sustainability reporting should recognise the interdependence of economic, social and environmental factors; and the importance of intergenerational timescales. It also has a moral element to it – the need to focus on the impact on the poor. Arguably, when this definition is applied in practice it is so broad and vague that business and less enlightened governments can claim to care about the environment, but actually give priority to social and economic considerations. There is widespread interest in a global standard for sustainability (and well-being) reporting, but a key barrier to developing this is whether it is possible to reach a universal and meaningful consensus on what ‘sustainability’ or ‘well-being’ may mean.

WHAT IS SPECIFIC ABOUT SUSTAINABILITY IN THE PUBLIC SECTOR?

The motivation for sustainability reporting in the public sector differs from that of the private sector. In the private sector reporting is generally driven by legal requirements and industry standards. In the public sector, however, reporting by national governments is often driven by domestic political pressure, international agreements, trading relationships, targets and the need to cut costs. In the private sector, sustainability reporting frameworks rely on complex considerations of supply chains and whole-life cost models and focus on the direct impact on the environment, society or the wider economy. In contrast, the public sector's conceptualisation of sustainability is somewhat different, as it considers sustainability in a holistic way, capturing existing reporting on actions, identifying the gaps and how it can contribute to the organisation's central purpose. It also recognises that different forms of public sector organisations exist, for example central government, regional government, local government and health; and all have different responsibilities.

DIFFERENT APPROACHES TO SUSTAINABILITY REPORTING

The extent and focus of sustainability reporting varies between national governments. A range of initiatives do exist, mainly focused through national sustainable development strategies. Many countries provide data on indicators and targets against these strategies, and some countries also integrate environmental data into their national accounts. There is a range of reporting frameworks whereby national governments publish their progress on sustainability, most notably in relation to the United Nations (UN) and European Union (EU). Adoption of these frameworks largely depends upon the willingness and ability of national governments to report in this way.

The five case studies outlined in this report (Canada, Mexico, Philippines, Sweden and the United Kingdom) show the following common findings.

- Most of the five countries had developed an understanding of sustainability based on the Brundtland definition, but this has had a different emphasis in different countries and changed over time. In Sweden, for example, a very broad approach to sustainability measures has recently become more focused on environmental aspects.

- The countries varied in whether they integrated sustainable development into a single, mainstream government strategy, or whether they produced a stand-alone sustainable development strategy.

- National sustainable development strategies were enforced and promoted in different ways, whether it was through requiring lower tiers of government to develop strategies and actions flowing from the national level, reporting on indicators and measurement throughout the public sector, or through legislation to require sustainability reporting from state-owned companies.

- Two countries (Mexico and Sweden) emphasised the international dimensions, interdependencies and effects of sustainable development as well as developing national frameworks.

GUIDANCE FOR THE PUBLIC SECTOR

There is a plethora of guidance and frameworks for reporting in the private sector, but few make reference to public sector sustainability reporting. In 2005 the Global Reporting Initiative (GRI) launched a Public Agencies Sector Supplement to its reporting framework, and the Centre for Public Agency Sustainability Reporting (CPASR) in partnership with Australian government organisations, promoted sustainability practices in public agencies through reporting. GRI has recently researched how its sector supplement has been implemented by public bodies and found that GRI reporting in the public sector was still in its infancy. Some public bodies have made progress such as local government.

Different parts of the world will have different priorities within sustainability practice and reporting. This tends to be due to local circumstances of the physical environment, or social–structural factors such as inequalities between specific groups. For example, congestion may be an issue for (economic, social and environmental) sustainability in London but less so in Canberra. There will also be differences in emphasis between types of public sector organisation – for example, a local government may produce a report on the state of the area, while this may not be so relevant for a school. Therefore, any sustainability reporting framework should be appropriate to local and organisational circumstances. There are also the effects of action beyond geographical borders to be taken into account when considering local priorities, such as rising sea levels will have effects that reach far beyond coasts and islands.

Different governments and different regions or organisations may also have different motivations or requirements for sustainability reporting. For example, governments that receive international aid may be required by donor organisations to account for their sustainability performance. Also, in many cases, public sector organisations may be reporting to another part of the public sector on their sustainability performance, and those receiving reports will have regard to assurance and audit processes for sustainability.

THE ROLE OF THE ACCOUNTANT

There is a clear role for the accountant in sustainability reporting and for influencing how governments report on such issues. Accountants have much to offer in terms of core skills which are essential to developing more robust, consistent, effective and useful sustainability reports for national governments and the public sector more widely. Accountants are well placed to understand the regulatory environment, manage risk and develop efficient frameworks to measure information that can be monetised.

However, sustainability reporting also provides a number of challenges and opportunities for accountants, in particular, professional development, including establishing a deeper understanding of the interdependence of social, environmental and economic issues; long-term and future-focused accounting practices; and working alongside other professions.

SUMMARY

This paper raises a number of areas for debate on issues such as the types of measurement models for financial and non-financial information, the frameworks national governments should develop, and the design of robust and consistent measures that reflect public priorities. ACCA believes that the necessary future-focus of sustainability work will require fresh thinking in terms of balancing future and present costs and benefits across a range of measures and outcomes.

The newly established International Integrated Reporting Committee (IIRC) is a welcome move and is likely to be the next frontier for accountants if an integrated reporting framework which will cover sustainability issues gets adopted in the future. This would provide a holistic approach to reporting on social, environmental and wider economic decisions. It will be critical that the IIRC understands how its guidance and frameworks can apply to national governments and the public sector more widely.

RECOMMENDATIONS

- National governments should consider sustainability in all its social, environmental and economic elements. They should recognise that actions taken now have implications for the future. New forms of integrated reporting and the development of new indicators across all three domains will be required. The indicators should be flexible enough to adapt over time and between regions and reflect different priorities.

- Development work should be undertaken by the IIRC and leading bodies responsible for developing guidance and frameworks specific to national governments and public bodies more widely to improve sustainability reporting. These should be developed from the bottom up, taking account of the nature, motivations and responsibilities of public sector organisations. While lessons from private sector sustainability reporting and CSR are valuable, it is important to not to attempt to adopt a wholesale approach to reporting that may be more appropriate to the private sector.

- National governments should consider what elements of their existing work and reporting might contribute to sustainability, how other elements of sustainability could interact and be incorporated, and ensure that their work has a focus on future impacts as well as improving well-being in the present.

- National governments and key bodies responsible for developing frameworks and guidance should continue to have informed debate about what constitutes sustainability with a view to developing an approach to reporting that is appropriate to local and organisational circumstances. This debate should not neglect the impact that organisations may have on issues, places or communities outside their immediate jurisdiction. The role and priorities of national governments and different parts of the public sector should be borne in mind when developing sustainability reporting frameworks, measurement standards and assurance.

- There are undoubtedly a number of challenges to sustainability reporting, including difficulties of estimation and projections, materiality, understanding links between actions and impact, establishing robust indicators, verifiability and assurance and the challenge of applying the traditionally rigorous standards of accounting to sustainable development issues. However, the accountancy profession should not shy away from the challenges presented by sustainability reporting, as it provides opportunities to develop the strengths of the profession in an important area.

- The accountancy profession should seek to adapt its training support and programmes to accommodate the future needs of sustainability reporting. The experience of public sector accountants in reporting on financial indicators means they are well placed to adapt these skills and could act as leaders in the field of sustainability reporting. Future training and development should focus on linking financial and non-financial indicators, improving accountants' understanding of how social, environmental and sustainable development issues interconnect, and developing a long-term future focus alongside retrospective accounting practices. Also, accountants should be encouraged to work in collaboration with economists, social scientists and environmental scientists on new forms of integrated reporting.

1. Existing guidance on sustainability reporting

There is a huge quantity of literature about sustainability reporting and CSR for the private sector and an increasing volume of literature for the public sector. However, existing literature is generally limited in the scope of its definition of sustainability, understanding of the public sector, geographical focus, and attention to accountancy.

In 2002 ACCA published research by Professor Amanda Ball into sustainability accounting in UK local government (Ball 2002). Ball argues that the greater focus on sustainability accounting in the private sector is to some extent linked to the unsustainable nature of much private sector practice, whereas public sector ethos could be seen as closer to sustainability concerns. Nevertheless, in her report, Ball calls for a sustainability accounting project for the public sector to address the organisational effects and the wider societal influence and responsibilities of public sector organisations.

In the UK, the Chartered Institute of Public Finance and Accountancy (CIPFA) developed guidance on sustainability reporting for the public sector, with the sustainable development organisation Forum for the Future (CIPFA and Forum for the Future 2006). This guidance used a relatively wide view of sustainability including social aspects, but it was solely UK-focused. It followed from a discussion paper written by Amanda Ball, in 2004, which contributed to the debate about the state of sustainability reporting in the UK public sector (Ball 2004).

The Fédération des Experts Comptables Européens (FEE), the representative organisation for the accountancy profession in Europe, has shown an interest in developing sustainability reporting in the public sector. FEE has released policy statements to this effect and held a round table with a similar focus to this report. Its 2010 research into existing practices at a national-government level across Europe, and the findings will be reported in 2011. The outcome of FEE's research could complement this report, but its geographical scope is limited.

The Global Reporting Initiative (GRI) has developed a leading sustainability reporting framework for the private sector (GRI 2010). In 2005, the GRI added the *Sector Supplement for Public Agencies* (GRI 2005) to its reporting framework and a Centre for Public Agency Sustainability Reporting (CPASR), in partnership with Australian government organisations, to promote sustainability practices in public agencies through reporting. Though CPASR now seems to have ceased operations, it did produce a number of reports which advocated sustainability reporting, mainly promoting the use of the GRI framework in public agencies, through its own consultancy services (CPASR 2007; Dickinson et al. 2005; Hughes 2007). In 2010, GRI reviewed uptake of its *Sector Supplement for Public Agencies* and found that this was still 'in its infancy'; the Supplement remains a pilot version and the GRI is exploring the development of this into a final form (Tort 2010).

The International Organization of Supreme Audit Institutions (INTOSAI) has produced guidance for audit institutions on sustainable development, much of which is environmentally focused through its Working Group on Environmental Auditing (eg INTOSAI WGEA 2010a). In 2004, however, this working group published guidance on the role of supreme audit institutions in sustainable development which used a definition of sustainability encompassing social and economic as well as environmental factors. This guidance suggests that auditors should be aware of sustainability considerations, but that their role is likely to be limited to assessing the delivery of policy by government, and depends, therefore, on the extent to which the government or agency they are auditing has embraced the principles of sustainable development. However, it does note that these principles are receiving more widespread acceptance particularly at national government level and, hence, a growing importance in the audit and assessment process (INTOSAI WGEA 2004).

Although not sustainability-focused, an interesting report on the use of narrative and non-financial reporting in the public sector was published by Nederlands Instituut Van Registeraccountants (NIVRA) in 2008, in response to an increasing interest in social effects and policy results in the public sector (NIVRA 2008). The report discussed the importance of assuring reliability, understandability, relevance, comparability and verifiability in non-financial reporting. NIVRA emphasised that the process of producing non-financial reports is as important to this as the actual outcome. It concluded that clear communication and specification at the strategy level was essential to make non-financial reporting useful and that, to be successful, accountants and auditors in this field must work in multi-disciplinary teams on such projects. These findings are not addressed specifically to sustainability reporting, but there are useful lessons to be learnt.

There is also a body of academic accountancy research on sustainability reporting, and a developing subdivision of this which focuses on the public sector and government. A brief overview of this research suggests that sustainability reporting:

- tends to begin with a focus on private sector reporting
- focuses on individual or organisational case studies, such as a local government entity or a state-owned utility
- critiques the application of the form of CSR reporting in the private sector to reporting in the public sector.

GAPS IN THE LITEREATURE

There are some significant gaps in the existing guidance and this paper attempts to give a fresh and distinctive perspective to these.

Defining sustainability

Although most definitions of sustainability include a nod to social and economic elements, in many cases accounting practices have focused largely on environmental issues. The environmental issues are important, but this paper suggests that other elements of sustainability are also important. In particular, work on sustainability should consider future effects as much as current practice. This could present particular challenges for the accountancy profession.

Understanding public sector and government reporting

To date, the frameworks developed are useful but do not always take into account the particular responsibilities and motivations of governments and the public sector to report on and take action on sustainability issues.

An international understanding

This paper is designed to address sustainability reporting by governments internationally, and to understand the different motivations and focus in different countries and regions.

A focus on accounting

Sustainability reporting involves a number of professions. This paper considers how accountancy can contribute to sustainability reporting for public sector and governmental organisations, and what implications changes in sustainability reporting in these sectors could have for the accountancy profession, in terms of opportunities, challenges and skills.

2. Defining sustainability

Commonly, sustainability is considered to have three elements: environmental, social and economic sustainability. These elements are interconnected, and accountants are well placed to highlight these connections, as well as pointing out the practicalities of delivering on all three elements when sometimes trade-offs will have to be made. ACCA already has a strong track record of championing the inclusion of social and environmental aspects of business in reporting (ACCA 2007). However, while most definitions of sustainability include a nod to social and economic elements, in many cases sustainability reporting practices have focused largely on environmental issues.

There have been numerous attempts to define what is meant by sustainability and sustainable development. Many of these return to the definition proposed by the UN report *Our Common Future*, also known as the Brundtland Report (1987).

> *Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:*
>
> - *the concept of 'needs', in particular the essential needs of the world's poor, to which overriding priority should be given; and*
> - *the idea of limitation imposed by the state of technology and social organisation on the environment's ability to meet present and future needs.*
>   (Brundtland 1987)

The Brundtland definition emphasised both a future focus for sustainability, and a sense that not only are the world's resources limited, but that they must be shared between poor and rich. It has a strong moral element to it in that it emphasises the need to focus on the poor. Arguably, when this definition is applied in practice it is so broad and vague that business and less enlightened governments can claim to care about the environment, but will actually give priority to social and economic considerations.

Sustainability in this sense is the sustainability of life on earth, rather than sustainability of the conditions to which society has become accustomed. The elements of future focus and the connection between environmental, economic and social sustainability are referred to in most definitions of sustainability and sustainable development, including the UK's Sustainable Development Commission definition (Defra 2005b; IISD 2010b; Nordic Council of Ministers 2009; OECD 2010b).

There will always be those who argue over the exact interpretation. However, it is important not to get bogged down in a definitional quagmire. There are enough common elements that most agree on as central to a sustainable development approach. Essentially, this means that progress can be made towards a world where economic, social and environmental goals and policies are pursued to maintain a good quality of life now and in the future (Sustainable Development Commission 2010).

REPORTING ON RESOURCE DEPLETION AND CLIMATE CHANGE

To date, the emphasis by national governments level has largely been on reporting on one aspect of the sustainability definition – environmental reporting (and this is still in its infancy in many countries). ACCA believes that there may be a number of reasons for concentrating on environmental issues.

- Climate change and depletion of natural resources are seen as requiring urgent action.
- It has been easier to reach a degree of political consensus on what constitutes environmental sustainability than on social sustainability.
- It is easier to quantify changes in natural resource availability than social sustainability factors.
- The development of explicit financial incentives and penalties for environmental factors (such as emissions caps and trading schemes).

Urgent issues of resource depletion and climate change have become the focus of international attention, and various measures have been taken at governmental and inter-governmental level. There remain issues of contention and differences in definition even in this area. For example, Environmental Resource Accounting defines which resources are taken into account (eg fossil fuels, water); whereas a recent UN report noted that biodiversity was a significant natural resource whose depletion has been paid insufficient attention (ten Brink et al. 2009).

Without a doubt, most attention has been given to reporting on carbon and other emissions. Greenhouse gas (GHG) emissions targets have been agreed by most developed countries as part of the UN Kyoto Protocol, the EU Emissions Trading Scheme, and various national schemes aiming to meet Kyoto obligations, such as the UK Carbon Reduction Commitment Energy Efficiency Scheme (CRC). Emissions reduction is probably the area with the most involvement from the accountancy profession, given the link to financial costs and penalties, and the need to develop and operate within new measurement and accountability frameworks to comply with them.

This is not to suggest that environmental sustainability reporting is without its own difficulties. There remain gaps in reporting (for example, on biodiversity) (ten Brink et al. 2009). It is unclear what impact the act of sustainability reporting has on actual actions to promote sustainability, and some elements of sustainability and CSR reporting have gained a reputation for 'greenwash'. This suggests that organisations that have the most problematic environmental or other sustainability records tend to be the most likely to produce positive reports on their own activities (Commissioner of the Environment and Sustainable Development 2010).

REPORTING ON WELL-BEING

In some countries, securing ecological sustainability also requires social sustainability. Social aspects of sustainability are regarded as important because of the need to gain support and engagement from society and institutions to develop environmental sustainability. That is, environmental sustainability is seen as fundamentally 'a social process'. This is, for example, the view taken by the Government of the Philippines (see Chapter 5).

There is also an argument that social sustainability (or social good or well-being) is a goal in itself, and one which is of particular importance to the public sector as reflected, for example, in Sweden's constitutional duty for public sector organisations to promote the public good (see also Ball 2004). While the social good or well-being may be more challenging to measure in terms of apparently consistent metrics, there is a growing literature on the attempts to do so (European Commission 2007; Giovanni et al. 2009; Nicholls et al. 2009; Stiglitz et al. 2009; Theodoropoulou with Zuleeg 2009). The challenge of measurement should not foreclose the importance of weighing decisions in a sustainable way, or the role of the accountant in developing rigour and consistency in decision making.

The measurement of well-being has become an issue of major international interest in recent years, and a number of significant initiatives to develop research and practice in this area are currently underway, many of them involving accountants as well as economists, statisticians and other professions (Stiglitz et al. 2009).[1] Well-being, like sustainability, can be defined in a range of ways, but there is a growing consensus that traditional measures such as GDP do not completely capture the concept of societal value, and that questions such as health, education, inequality and even happiness should be taken into account when assessing the success of society. This debate presents challenges for measurement, and there have been attempts to capture some of these issues through monetised values,[2] and to suggest that both subjective and objective measures should be taken into account in a non-monetised form (Stiglitz et al. 2009).

1. For example, the Stiglitz Commission, INTOSAI work, OECD, EU Beyond GDP, European Policy Centre, State of the USA, and other national initiatives, including Russia.

2. For example, the 'Social Return on Investment' methodology developed by the new economics foundation, see Nicholls et al. (2009).

While there are attempts to push for a comparable measure of well-being that can be used internationally, most recommendations in this field also recognise that there will need to be an element of regional flexibility.[3]

Future orientation

There are many parallels between the developing work on measuring and reporting on well-being and on sustainability, but they are not necessarily the same thing. An important element of sustainability practice and reporting is the importance of the social good or well-being of future generations as well as that of present populations. This presents challenges for accountants not least because reporting can be seen as inherently retrospective rather than future-focused and because reporting the projected future effects of current action necessarily involves estimation and uncertainty. There are also implications for audit assurance processes.

Global standards

A number of attempts have been made to define sustainability or sustainable development in a way that could be used consistently around the world. The Brundtland definition still leaves a large degree of leeway for differences in approach, delivery and measurement. Specific indicators, targets and measures designed for international use and comparison and with a relationship to sustainability do exist, but they tend to focus on specific aspects of sustainable development and are voluntarily implemented by governments. The range of related measures includes the following.

- **UN goals and indicators**
  These include a range of measures, from Kyoto targets to the Millennium Development Goals, Biodiversity Indicators to the Human Development Index. A range of UN agencies are involved in promoting sustainable development in various forms, and in monitoring its progress across member states. These include the UN Division for Sustainable Development (responsible for Agenda 21), UN-Habitat and UN Environment Partnership.

- **OECD initiatives**
  The OECD's Measuring the Progress of Societies project aims to collect data on whether life is improving across the world and in the process to create a debate about what constitutes 'progress' (OECD 2010a). Although not strictly about sustainability so much as well-being, the project has produced a set of guiding principles to measure and assess progress towards sustainability, called BellagioSTAMP. These were initially published in 1996 and revised in 2009, and provide fundamental principles for assessing sustainability which can then be adapted to national and local circumstances (IISD 2010a).

- **INTOSAI guidance**
  Guidance on the auditing of sustainable development initiatives in member countries; however, it emphasises that the role of state audit institutions will depend on national standards, regulation and legislation of governments (INTOSAI WGEA 2004).

- **Global Reporting Initiative (GRI)**
  A framework designed mainly for private companies, but developing supplementary guidance for sustainability reporting for public agencies, charities and other organisational entities.

ACCA recognises that individual countries have different priorities for sustainability and sustainability reporting and this is likely to continue. The agreement of common frameworks is likely to be useful and can assist with encouraging the international cooperation necessary for delivering more sustainable societies. These also need to be flexible enough to account for regional and organisational variations.

RECOMMENDATION

National governments should consider sustainability in all its social, environmental and economic elements. They should recognise that actions taken now have implications for the future. New forms of integrated reporting and the development of new indicators across all three domains will be required. The indicators should be flexible enough to adapt over time and between regions and reflect different priorities.

3. For example, the BellagioSTAMP principles, and the OECD's Measuring the Progress of Societies project.

3. Understanding public sector reporting

This section reviews how sustainability reporting in the public sector compares with the private sector, the differences in approaches, responsibilities and motivations for sustainability reporting across the private and public sectors, and makes recommendations on how sustainability reporting by national governments can be strengthened. A great deal of work is currently being done to support sustainability reporting in the public sector, particularly at a local government level, as well as by other types of public agencies. It could be argued, however, that progress made by national governments is patchy.

Sustainability might be reported in the public sector through a range of reporting arrangements and not necessarily condensed into a single sustainability report (Ball and Bebbington 2008). Many countries do, however, have a national government sustainable development strategy in some form or other, although the level of importance and the modes of reporting vary from country to country.

As previously discussed, ACCA has produced a series of sustainability briefings looking at the skills that accountants need and can contribute (ACCA 2009). The Global Reporting Initiative (GRI) is the leading body for developing guidance and frameworks for private sector sustainability reporting to provide consistency and quality of reports, including a public sector supplement (GRI 2005). However, the GRI model has been criticised on two grounds. The first is that it encourages stand-alone sustainability reports, rather than integrating sustainability measures into company annual reports. An alternative framework for integrated reporting is being developed by Accounting for Sustainability in the UK, which will also include tailored advice for the public sector. Both these frameworks regard some parts of the public sector as lagging behind the private sector in sustainability reporting in some areas. ACCA believes that this understanding appears to stem from the second weakness, that of thinking of public sector organisations in the same terms as their private sector counterparts.

The purpose of public sector organisations is generally grounded in improving well-being in some way, rather than increasing shareholder value. As a result, elements of sustainability are likely to be core to the organisation's goals in a way that may not be commonplace in the private sector. The organisation's contributions to well-being are likely to already be monitored in some way, though they may not be conceptualised as sustainability practices, and may lack a future focus. These contributions may also be partial for many organisations, for instance focusing on social well-being rather than environmental issues (or vice versa). Therefore, the challenge for public sector sustainability reporting is likely to be in conceptualising it in a holistic way that allows recognition of existing reporting on action that contributes to sustainability, and how meeting the gaps in current action or reporting can contribute to the organisation's central purpose.

Amanda Ball argues in her discussion paper for CIPFA in 2004, that:

> *public service organisations are fundamentally different forms of organisation to private sector companies,...they have a key role in driving a sustainability agenda, and... sustainability reporting for public service organisations, therefore, should be advanced in different ways to the current thinking in the private sector.* (Ball 2004)

The differences between private sector and public sector reporting are mapped out below in Figure 1.

Figure 1: A comparison of public and private sector reporting

	Private sector	Public sector
Primary objective	**Financial return**	**Social benefit, well-being, goods or services for the general public**
Domain of sustainability reporting	Impacts of the organisation	Impacts of the organisation; sustainability of: geographical area/ecosystem, and of governance (including cooperation with and impact on other geographical constituencies)
Motivation for sustainability reporting	Legal requirements Industry standards	Domestic political pressure International political pressure Aid or trading relationships Political commitments
Mechanisms for sustainability reporting and planning	Annual reports Stand-alone sustainability reports	National accounts Sustainable development strategies Organisational corporate plans or annual reports
Mechanisms for promoting sustainability	Internal processes Procurement practice Product development	Internal processes Procurement practices Policy and legislation affecting society at large International negotiations
Sanctions if practice remains unsustainable	Legal action Customer boycott Lack of resource or customer base Financial failure	Local depletion of resources Political, economic and social failures as a result of resource depletion Loss of government power

RESPONSIBILITIES

Most private sector sustainability reporting frameworks focus on the organisation's direct impact on the environment, society or the wider economy. This may involve complex considerations of supply chains and whole-life costs of products. The GRI and the Prince's Accounting for Sustainability Project (A4S) frameworks apply a similar model to public sector sustainability reporting. Some related documentation does make a nod to the public sector or government capacity to influence sustainability in other ways, such as through regulation, and their responsibility for the wider environment, society and economy as a whole – but does not include these other elements in the reporting framework.

The three levels of reporting (direct impacts, regulation and holistic overview) are of different natures, but are all important, and should form part of the public sector's conceptualisation of sustainability reporting (although of course different forms of public sector organisation will have different responsibilities and should report on elements that are appropriate to them). Governments, for instance, should have a role in reporting on the whole state of affairs of their territory, while recognising that it is not only the actions of government that will have an impact on that territory's sustainability. Such reporting presents challenges for models of accountability, for measuring the impact on outcomes, and for understanding those impacts that cross geographical jurisdictions.

MOTIVATIONS

Steurer (2010) considers how government policy has worked with CSR, characterising governments' attempts to influence the fundamentally voluntary CSR phenomenon through four 'thematic fields of action', namely: raising awareness and building capacities for CSR; improving disclosure and transparency; facilitating socially responsible investment; and leading by example. The fourth element is referred to elsewhere in the CSR literature as 'walking the talk' (Lamprinidi and Kubo 2008); that is, those coming from a more corporate CSR background, and who apply the language and logics of sustainability to the public sector, tend to see governments and other public agencies as lagging behind the private sector in its reporting. This may stem, to some extent, from the attempt to apply a private sector framework rather than to understand the fundamentally different relationship to sustainability that governments fulfil.

The reasons for conducting sustainability reporting also vary between private and public sectors. CSR has been conceived of as a voluntary process, in which businesses participate largely because it will enhance their competitiveness. The model of the 'triple bottom line' is aimed at encouraging an understanding of business aims that encompass both 'people' and 'planet' as well as 'profit', and in taking a longer-term view of business practice in which businesses may not be able to function if practices are too destructive. Whereas, the public sector exists initially to promote well-being, and efficiency (and sometimes financial return) as means to that end, rather than the reverse.

GRI and others suggest that a key driver for the public sector to embrace sustainability reporting is to act as an example to the private sector. This suggests a very narrow view of the role of the public sector. But, if the motivation for private sector reporting tends to be related to benefits to the company's reputation and long-term savings, what is the motivation for the public sector? In part, this has been answered above – the public sector mission is almost always related to some form of well-being. However, ensuring the focus on the future that sustainability reporting requires will have the same potential pitfalls in motivation as for the private sector – there may be costs to organisations and decision makers now, the benefits of which are not seen until some point in the future (whether this is costs to the organisation's service delivery, or electoral unpopularity, for example). If sustainability measures are unfavourable, this could also be damaging to reputation with, or popularity with, the taxpayer.

This is not to suggest that the public sector across the globe currently behaves in a sustainable way, or indeed has got to grips with the concepts of either sustainability or sustainability reporting. Rather, it is to signal that the rethinking of public services into a sustainable model may more fruitfully start from the existing aims, practices and reporting structures of public sector organisations than from the private sector (while of course using the learning from the experience of CSR where possible).

The public sector in general is only likely to report if the political climate is one in which a future focus is dominant, where the public is strongly in favour of change to these ends, and where the political case has been made by leaders. At the sub-national level, laws and regulation could require organisations to report; at the national level, the impetus to report must come from global pressure or consensus. This could be in the form of relationships between aid donors and recipients; through political pressure from NGOs, academics, or others who have begun to publish 'unofficial' sustainability reports where there is an absence of government disclosure; or through international relationships and commitments within cross-border bodies.

EXISTING PUBLIC SECTOR SUSTAINABILITY REPORTING FRAMEWORKS

As set out in Chapter 2, there are a number of global standards and frameworks which relate to sustainability concerns, and which are applicable at a national or international level. These include a number of UN programmes, most notably the Millennium Development Goals, and regional frameworks such as the EU Sustainable Development Strategy. Many governments submit regular re-posts to the UN and EU on their sustainability work, although this is not usually in the standardised format that an accounting framework would imply. A number of resources are available online which give an idea of the current information available on national sustainability reporting (European Sustainable Development Network 2010).

Integrated Environmental and Economic Accounting has been developed as part of the UN system of national accounts (United Nations 2003), and the European Commission and Member States are active in developing a revised environmental accounting framework, SEEA, to be finalised in 2012 (Eurostat 2007). These accounting frameworks are intended to illustrate both how economic changes impact on environmental factors, and how environmental policies impact on the economy. Again, these frameworks are macroeconomic analyses which are led by economists and statisticians rather than accountants.

RECOMMENDATIONS

Development work should be undertaken by the IIRC, and leading bodies responsible for developing guidance and frameworks specific to national governments and public bodies, more widely to improve sustainability reporting. These should be developed from the bottom up, taking account of the nature, motivations and responsibilities of public sector organisations. While lessons from private sector sustainability reporting and CSR are valuable, it is important to not to attempt to adopt a wholesale approach to reporting that may be more appropriate to the private sector.

National governments should consider what elements of their existing work and reporting might contribute to sustainability, how other elements of sustainability could interact and be incorporated, and ensure that their work has a focus on future impacts as well as improving well-being in the present.

4. International understanding

There is widespread interest in a global standard for sustainability (and well-being) reporting. But a barrier to development could be whether it is possible to reach a meaningful consensus on what 'sustainability' or 'well-being' may mean. This section explores some more specific approaches to sustainability reporting at the national government level with five case studies (Canada, Mexico, the Philippines, Sweden and the UK). The countries here have been chosen because of their diversity in the field of government action in sustainable development and, as a result, information on them may be more easily available than for countries which make sustainability less of a priority.

INTERNATIONAL VARIATION IN SUSTAINABILITY REPORTING PRACTICE

There are a range of existing reporting frameworks whereby national governments publish their progress on sustainability. However, implementation of these frameworks relies to a great extent on the willingness and ability of national governments to report in this way. There are also a number of international non-governmental bodies, pressure groups and think tanks that collate data on the sustainability performance of governments. For example, the International Institute of Sustainable Development, the European Sustainable Development Network, and the Overseas Development Institute.

Different parts of the world will have different priorities within sustainability practice and reporting. This could be due to local circumstances of the physical environment, or social–structural factors such as inequalities between specific groups. For example, congestion may be an issue for (economic, social and environmental) sustainability in London but less so in Canberra. There will also be differences in emphasis between types of public sector organisation – for example, a local government may produce a report on the state of the area, while this may not be so relevant for a school. Any sustainability reporting framework should, of course, be appropriate to local and organisational circumstances. The impact of action beyond geographical borders should be borne in mind, however, when considering local priorities – for example, rising sea levels will have effects that reach far beyond coasts and islands. In many cases, public sector organisations may be reporting to another part of the public sector on their sustainability performance, and those receiving such reports should also have regard to assurance and audit processes for sustainability.

Different organisations and different regions or governments may also have different motivations or requirements for sustainability reporting. For example, governments who receive international aid may be required by donor organisations to account for their sustainability performance. Nations that do not receive international aid may not be under the same pressure, but they may choose to report instead because of far-sightedness about the impact of sustainability, either because of public political pressure, or because other organisations (such as NGOs or academic researchers) will report on their performance if they do not. Where governments have put in place requirements or expectations on other public or private bodies to report sustainability performance, they may indeed feel themselves under pressure to lead by example by reporting on their own performance, as stressed by the GRI and other models.

The five case studies outlined in this section provide a range of approaches to sustainability development and reporting, in terms of governance structures, reporting mechanisms, accountabilities and definitions. They also give an idea of approaches in different regions of the world. The case studies give a snapshot of these approaches but they are not a representative summary of global or regional sustainability reporting. Some key points to note from the comparisons of these case studies are as follows.

- Most countries develop an understanding of sustainability based on the Brundtland definition, but this may have a different emphasis in different countries, or over time within the same country. In Sweden, for example, a very broad approach to sustainability measures has recently become more focused on environmental aspects.

- Countries vary in whether they integrate sustainable development into a single, mainstream government strategy, or whether they produce a stand-alone sustainable development strategy. There are divided opinions on which may be the most effective approach, but the inclusion of indicators and reporting structures in either is essential. There may be room for more involvement from the accountancy profession in standardisation of these indicators and measurement frameworks.

- National sustainable development strategies are enforced and promoted in different ways, whether it is through requiring lower tiers of government to develop strategies and actions flowing from the national level, reporting on indicators and measurement throughout the public sector, or through legislation to require sustainability reporting from state-owned companies.

- A number of countries (particularly the UK, Mexico and Sweden) emphasise the international dimensions, interdependencies and effects of sustainable development as well as developing national frameworks. This may add complexity to the process of action and reporting, but is important in terms of making actions more effective.

CASE STUDY 1: CANADA

Canada has been a leader in the field of environmental sustainability reporting, and in the involvement of the accountancy profession in this field. The *Auditor General Act* was amended in 1995 to create the position of Commissioner of the Environment and Sustainable Development within the Office of the Auditor General of Canada, and required government departments to prepare sustainable development strategies and update them every three years. In 2007, the Auditor General established a commission to review how the Commissioner's role had been put into practice, which found that most audits had focused on environmental risk, and that sustainable development should be given a greater focus as well. This meant considering how audits of government policy, programmes and practices could take into account the integration of impacts on environment, economy and society, and over time horizons measured in generations (Commissioner of the Environment and Sustainable Development 2010).

Like others, the Canadian government begins from the Brundtland Commission definition of sustainability, which is incorporated into Canadian law in the *Auditor General Act* and the *Federal Sustainable Development Act*.[4] Official documents reference environmental, social and economic aspects of sustainability into the future. However, most key legislation and reporting requirements which are being strengthened under the banner of sustainability relate to the environment. The *Draft Federal Sustainable Development Strategy* (Environment Canada 2010) explains that while there has been a range of efforts to support sustainability in Canada over several decades, the current approach aims to focus on a smaller number of goals (largely related to the environment), with a view to achieving an effective system of reporting and action that could then be expanded.

A Canadian System of Environmental and Resource Accounts have been in development since 2003. This is led by Statistics Canada, integrating with the general system of National Accounts. This resource accounting considers natural resource accounts, material and energy flow accounts, and environmental protection expenditure accounts (Commissioner of the Environment and Sustainable Development 2010).

4. Sustainable development means development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Measures to promote sustainable development and the role of auditors in this are enshrined in law in Canada. The main legal and policy instruments include the following.

Auditor General Act
Amended in 1995 to add environmental impact to the remit of the Auditor General's reports, and requires government departments to prepare and keep updated their own sustainable development strategies. It also created the position of Commissioner of the Environment and Sustainable Development within the Office of the Auditor General of Canada to monitor departmental sustainable development strategies and assist the Auditor General in her new environmental responsibilities.

Federal Sustainable Development Act 2008
Requires the Minister of the Environment to develop a Federal Development Strategy with sustainable development goals and targets, and implementation plans. Departmental strategies should link to this Federal Strategy. The quality of the goals and targets will be audited by the Commissioner of the Environment and Sustainable Development in terms of how well they can be assessed, and how far departments contribute to their achievement.

Kyoto Protocol Implementation Act 2007
Requires the Commissioner of the Environment and Sustainable Development to report on Canada's progress on implementing climate change plans and obligations under the UN Framework Convention on Climate Change. (Office of the Auditor General of Canada 2009)

In March 2010, the Sustainable Development Office of Environment Canada launched a consultation paper putting forward a new approach to sustainable development work for the Canadian government. The new strategy argues that while there had been a great deal of work on sustainability in government, this had lacked an overarching coherence, a criticism made consistently by the Commissioner for the Environment and Sustainable Development in previous annual reports. A new framework has been proposed, looking specifically at environmental sustainability at a whole-government level. This framework will link 'sustainable development planning and reporting into the government's core expenditure planning and reporting system' and establish 'effective measurement, monitoring and reporting' which will also provide accessible information to the public (Environment Canada 2010).

Given that the Federal Strategy emphasises that priorities of government will include leading by example, it is interesting that a separate report has found that financial investment in particular does not tend to grant sustainable development significant importance. This is attributed to the fact that attention given to environmental and sustainable development issues within government has not been extended into legislation that governs the private sector. For example, in contrast to the UK – where the investment community tends to see this area as relevant to its work and, because of public policy emphasis, likely to remain important even during downturns in the market – this sentiment did not tend to be echoed in the investment community in Canada, which falls behind even its North American neighbours in thinking on this issue (Environment Canada 2009).

CASE STUDY 2: MEXICO

Mexico does not have a separate sustainable development strategy, but instead has integrated sustainable development into major national strategies, including the country's main planning instrument, the National Development Plan, and the plans of individual government ministries (Berger and Gjoski 2009). Though this has been praised as a way of linking national budgeting processes more closely with sustainability concerns, it has also been seen as possibly risking the loss of the detail that would come from a dedicated sustainable development strategy (Swanson and Pintér 2006).

The Mexican National Development Plan includes sustainable human development as a basis of any development for the country. Though the time-frame of the plan is only 6 years (currently 2007–2012), it also incorporates the Mexico Vision 2030 Project which has an intergenerational focus (Berger and Gjoski 2009; Cooperative Sula Batu 2008; Swanson et al. 2004). Each government ministry reports annually to the President of Mexico on progress against environmental targets, and the President, in turn, reports to Congress on the country's general administration. The current National Development Plan uses long-term indicators from the Mexico Vision 2030 Project which cover jurisdiction, economic development, social issues, environmental protection, and governance (Berger and Gjoski 2009).

Mexico established a National Consultative Council for Sustainable Development in 1995, involving civil society, business, academic, and federal and non-federal government representatives. The council is chaired and coordinated by the Secretariat of the Environment and National Resources. There are also four regional consultative councils which were involved in a major process consulting citizens, organisations and stakeholders on the development of the current (2007–2012) National Development Plan.

Each ministry is also required to consult with citizens and stakeholders to develop their own programmes that respond to the National Development Plan (Berger and Gjoski 2009; Cooperative Sula Batu 2008). These plans specify goals and strategies for the ministry's area of responsibility with a 25-year outlook, integrating sustainable development goals (Swanson et al. 2004). The involvement of citizens and stakeholders means that sustainability decisions are not just made on the basis of resource calculations that balance, for example, water and finance. They should also take into account the perceptions, understandings and priorities of the public and other stakeholders and communicate the way these decisions are made (Aparicio 2004). In addition, environmental issues are addressed specifically through the National Program of the Environment and Natural Resources which includes objectives and targets and plans to deal with them (Berger and Gjoski 2009). The Ecology Law requires the Secretariat of Environment and Natural Resources to establish Advisory Councils involving academics, NGOs, business and local and federal authorities to implement and monitor environmental policies (Swanson et al. 2004).

Mexican environmental management recognises interdependence beyond and across political boundaries, for example in the management of water, land, air quality, forests, and biodiversity is conceptualised on the basis of watershed areas (Berger and Gjoski 2009). This has been put into practice through a joint environmental management programme involving federal, tribal, state and local entities from both the United States and Mexico (Swanson et al. 2004).

The Mexican government piloted the draft framework for the System of Integrated Environmental and Economic Accounting with the UN and World Bank in 1990 and 1991. This process developed environmental accounts for oil depletion, deforestation and land use and environmental degradation, with economic values applied to each resource. Mexico has since published economic and ecological accounts for 1985 to 2004, covering minerals, energy, soil, water and land. There are plans to expand these accounts to include forests and water. The environmental accounts are used to produce adjusted economic aggregates as a measure of sustainable development in monitoring of the National Development Plan (INTOSAI WGEA 2010b).

Though the integration of sustainability into the core national strategy is viewed with caution by some sustainable development organisations that fear it may dilute action, it is also recognised as an important opportunity to link sustainability to finance and budgeting processes (Swanson et al. 2004). There are limitations to the existing links; for example, the national government procurement framework does not make any special provision for sustainable procurement. However, there would be scope to develop this, as Mexico's national and international procurement agreements allow for technical requirements and evaluation of tenders to take into account requirements for transparency, non-discrimination and energy efficiency (Perera et al. 2007). Green procurement specifically has been developed in Mexico, driven by energy efficiency pressures. This is led by the National Commission for Energy Conservation (CONAE), with energy audits, standardisation of energy-efficient products and development of green procurement of some of their activities that will be of most interest to accountants (Perera et al. 2007).

Mexico is considered to have clear mechanisms and responsibilities for process monitoring of sustainability strategies, tracking a national set of indicators (Swanson et al. 2004). These include those set by the federal government, macroeconomic indicators, and the Millennium Development Goals which are reported on to the UN. The federal government reports on its goals through the Government Report, the Performance Report on the National Development Plan, Quarterly Reports on Economic Status, Public Finances and Public Debt, Financial Management Progress Reports, and the Federal Public Account (State Audit Office of the Republic of Latvia 2009).

International aid projects in Mexico have also paid attention to sustainability, again with different approaches. One of these is the sustainable livelihoods (SL) approach which focuses on links between local and national environments, tackling poverty through enhancing the environment. In Mexico, this approach has strengthened performance management of projects by checking the validity of assumptions about the impact of development projects on livelihoods (Ashley and Carney 1999).

CASE STUDY 3: PHILIPPINES

The Philippines has been described as a leader in sustainable development, with the sustainable development strategy process given a legal mandate in the 1980s (Swanson et al. 2004; INTOSAI WGEA 2010b). Since then, the national sustainable development strategy has been integrated into mainstream government work, and coordinated with national budgeting processes. A great deal of attention has also been paid to local government implementation through the Agenda 21 process. While the Philippines definition of sustainability is broad-based, this was also one of the first countries to develop environmental accounting methods (beginning a major project in 1991), adjusting Gross National Product for the depreciation of national resources (INTOSAI WGEA 2010b).

The Philippines is one of the few countries whose sustainable development strategy has an explicit future focus, with goals 25 or more years into the future. The Philippines' strategy integrates economic, social and environmental elements of sustainability, mainstreaming coordinated sustainability work. The strategy aims at 'a better quality of life' through an ecosystem-based and people-centred approach (Swanson et al. 2004). An important part of the philosophy of sustainable development in the Philippines is that it is not only about environmental protection but, as a developing country, the framework seeks ways to balance this with meeting basic needs of the population and reducing poverty (PCSD 2007).

The guiding principles of sustainability that are used encompass technological and scientific development alongside spiritual and moral sensitivity; principles of participatory democracy, institutional viability, self-determination, peace and unity and national sovereignty; broad-based economic development, the development of human potential, social justice (including between generations) and 'gender sensitivity', alongside ecological soundness, sustainable population and equitable resource management and global cooperation.

The Philippine strategy integrates these principles through two streams of work: one to develop capacities towards sustainability, and the other directly to protect and support ecosystems (Swanson et al. 2004). The capacity-building element of the strategy recognises the links between social and economic sustainability and ecological sustainability, addressing issues such as food security and human health.

The Philippines has been praised for integrating sustainable development goals across national and local government objectives, and into medium- and long-term plans. Making the National Economic Development Authority the lead agency for the Philippine Council for Sustainable Development has been seen as an innovative move towards bringing national budgeting processes and sustainable development strategy together (Swanson et al. 2004).

The country has made strong links with international sustainable development programmes and commitments. The Philippines was one of the 12 countries to test the UN's sustainable development indicator set through voluntary national reporting to the UN Commission for Sustainable Development in 1997 (Pintér et al. 2005). Between 1991 and 2000, the Environment and Natural Resource Accounting Project (ENRAP) was developed with support from USAID, creating monetary asset accounts to take account of depreciation of forests in an adjusted estimate of GNP. From the mid-1990s, the Philippines developed implementation of the UN System for Integrated Environmental and Economic Accounting (SEEA), with UN support. Through this programme the Philippines produced resource stock accounts for forests, minerals, fisheries and soil, and estimated the costs of preventing air and water pollution. An executive order institutionalised environmental accounting in 1997 and, since then, the Philippines has produced groundwater and surface water accounts and updated other accounts (INTOSAI WGEA 2010b). The Philippines government developed the Integrated Environmental Management for Sustainable Development (IEMSD) tool to integrate environmental considerations and proper pricing of natural resources in decision making (Swanson et al. 2004).

The national Agenda 21 strategy was developed through a major programme of consultations including government, civil society, business, experts and the public. Progress on the implementation of Agenda 21 was then reviewed by the Philippine Council for Sustainable Development (PCSD).

The PCSD has published a handbook on mainstreaming sustainable development (SD) in the public sector, which 'presents SD concepts, principles, issues and tools needed for mainstreaming SD in the development planning, programming and budgeting processes', and provides guidance on using data and indicators to design and evaluate sustainable planning, in order to integrate natural resource management with financial management through an SD-Enhanced Investment Plan (SDIP) (PCSD 2007). However, there has also been criticism that the broad scope of the sustainable development strategy may have spread resources too thinly to be immediately effective (Swanson et al. 2004).

In 1993, a statutory Philippine Council for Sustainable Development (PCSD) was created to oversee sustainable development in the country. It takes responsibility for executive and legal action needed to promote sustainable development. The comprehensive understanding of sustainability is apparent from the membership of the Council. It is chaired by the National Economic Development Authority, which thereby holds overall responsibility for sustainability, helping to couple sustainability and overall national budgeting processes. Other members of the Council are the Department of Environment and Natural Resources, and the Department of Foreign Affairs, as well as five representatives from civil society organisations, a representative from business and one representative of organised labour (Swanson and Pintér 2006).

The Council has stakeholder committees on social and economic dimensions of sustainability; conservation and management of resources for development; strengthening the role of major groups; and means of implementation. There are also a series of sub-committees, which are also open to membership from organisations not represented at the Council level. Regional and local sustainable development councils have also been developed. The development of stakeholder representation on sustainable development bodies has not been without conflict, and part of the process has been building trust between government and NGO bodies (Swanson et al. 2004).

As noted above, the Philippines has already developed detailed processes of natural resource accounting; however, the different accounting projects contributing to this used different methods, which has increased the complexity of this process. There are plans to continue to develop these into producing flow accounts and expenditure accounts, led by the Philippines' statistical agency (INTOSAI WGEA 2010b).

CASE STUDY 4: SWEDEN

Sweden was an early adopter of a sustainability strategy which has been renewed several times. The country has been praised for its long-term intergenerational approach to sustainability, its integration of ecological, social and economic aspects, and its international outlook making close links to both UN and EU goals (Ahlberg 2009; OECD 2006). Sweden was one of the first countries to move beyond a mainly ecological focus on sustainable development in the early 1990s, for instance linking it to growth and jobs policy (Ahlberg 2009). In recent years there has been a change of government administration and the emphasis has shifted back again to a greater focus on measures to counter climate change in particular (Swedish Government 2006).

Sweden's 2006 update of its sustainable development strategy provided the following definition.

> *Sustainable development is an overall objective of Government policy, both nationally and internationally. The policy objectives of the vision of a sustainable society are solidarity and justice in every country, among countries and among generations. The basic assumption is that members of one generation should not conduct their lives in a way that prevents their children or future generations from enjoying a decent standard of living. Sustainable development is an approach that must actively inform and shape all policy areas.* (Swedish Government 2006)

Sweden introduced its first sustainable development strategy in 2002 and since then has made revisions in 2004 and 2006, with a further revision initially planned for 2010 (Swedish Government 2006; Ahlberg 2009). In each review of the strategy to date, the commitment to an integrated approach to sustainability has been emphasised, for instance by reference to a range of measures to promote sustainability that include environmental quality, IT policy, gender equality, human rights, energy efficiency, disability policy, fisheries policy and many other interventions. Opportunities for innovations in one aspect of sustainability to promote progress in another have also been emphasised.

With a change of national administration in 2006, the Ministry of Sustainable Development was renamed the Ministry of Environment, with Sustainable Development downgraded to a division within it. The new Ministry also incorporated the Unit for Sustainable Development which had previously coordinated the work of government offices in this field from within the Prime Minister's Office (Ahlberg 2009). The focus of national sustainability policy and reporting now appears to have shifted to a greater emphasis on climate change mitigation (Swedish Government 2009).

Sweden has emphasised its commitment to the international, cross-border dimension of sustainable development work through its advocacy in the EU, the OECD and the UN, and its joint strategy for Sustainable Development as a member of the Nordic Council of Ministers (Nordic Council of Ministers 2009). The Nordic strategy emphasises the linkages between social, economic and ecological sustainability, again beginning from the Brundtland definition.

A public sector duty to promote sustainable development for the environment was added to existing social responsibilities of the public sector on 1 January 2003 (Swedish Government 2006). The Swedish Instrument of Government (a key part of the country's constitution), Article 2 states that it is a duty of public institutions 'to secure the right to health, employment, housing and education, and to promote social care and social security. The public institutions shall promote sustainable development leading to a good environment for present and future generations.' It also includes duties for public institutions to promote democracy and equality, and 'opportunities for ethnic, linguistic and religious minorities to preserve and develop a cultural and social life of their own (Riksdag (Swedish Parliament) 2010).

Since 2009, Swedish state-owned companies have been required to present sustainability reports with an independent assurance statement – the first government in the world to make this a requirement (Larsson 2009). This adds to existing requirements for the private sector to report on non-financial information which relates to environmental and employee matters.

Sweden's national strategy emphasises the potential benefits, rather than penalties, of participating in sustainable development.

A number of mechanisms for the integration of sustainability considerations in all elements of government are highlighted in the various versions of the strategy. These mechanisms are:

- legislation
- sustainability impact assessment
- economic instruments and tax policy
- sustainable public procurement
- indicators for sustainable development
- education, culture, information and influencing attitudes.

The national strategy for sustainable development highlights international responsibilities (made formal through the UN and the EU) as driving forces for pursuing sustainability. It was during Sweden's 2001 presidency of the EU that the EU's first sustainable development strategy was adopted. Climate change was one of the two major issues Sweden wished to address through its presidency of the EU for the latter half of 2009 (the other being the global financial and economic crisis). In addition, the Nordic Council of Ministers' Sustainable Development Strategy makes commitments towards shared international progress in the broad areas of sustainability.

Local and regional levels of government are encouraged to develop their own sustainability strategies as part of Sweden's Agenda 21 commitments. Sweden also takes part in Baltic 21 (Agenda 21 for the Baltic Sea region). In 2007, the government replaced the previous Council for Sustainable Development which had coordinated cross-government work, including at local and regional levels, and replaced it with a Commission on Sustainable Development, chaired by the Prime Minister, with membership from business, NGOs and researchers (Ahlberg 2009).

In 2009, a Government inquiry into the national Environmental Objectives System of reporting presented a review to streamline the management of Sweden's environmental performance (Swedish Government 2009). This concluded that reporting should include an annual review of progress including statistical indicators that are available for comparison, coordinated by the Environmental Protection Agency. Sweden's system of green budgeting aims to demonstrate potential sustainability impacts of proposed public policies (OECD 2006).

CASE STUDY 5: UNITED KINGDOM

In 2005, the UK Government and Devolved Administrations jointly launched a Strategic Framework, *One Future – Different Paths* (Defra 2005a). In the same year the sustainable development strategies of the UK Government, and Scotland, were launched respectively, *Securing the Future* (Defra 2005b) and *Choosing our Future* (Scottish Government 2005). In 2007, the Scottish Government published a new vision for success for Scotland which set out the strategic objectives, targets and national outcomes it wanted to achieve. At time of writing, the UK coalition government may see some changes in emphasis in the strategic frameworks set out, but it has already made clear its commitment to key areas of environmental sustainability, including reductions in carbon emissions (Randerson 2010).

The UK's sustainable development strategy begins from the definition of sustainability in the Bruntland report (see Chapter 2 above). It explicitly links social and economic sustainability to environmental sustainability, and concern for current society with the well-being of future populations. This has been consistent in the development of the strategy over time and reporting on its broad range of indicators.

The Treasury guidance on policy appraisal, *The Green Book* (HM Treasury 2003), requires economists across government to take into account social and environmental appraisals of policy. This methodology has recently been revisited with recommendations from within government to strengthen social cost-benefit analysis, more effectively incorporate environmental externalities in calculations and more transparently assess impacts on future populations (Price and Durham 2009). There are projects for sustainable development on the government estate and integrating sustainability into financial reporting in the public sector. However, to date these have focused solely on environmental impacts (HM Treasury 2009).

UK Government reporting of sustainability indicators can be divided broadly into three types:

- outcome data and targets on the state of the environment or society (which government tries to influence and takes responsibility for, over which it may not have direct control), reported through indicators in the national sustainability strategy

- direct impacts of the government estate and its operations on the environment, reported through a dedicated set of targets

- data on sustainability impacts of organisational functions, incorporated in financial accounts.

The first two of these are fairly well established, though they continue to develop. Plans for comprehensive connected reporting within financial accounts are at an advanced stage of development for central government functions. This latter would initially focus only on environmental impacts, though there could be the potential to expand into social reporting at a later date.

The social sustainability section of the UK strategy links closely to goals embedded in local government priorities, with all local authorities required to produce a sustainable community strategy. It is less clear how far this embedding links to the broader definition of sustainability, and in particular its future focus. By incorporating sustainability targets in departmental and local government targets, the UK government has created in-built motivations to deliver on and report on sustainability. At the national level, part of the motivation to prioritise sustainability is explicitly aligned with global responsibilities to deliver on the Millennium Development Goals (Defra 2005b).

Government policy regulating sustainable development within and beyond the public sector includes the requirements of the Climate Change Act (2008) and Climate Change (Scotland Act) 2009. These Acts set targets and institutional frameworks to mitigate climate change and adapt to its impact. The Acts also require mandatory reporting of carbon emissions for UK businesses from April 2012. This complements the Carbon Reduction Commitment Energy Efficiency Scheme (CRC), which requires large public and private sector organisations to take part in a UK-based emissions trading scheme and report annually. The CRC is administered by the Environment Agency, an Executive Non-departmental Public Body responsible to the Secretary of State for Environment, Food and Rural Affairs (DECC 2010b) (RIMAS 2010).

The lead department for sustainable development in central government is the Department of the Environment, Food and Rural Affairs (Defra). Defra oversees the UK sustainable development strategy and publicly reports on progress against its indicators; a progress report was last published in 2009 as a pocket-sized booklet (Defra 2009).

The Sustainable Development Commission (currently under review) is a non-departmental public body which has an independent watchdog role, monitoring UK delivery on sustainable development. This includes reporting on government performance. A major output of the SDC is its annual *Sustainable Development in Government* (SDiG) report, which assesses government operations and procurement practices. While the SDC produces public reports that incorporate environmental, economic and social sustainability and their interdependence, the SDiG report and its associated reporting framework (Sustainable Operations on the Government Estate, or SOGE) are only concerned at present with environmental impacts.

In October 2008, a separate Department of Energy and Climate Change (DECC) was established, incorporating some of the responsibilities for climate change previously held by Defra. The DECC's strategic objectives are both national and global; on the national level, to reduce greenhouse gas emissions and benefit from business opportunities from a local carbon economy; in the interface between national concerns and international relations to secure energy supplies, ensure energy liabilities are managed effectively and safely, and promote fairness through climate and energy policy; and on an international level, to secure global commitments which prevent dangerous climate change (DECC 2010a). The DECC publishes a range of statistics on climate change and energy use for the UK as a whole. It was also the first government department to begin displaying real-time estimates of its internal energy use and costs on its website, from 10 June 2010, following the Prime Minister's commitment that all government departments should do so (DECC 2010b).

HM Treasury, as the government's finance ministry, is exploring the incorporation of sustainability reporting requirements into financial reports of all of the bodies (government departments, non-departmental public bodies and the NHS) whose budgets it governs. It is undertaking a dry run of sustainability reporting in 2010/11 which includes reporting on greenhouse gas emissions, waste minimisation and management, and use of finite resources (HM Treasury 2010). This approach is based on the methodology for integrated reporting developed by the Prince of Wales' Accounting for Sustainability Project (Accounting for Sustainability 2010). A key motivation in developing such an approach seems to be the desire to act as an example to other sectors and to make the public sector a leader in the field of sustainability reporting.

Unlike the reporting on the state of outcomes and indicators which already exists, the framework proposed by the Treasury would explicitly use an accountancy methodology and would require finance professionals to take the lead in reporting, alongside other sustainability specialists. If the project proceeds as planned, the scheme would include internal and external assurance measures and could result in qualifications to accounts which do not meet sustainability reporting standards. Of course, the strengths of this approach are also its limitations; the penalties would be for the standard of reporting, not necessarily for the outcomes which are being reported.

Developments in sustainability reporting in the UK are changing at a fast pace. The embedding of environmental sustainability reporting for in-year financial reporting would be a significant step and, if successful, could create opportunities also to report on further environmental impacts (such as biodiversity, which is not currently covered in the proposals on finite resources) and social elements. It is likely that significant investment of resources in infrastructure, skills and time will be required to create meaningful, reliable and verifiable reports and their assurance. Understanding the costs and benefits of creating new reporting structures, alongside other reporting requirements and changes in government financial reporting systems, will be necessary in order to demonstrate the importance of reporting, and to develop robust and relevant measurements.

RECOMMENDATION

National governments and key bodies responsible for developing frameworks and guidance should continue to have informed debate about what constitutes sustainability with a view to developing an approach to reporting that is appropriate to local and organisational circumstances. This debate should not neglect the impact that organisations may have on issues, places or communities outside their immediate jurisdiction. The role and priorities of national governments and different parts of the public sector should be borne in mind when developing sustainability reporting frameworks, measurement standards and assurance.

5. Role of the accountant

Sustainability reporting involves a number of professions. This section considers how accountants can contribute to sustainability reporting for public sector and governmental organisations, and what implications changes in sustainability reporting in these sectors could have for the accountancy profession, in terms of opportunities, challenges and its skills base.

SKILLS THAT ACCOUNTANTS CAN CONTRIBUTE TO SUSTAINABILITY REPORTING

This paper focuses mainly on sustainability reporting rather than direct action to improve sustainability. Reporting will feature in all aspects of accountancy. However, its impact on sustainability action could be much wider. Apart from sustainability reporting, there are elements of public sector and government activity where accountants are centrally involved, and where they can have an impact on sustainability. These elements include:

- budget and strategy development
- audit
- procurement
- performance measurement, monitoring and management
- accountability and governance
- standards setting.

The development of sustainability indicators and monitoring frameworks by national governments has largely been led by statisticians and economists. However, accountants have their own skill-set which could considerably benefit robust sustainability standards and monitoring. Standardising the measurement of indicators within and between organisational units, organisations or states is the most obvious area where accountants could lead development.

Where numerical indicators are inappropriate or where they require context to be meaningful, the developing skills and experience among public sector accountants in integrated reporting could be an important resource.

Accountants could also add value in the areas of risk management, value for money methodologies, and balancing governance and ethical standards in politically governed environments. Also, if government institutions decide to pursue monetisation strategies as part of sustainability reporting frameworks, then accountants will have ample opportunity to apply their financial and budgeting skills.

CHALLENGES FOR ACCOUNTANTS

Although there are clearly areas where accountants can make a strong and unique contribution to sustainable development and government sustainability reporting, it is also a field which raises challenging issues for the profession. These issues relate to the key elements of the sustainability approach – the interconnected nature of environmental, economic and social factors, and the intergenerational time-frame and, hence, length of calculations. The associated challenges include: difficulties of estimation and projections, understanding links between actions and impact, establishing robust indicators, and verifiability and assurance. The challenge of applying the traditionally rigorous standards of accounting to sustainable development issues may make some wish to shy away from this process. However, these challenges could also be looked on as opportunities to develop the strengths of the profession into new areas.

There is another challenge around the overtly subjective and political nature of measuring elements of sustainability and well-being. Accountants are more traditionally seen as involved in objective measurement, though of course even financial management and auditing will always require judgement calls (Gill 2009; Power 1999). The involvement of accountancy in these areas may worry some observers, who see it as leading inevitably to the equating of social goods with monetary cost, and question whether a financial value can be put on happiness or health. While there are some approaches to the measurement of sustainability which are based on monetisation of well-being, their justification is usually that without monetisation less tangible aspects of sustainability or well-being will be neglected (Nicholls et al. 2009). The impact of emissions caps and trading schemes in pushing action on emissions reduction up the political agenda could be seen to support this view. There are many practical as well as philosophical difficulties with estimating costs in monetary terms, and for this reason the Stiglitz Commission among others has recommended a more modest approach, in which monetary measures are reserved for resources where reasonable valuation techniques exist, while social and environmental indicators are used for other aspects of sustainability (Stiglitz et al. 2009). ACCA supports this view.

WHAT AN ACCOUNTANCY FRAMEWORK CAN ADD TO GOVERNMENT SUSTAINABILITY REPORTING

Using non-financial indicators does not of course rule out the role of accountants in sustainability reporting. Skills in ensuring accuracy, verifiability and reliability will be relevant contributions to this area, working closely with statisticians and others particularly where projections and estimates are being used. The growing skills base in narrative reporting will also be important for a fully realised method of sustainability reporting. Accountants in the public sector are well placed to develop these skills and to share expertise with other sectors, given that many will already have experience of non-financial indicators and narrative reports in other performance areas.

There are mainstream examples of government accountancy practices which can be developed further as sustainability reporting. These include cost-benefit analysis using non-financial information,[5] again, recognising that such methodologies are subject to judgement calls which can radically alter the outcome of calculations. For example, the choice of discount rate used to balance current and future benefits and costs can result in considerably different recommendations (Commissioner of the Environment and Sustainable Development 2010; Kersley and Lawlor 2010). Accountants may be wary of the way this implicates their calculations in fundamentally political decisions, but pretending that such calculations do not depend on an element of subjective decision making is no less problematic. Indeed, making a choice in calculations but making this choice explicit, along with clear and robust reasons for it, may be the most accountable and impartial way to proceed (Power 2004).

ACCA's existing guide about the role of accountants in sustainability (ACCA 2008), while mainly private-sector focused, is also relevant to government and public sector accountants. The key roles for accountants in sustainability reporting, which it identifies, are as follows.

- Reporting: to understand the regulatory and voluntary reporting environment in which businesses (regardless of size) and governments operate, and respond to new demands resulting from changes in the level and nature of business activity and new legal requirements.

- Risk: to advise on risk management and the implications of entering into voluntary reporting mechanisms.

- Frameworks: to develop frameworks which allow for the efficient measurement of financial and non-financial information and either maintain or assure the collection of information; potentially in an environment where there is a lack of specific reporting guidance from government, or where there are difficulties in capturing and collating social and environmental data and integrating them into mainstream information functions.

- Policy: to advise on the development of policies for determining 'necessity to report' decisions (where they exist) and to contribute to the materiality process to help identify what to include in the report.

- Information provision: to provide clear, reliable information and, where required, assurance of it, build the evidence base for a business case, and establish the necessary supporting processes and procedures. Furthermore, through the assurance process there is a requirement to report directly to the Board of Directors or top management, requiring the auditor to know the business as well as responding on the scope of the audit.

Accountants are well placed to link sustainability KPIs with the financial performance of the organisation. They can also advise organisations on the limitations of corporate decisions based on economic grounds, and suggest how externalities can be internalised; thus better reflecting the needs of stakeholders and current ways of corporate thinking.

The International Federation of Accountants (IFAC) has developed a framework to support accountants in integrating sustainability considerations into their organisations' work and financial reporting structures (IFAC 2010). Again, this focuses on the private sector but does provide another demonstration of how accountancy skills and frameworks can be relevant to sustainability reporting.

5. For example, *The Green Book,* (HM Treasury 2003), and the Treasury Board of Canada Secretariat guidance.

TRAINING AND DEVELOPMENT

Although there are clearly opportunities for accountants' skills to contribute to sustainability practices, as a developing field it is likely to require new opportunities for professional development and training. Areas that might be focused on in training and education include:

- understanding of social, environmental and sustainable development issues
- new forms of environmental accounting, eg carbon accounting training
- linking of financial and non-financial indicators and outcomes
- long-term and future-focused, rather than (or alongside) retrospective accounting practices
- working alongside other professions including statisticians, economists and sustainable development professionals.

RECOMMENDATIONS

There are undoubtedly a number of challenges to sustainability reporting, including difficulties of estimation and projections, understanding links between actions and impact, establishing robust indicators, verifiability and assurance and the challenge of applying the traditionally rigorous standards of accounting to sustainable development issues. However, ACCA recommends that the accountancy profession does not shy away from the challenges presented by sustainability reporting, as it provides opportunities to develop the strengths of the profession in an important area.

The accountancy profession should seek to adapt its training support and programmes to accommodate the future needs of sustainability reporting. The experience of public sector accountants in reporting on financial indicators means that they are well placed to adapt these skills and could act as leaders in the field of sustainability reporting. Future training and development should focus on linking financial and non-financial indicators, improving accountants' understanding of the interconnection between social, environmental and sustainable development issues and developing a long-term future focus (alongside) retrospective accounting practices. In addition, accountants should be encouraged to work in collaboration with economists, social scientists and environmental scientists to work on new forms of integrated reporting.

6. Conclusion

PUBLIC AND PRIVATE SECTOR SUSTAINABILITY REPORTING

Considerations of efficiency, accountability, transparency and ethics are important in both the public and private sector. However, it is arguable that they are more so in the public sector and government, as their primary purpose is to promote the public good. Public assets of the whole society, including natural and social goods, are entrusted to the state and, therefore, the need to protect them in the long term is more pressing than for businesses which have a more limited responsibility to their shareholders. Motivations for reporting on sustainability by the state are political rather than profit-driven. Governments are responsible for the outcomes for society in general, as well as their own direct policy or organisational impacts on them – and they are likely to also have impacts across state borders. For these reasons, existing sustainability reporting frameworks for the private sector are not adequate to the needs of the public sector or national government. There are certainly lessons to be learnt, but these are not one-way. Sustainability reporting in the public sector should also draw on the planning, monitoring and reporting frameworks in the private sector to understand where and how elements of sustainability are already addressed, perhaps under a different name and, hence, where the gaps may be.

MEASUREMENT

Sustainability planning, action and reporting have grown greatly in recent years. Environmental sustainability has received the most attention as there is growing evidence of an urgent need for change in this area. But there is also general consensus that environmental sustainability cannot be achieved except in tandem with social and economic change. The measurement of environmental sustainability in isolation, then, does not seem sufficient. Greater attention needs to be paid to understanding how other elements of sustainability could also be measured, in order to ensure they also receive action and attention. This measurement could be, but does not necessarily need to be, in financial terms. The accountancy profession could play an important role in developing robust measures which are appropriate to the task, including non-financial indicators and qualitative measures or narrative reporting.

THE FUTURE

Central to sustainability is the focus on the future – on inter-generational timescales. The tendency of accounting to be retrospective might seem to militate against this. New frameworks, training and leadership may be needed to develop confidence in measurement, estimation and analysis which can balance current and future benefits and costs of projects and programmes. This will develop understanding of uncertainty and risk, in such a way that assumptions and calculations are made transparent and open to both challenge and justification.

Further reading

INFORMATION AND MONITORING OF NATIONAL SUSTAINABILITY STRATEGIES

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- IISD (International Institute for Sustainable Development) (2010), *National Strategies for Sustainable Development: Challenges, Approaches and Innovations in Strategic and Co-ordinated Action, A 19-Country Study* [PDF report], <http://www.iisd.org/measure/gov/sd_strategies/national.asp>.

RESOURCES ON SUSTAINABILITY, WELL-BEING AND QUALITY-OF-LIFE MEASUREMENT

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- *International Society for Quality-of-Life Studies* (2010), [website], <http://www.isqols.org>.

RESOURCES ON ACCOUNTING AND SUSTAINABILITY

- IFAC (International Federation of Accountants) (2010), 'Sustainability Framework' [online text], <http://web.ifac.org/sustainability-framework/overview>.
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