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Performance Audit

Annual Reporting on Ecologically Sustainable Development

Australian National Audit Office

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Canberra ACT
7 May 2003

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Annual Reporting on Ecologically Sustainable Development*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations/Glossary

Agencies' activities	For the purposes of the EPBC Act, includes developing and implementing policies, programs and legislation, as well as operational environmental impacts.
ANAO	Australian National Audit Office.
Appropriation outcomes	Set out in agencies' budget statements. The results that proposed expenditure is expected to deliver.
CAC FMOs	Finance Minister's Orders which set out annual reporting requirements for statutory authorities that are Commonwealth authorities for the purposes of the <i>Commonwealth Authorities and Companies Act 1997</i> .
CESD	Canadian Commissioner of the Environment and Sustainable Development.
Contribution to ESD	The ways in which a Commonwealth agency integrates environmental, economic and social considerations.
CPGs	Commonwealth Procurement Guidelines.
CSIRO	Commonwealth Scientific and Industrial Research Organisation.
Defence	Department of Defence.
DITR	Department of Industry, Tourism and Resources.
EA	Environment Australia.
Ecologically Sustainable Development (ESD)	Not defined in the EPBC Act. Defined in the National Strategy on Ecologically Sustainable Development as 'using, conserving and enhancing the community's resources so that ecological processes, on which life depends, are maintained, and the total quality of life, now and in the future, can be increased'.
Environment Australia	Department of the Environment and Heritage.
Environmental Management System (EMS)	Managerial frameworks and associated processes designed to ensure that environmental issues are reflected in day-to-day decision-making.
EPBC Act	<i>Environment Protection and Biodiversity Conservation Act 1999</i> .
Environment	Section 528 of the EPBC Act defines environment broadly, encompassing natural and physical resources, as well as social, economic and cultural considerations.

ESD and environmental performance	Section 516A of the EPBC Act requires Commonwealth agencies to include in their annual reports a section detailing their environmental performance, and their contribution to ESD.
FACS	Family and Community Services.
Finance	Department of Finance and Administration.
Greenhouse Challenge	Joint voluntary initiative between government and industry to abate greenhouse gas emissions.
Greenhouse gas emissions	Gaseous pollutants released into the atmosphere through the burning of fossil fuels and other sources that increase the greenhouse effect.
Green power	Energy derived from renewable sources such as wind, solar and hydro-power.
Health	Department of Health and Ageing.
ISO14000	A series of voluntary international environmental management standards. Provides a common framework for the management of environmental issues internationally.
ISO14001	Specifies the requirements for an Environmental Management System (EMS). An external certification authority can certify compliance with ISO14001.
JCPA	Former Joint Committee of Public Accounts (now JCPAA, Joint Committee of Public Accounts and Audit).
National Strategy on Ecologically Sustainable Development (NSES D)	Australia's strategy on Ecologically Sustainable Development, released in 1992.
Operational environmental impacts	An agency's impacts on the environment via its normal daily operations, for example its consumption of energy, water, paper, and minimisation measures and other associated practices.
PM&C	Department of the Prime Minister and Cabinet.
Principles of ESD	Section 3A of the EPBC Act sets out five principles of ESD.
Public Environmental Report (PER)	Public report to stakeholders on corporate environmental performance, generally a voluntary report by private sector companies.

State of the Environment (SoE) reporting	Required under section 516B of the EPBC Act. Provides a scientific assessment of environmental conditions, focusing on the impacts of human activities, their significance for the environment and societal responses to identified trends.
Sustainability Unit	Located within the Sustainable Industries and Atmosphere Division of Environment Australia, it provided the primary source of guidance to agencies reporting annually on ESD and environmental matters.
TBS	Canadian Treasury Board Secretariat. Provides guidance to Canadian agencies on annual sustainable development reporting.
Triple Bottom Line (TBL)	Reporting on the Triple Bottom Line involves reporting on economic, environmental and social performance.
TSRA	Torres Strait Regional Authority.

Summary and Recommendations

Summary

Background

1. Australia's National Strategy on Ecologically Sustainable Development (NSESD) was released in 1992. The strategy defines ESD as:

using, conserving and enhancing the community's resources so that ecological processes, on which life depends, are maintained, and the total quality of life, now and in the future, can be increased.¹

2. The Commonwealth has recognised that, through its policies and operations, it has a significant effect on ecological sustainability. The Commonwealth has annual outlays of approximately \$150 billion², which accounts for 21.5 per cent of Gross Domestic Product.³

3. Since 2000, there has been a requirement under the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) for Commonwealth agencies to report annually on their environmental performance as well as their contribution to ESD.

4. Specifically, under section 516A(6) of the EPBC Act, an annual report must:

- a) include a report on how the activities of, and the administration (if any) of legislation by, an agency accorded with the principles of ESD;⁴
- b) identify how the outcomes (if any) specified in an Appropriations Act contribute to ESD;
- c) document the effect of the agency's activities on the environment;
- d) identify any measures the agency is taking to minimise the impact of its activities on the environment; and
- e) identify the mechanisms (if any) for reviewing and increasing the effectiveness of those measures.⁵

¹ Commonwealth of Australia, *National Strategy on Ecologically Sustainable Development*, 1992, p. 6.

² Minister for the Environment and Heritage, 'Investing in our natural and cultural heritage: Commonwealth environment expenditure 2001–02,' 22 May 2001, p. 36.

³ Australian Bureau of Statistics, 'Measuring Australia's Economy: Summary Measures of Economic Activity—Gross Domestic Product' (Chain Volume Measures).

⁴ Section 516A(7) of the *Environment Protection and Biodiversity Conservation Act 1999* states that 'activities' includes, (a) developing and implementing policies, plans, programs and legislation; and (b) the operations of a department, authority, company or agency referred to in section 516A.

⁵ Section 516A(6) *Environment Protection and Biodiversity Conservation Act 1999*.

5. Section 3A of the EPBC Act also sets out five principles of ESD that should be considered by agencies in planning for ESD reporting. These are that:

- a) decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equitable considerations;
- b) if there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation;
- c) the principle of inter-generational equity—that the present generation should ensure the health, diversity and productivity of the environment is maintained or enhanced for the benefit of future generations;
- d) the conservation of biological diversity and ecological integrity should be a fundamental consideration in decision-making; and
- e) improved valuation, pricing and incentive mechanisms should be promoted.⁶

6. In 2001, the Government agreed, in principle, to the adoption of a uniform approach by Commonwealth departments and agencies to standards and practices relating to ESD. However, given that the costs and benefits of developing ESD management and reporting frameworks vary with the relevance of agencies' operations, it was considered desirable for agencies to have some discretion in relation to their ESD approach.

7. It was also agreed that Environment Australia (EA) should provide a support service to better institutionalise ESD throughout government policy and decision-making processes.

8. The Australian National Audit Office (ANAO) conducted this audit to provide an independent assessment of the quality of the first two years of annual reporting on ESD. The EPBC Act is a major new piece of legislation that, among other things, aims to promote ESD. The Government has indicated that it expects Commonwealth departments and agencies to show leadership in the processes by which economic, social and environmental goals are integrated.⁷ Agencies' annual reports on their environmental performance and contribution to ESD are the key mechanism for determining agencies' progress against the Government's goals.

⁶ Section 3A *Environment Protection and Biodiversity Conservation Act 1999*.

⁷ The Hon. Peter Costello, 'Terms of Reference', in Productivity Commission, *Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies*, Report No.5, 25 May 1999, p. v.

Audit objectives, scope and methodology

9. The audit objective was to examine and report on the quality of Commonwealth agencies' annual reports on ESD performance. The audit reviews current practice in light of legal requirements, and provides examples of better practice.

10. The scope encompassed an examination of the quality of guidance to agencies by EA, the frameworks agencies have in place to be able to report on ESD, and the quality of their reporting. The ANAO did not audit the accuracy or reliability of ESD information provided by agencies in their 2000–01 and 2001–02 annual reports. The aim was to provide a timely audit report that would assist agencies in improving the quality of their 2002–03 annual reports on ESD.

11. A survey was conducted across 45 Commonwealth departments, agencies and other bodies. In addition, the annual reports of 20 agencies for 2000–01 and 2001–02 were reviewed. Following the survey and review, eight agencies were selected for more detailed examination, which included discussions with relevant officers and an evaluation of the agencies' ESD frameworks.

12. The audit also involved a review of Australian and international public and private sector ESD reporting; and, identification of better practice reporting across the Commonwealth.

Overall conclusions

13. Commonwealth agencies have only been required to report annually on their operational environmental performance and contribution to ESD for two years. It is therefore understandable that most agencies are still developing appropriate management and reporting frameworks, including performance indicators, for effective performance monitoring and reporting. As a consequence, there is considerable scope for improvement in relation to the quality of agencies' annual reports; especially in relation to compliance with the EPBC Act and articulating agencies' contribution to broader ESD outcomes.

14. EA has a key role to play in terms of assisting agencies to improve the quality of their ESD reports. It has provided written guidance to agencies on meeting the requirements of the EPBC Act via its website, and this guidance is generally well regarded. However, the guidance should be refined and expanded, and EA can do more to support agencies through the dissemination of practical reporting tools. EA should also be more proactive in publicising the requirements of the EPBC Act, and sharing examples of better practice among agencies.

15. A challenge for EA is that, in spite of the Commonwealth's 10-year commitment to ESD, and the more recent requirement for agencies to report

annually on their contributions, many agencies are focused solely on the impact of their operations on the natural environment, and are yet to come to terms with the broader implications of ESD and its relevance to their operations. The view that ESD is not relevant to non-environmental agencies' operations is widely held, and will need to be addressed by EA in moving the Government's ESD agenda forward.

Environment Australia's response

16. EA supports the general thrust of the report's recommendations in relation to EA's role in assisting agencies to undertake effective s516A reporting, subject to resources being available to undertake the activities identified.
17. Ultimately, however, no assistance provided by EA will facilitate improved reporting by other agencies unless other agencies recognise that it is their own responsibility to improve their reporting.

Key Findings

Quality of guidance to agencies—Chapter 2

18. Section 516A of the EPBC Act sets out the specific requirements for agencies preparing mandatory annual reports on ESD and environmental performance. The Department of Prime Minister & Cabinet's (PM&C) Annual Reporting Requirements, and the Finance Minister's Orders for Commonwealth statutory authorities (CAC FMOs) note the annual ESD reporting requirement and refer agencies to EA for further advice.

19. The key avenue by which EA provides guidance to agencies preparing annual reports on ESD and environmental matters is its website. The website provides information on preparing an annual report that complies with the EPBC Act, and criteria for assessing the significance of ESD to agencies' operations. It addresses both the operational environmental impacts, and agencies' contributions to ESD through policy, program and legislative activities.

20. Unfortunately, EA did not release its guidance in time for the first round of annual reporting in 2001. This meant that some agencies found it difficult to determine what should be reported, and as a consequence the quality of reports was capable of significant improvement.

21. EA's guidance to agencies is well regarded. However, agencies have also made a number of suggestions for improvement. These included:

- providing tools such as environmental, economic and social performance indicators, and strategies for integrating these three ESD dimensions;
- providing 'real life' examples of better practice reporting;
- simplifying the criteria and using less jargon;
- recognising the diversity of agencies' experiences by accommodating smaller agencies, and agencies for whom delivering ESD is not a primary outcome; and
- providing a template for ESD and environmental annual reporting.

22. Apart from the online guidance, EA has undertaken only limited activities aimed at supporting agencies' annual reporting. EA has presented information on the reporting requirement at some forums, and has also liaised informally with some agencies. The ANAO considers that EA can do more in terms of providing an effective support service to better institutionalise ESD throughout the various policy and decision-making processes.

23. The ANAO also found that there was the potential for improved coordination within EA between those areas responsible for liaising with other Commonwealth agencies on ESD and environmental matters. Existing networks, such as the Environmental Management System (EMS) forum⁸, are well-regarded by agencies, and offer the potential to enhance coordination, communication and information sharing on ESD and environmental performance across the Commonwealth from a single point within EA.

24. The ANAO's review of international better practice suggests that EA could also do more to assist agencies in preparing their annual ESD and environmental reports. As noted above, agencies consulted by the ANAO favoured an 'automatic compliance' approach to reporting via checklists, templates and other standard tools. Such an approach may also enhance the quality of reporting at the whole-of-Commonwealth scale. The ANAO considers that any such approach, however, should also be sufficiently flexible to take account of the diversity of agencies' size, ESD impacts and experiences.

Management and reporting frameworks—Chapter 3

Management frameworks

Agencies' strategies

25. Only four (or less than 10 per cent) of the 44 agencies surveyed considered that their policy, program and/or legislative activities, and their operational environmental impacts, had no relevance to ESD. Given the significance of ESD to the overwhelming majority of agencies, the number of over-arching ESD-specific strategies developed was relatively low. Only two agencies surveyed advised that they had implemented an agency level ESD strategy, while a further five advised that they had ESD strategies under development.

26. On the other hand, it was clear that more activity was underway in relation to the establishment of strategies to manage operational environmental impacts than to manage agencies' broader contributions to ESD, perhaps because the issues involved are more complex, or possibly because non-environmental agencies' potential contributions to ESD are not well understood. Good practice environmental management strategies were identified in Airservices Australia, Defence and CSIRO. The environment is core business for all of these agencies. They have established integrated environmental management frameworks accordingly.

⁸ An EMS is a managerial framework designed to ensure that environmental concerns are reflected in day-to-day decision-making. The EMS Forum provides the means for Commonwealth agencies developing and implementing EMSs to share their experiences.

27. In relation to setting over-arching ESD strategies, Commonwealth agencies are apparently some way behind, for example, their Canadian counterparts who are well regarded internationally in this area of governance. In general, Australian agencies compare poorly with Canadian agencies in terms of setting and prioritising strategic ESD and environmental challenges for the future.

Policies, practices and standards

28. On the other hand, in terms of policies and standards relating to agencies' operational environmental impacts, the ANAO found that most agencies (86 per cent) had policies or other measures in place to minimise their impacts on the environment. Seventy-one per cent of agencies also either had, or were developing, strategies to enhance the effectiveness of their operational environmental policies. In this regard, the Commonwealth compares well with the private sector. Only 56 per cent of Australian companies have environmental policies in place.

29. However, just over half (55 per cent) of agencies surveyed reported various ad hoc processes in place to recognise ESD more broadly in short and longer term decision-making. This means that the EPBC Act's strong emphasis on the importance of integrating the social, economic and environmental elements of ESD in decision-making is, consequently, not yet being implemented by a significant number of agencies.

30. A particularly important issue for Commonwealth agencies is the need for guidance in relation to green procurement. The Commonwealth's annual purchasing power is \$16 billion, and the Commonwealth Procurement Guidelines (CPGs), issued by the Minister for Finance and Administration, highlight the need for officials to include specific environmental considerations in purchasing decisions.

31. While it is appropriate for agencies to have regard to their individual circumstances in determining how best to comply with the CPGs, at the time of the audit, no specific advice was available to purchasing officers in relation to implementing the updated environmental requirements. However, EA is planning to release voluntary guidance materials in May 2003. This is timely, as only seven of 44 agencies surveyed had implemented ESD clauses as standard practice for contracts. Only six of the 44 agencies surveyed had implemented green procurement training for relevant staff.

Reporting frameworks

Performance indicators

32. Agencies have generally made more progress in relation to measuring and monitoring their operational environmental impacts, than assessing their broader contributions to ESD through their policies and programs. In addition, at the time of the audit, EA had taken few steps to establish common indicators to facilitate whole-of-Commonwealth reporting on ESD and environmental matters.

33. There is an opportunity for EA to take a leading role in this regard. As a first step, the ANAO considers that it should aim to disseminate core performance indicators for common issues, such as reducing waste, water and energy consumption, and implementing green procurement procedures, through workshops and other forums. In this regard, EA may wish to draw on a guide produced by a Canadian interdepartmental working group that sets out performance measures for sustainable development in government operations.⁹

34. In the longer term, EA should also aim to assist agencies in developing the more challenging indicators for measuring and monitoring their contributions to ESD through policy, program and legislative activities. Any such performance indicators should be designed to take account of the wide range of agencies' impacts and relevance. Ideally, individual agencies' annual reporting could then be aggregated to facilitate assessment of achievements over time for the Commonwealth as a whole, and challenges remaining for the future.

Identifying priorities and targets

35. Given the scale and diversity of Commonwealth operations, ESD priorities identified by agencies vary widely. Agencies surveyed by the ANAO nominated the following as their most significant priorities:

- reducing consumption of resources including fuel, paper and energy;
- identifying financial savings;
- taking account of ESD and the environment in policy and program development; and
- building cooperative partnerships with government, business, industry and the community.

36. Although the majority of agencies surveyed considered that their overall activities were relevant to ESD, few had identified their most significant ESD

⁹ Government of Canada, 'Proposed Reporting Guidelines,' 2002, viewed 10 January 2003, <http://www.greeningovernment.gc.ca/Proposed_Reporting_Guidelines_E.rtf>.

issues or targets for their achievement. This means that there is less chance of annual reports providing users with information on the most significant, or highest priority, ESD and environmental issues, nor on the agencies' strategies for addressing them. In agencies such as EA and DITR, individual divisions or program areas may undertake ESD risk assessments, while others are yet to establish these processes.

37. On the other hand, agencies have made some progress in identifying priority issues that apply to their operational environmental impacts. Many agencies set targets, for example, in relation to energy use, land remediation and greenhouse gas emissions. However, the ANAO found little evidence of targets and priorities being set for ESD and environmental performance more broadly.

38. Some agencies, such as Airservices Australia and Defence, indicated that they were extending their performance management frameworks to set priorities and targets for ESD performance. Others indicated that they had started to benchmark environmental performance, or to compare progress against corporate targets, internally. This is an important first step in terms of gathering baseline data, and setting targets for performance improvement in the future.

Monitoring and review

39. In general, agencies are doing more to monitor the effectiveness of their operational environmental impacts than they are to monitor their broader contributions to ESD. Less than half of the agencies surveyed considered that monitoring ESD effectiveness fed into a process of continuous improvement. This may be because monitoring systems do not exist, because ESD is not clearly understood, or because improving ESD performance is not a priority for agencies.

40. Those that indicated monitoring and review had helped to improve their processes, nominated issues such as: reduced energy consumption; implementation of recycling programs; broader cultural change; and improved purchasing procedures. Again, the emphasis was on operational environmental impacts, rather than on ESD in its integrated sense.

Management information systems

41. Sixty-one per cent of agencies surveyed had management information systems to monitor various aspects of their ESD performance. However, the majority of these systems focussed on gathering data on the agencies' operational environmental impacts. Only four agencies (or less than 10 per cent) had systems in place to report on ESD performance more broadly.

42. More than half of the agencies surveyed indicated that data collection was one of their most significant challenges for the future. Agencies' lack of quantitative data on their contributions to ESD has significant implications for the quality of their annual reports in relation to ESD reporting.

Environmental Management Systems

43. While agencies are yet to make the shift towards introducing management systems to monitor their contributions to ESD, many are moving towards the implementation of EMSs, which allow for the monitoring and review of operational environmental impacts. ISO14001 sets out the requirements for an EMS, which can be certified for compliance by an external authority.

44. In 2001, the Government recognised the need for agencies to improve the assessment of ESD impacts for decision-making. Agencies were encouraged to join the Greenhouse Challenge, and to develop and implement an EMS based on ISO14001 by December 2002. Agencies were encouraged to accredit at least one of their larger sites to ISO14001, or an equivalent standard, by December 2003. Agencies were asked to report to their Ministers (copied to the Minister for the Environment and Heritage) by March 2002 if they considered that the costs would significantly outweigh the benefits of taking such actions.

45. At the time of the audit, only 11 of the 44 agencies surveyed had implemented an EMS. A further 14 had one under development. Of those who did not have an EMS, none had formally advised the Minister for the Environment and Heritage of the outcomes of any cost-benefit analysis.

46. Of the 11 agencies that had implemented an EMS, four advised the ANAO that they had been certified to ISO14001. Nine of the 14 agencies with an EMS under development advised that they would also seek ISO14001 certification. Consequently, while 25 of the 44 agencies surveyed (or 57 per cent) have taken the first steps towards enhancing their monitoring and review of operational environmental impacts, the challenge remains for all agencies to monitor their broader contributions to ESD.

Resourcing

47. Resourcing ESD and environmental performance management and reporting are identified as significant challenges by agencies. The majority of agencies are only devoting minimal financial and human resources to ESD for the purposes of preparing the annual report. This is not surprising given that many agencies have not yet come to terms with the Government's commitment to institutionalise ESD throughout their policy and decision-making processes, in addition to minimising the impact of their operations on the environment.

Staff awareness

48. Just over half of the agencies surveyed had processes in place to raise staff awareness of aspects of ESD. A small number of agencies had implemented rewards and recognition initiatives for environmentally friendly behaviour by staff, while the majority were relying on publicity through intranets and various workshops and seminars to raise awareness. Again, the emphasis among survey respondents was on the environmental dimension of ESD.

49. Some good practice was identified at Defence, where an online training module has been rolled out to gain the commitment of civilian and military personnel to Defence's environmental aims.

50. Better performing agencies identified senior level support and leadership as a critical factor in raising staff awareness of, and support for, ESD and environmental initiatives.

Quality of reporting on results—Chapter 4

Annual report review

51. As noted earlier, the EPBC Act requires that agencies include in their annual reports a section detailing the environmental performance of the agency, and its contribution to ESD. The requirements are designed to promote the development of frameworks within which Commonwealth agencies integrate environmental, economic and social considerations. They also require the identification, monitoring and reporting of environmental issues to help agencies to improve their environmental performance. Both the annual reporting requirements produced by PM&C and the CAC FMOs note that agencies must comply with the annual reporting requirements of the EPBC Act.

52. The ANAO reviewed and ranked 20 agencies' annual reports on ESD and environmental matters for 2000–01 and 2001–02. EA undertook a similar review of 20 reports for 2000–01. However, it did not provide the results of this review back to agencies. This would be desirable for the future, as agencies look for guidance in continuing to refine their approaches to ESD and environmental reporting.

53. Four agencies: Defence, DITR, EA and CSIRO scored highly, based on the overall quality of information provided in their annual reports. Three others: Centrelink, Health and Finance, demonstrated good practice in some aspects of their reporting. The National Capital Authority, showed strong improvement from 2000–01 to 2001–02.

54. Overall, the ANAO considers that the quality of reporting on ESD and environmental performance could be improved by providing more comprehensive, consistent and balanced reports. In addition, there were a significant number of instances of non-reporting of elements required under the EPBC Act.

Demonstrating compliance with legislation

55. At the time of the ANAO survey, three of 44 agencies were not aware of the requirement to report on ESD and environmental matters. These three agencies, who have never reported, were smaller agencies. However, all of them contribute directly to ESD. Two of the 20 agencies reviewed did not report in 2000–01. In 2001–02, all of the agencies selected for review reported. However, three of these reports constituted only an extremely brief statement on operational environmental impacts and made no attempt to address their agency's contribution to ESD more broadly.

56. The ANAO found a significant number of breaches of elements of the requirements of the EPBC Act. Although EA's online guidance highlights the requirement to report on both operational environmental impacts and broader contributions to ESD, six of 44 agencies (14 per cent) surveyed, responded that they had not reported on operational environmental impacts; and 18 of 44 (41 per cent) responded that they had not reported on their broader contribution to ESD in their 2001–02 annual reports. Other core requirements, such as the measures agencies are undertaking to minimise their impacts on the environment, and mechanisms for reviewing and increasing the effectiveness of mitigation measures, were similarly not reported by a significant proportion of agencies.

57. In its review of annual reports, the ANAO found breaches of all five requirements of the EPBC Act. Fifty per cent of agencies reviewed did not comply with section 516A(6)(c), which requires agencies to document the effect of their activities on the environment.

58. It was also difficult to assess the extent to which agencies were giving effect to the principles of ESD as set out in section 3A of the EPBC Act. Section 3A sets out five principles of ESD relating to economic, environmental, social and equitable considerations. Twenty-five per cent of agencies reviewed provided no information on how their activities and administration of legislation (if any) accorded with the principles of ESD, as required under section 516A(6)(a) of the EPBC Act. Of those agencies who provided some information, most made claims based on individual activities, such as community consultation or liaison with other government agencies, without any indication of the integration of these principles throughout the agency as a whole.

59. Enhanced guidance from EA on meeting the requirements of the EPBC Act, through workshops, seminars or an enhanced website with practical examples, would help to assist agencies to improve compliance in the future. In order to improve the quality of their annual reports, agencies should be receptive to this guidance.

Complete and meaningful reporting

60. Annual reports on ESD and environmental performance grew in length from 2000–01 to 2001–02, and there has been a tendency just to list a range of activities, of varying size and significance. Few agencies attempt to provide a clear picture of their overall operational environmental impacts and the contribution of their policies, programs and legislation to ESD.

61. While reporting on operational environmental impacts is of fairly high quality overall, reporting on contributions to ESD through policy, program and legislative activities is less so. Partly, this is because the data for such analysis is not available in many agencies.

62. Overall, there is a lack of quantitative analysis of agencies' performance. However, the availability of quantitative data for analysing internal environmental performance should continue to improve over time as EMSs are implemented in many Commonwealth agencies. Developing measures for assessing ESD performance more broadly, however, should be a priority for EA and all agencies in the future.

Consistency over time

63. Reporting consistently is important, as it:

- allows agency management to monitor and continuously improve performance over time;
- allows for comparisons to be made between agencies for the purposes of benchmarking and identifying better practice; and
- facilitates whole-of-Commonwealth reporting on operational environmental impacts and contributions to ESD.

64. It is not possible to get a sense of the Commonwealth's overall contribution to ESD due to the wide variation of information provided in the annual reports. It is also the case that over the first two years of reporting on ESD, many agencies reported on different issues in their individual reports, which makes it difficult to identify progress within individual agencies over time. Currently, agencies are only reporting consistently on energy consumption, as the data collected to comply with the Commonwealth's energy policy is repeated in many annual reports.

Meeting the needs of users

65. As discussed earlier, most agencies are not currently in a position to report to client groups, agency management, and the Parliament on their contribution to the broader aspects of ESD. Most agencies are only reporting on operational environmental impacts to their management annually. However, 13 of the 44 agencies surveyed reported to their management more frequently, and these figures would be expected to rise as more agencies roll out their EMSs. EMSs require frequent internal reporting on environmental issues.

66. Some agencies are also moving towards separate public reports on their ESD performance. In 2003, Defence will be producing its first Public Environment Report, and FACS will be producing a Triple Bottom Line (TBL) report.¹⁰ This is in line with some better practice internationally, and is a significant development.

Balance—successes and shortcomings

67. Annual reports currently focus on successes and achievements. Overall, there is little sense identified in reports of challenges remaining for agencies in the future. Commonwealth agencies do not compare well with their Canadian counterparts, nor with the better performing private sector agencies, in this regard. For example, better practice agencies include information on targets missed and strategies for meeting them in the future. They report on incidents or breaches, and provide a balanced picture of the agency's performance during the year under review. There is scope for agencies to be more forthcoming in their reporting.

¹⁰ ANAO survey of Commonwealth agencies, October 2002.

Recommendations

The ANAO's recommendations, and Environment Australia's responses, are set out below. More detailed responses are shown in the body of the report. The recommendations form part of an integrated package for improved annual reporting on ESD and environmental issues. As such, the recommendations are of equal importance, and no individual priorities have been assigned.

Recommendation No.1
Para. 2.19 In order to enhance the quality of its guidance to agencies on annual ESD and environmental reporting, the ANAO *recommends* that Environment Australia:

- (a) consult with other agencies in developing and disseminating appropriate reporting tools including core performance indicators, templates and compliance checklists;
- (b) communicate lessons learned and elements of better practice reporting through workshops, forums and its website; and
- (c) enhance coordination between areas of Environment Australia responsible for improving the Commonwealth's operational environmental impacts and contribution to ESD.

Environment Australia's response

- 1(a) Agree with qualification.
- 1(b) Agree with qualification.
- 1(c) Agree.

Recommendation No.2
Para. 3.65 In order to improve Commonwealth frameworks for managing ESD and environmental performance, the ANAO *recommends* that Environment Australia:

- (a) raise awareness across the Commonwealth of the significance of ESD and environmental issues for all agencies; and
- (b) support agencies in the establishment of management and reporting frameworks relating to their contribution to ESD through the identification and dissemination of better practice.

Environment Australia's response

- 2(a) Agree with qualification.
- 2(b) Agree with qualification.

**Recommendation
No.3
Para. 4.37**

In order to improve Commonwealth annual reporting on ESD and environmental performance, the ANAO *recommends* that Environment Australia:

- (a) regularly review the quality of annual reporting on ESD and environmental matters;
- (b) provide the results of these reviews to agencies for the purposes of continuous improvement;
- (c) encourage agencies to report consistently on issues of common concern, such as operational environmental impacts; and
- (d) consider collating the outputs of this reporting for the purposes of a whole-of-Commonwealth report on ESD and environmental performance.

Environment Australia's response

- 3(a) Agree with qualification.
- 3(b) Agree.
- 3(c) Agree.
- 3(d) Agree with qualification.

Audit Findings and Conclusions

1. Background

National Strategy on Ecologically Sustainable Development

1.1 Following the Earth Summit in Rio de Janeiro, Australia's National Strategy on Ecologically Sustainable Development (NSESD) was released in 1992. The strategy defines ESD as:

using, conserving and enhancing the community's resources so that ecological processes, on which life depends, are maintained, and the total quality of life, now and in the future, can be increased.¹¹

1.2 As part of the NSESD, all Australian Governments (Commonwealth, State and Local) agreed:

- to ensure that Cabinet processes facilitate the integration of economic, environmental and social considerations into decision-making;
- to incorporate ESD principles as fundamental guidance for relevant government authorities involved in economic, environmental and social decision-making;
- to improve the efficiency and effectiveness of the development, implementation and integration of ESD-related policies, clearly define the roles and responsibilities of each level of government, avoid duplication of functions and establish effective processes for cooperation between governments; and
- to improve the level of consideration given to ESD principles in government purchasing policies and practices.¹²

1.3 In the same year, the former Joint Committee of Public Accounts (JCPA) reviewed the social responsibilities of Commonwealth statutory authorities and Government Business Enterprises. The JCPA considered that greater attention should be given to monitoring and reporting on the impact of agencies' activities on the environment. The Committee saw value in a statement by each agency in its annual report, about how it handled the full range of its environmental responsibilities. It also recommended that agencies should publicly report whether best practice has been used and, where any violations of accepted standards are noted, the steps taken to rectify the problem should also be reported. The Committee considered there was an urgent need to encourage

¹¹ Commonwealth of Australia, *National Strategy on Ecologically Sustainable Development*, 1992, p. 6.

¹² *ibid*, pp. 66–68.

the development of appropriate systems of performance measurement, monitoring and reporting for environmental issues.¹³

1.4 In 1996, the Intergovernmental Committee for ESD reported on government implementation of the NSESD. It found that implementation was most visible in a few key sectors, for instance in agriculture and some areas of mining and manufacturing. It noted that it had taken some time for the principles of ESD to be incorporated in decision-making. While some areas such as education, awareness and training were felt to be progressing well, others such as pricing mechanisms and involving indigenous people in resource management, were areas for improvement. Overall, the Committee could not measure the overall effectiveness of ESD implementation due to the absence of a consistent set of sustainability indicators for Australia.¹⁴

Government policy on ESD

1.5 In 2001, the Government indicated that 'Australia's transition to sustainability is a critical national priority'.¹⁵ The Government recognised that, through its policies and operations, it had a significant effect on sustainability. The Commonwealth has outlays of approximately \$150 billion annually, which is equivalent to 21.5 per cent of Gross Domestic Product (GDP).¹⁶

1.6 Governments may pursue a sustainable development agenda through a variety of means such as tax policies operating as incentives or disincentives; legislation and regulation to promote good practice; and/or through direct expenditure programs that seek to balance environmental concerns with social and economic needs. Government departments will also have a direct impact on the environment as a result of their normal business operations—for example, through their water use, energy and paper consumption, and greenhouse gas emissions.

1.7 In Australia, a legislative framework was established in the EPBC Act whereby the Government committed to report publicly on its ESD and environmental performance. The framework applies to all functions of the Commonwealth—operational, policy and legislative. The annual reporting requirements of the EPBC Act are discussed in the next section.

¹³ Joint Committee of Public Accounts, *Social Responsibilities of Commonwealth Statutory Authorities and Government Business Enterprises*, Report 315, April 1992, pp. 57-59.

¹⁴ Intergovernmental Committee for ESD, *Summary Report on the Implementation of the National Strategy for Ecologically Sustainable Development 1993-95*, July 1996.

¹⁵ Minister for the Environment and Heritage, 'Investing in our natural and cultural heritage: Commonwealth environment expenditure 2001-02,' 22 May 2001 p. 36.

¹⁶ Australian Bureau of Statistics, 'Measuring Australia's Economy: Summary Measures of Economic Activity, Gross Domestic Product,' Chain Volume Measures 2001-02.

1.8 The Government's commitment to ESD was reinforced in December 2002, when the Prime Minister announced that 'an environmentally sustainable Australia' was to be one of four national research priorities to deliver significant economic, social and environmental benefits to Australia.

Annual reporting requirements

1.9 The EPBC Act requires that Commonwealth agencies report annually on five specific issues relevant to both their operational environmental impacts, and their contributions to ESD through policy, programs and legislation. The EPBC Act sets out five principles of ESD and it is these principles that should be considered by agencies in planning for ESD reporting. The EPBC Act's annual reporting requirements are set out in Figure 1.1.

Figure 1.1

Annual reporting requirements—EPBC Act

ESD and environmental matters

Under section 516A(6) of the EPBC Act, an annual report must:

- a) include a report on how the activities of, and the administration (if any) of legislation by, an agency accorded with the principles of ESD;¹⁷
- b) identify how the outcomes (if any) specified in an Appropriations Act contribute to ESD;
- c) document the effect of the agency's activities on the environment;
- d) identify any measures the agency is taking to minimise the impact of its activities on the environment; and
- e) identify the mechanisms (if any) for reviewing and increasing the effectiveness of those measures.

Principles of ESD

Section 3A of the EPBC Act outlines five principles of ESD that overlap, to a large extent, with the principles and objectives outlined in the NSESD. Section 3A of the EPBC Act states that:

- a) decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equitable considerations;
- b) if there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation;
- c) the principle of inter-generational equity - that the present generation should ensure that the health, diversity and productivity of the environment is maintained or enhanced for the benefit of future generations;
- d) the conservation of biological diversity and ecological integrity should be a fundamental consideration in decision-making; and
- e) improved valuation, pricing and incentive mechanisms should be promoted.

Source: *Environment Protection and Biodiversity Conservation Act 1999*, sections 516A(6) and 3A.

1.10 The EPBC Act does not define ESD specifically, apart from setting out the five principles listed in Figure 1.1. The EPBC Act also has a broad definition of 'environment', which covers social, economic and cultural aspects, as well as

¹⁷ Section 516A(7) of the *Environment Protection and Biodiversity Conservation Act 1999* states that 'activities' includes, (a) developing and implementing policies, plans, programs and legislation; and (b) the operations of a department, authority, company or agency referred to in section 516A.

the natural environment. This definition is significant for agencies assessing their environmental impacts, as it requires an understanding of the social, economic and cultural implications, as well as the natural environmental implications, of decision-making. Section 528 of the EPBC Act defines 'environment' as:

- a) ecosystems and their constituent parts, including people and communities; and
- b) natural and physical resources; and
- c) the qualities and characteristics of locations, places and areas; and
- d) the social, economic and cultural aspects of a thing mentioned in paragraph (a), (b) or (c).

1.11 The CAC FMOs set out annual reporting requirements for statutory authorities that are Commonwealth authorities for the purposes of the *Commonwealth Authorities and Companies Act 1997*. The CAC FMOs note that these bodies' annual reports must include any matters required by either the bodies' enabling legislation or any other legislation. The EPBC Act's ESD reporting requirement is mentioned specifically.¹⁸

1.12 The Department of the Prime Minister and Cabinet (PM&C) issues requirements for Commonwealth departments, executive agencies and FMA Act bodies' annual reports. The latest guidelines note that reporting on ESD is a mandatory requirement for:

- portfolio departments;
- executive agencies;
- agencies declared to be statutory agencies for the purposes of the *Public Service Act 1999*;
- Commonwealth authorities and companies as defined under the *Commonwealth Authorities and Companies Act 1997*; and
- any other Commonwealth agency that is established by or under a law of the Commonwealth and is required by law to give an annual report to the responsible Minister.¹⁹

1.13 As well as the national ESD reporting requirement set out in the EPBC Act, there are international ESD reporting obligations with which the Commonwealth must comply. For example, the Commonwealth reports annually

¹⁸ Commonwealth Authorities and Companies (Report of Operations) Orders 2002, s17.

¹⁹ Department of the Prime Minister and Cabinet, *Annual Report Requirements*, June 2002, p.13.

to the Commission for Sustainable Development, and provides input to the Organisation for Economic Cooperation and Development's work on sustainability indicators as part of its sustainable development project.

1.14 The Commonwealth also reports on sustainability issues through the national State of the Environment (SoE) report.²⁰ State of the Environment reporting is required once every five years under section 516B of the EPBC Act. State of the Environment reporting aims to provide a scientific assessment of environmental conditions, focusing on the impacts of human activities, their significance for the environment and societal responses to identified trends. EA also coordinates a public report against Headline Sustainability Indicators derived from the NSESD.

Australian and international ESD reporting experiences

1.15 ESD or Triple Bottom Line (TBL) reporting is becoming more prevalent both in Australia and internationally. Australian states and territories such as Victoria, Western Australia and the Australian Capital Territory have sought to formalise their approaches over recent years. This has been achieved through, for example, the establishment of Commissioners for the Environment, introduction of State of the Environment reporting, and/or annual environmental or TBL reporting.

1.16 Internationally, public sector agencies have also increasingly been moving towards ESD reporting. Planning for, and reporting on, ESD is well established in Canada where the requirement to produce and report against a sustainable development strategy has been in effect since 1995. The Canadian Commissioner of the Environment and Sustainable Development (CESD) audits departmental sustainable development reports annually. The United Kingdom (UK) and New Zealand have also been moving towards ESD and TBL reporting. In the UK, the Government committed to a strategy for sustainable development in 1999, and all departments were asked to produce Sustainable Development Reports by the end of 2002. ESD reporting is not yet required in New Zealand, although the Ministry for the Environment has funded a number of TBL reporting projects for both the public and the private sector.

1.17 Private sector organisations in Australia and internationally have also increasingly been building environmental and sustainable development considerations into the way that they do business. In part, this shift is in response to consumer demands for enhanced transparency and accountability. Having

²⁰ Environment Australia, *Australia State of the Environment 2001*, 2001, viewed 10 February 2003, <<http://www.ea.gov.au/soe/>>.

regard to TBL is also a way of managing risk and keeping pace with international business best practice. In 2001, 45 per cent of the largest global companies published reports covering TBL, up from 35 per cent in 1998.²¹

1.18 Elements of Australian and international ESD reporting frameworks and experiences are set out in Appendix 1.

Audit objective and scope

1.19 The audit objective was to examine and report on the quality of Commonwealth agencies' annual reports on ESD performance. The audit reviews current practice in light of legal requirements, and provides examples of better practice.

1.20 The scope encompassed an examination of the quality of guidance to agencies by EA, the frameworks agencies have in place to be able to report on ESD, and the quality of their reporting. The ANAO did not audit the accuracy or reliability of ESD information provided by agencies in their 2000–01 and 2001–02 annual reports. The aim was to provide a timely audit report that would assist agencies in improving the quality of their 2002–03 annual reports on ESD.

Audit methodology

1.21 A survey was conducted across 45 Commonwealth departments, agencies and other bodies. The survey had a 100 per cent response rate.²² A list of agencies surveyed is at Appendix 2. In addition, the annual reports of 20 agencies for 2000–01 and 2001–02 were reviewed. A list of reports reviewed is at Appendix 3.

1.22 Following the survey and review, eight agencies were selected for more detailed examination, which included discussions with relevant officers and an evaluation of the agencies' ESD frameworks. Agencies selected for more detailed examination were: Defence, Health, Finance, DITR, CSIRO, Centrelink, National Capital Authority, and EA.

1.23 The audit also involved:

- interviews with officers involved in providing guidance on ESD reporting across the Commonwealth;
- review of Australian and international public and private sector ESD reporting; and
- identification of better practice reporting across the Commonwealth and the Commonwealth's international peers and industry for the purposes of providing guidance to agencies.

²¹ J Macken, 'Trick or treat?', *Australian Financial Review*, October 2002, p. 38.

²² ABARE and AFFA responded jointly, consequently 44 survey responses were received.

Audit conduct

1.24 The audit was conducted in accordance with the ANAO Auditing Standards. The audit commenced in October 2002, and fieldwork was completed by December 2002. The total audit cost was \$112 032.

Previous Australian reviews

1.25 This is the first ANAO performance audit of Commonwealth agencies' reporting on ESD and environmental matters. However, two reviews covering similar ground have previously been conducted in Australia. The results of these reviews are set out below.

Victorian Public Accounts and Estimates Committee

1.26 The Public Accounts and Estimates Committee (PAEC) has undertaken a number of inquiries into environmental accounting and reporting in Victoria. In its latest report in March 2002, PAEC made 39 recommendations aimed at improving environmental accounting and reporting in Victoria. The recommendations focussed on establishing:

- a Commissioner for ESD;
- State of the Environment reporting;
- environmental financial accounting procedures, including Australian Environmental Accounting and Auditing Standards;
- annual public sector reporting on environmental performance;
- environmental levies; and
- innovative environmental economic policies.²³

Productivity Commission

1.27 In 1998, the Federal Treasurer referred the implementation of ESD by Commonwealth departments and agencies to the Productivity Commission for inquiry and report. In announcing the inquiry, the Treasurer stated that:

the Government is keen to ensure Commonwealth departments and agencies show leadership in the processes by which economic, social and environmental goals are integrated.²⁴

²³ Public Accounts and Estimates Committee, *Final Report on Environmental Accounting and Reporting*, Report No.46, March 2002, pp. 25–35.

²⁴ The Hon. Peter Costello, 'Terms of Reference', in Productivity Commission, *Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies*, Report No.5, 25 May 1999, p. v.

1.28 The Productivity Commission released its inquiry report in 1999. It made eight recommendations aimed at improving progress in implementing ESD. A particular focus was the need for improvement in relation to performance measurement. The report noted that there was no systematic measurement of the efficiency and effectiveness of policies, programs or regulations in core ESD policy areas.²⁵ It also stated that consideration of ESD was not integrated in policy development and evaluation, and that opportunities were being missed for coordination and cooperation between Commonwealth, state and territory agencies. The Productivity Commission emphasised the need for a longer-term strategic focus in terms of translating the principles of ESD into specific actions and outcomes.²⁶ This audit report has similar findings.

1.29 Although the Government has yet to issue a formal response to the report, the Productivity Commission considers that a number of developments since its release reflect its recommendations.²⁷ For example, agencies' frameworks for ensuring compliance with EPBC Act annual reporting requirements should address the Commission's concerns about the absence of ESD performance indicators and clearly stated objectives across the Commonwealth.

1.30 EA has advised that a formal Government response to the Productivity Commission's 1999 report on the implementation of ESD by Commonwealth agencies was agreed in 2001, and is expected to be released shortly with a postscript bringing it up to date in relation to initiatives undertaken since it was agreed.

Report structure

1.31 This report focuses on annual reporting by Commonwealth agencies on ESD and environmental matters. Chapter 2 addresses the quality of guidance to agencies on annual ESD and environmental reporting. Chapter 3 examines agencies' frameworks supporting ESD reporting. Chapter 4 discusses the quality of agencies' annual ESD and environmental reports.

²⁵ Productivity Commission, *Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies*, Inquiry Report No.5, May 1999, p. xxxiii.

²⁶ *ibid*, p. xxxvi.

²⁷ Productivity Commission, *Annual Report 2001–02*, 2002, p. 159.

2. Quality of Guidance to Agencies

Introduction

2.1 Reporting on agencies' impacts on ESD and environmental matters is complex, and requires consideration of both the short and longer-term implications of decision-making. Reporting on ESD is particularly challenging as, while the EPBC Act outlines five principles of ESD, it does not explicitly define it. Effective guidance from EA would assist agencies to establish appropriate performance reporting frameworks. EA has a key role to play as the central coordinating body for ESD matters within the Commonwealth, and as the primary source of guidance on annual ESD and environmental reporting requirements.

2.2 The PM&C guidelines make it clear that agencies should have regard to their own circumstances in determining how best to meet ESD reporting requirements. However, it would be desirable for agencies to have access to common tools, such as checklists and templates, to help them to collect data and to facilitate analysis of common issues. For example, it would be useful to assess issues such as energy, water and paper consumption rates, and financial savings from improved practices at the whole-of-Commonwealth level. Effective guidance to agencies should facilitate reporting on both operational environmental impacts, and agencies' contributions to ESD through policy, program and legislative activities. Finally, guidance to agencies should be regularly reviewed to ensure that it is meeting the needs of users.

2.3 In 2001, after considering the Productivity Commission's report, the Government agreed in principle to the adoption of a uniform approach to compliance by Commonwealth departments and agencies, with standards and practices relating to ESD, including greenhouse gas emissions. Given that the costs and benefits of developing ESD management and reporting frameworks vary with the size and relevance of agency operations, it was considered desirable for agencies to have some discretion in relation to their ESD approach. Among other things, it was also agreed that EA should provide an ESD support service to better institutionalise ESD throughout government policy and decision-making processes.

EA Sustainability Unit

2.4 Until 2002, the primary source of guidance on annual ESD and environmental reporting was the Sustainability Unit within EA. The Unit worked within EA and with other agencies to further Commonwealth initiatives for

ESD, to provide advice and guidance on ESD matters at the national, state, regional and local levels, and to develop tools for measuring progress. The Unit also provided guidance to Commonwealth agencies on reporting on ESD and environmental matters. In the course of this audit, the Sustainability Unit was disbanded and the role of providing guidance on ESD and environmental reporting currently resides with the Environmental and Sustainability Reporting section.

EA's guidance to agencies

Website

2.5 The key avenue by which EA provides guidance to agencies preparing annual reports on ESD and environmental matters is its website. The website provides information on preparing an annual report that complies with the EPBC Act, as well as criteria for determining the relevance of ESD to an agency's operations. It addresses both operational environmental impacts, and agencies' contributions to ESD through policies, programs or other activities.²⁸

2.6 Although the Government charged EA with providing guidance on the reporting requirement prior to the introduction of the EPBC Act in July 2000, EA did not release its online guidance to agencies until July 2002.²⁹ It was therefore not available in time for the first round of annual reporting in 2000–01. This meant that some agencies found it difficult to determine what should be reported. As a consequence, the quality of reports was capable of significant improvement overall.

2.7 At the time of this audit, a sizeable number of agencies surveyed by the ANAO were still not aware that the guidance had been released, with 10 of 44 agencies indicating that they either did not use, or were not aware of, the ESD reporting guidelines on EA's website. However, EA's online guidance to agencies was fairly well regarded by those agencies that had used it, with the majority of those agencies rating it as either 'fair' or 'very good' on a five-point scale.

Other activities

2.8 Apart from the online guidance provided to agencies via the EA website, the Sustainability Unit undertook only limited activities aimed at supporting agencies' annual reporting. The Unit presented information on the reporting requirement at various Commonwealth forums, and also liaised informally with

²⁸ Environment Australia, *EPBC Act 1999: Section 516A reporting*, 2003, viewed 8 April 2003, <<http://www.ea.gov.au/esd/national/epbc/index.html>>.

²⁹ EA distributed its guidance material on annual ESD and environmental reporting electronically to agencies in June 2002, prior to its posting to the web.

some agencies. For the 2001–02 reporting year, an attempt was made to establish a coalition of agencies to facilitate sharing of better practice. However, timing and resource issues meant that the attempt was not successful.

Strategies for improvement

2.9 EA could be more proactive about responding to agencies’ needs, and continuously improving the quality of the guidance it provides. This would allow agencies to improve the quality of their annual reporting on ESD and environmental matters. The ANAO considers that EA can do more in terms of providing an effective support service to better institutionalise ESD in policy development, and program and legislative administration.

2.10 Agencies surveyed by the ANAO were asked to indicate their level of interest in a range of strategies aimed at improving the quality of EA’s guidance on annual reporting. Survey results are outlined in Table 2.1.

Table 2.1

Strategies for improvement—EA guidance to agencies

Strategy for improvement	Percentage of surveyed agencies supportive
Do more to publicise s516A reporting requirements	50
Enhance guidelines on s516A	41
Provide model report on EA website	66
Distribute reporting template to agencies	52
Disseminate core ESD performance indicators to agencies	59
Conduct workshops or seminars on s516A	66

Source: ANAO survey of Commonwealth agencies, October 2002.

2.11 In both the survey, and in follow up discussions, agencies favoured an ‘automatic compliance’ approach via checklists, templates and other standard tools. Suggestions from agencies surveyed included:

- providing tools such as environmental, economic and social performance indicators, and suggestions for integrating these three dimensions of ESD;
- providing ‘real life’ examples of better practice reporting;
- simplifying the criteria and using less jargon;
- recognising the diversity of agencies’ experiences by accommodating smaller agencies, and agencies for whom delivering ESD is not a primary function; and

- providing a template for ESD and environmental annual reporting.

2.12 An ‘automatic compliance’ approach would be less resource intensive for agencies and enhance the quality of reporting at the whole-of-Commonwealth scale. The ANAO considers that any such approach, however, should also be sufficiently flexible to take account of the diversity of agencies’ size, impacts and experiences.

2.13 In seeking to refine its approach to providing guidance on ESD and environmental reporting to agencies, EA may wish to consider relevant international experiences. Canada has the most comprehensive approach in supporting agencies to prepare reports on sustainable development. It has a formal requirement for agencies to develop and report on sustainable development strategies, as well as a Commissioner of the Environment and Sustainable Development (CESD) to monitor them. While EA does not have the same level of resources, it may nevertheless be able to learn from elements of better practice guidance internationally. An example of better practice guidance from Canada is set out in Case study 2.1.

Case study 2.1

Better practice guidance to agencies—Canada

Canadian agencies reporting on their sustainable development strategies have two main sources of guidance: reporting templates produced by the Treasury Board Secretariat (TBS), and feedback on progress from the CESD. Canadian agencies have a significant level of support from the development of their sustainable development strategies, through to the annual review of their effectiveness and suggestions for improvement in the future.

Of particular note is ‘A Guide to Green Government’ which seeks to assist agencies in preparing their sustainable development strategies. The Guide aims to achieve a national approach to sustainable development planning and reporting that is comprehensive, integrated, open and accountable. It also suggests means by which agencies can continuously improve their processes³⁰. An accompanying workbook, ‘Developing Performance Measures for Sustainable Development Strategies’³¹ may also be applicable in the Australian context, particularly given agencies’ preferences for practical tools and guidance.

³⁰ Government of Canada, *A Guide to Green Government*, 2002, viewed 20 March 2003, <http://www.sdinfo.gc.ca/reports/en/ggg/guide_b.cfm>.

³¹ Commissioner of the Environment and Sustainable Development, *Developing Performance Measures for Sustainable Development Strategies*, 2002, viewed 20 March 2003, <http://www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/pmwork_e.html>.

Coordination within EA

2.14 There is the potential for enhanced coordination between the ESD reporting team and the Government Partnerships Branch within the Sustainable Industries and Atmosphere Division of EA. This Branch works with Commonwealth agencies to reduce operational environmental impacts. A particular focus has been the roll-out of EMSs across the Commonwealth, and the Branch has established an EMS forum for the sharing of relevant experiences. The EMS forum is well regarded by participating agencies and would be an additional avenue to enhance coordination, communication and information sharing on ESD and environmental reporting across the Commonwealth from a single point within EA.

Other guidance

2.15 For agencies preparing mandatory annual reports on ESD and environmental matters, section 516A of the EPBC Act sets out the specific requirements. There is a range of other tools available to Commonwealth agencies preparing annual reports. As discussed in Chapter 1, the primary requirements for agencies preparing annual reports are set out in both the PM&C Annual Reporting Requirements, and the CAC FMOs.

2.16 In terms of sharing lessons learned and better practice, the National Office for the Information Economy (NOIE) convenes an Annual Report Coordinators' Network for Commonwealth agencies. This network provides a means of sharing experiences, expertise and information about the Commonwealth annual reporting process. Nine of the 44 agencies surveyed by the ANAO indicated that they had drawn on the Network in preparing their annual ESD and environmental reports.

Conclusion

2.17 While it was not released in time for the first year's reports on ESD and environmental performance, EA's online guidance to agencies is well regarded by those that have used it. It sets out the steps required to prepare a report that complies with the EPBC Act, as well as criteria for determining ESD relevance. It stops short, however, of moving beyond basic compliance and improving the quality of reporting over time.

2.18 To date, EA has not been proactive in terms of analysing and sharing lessons learned and elements of better practice reporting across the Commonwealth. Agencies surveyed by the ANAO indicated that EA could do more to meet their needs through the development of practical tools, templates and other guidance material. ESD and environmental reporting is a new and

complex area of public administration, and EA could build on existing networks, such as the EMS forum to assist agencies in coordinating their ESD and environmental approaches.

Recommendation No.1

2.19 In order to enhance the quality of its guidance to agencies on annual ESD and environmental reporting, the ANAO *recommends* that Environment Australia:

- (a) consult with other agencies in developing and disseminating reporting tools including core performance indicators, templates and compliance checklists;
- (b) communicate lessons learned and elements of better practice reporting through workshops, forums and its website; and
- (c) enhance coordination between areas of Environment Australia responsible for improving the Commonwealth's operational environmental impacts and contribution to ESD.

Environment Australia's response

2.20 Recommendation 1(a). Agree with qualification, subject to judgement on relative priorities for the application of available resources. EA has commenced developing core environmental and ESD performance indicators for Commonwealth agencies. We aim to make sets of draft indicators available on our website, seek feedback on them from other agencies, and refine them in the light of feedback in time for the next round of annual reports.

2.21 We consider that a broad reporting template already exists in the form of the reporting guideline currently available on the EA website. Because of the wide variety of agencies, and of activities that could potentially be reported, a more detailed reporting template is likely to be too prescriptive and not very useful. Agencies should, however, be encouraged to develop their own reporting templates, appropriate to their own structures and activities, based on EA's reporting guideline. Within our available resources, EA will provide advice and assistance to any individual agency seeking to develop such a template.

2.22 We do not consider that agencies following the existing guideline should need a compliance checklist. However, we may, subject to resource constraints, be able to develop a checklist of matters to be reported in preparing a comprehensive (rather than merely a compliant) environmental and ESD report.

2.23 Recommendation 1(b). Agree with qualification, subject to judgement on relative priorities for the application of available resources. This year at least, EA will endeavour to communicate lessons learned and elements of better

practice reporting via our website. If resources are available, EA will consider conducting workshops or forums.

2.24 Recommendation 1(c). Agree. Ultimately it is intended that the area of EA responsible for assisting Commonwealth agencies with the implementation of EMS and the area responsible for assisting agencies with their environmental and ESD reporting under section 516A will be located in the same section or branch of EA.

3. Management and Reporting Frameworks

Introduction

3.1 In order to prepare a quality annual report on ESD and environmental matters, agencies should have appropriate management and reporting frameworks in place. These frameworks should support strategies that take account of the agency's relevance in terms of its potential contribution to ESD, the impact of its operations on the environment and the scale and nature of its operations. Frameworks should also include policies, practices and standards that give effect to the agency's overall ESD strategy, and incorporate mechanisms for monitoring, reviewing and continuously improving ESD performance. Finally, there should be processes in place to ensure that the agency's ESD and environmental management goals are understood and implemented at all levels of the organisation.

Management frameworks

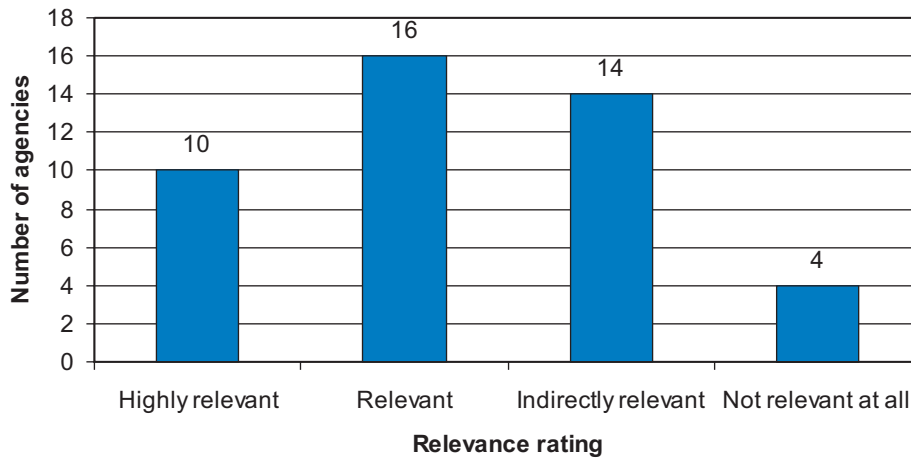
ESD relevance

3.2 Commonwealth agencies range from large, nationally and internationally networked operations, to very small offices of only a few people. Some agencies, such as Defence and CSIRO, are concerned with complex land management issues, while others are strictly office-based. Some agencies own and control all of their facilities and infrastructure, while others are involved in contract or lease arrangements. All of these factors will affect the degree to which an agency can directly influence ESD and environmental matters. ESD management and reporting frameworks should reflect this.

3.3 About half of the agencies surveyed by the ANAO considered that the outcomes identified for them in an Appropriations Act contributed to ESD. Agencies were also asked to rate the overall relevance of ESD and the environment to their activities, including both their operational impacts, and their impacts through policy, program and legislative activities. Their responses are set out in Figure 3.1.

Figure 3.1

Overall relevance of ESD and the environment to agencies' activities



Source: ANAO survey of Commonwealth agencies, October 2002.

Agencies' strategies

3.4 Key factors that should influence the development of ESD management and reporting strategies are the relevance of any legislation administered, and the significance of any ESD and environmental outcomes specified in Portfolio Budget Statements.

3.5 Agencies with a significant direct impact on ESD and environmental matters through their activities would be expected to have established an over-arching strategy for achieving short, medium and longer term ESD and environmental goals. As noted earlier, the EPBC Act requires agencies to report on both their operational environmental impacts, as well as their broader contributions to ESD through policy, program or legislative activities. An effective over-arching ESD strategy would, consequently, take account of both of these dimensions.

3.6 Twenty-six of 44 (59 per cent) agencies surveyed considered that the policies or programs administered by them were either relevant or highly relevant to matters of ESD. Eleven of 44 agencies (25 per cent) considered that the legislation they administered was either relevant or highly relevant to ESD. Given the significance of matters of ESD to the agencies surveyed, the number of over-arching ESD-specific strategies developed was relatively low. Only two agencies surveyed advised that they had implemented an agency level ESD strategy, while a further five indicated that they had ESD strategies under development.

3.7 On the other hand, it was clear that more activity was underway in relation to the establishment of strategies to manage operational environmental impacts than to manage agencies' broader contributions to ESD, perhaps because the latter issues involved are more complex, or possibly because non-environmental agencies' potential contributions to ESD are not well understood. For example, a number of agencies have taken steps to assess and prioritise their operational environmental risks, but have not assessed or prioritised their broader contribution to ESD. Some good practice environmental management strategies from agencies with the potential for a significant impact on the environment are outlined in Case study 3.1.

Case study 3.1

Environmental management strategies

Airservices Australia

Through its environmental management database, Airservices Australia has identified 562 environmental risks across the organisation. Management plans are in place for each risk. Of the 562 environmental risks being managed, 11 are classified as significant, and 551 are classified as not significant.³²

Defence

Under the EPBC Act, Commonwealth agencies including Defence are obliged to refer any activities they consider have, will have, or are likely to have, a significant impact on the environment to EA for a decision on approval. During 2001–02, Defence referred eight actions.

Where an activity is unlikely to have a significant impact on the environment, and the activity is not covered by environmental conditions in basic standard operating procedures, Defence uses an Environmental Clearance Certificate. These certificates are an internal mechanism used to impose environmental mitigation measures, to ensure the risk of environmental impacts is minimised. Around 300 new certificates were issued during 2001–02.³³

Defence has also recently completed a risk management workshop to identify and prioritise its environmental risks for the next 18 months.

CSIRO

Every CSIRO project proposed is subject to systematic risk assessment, which includes consideration of Health, Safety and Environmental issues. Thirteen possible risks are listed and ranked. From February 2003, the standard project proposal template also requires project proponents to demonstrate adequate risk mitigation strategies.

³² Airservices Australia, *Annual Report 2001*, 2001, pp. 24–25.

³³ Department of Defence, *Annual Report 2001–02*, 2002, pp. 228–229.

Policies, practices and standards

3.8 An effective ESD and environmental performance management strategy should be supported by policies and standards that formalise desired practices and procedures. Policies, practices and standards should operationalise the agency's ESD strategy, and are an important element of the framework supporting annual reporting.

3.9 The ANAO found that just over half of agencies surveyed (55 per cent) reported various ad hoc processes in place to recognise ESD more broadly in short and longer-term decision-making. The EPBC Act's strong emphasis on the importance of integrating the social, economic and environmental elements of ESD in decision-making is, consequently, not yet being implemented by a significant number of agencies. Among those agencies that did have procedures in place to consider ESD, approaches varied with many emphasising the importance of stakeholder consultation for the consideration of competing economic, social and environmental factors. Others noted that they had ESD clauses for some contracts.

3.10 On the other hand, in terms of policies and standards relating to agencies' operational environmental performance, the ANAO found that most agencies (86 per cent) had policies or other measures in place to minimise their impacts on the environment. In addition, many (71 per cent) also either had, or were developing, strategies to enhance the effectiveness of those policies or measures.

3.11 In this regard, the Commonwealth compares well with the private sector. A recent survey of Australian private sector companies found that only 56 per cent had environmental policies in place.³⁴

3.12 Environmental policies implemented by Commonwealth agencies focus on energy and fuel consumption; the use of green power; paper and toner cartridge recycling; printing; cleaning; and procurement, among other things. As noted earlier in this Chapter, many agencies are involved in leasing arrangements for their buildings, and consequently may have little scope to improve their operational environmental performance. This may, however, be an issue for consideration in the negotiation of future lease or contract arrangements.

3.13 The success of two innovative approaches to greening agency operations is set out in Case study 3.2.

³⁴ Australian Environment Review, 'More talk about the environment,' Vol. 17, No. 1, January 2002, p. 2.

Case study 3.2

Greening agency operations

Department of Education, Science and Training

The Department of Education, Science and Training participates in a consortium arrangement with other Commonwealth agencies in Canberra to purchase bulk supplies of electricity over a three-year period. The contract delivers reduced prices and a greater proportion of electricity from renewable energy (or green power) sources.

Centrelink

Centrelink is aiming to have its Tuggeranong Office Park recognised as a model for environmental management. A Building Management System has been established and is managed by a private provider. There is monthly reporting on power and water consumption, and conservation management. Centrelink also monitors its paper waste. Results to date are positive.

3.14 A particularly important issue for Commonwealth agencies currently is the need for guidance in relation to green procurement. With annual purchasing power of \$16 billion, the Commonwealth is a major purchaser of goods and services, and can therefore play a significant role in leading the development of procurement policies that consider environmental performance.³⁵ Some issues for the Commonwealth in relation to green procurement are set out in Case study 3.3.

³⁵ Environment Australia, *Greening of Government*, 2002, viewed 8 April 2003, <<http://www.ea.gov.au/industry/sustainable/greening-govt/index.html>>.

Case study 3.3

Green procurement policies

In February 2002, the Minister for Finance and Administration released the revised *Commonwealth Procurement Guidelines and Best Practice Guidance* (CPGs).³⁶ The revised CPGs highlight the need for officials to be aware of any relevant environmental legislation and Commonwealth targets, and to ensure that matters affecting the environment or the national estate are taken into account when assessing procurement requirements. The CPGs also note that specifications and requests for tender should include relevant environmental criteria.

While it is appropriate for agencies to have regard to their individual circumstances in determining how best to comply with the CPGs, at the time of the audit, no specific advice was available to purchasing officers in relation to implementing the updated environmental requirements. However, EA is planning to release voluntary guidance materials (including checklists) in May 2003.³⁷

The guidance from EA is necessary given that only seven of 44 agencies surveyed by the ANAO had implemented ESD clauses as standard practice for contracts. Only six of these agencies had implemented green procurement training for relevant staff.

Reporting frameworks

3.15 Reporting frameworks are the means by which agencies' management frameworks are monitored and continuously improved, and by which agencies demonstrate their accountability to Parliament. In order to monitor performance, agencies need robust performance indicators, targets and management information systems. These should allow for the analysis of performance in priority areas, and also provide reliable data for internal and external reporting. Data should be regularly monitored and reviewed to allow for policy and program adjustment where required.

3.16 While the PM&C Annual Reporting Requirements set out the mandatory ESD reporting requirement, they also note that:

Given the diversity of agencies in terms of size and operations, and in line with principles of CEO independence, it is for individual agencies to have regard to their own circumstances in determining how best to meet ESD reporting requirements.³⁸

³⁶ Department of Finance and Administration, *Commonwealth Procurement Guidelines*, 2003, viewed 10 January 2003, <http://www.finance.gov.au/ctc/publications/purchasing/cpg/commonwealth_procurement_guide.html>.

³⁷ See Environment Australia, *Greening of Government*, 2002, viewed 8 April 2003, <<http://www.ea.gov.au/industry/sustainable/greening-govt/index.html>>.

³⁸ Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, June 2002, p. 22.

Performance indicators

3.17 Effective performance monitoring involves developing indicators for priority issues, identifying baseline data and setting targets and benchmarks to measure achievement. Regular review of performance allows agencies to identify both successes and challenges remaining for the future. This should facilitate the effective allocation of resources, and enhance the quality of public reporting of the results. As has been noted earlier, in order to prepare a comprehensive annual report, the EPBC Act requires agencies to assess both their internal and external ESD and environmental performance.

3.18 Australia's sustainable development performance is currently measured and monitored against national goals. Key issues are urban pressures, salinity, water quality and land clearing. Performance is assessed via State of the Environment (SoE) reporting, and through reporting against Headline Sustainability Indicators (HSIs) (see Appendix 4). The HSIs were developed by EA in consultation with all Commonwealth agencies, State and Territory governments and other key stakeholders.

3.19 The HSIs were derived from the core objectives of the NSESD, which are not fully aligned with the requirements of the EPBC Act. The HSIs also focus on broad national outcomes, which may be influenced by all levels of government and other stakeholders including business, industry and the community. Consequently, EA does not consider that these are appropriate indicators for the purposes of preparing an annual report on whole-of-Commonwealth ESD and environmental performance.³⁹ EA has no plans to review and align the two separate reporting frameworks, although it would be desirable for annual ESD reporting by Commonwealth agencies to inform the national report against the HSIs.

3.20 The challenges of developing indicators for assessing short, medium and longer-term environmental performance have been addressed in previous ANAO reports.⁴⁰ An ongoing challenge is that critical thresholds for environmental, economic and social impacts are unclear. Additionally, baseline data from which to measure performance has only just begun to be collected in many fields. As noted earlier, approximately half of agencies surveyed considered that the collection of data, including baseline data, was one of their most significant challenges for the future.

3.21 Agencies have generally made more progress in relation to measuring and monitoring their operational environmental impacts, than assessing their

³⁹ Agencies are not required to report against HSIs.

⁴⁰ See, for example, ANAO, *The Management of Commonwealth National Parks and Reserves*, Report No.49 2002 and ANAO, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*, Report No.43 2001.

broader contribution to ESD through policy, program and legislative activities. CSIRO has implemented a policy on measuring occupational health, safety and environmental (OHS&E) performance. Divisions report to the CSIRO Executive, the Board and the OHS&E Committee on a regular basis. The CSIRO policy includes both mandatory and voluntary measures of performance. Selected resource and other performance indicators used by CSIRO are set out in Case study 3.4.

Case study 3.4

CSIRO resource and other performance indicators⁴¹

Resource indicators—mandatory

1. Rate of electricity use (GJ/year/FTE—the gigajoules of electricity used per year for each full time equivalent staff).
2. Rate of water use (kL/year/FTE—the kilolitres of water used per year for each full time equivalent staff).

Other Performance Indicators—mandatory

3. The percentage of Supervisors / Line Managers in a Business Unit trained in environmental responsibilities.
4. The percentage of work assessments completed that have considered environmental aspects (as per the CSIRO Health, Safety and Environment standard form).
5. Percentage of sites with a waste management (reduce, reuse or recycle) program in place.

Other selected OHS & Environmental performance indicators—voluntary

6. Percentage of business unit meetings with OHS&E on the agenda.
7. Percentage of OHS&E objectives and targets in operational plans.
8. Percentage of staff aware of all environmental policies (via staff survey).
9. Percentage of contracts written that contain OHS&E clauses.
10. Quantity of greenhouse gas emissions (including motor vehicles) per FTE staff.

3.22 At the time of the audit, EA had taken few steps to establish common indicators to facilitate whole-of-Commonwealth reporting on ESD and environmental matters. While any such performance indicators should be designed to take account of the wide range of agencies' impacts and relevance, it would be desirable for a core set of indicators covering common issues to be developed. Issues such as the impact of agencies' operations on the environment,

⁴¹ CSIRO Policy Circulars 2002: OHSE Procedure 2002/10 – 24 July 2002, Measuring Occupational Health, Safety & Environmental Performance Procedure.

and the rate of take-up of ESD-aware procedures such as standard contract clauses and other green procurement strategies, are common across the Commonwealth. Reporting against a core set of indicators may then facilitate assessment of achievements over time, and challenges remaining for the future, for the Commonwealth as a whole.

3.23 Many agencies already contribute to the whole-of-government *Report on Government Services*. This report has been produced since 1993, with the aim of developing objective and consistent data on the performance of services that are central to the wellbeing of Australians. The collaborative efforts of more than 80 government agencies from the Commonwealth, states and territories contribute to the annual report on education, health, justice, community services, and housing.⁴²

3.24 Fifty-five per cent of agencies surveyed considered that establishing performance indicators was an important area for further activity. As discussed in Chapter 2, 59 per cent of agencies favoured EA taking a leading role in this regard, and identifying and disseminating core performance indicators through workshops and other forums. As a first step, these indicators should focus on core operational environmental impacts. In the longer term, the ANAO considers that it would be desirable for EA to support agencies in developing indicators to measure their broader contributions to ESD.

3.25 It is worth noting that a Canadian interdepartmental working group, dedicated to developing performance management measures for sustainable development in government operations, has released a guide for Canadian agencies.⁴³ In addition, the most prominent international indicator model being adopted by private sector companies is that of the Global Reporting Initiative.⁴⁴ These guidelines contain indicators covering the economic, environmental and social dimensions of sustainability.

Identifying priorities and targets

3.26 Identifying priorities, and setting targets for measuring their achievement, is an essential part of any management and reporting framework. Agencies need to be able to track their progress on high priority issues. This is particularly important for monitoring ESD and environmental performance where the timeframes for achievement can be long. In this regard, short and medium term

⁴² Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Services*, AusInfo, Canberra, 2001.

⁴³ Government of Canada, 'Proposed Reporting Guidelines,' 2002, viewed 10 January 2003, <http://www.greeninggovernment.gc.ca/Proposed_Reporting_Guidelines_E.rtf>.

⁴⁴ Global Reporting Initiative, 2002, viewed 8 April 2003, <<http://www.globalreporting.org/guidelines/2002.asp>>.

targets and measures can be helpful. Regular review of performance should allow agencies to identify both positive and negative trends, and to adjust their strategies where required.

3.27 Collecting and analysing progress towards targets also provides the data for meaningful performance reports. A meaningful report should give the reader a sense of how the agency is progressing over time, and, where targets have been missed, an indication of the strategies the agency is considering to achieve them. Targets linked to common priority issues, are also a useful way to compare performance between program areas, and more broadly, across agencies.

3.28 Given the diversity of agencies' impacts on ESD, it follows that the ESD priorities identified by agencies will also vary widely. As part of the ANAO's survey, agencies were asked to indicate their most important ESD and environmental risks and opportunities. The four most common priorities related to:

- reducing consumption of resources including fuel, paper, and energy (75 per cent of agencies);
- identifying financial savings (75 per cent of agencies);
- taking account of ESD and the environment in policy and program development (41 per cent of agencies); and
- building cooperative partnerships with government, business, industry and the community (39 per cent of agencies).

3.29 Some agencies had quantified cost savings associated with significant ESD and environmental issues. For example, Airservices Australia has estimated that savings from air traffic efficiencies in terms of fuel costs are in the order of \$80 million per annum. The Bureau of Meteorology claimed reduced energy costs per Full Time Equivalent staff member of 45 per cent between 1997–98 and 1999–2000, and the Therapeutic Goods Administration noted savings of \$100 000 per annum since implementing energy saving initiatives.

3.30 On the other hand, 57 per cent of agencies surveyed by the ANAO had not quantified any cost savings associated with significant ESD and environmental issues. This may be because agencies are not yet quantitatively analysing their operational environmental impacts and contributions to ESD, or because the cost savings are too complex to calculate. Understanding impacts and their associated costs is an important first step in establishing effective management and reporting frameworks for ESD.

3.31 Although the majority of agencies surveyed considered that their overall activities were relevant to ESD, few had identified their most significant ESD issues or targets for their achievement. This means that there is less chance of

annual reports providing users with information on the most significant, or highest priority, ESD and environmental issues, nor on the agencies' strategies for addressing them. In agencies such as EA and DITR, individual divisions or program areas may undertake ESD risk assessments, while others are yet to establish these processes.

3.32 However, agencies have made some progress in relation to identifying priority issues that apply to their operational environmental impacts. Many of the agencies surveyed had set targets, for example, in relation to energy use, land remediation and greenhouse gas emissions.

3.33 This is particularly important for larger agencies, such as Defence, which alone accounts for almost 50 per cent of total Commonwealth energy use. Defence sets targets as part of the Greenhouse Challenge, which is a joint voluntary initiative between government and industry to reduce greenhouse gas emissions. Over the last two years, Defence has reduced its emissions in line with agreed targets.⁴⁵

3.34 All Commonwealth agencies have energy targets with which they must comply as part of the Government's commitment to improve the energy efficiency of Commonwealth operations. This area has been subject to three previous ANAO audits, with the most recent audit finding that, overall, Commonwealth agencies are effectively implementing the Commonwealth's energy policy and that most agencies are on track to meet their targets.⁴⁶ DITR and the Australian Greenhouse Office jointly administer the policy.

3.35 There was also evidence that some agencies have started to benchmark performance, or to compare progress against corporate targets, internally. For example, both Centrelink and CSIRO have undertaken internal benchmarking reviews to compare the environmental performance of individual sites and divisions. This is an important first step in terms of gathering baseline data, and setting targets for performance improvement in the future.

3.36 Airservices Australia's environment management system requires that risks be prioritised, and management targets established, if the risk is deemed to be significant. These targets are then monitored and reported on at the corporate level. Defence indicated that it was extending its performance management frameworks in a similar way. The Defence EMS should provide the mechanism to manage the environmental impacts and reduce the current risks of Defence activities. It should also improve the consideration of ESD issues

⁴⁵ The Hon. Fran Bailey MP, 'Defence exceeds Greenhouse Gas Reduction Target', Media Release, 9 January 2003.

⁴⁶ ANAO, *Energy Efficiency in Commonwealth Operations—Follow Up Audit*, Report No.24 2002–03. See also ANAO, *Energy Efficiency in Commonwealth Operations*, Report No.47 1998–99 and ANAO, *Energy Management of Commonwealth Buildings*, Report No.47 1991–92.

within Defence. Defence also has an internal Environmental Strategic Plan that sets environmental objectives and targets for three to five years based on analysis and prioritisation of environmental risks.

3.37 On the other hand, the ANAO found little evidence of targets and priorities being set for ESD performance more broadly.

Monitoring and review

3.38 As part of an effective ESD and environmental management and reporting framework, agencies should ensure that performance is regularly monitored and reviewed. This is important in terms of verifying achievements, as well as assisting in continuous improvement. Monitoring and review may be conducted internally, or externally to provide an independent level of assurance.

3.39 Policy development, program implementation and legislative administration should be assessed for their impact on ESD and the environment, as should the effectiveness of internal management initiatives aimed at enhancing environmental performance. Maintaining an awareness of the performance of other relevant agencies is also an important management tool, in terms of ensuring that agencies are keeping pace with better practice. For the Commonwealth as a whole, it is clearly desirable for a coordinating body to review, and disseminate, experiences and expertise in relation to ESD and environmental performance management frameworks. The Government has charged EA with this responsibility.

3.40 The ANAO found that 61 per cent of agencies had systems for monitoring and reviewing various aspects of their environmental performance. Agencies were implementing a number of different approaches in this regard, including regular review of energy, water and paper consumption; monitoring of procurement; and review and internal reporting of operational environmental impacts. Defence constituted good practice in this regard, and some of its approaches to reviewing environmental operational performance are set out in Case study 3.5.

Case study 3.5

Performance review—Defence's approach

An independent environmental audit of the Defence corporate EMS has recently been completed. In addition, work is underway to establish an environmental performance reporting framework linked to Defence's balanced scorecard. Relevant information will be collected and analysed to produce monthly and quarterly reports on performance.

Defence also participates, with its UK, US and Canadian counterparts, in both formal and informal networks for information exchange. Environmental challenges are consistent for Defence agencies worldwide, and the networks operate as a useful way to exchange experiences and better practice techniques. There has also been a commitment to collecting consistent data on shared priority issues such as land remediation and noise pollution. This means that Defence can, and does, benchmark its performance against its international counterparts.

3.41 In general, agencies are doing more to monitor the effectiveness of their operational environmental performance, than they are to monitor their contribution to ESD. The Productivity Commission report (discussed in Chapter 1) had similar findings in 1999. It found that monitoring ESD policy and program effectiveness was not routinely undertaken by departments and agencies. In addition, there was little evidence of the results of monitoring activity feeding into a process of continuous improvement.⁴⁷

3.42 This is still the situation. Less than half of the agencies surveyed by the ANAO considered that monitoring ESD effectiveness fed into a process of continuous improvement. This may be because monitoring systems do not exist, because ESD is not clearly understood, or because improving ESD performance is not a priority for those agencies. Identifying potential performance improvement is a critical step in enhancing the ongoing management and reporting of ESD. Those agencies that indicated their processes had improved as a result of monitoring and reporting, nominated issues such as:

- improved energy use;
- implementation of recycling programs;
- broader cultural change; and
- improved purchasing procedures.

3.43 Again, the emphasis was on operational environmental achievements, rather than ESD in its broader integrated sense. One agency, however, did

⁴⁷ Productivity Commission, *Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies*, Inquiry Report No.5, 25 May 1999, p. xxiii.

nominate an ESD achievement as a result of its review of ESD effectiveness. The Torres Strait Regional Authority (TSRA) noted that:

TSRA... aims to bring about changes in fisheries management in order to try to preserve the traditional fishing grounds of the Torres Strait indigenous people. These activities have brought about changes to the attitudes of commercial fishermen, and indigenous fishermen now have input into the management of traditional fisheries areas.

Management information systems

3.44 Agencies may not necessarily need to establish new information systems to monitor ESD and environmental performance. Provided that ESD considerations are integrated into agencies' key strategic planning frameworks, existing management information systems might normally be sufficient to monitor performance. Some form of data management system is essential, however, in terms of providing the basis for a meaningful annual report with both quantitative and qualitative analysis of performance.

3.45 The ANAO found that 27 of the 44 agencies surveyed (or 61 per cent) had management information systems to monitor various aspects of their ESD performance. However, the majority of these systems focussed on gathering data on the agencies' operational environmental performance. Only four agencies (or less than 10 per cent) had systems in place to monitor and report on ESD performance more broadly. Of the four agencies with a management information system for ESD, Airservices Australia and CSIRO had the most comprehensive approaches. Both agencies had systems for collecting and analysing information on health, safety and environmental issues, and regular review and internal reporting of the results.

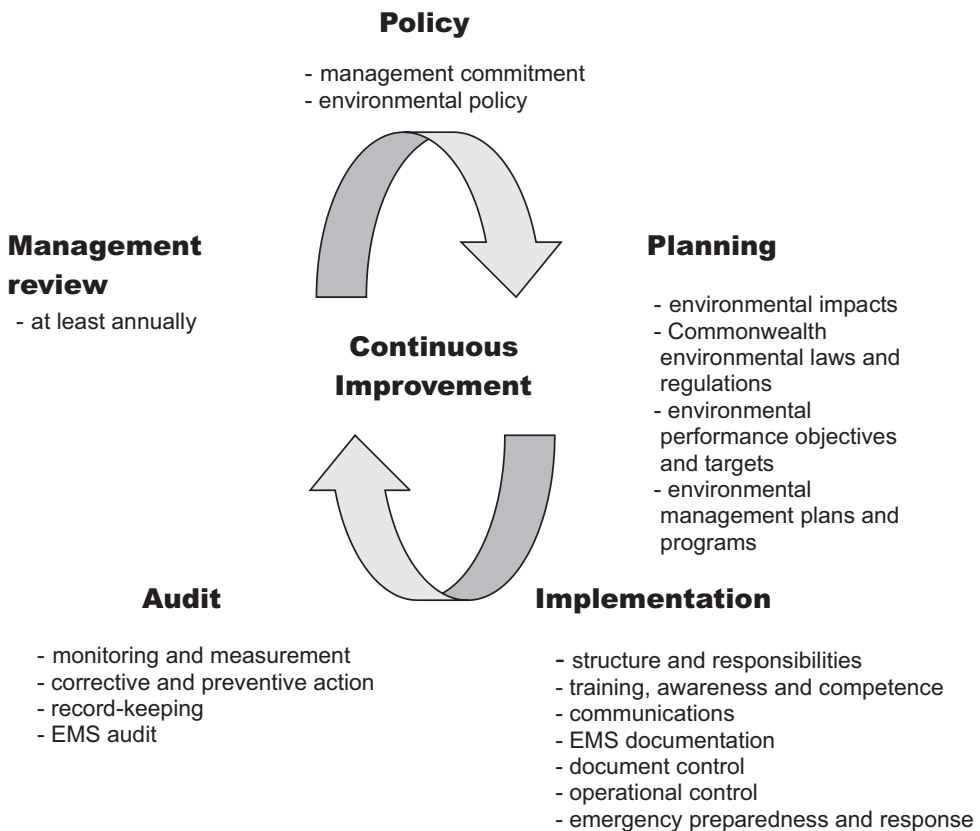
3.46 Twenty-three of the 44 agencies surveyed by the ANAO indicated that data collection was one of their most significant challenges in relation to ESD and environmental performance management. The implications of agencies' lack of quantitative data on ESD and environmental performance are discussed in Chapter 4.

Environmental Management Systems

3.47 While agencies are yet to make the shift towards introducing management systems for reviewing ESD effectiveness, in line with Government policy, many are moving towards the implementation of EMSs. An EMS is a tool for managing the impacts of an organisation's operational activities on the environment. It provides a structured approach to planning, implementing and reviewing environmental protection measures.

3.48 Just as a financial management system monitors expenditure and income and enables regular review of agencies' financial performance, so an EMS monitors agencies' environmental performance. An EMS integrates environmental management into agencies' daily operations, long term planning and other quality management systems. Agencies can use the EMS framework to review the effectiveness of their operational environmental policies, practices and procedures. A typical EMS framework is set out in Figure 3.2.

Figure 3.2
EMS framework



Source: Environment Australia, 'Model Environmental Management System for Commonwealth Agencies,' <http://www.ea.gov.au/industry/sustainable/ems/pubs/emsguide.pdf>

3.49 Following the Productivity Commission's inquiry into the implementation of ESD by the Commonwealth, agencies were asked to improve assessment of ESD impacts for the purposes of decision-making. They were also encouraged to join the Greenhouse Challenge, and to develop and implement an EMS based

on ISO14001⁴⁸ by December 2002, and to accredit at least one of their larger sites to ISO14001, or an equivalent standard, by December 2003. Agencies were asked to report to their Ministers (copied to the Minister for the Environment and Heritage) by March 2002 if they considered that the costs would significantly outweigh the benefits of taking such actions.

3.50 At the time of the audit, only 11 of the agencies surveyed by the ANAO had implemented an EMS. A further 14 had EMSs under development. Of the 19 that did not have an EMS, none had formally advised the Minister for the Environment and Heritage of the outcomes of any cost-benefit analysis.

3.51 Of the 11 agencies that had implemented an EMS, four advised the ANAO that they had been certified to ISO14001. Nine of the 14 agencies with an EMS under development advised that they would also seek ISO14001 certification. CSIRO's experiences are outlined in Case study 3.6.

Case study 3.6

EMS roll-out—CSIRO

CSIRO began implementing its EMS in 1998. The roll-out has been broken up into six stages, targets have been set, and completion of each stage is being monitored. Each Division is required to report quarterly on progress to the agency's EMS Committee. CSIRO is aiming to complete the roll out for all of its 63 sites by December 2003, and compliance with the EMS will be audited at all sites by August 2004.

3.52 EA has developed a 'model' EMS, which agencies can adapt to their own specific requirements. The model EMS incorporates detailed guidance notes and an electronic procedures manual and register into which agencies can enter agency-specific information, streamlining the development of their EMS. The model has been designed so that some agencies will be able use it as an 'off-the-shelf' EMS, while others can use it as a template for adaptation. EA anticipates that this has the potential to save agencies considerable effort, as well as to reduce initial implementation costs.⁴⁹

3.53 The costs of EMS implementation have been estimated at between \$18 000 and \$84 000 for small to medium Commonwealth agencies. For Commonwealth agencies, an essential consideration is whether the costs of establishing such systems outweigh the benefits.

⁴⁸ The ISO14000 suite of standards is a voluntary code aimed at harmonising environmental management frameworks internationally. International standard ISO14001 sets out the requirements for an EMS. An external certification authority can certify compliance with ISO14001. This form of independent assessment provides assurance that an agency's environmental management framework compares well with international better practice.

⁴⁹ Environment Australia, *Model Environmental Management System for Commonwealth Agencies*, 2002, viewed 8 April 2003, <<http://www.ea.gov.au/industry/sustainable/ems/index.html>>.

Resourcing

3.54 Resourcing ESD and environmental performance management and reporting are identified as significant challenges by agencies. Currently, the majority of agencies are only devoting minimal financial and human resources to ESD for the purposes of preparing the annual report. This is not surprising given that many agencies have not yet come to terms with the Government's commitment to institutionalise ESD throughout their policy and decision-making processes, in addition to minimising the impact of their operations on the environment.

3.55 It was difficult for agencies to indicate the resources allocated to planning, monitoring and reporting on ESD performance in 2001–02. However, 14 of the 44 agencies surveyed could quantify the resources allocated. Most identified a small number of staff for a short period, specifically for the purpose of preparing the annual report. Expenditure recorded by this particular survey question averaged approximately \$30 000.

Staff awareness

3.56 An essential part of any effective management framework is training, which should aim to ensure that staff at all levels of the organisation understand and implement the agency's ESD and environmental goals. Just over half of agencies surveyed had processes in place to raise staff awareness of aspects of ESD. These varied: three of 44 agencies had implemented rewards and recognition initiatives for environmentally friendly behaviour by staff, while the majority were relying on publicity through intranets and various workshops and seminars to raise awareness. Again, the emphasis among survey respondents was on the operational environmental dimension of ESD.

3.57 Defence has developed a series of online training modules to enhance environmental awareness among military and civilian personnel. The Defence approach is set out in Case study 3.7.

Case study 3.7

E-learning—Defence

Defence has established an interactive learning module, available via the departmental intranet, to create environmental awareness. It is part of a suite of environmental awareness training initiatives that seek to gain the commitment of Defence personnel to the Environment Policy and instil a sense of individual responsibility. This is linked to the requirements for ISO14001 certification.

The interactive learning module focuses on developing awareness of Defence's environmental policy, as well as its roles and responsibilities under the EPBC Act. It is intended that all Defence staff, including new starters, will undertake the training. The impact of the training will be reviewed through the Defence staff survey, as well as through broader monitoring of environmental performance. Environmental awareness will also be included as a desired learning outcome for military personnel, and will be included as part of the standard training for military disciplines.

Two further online modules will follow.

3.58 Six of the 44 agencies surveyed had implemented green procurement training. As discussed in the section on policies, practices and standards, this is an area where considerable improvement would be desirable given the emphasis on environmental considerations in the revised CPGs. A Canadian agency's approach to green procurement training is outlined in Case study 3.8:

Case study 3.8

Green procurement training—Canadian better practice

Public Works and Government Services Canada (PWGSC) is a common service agency that supports Canadian departments and agencies. It aims to provide a wide range of services to assist client agencies to achieve their objectives; and to provide the best value for government, within the context of public policy and with due regard for prudence, probity and transparency. PWGSC manages a diverse real property portfolio with 400 buildings, and 2000 leases, wharves, dams, bridges, and land. It issues over 50 000 contracts annually for approximately \$8 billion of goods and services on behalf of Canadian government agencies, and represents 65 per cent of the federal government's contracting in goods and services.

PWGSC offers green procurement training courses to all staff with financial delegations. Additionally, Green Products and Producers have been identified and this list is made available to all employees with procurement delegation. The green procurement training is part of a broader training program, which has been designed to ensure PWGSC's ongoing capacity to manage environmental issues.

3.59 Raising awareness of ESD and environmental matters at the officer level was identified as a significant challenge for the future by 24 of the 44 agencies surveyed. Raising staff awareness does not have to be complex or resource intensive. Small behavioural changes can make a difference to environmental performance. For example, Centrelink has developed a 'Quick Wins' checklist, focussing on simple behavioural changes that can be implemented by individuals and teams in the course of their normal daily work. The 'Quick Wins' checklist raises awareness of issues such as energy and paper consumption, and green procurement.

3.60 A final observation that several better performing agencies made to the ANAO focussed on the importance of senior level support and leadership in enhancing the profile given to ESD and environmental issues throughout agencies. This was identified as a critical factor in raising staff awareness and support for ESD and environmental initiatives.

Conclusion

3.61 Commonwealth agencies' impacts on ESD and the environment vary, with some agencies having significant direct impacts, and others only limited indirect impacts. Given this diversity, it is appropriate for agencies to have some flexibility in terms of the management frameworks that they establish for monitoring and reporting on ESD and environmental performance. In general, agencies are doing more to manage their operational environmental impacts, than they are to monitor and report on their contributions to ESD. Commonwealth agencies compare well with the private sector in terms of the policies that they have implemented for managing operational environmental impacts.

3.62 However, in most agencies, ESD more broadly has been a low priority or is poorly understood and, consequently, the management frameworks established do not currently provide a basis for effective performance monitoring and reporting. In this regard, Commonwealth agencies are some way behind their Canadian counterparts. In general, Australian agencies' ESD management frameworks do not compare well with those of Canadian agencies, in terms of setting and prioritising strategic challenges for the future. As a first step, it would be desirable for EA to coordinate the development of core indicators for common issues such as resource usage, and policies and practices seeking to minimise agencies' impacts on the environment. Better practice exists in some agencies, and this should be identified by EA and promulgated more widely across the Commonwealth.

3.63 It would also be desirable for EA to assist agencies to move beyond the assessment of operational environmental impacts and to begin to address ESD

more broadly. EA could achieve this through workshops or forums, or by enhancing the reporting guidelines with examples of better practice ESD reporting. This should be a priority as, in spite of the government's 10-year commitment to ESD, many agencies are yet to establish relevant management and reporting frameworks. The view that ESD is not relevant at all to non-environmental agencies' operations is widely held, and will need to be addressed by EA in order to move the government's ESD agenda forwards.

3.64 The Productivity Commission's 1999 inquiry into the implementation of ESD by Commonwealth departments and agencies had similar findings.⁵⁰

Recommendation No.2

3.65 In order to improve Commonwealth frameworks for managing ESD and environmental performance, the ANAO *recommends* that Environment Australia:

- (a) raise awareness across the Commonwealth of the significance of ESD and environmental issues for all agencies; and
- (b) support agencies in the establishment of management frameworks relating to their contribution to ESD through the identification and dissemination of better practice.

Environment Australia's response

3.66 Recommendation 2(a). Agree with qualification, subject to judgement on relative priorities for the application of available resources. EA will continue to use its website to foster understanding of the cross-portfolio nature of ESD, and awareness of the significance of environmental issues for all agencies. Officers of EA will continue to make themselves available to provide information and advice to other agencies on these matters. However, unless additional resources are available, it is unlikely that EA will be able to engage in more proactive activities to raise awareness of these issues.

3.67 Recommendation 2(b). Agree with qualification, subject to judgement on relative priorities for the application of available resources. If sufficient information is available from agencies' annual reports to do so, and subject to resource constraints, EA will provide examples and analysis both of better practice ESD management frameworks and of better practice section 516A reporting frameworks on our website.

⁵⁰ Productivity Commission, *Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies*, Inquiry Report No.5, 25 May 1999, p. xviii.

4. Quality of Reporting on Results

Introduction

4.1 While it is appropriate for individual agencies to determine their reporting approaches based on their particular circumstances, there are elements that are common to all good annual reports. Annual reports should be based on reliable information, should demonstrate compliance with all relevant legislation, and should provide a basis for analysing agency performance over time.⁵¹ Annual reports should address all major issues relevant to the agency. Finally, a good annual report should be balanced in terms of providing users with information on the agency's recent successes, as well as its challenges remaining for the future.

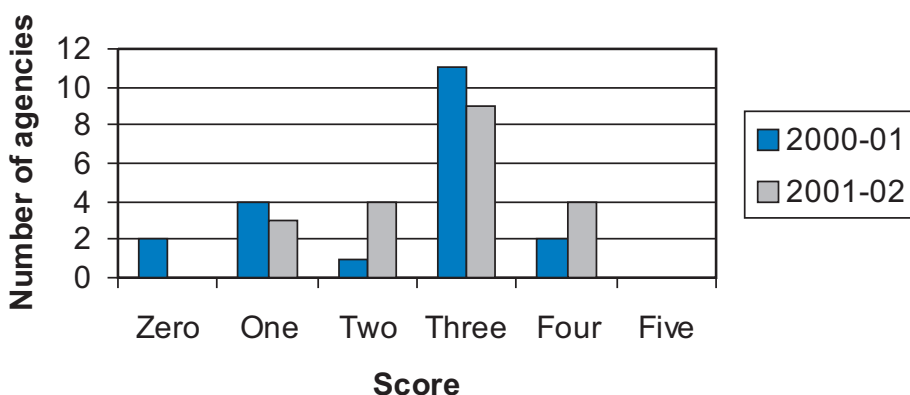
Annual report review

4.2 The ANAO reviewed 20 agencies' annual reports on ESD and environmental matters for 2000–01 and 2001–02. Agencies were scored according to the overall quality of their ESD and environmental reports. Quality criteria included meaningful qualitative and quantitative statements of performance; giving the reader a clear sense of the scale and significance of the agency's overall impact on ESD; effective use of charts, tables and case studies; compliance with legislation; use of targets, benchmarks and other standards; and reporting of both successes, and challenges remaining for the future.

4.3 Agencies' 2000–01 and 2001–02 report scores are outlined in Figure 4.1.

Figure 4.1

Annual report overall scores—2000–01 and 2001–02



Source: ANAO review of Commonwealth agencies' annual reports, 2002.

⁵¹ The ANAO did not audit the accuracy or reliability of information agencies provided in their 2000–01 and 2001–02 reports, as this was outside the scope of the audit.

4.4 The quality of agencies' annual reports on ESD and environmental performance improved slightly from 2000–01 to 2001–02. Four agencies: Defence, DITR, EA and CSIRO scored highly based on the overall quality of information provided in their annual reports. Three others: Centrelink, Health and Finance, demonstrated good practice in some aspects of their reporting. The National Capital Authority showed strong improvement from 2000–01 to 2001–02. Follow up discussions were conducted with each of these agencies to identify critical success factors.

4.5 EA undertook a similar review of 20 reports for 2000–01. However, it did not provide the results of this review back to agencies. This would be desirable for the future, as agencies look for guidance in continuing to refine their approaches to ESD and environmental reporting. While the ANAO scored agencies' annual reports slightly higher for 2001–02 than for 2000–01, there still remains scope for significant improvement. Aspects of good quality reporting are addressed throughout the rest of this chapter.

Compliance with the EPBC Act

4.6 Most of the agencies surveyed by the ANAO were aware of the requirement to report annually on ESD and environmental matters. However, three of the 44 agencies surveyed stated that they were not aware of the requirement before the ANAO survey arrived. The three agencies that had not reported were smaller agencies. However, all of them contribute directly to ESD. Two of the 20 agencies whose annual reports were reviewed by the ANAO did not report at all in 2000–01. In 2001–02, all of the agencies selected for review reported. However, three of these reports constituted only an extremely brief statement on operational environmental performance and made no attempt to address ESD more broadly.

4.7 As discussed in Chapter 1, the EPBC Act has five requirements for agencies preparing annual reports on ESD and environmental performance. The ANAO found a significant number of breaches of the reporting requirements of the EPBC Act. Although EA's online guidance highlights the requirement to report on both operational environmental impacts and broader contributions to ESD, six of 44 agencies (14 per cent) surveyed responded that they had not reported on operational environmental impacts; and 18 of 44 (41 per cent) responded that they had not reported on their broader contribution to ESD in their 2001–02 annual reports. Other core requirements, such as the measures agencies are undertaking to minimise their impacts on the environment, and mechanisms for reviewing and increasing the effectiveness of mitigation measures, were similarly not reported by a significant proportion of agencies.

4.8 In its review of annual reports, the ANAO found breaches of all five requirements of the EPBC Act. Fifty per cent of agencies reviewed did not comply with section 516A(6)(c), which requires agencies to document the effect of their activities on the environment.

4.9 It was also difficult to assess the extent to which agencies were giving effect to the principles of ESD as set out in section 3A of the EPBC Act. Section 3A sets out five principles of ESD relating to economic, environmental, social and equitable considerations. Twenty-five per cent of agencies reviewed provided no information on how their activities and administration of legislation (if any) accorded with the principles of ESD, as required under section 516A(6)(a) of the EPBC Act. Of those agencies who provided some information, most made claims based on individual activities, such as community consultation or liaison with other government agencies, without any indication of the integration of these principles throughout the agency as a whole. Enhanced guidance from EA on meeting the requirements of the EPBC Act, through workshops, seminars or an enhanced website with practical examples, would help to assist agencies to improve compliance in the future. In order to improve the quality of their annual reports, agencies should be receptive to this guidance.

Complete and meaningful reporting

4.10 A good quality report is a report that is complete in terms of its treatment of each aspect of ESD, and meaningful in terms of the type of information that it presents. A complete and meaningful report will demonstrate the significance of the agency's operations and the relevance of its policy development, program administration and legislative activities for ESD and the environment. It will also provide some level of assurance as to the management frameworks that it has in place to address this. The report should be concise, but should also be sufficient to give the reader a clear sense of the agency's performance over the year under review. A good report may also provide links or references to further information for users with a particular interest in various aspects of the agency's operations.

4.11 Each year SustainAbility⁵² and the United Nations Environment Program⁵³ review corporate social and environmental reporting. These organisations warn against overly long reports that rely on: 'carpet bombing - bombarding readers with increasing amounts of information without explaining its relevance'.⁵⁴ The

⁵² SustainAbility is an international consulting firm active in the field of sustainable development. It releases annual reports on corporate sustainability reporting worldwide.

⁵³ The United Nations Environment Program (UNEP) aims to provide leadership and encourage partnership in caring for the environment by inspiring, informing and enabling nations and peoples to improve their quality of life without compromising that of future generations.

⁵⁴ A Maitland, 'Inside Track: Truants, nerds and supersonics', *Financial Times*, 19 November 2002.

ANAO found that there has been a tendency towards this by agencies reporting on ESD. Reports grew in length from 2000–01 to 2001–02, with the longest report in 2000–01 12 pages long and the longest report in 2001–02, 22 pages long. There has also been a tendency just to list a range of activities of varying size and significance. Few agencies attempt to provide a clear picture of their overall operational environmental impacts and the contribution of their policies, programs and legislation to ESD.

4.12 As noted earlier, agencies should give the reader a clear sense of the significance of their operations for ESD and the environment. For example, Defence includes in its annual report a clear statement on its impacts, setting the scene for the analysis that follows:

Defence manages approximately three million hectares of land, and approximately 700 leased and owned properties, and the Defence estate embraces five world heritage areas.⁵⁵

4.13 Finance similarly made clear links between its core activities and their impacts on the environment and ESD:

Finance manages an extensive and diverse portfolio of non-Defence properties within Australia comprising: office buildings; special purpose facilities; heritage properties; vacant land; and contaminated sites. A number of these properties require rationalisation, ..., with some involving resolution of complex planning, environmental and heritage issues.⁵⁶

4.14 Finance also notes in its most recent annual report that it requires, as a condition of sale, that heritage properties be listed on an appropriate register, and that conservation plans be implemented. These legal steps help to ensure that heritage values are protected once properties pass out of Commonwealth ownership.

4.15 While reporting on operational environmental impacts is of fairly good quality overall, reporting on contributions to ESD through policy, program and legislative activities is less so. Partly, as discussed in the previous chapter, this is because the data for such analysis is not available in many agencies.

4.16 Overall, there is a lack of quantitative analysis of agencies' performance. A good report should provide both quantitative and qualitative analysis of performance. However, the availability of quantitative data for analysing operational environmental impacts should continue to improve over time as EMSs are implemented in many Commonwealth agencies. Developing measures for assessing ESD performance more broadly, however, should be a priority for EA and all agencies in the future.

⁵⁵ Department of Defence, *Annual Report 2001–02*, 2002, p. 228.

⁵⁶ Department of Finance and Administration, *Annual Report 2001–02*, 2002, p. 119.

4.17 Enhanced quantitative data may also assist agencies to make better use of charts, graphs and tables in future annual reports. Better performing agencies in Australia and internationally demonstrate some aspects of their performance through the effective use of graphics.

4.18 Case studies are another useful tool for highlighting achievements, engaging the reader's interest, and exploring complex issues more thoroughly. In 2001–02, both Defence and DITR made good use of case studies in their annual ESD and environment reports. Defence highlighted its achievements in relation to the Canungra Base Redevelopment in Queensland, and DITR presented two case studies on the Snowy Mountains Hydro-Electric Authority and the Energy Efficiency Best Practice Program.

Consistency over time

4.19 Reporting consistently is important as it allows agency management to monitor and continuously improve performance over time. Consistent reporting on common issues should allow for comparisons to be made between agencies for the purposes of benchmarking and identifying better practice. Consistent reporting should also facilitate whole-of-Commonwealth reporting on operational environmental impacts and contributions to ESD. For example, it would be desirable for reporting on common issues, such as energy consumption, paper use and recycling initiatives, to be consistent between agencies. Currently, agencies are only reporting consistently on energy consumption, as the data collected to demonstrate compliance with the Commonwealth's energy policy is repeated for many annual reports.

4.20 Agencies have only been reporting on ESD and environmental performance for two years, and one of those years without the benefit of guidelines from EA, and it is therefore understandable that there has been some variation over the first two years of annual ESD reporting. There is currently two distinct reporting styles: template style reporting that demonstrates compliance with the EPBC Act by addressing each requirement in turn, and less structured reporting that lists various aspects of the performance of individual programs or divisions.

4.21 While either approach may be appropriate provided that the information presented is meaningful, it would be desirable (as discussed in the previous chapter) for agencies to ensure that they are reporting consistently on common issues of concern, such as their operational environmental impacts. It is not currently possible to get a sense of the Commonwealth's performance in relation to ESD and the environment due to the wide variation of information provided by agencies. In addition, over the first two years of reporting on ESD, many

agencies reported on different issues in their individual reports, which makes it difficult to identify progress within individual agencies over time.

4.22 It is clear, however, that agencies are not yet equipped to report comprehensively on their most significant or highest priority issues consistently over time, as few agencies have undertaken the analysis to make this possible. As discussed in Chapter 2, few agencies have indicators for measuring their contribution to ESD. Few agencies have identified areas of highest priority, and few have set targets to measure their achievement.

4.23 Canada offers some examples of better practice environmental reporting. For example, Transport Canada has reported consistently on its progress against targets for sustainable transport since 1997. Transport Canada’s strategic objectives are to:

- ensure high standards for a safe and secure transportation system;
- contribute to Canada’s economic growth and social development; and
- protect the physical environment.⁵⁷

4.24 An extract of Transport Canada’s reporting against environmental targets over time is set out in Case study 4.1.

Case study 4.1

Reporting against targets for sustainable transport—Canada

Target	Status
5% reduction in energy consumption by 2000	Action complete. Baseline established and reductions achieved.
10% reduction in non-hazardous waste by 2000	Action complete. Implemented at office facilities.
100% PCBs destruction by 2000	Action complete. 100% destruction.
Environmental emergency plans for all sites by 1999	Work in progress. Plans in place at Transport Canada airports.
100% of contaminated sites identified and managed by 2003	Work in progress. Identification complete.
5% reduction in water consumption by 2000.	Action cancelled. Collection of water use data not cost effective.

Source: Transport Canada 2001, Sustainable Development Strategy 2001–2003.

⁵⁷ Transport Canada, *Departmental Performance Report March 2002*, 2002, viewed 8 April 2003, <http://www.tc.gc.ca/Finance/Dpr/01-02/english/section_3_0.htm#3_1>.

Meeting the needs of users

4.25 Reporting must meet the needs of a range of users: client groups, agency management and, ultimately, the Parliament. As such, agencies must ensure that they are reporting on the issues of most concern or highest priority for all of these groups. Ideally, annual reporting is derived from regular internal reporting on key issues, and the annual report represents the major mechanism for demonstrating performance externally.

4.26 The ANAO found that most agencies are only reporting on ESD and environmental issues to their Executives on an annual basis. However, 13 of the 44 agencies surveyed (or 30 per cent) reported more frequently (6 on a monthly basis, 5 quarterly, 2 biannually). The implementation of an accredited EMS requires more frequent reporting to management on internal environmental performance, so these figures would be expected to rise in the future as more agencies roll out their EMSs.

4.27 Nineteen of the 44 agencies surveyed (43 per cent) also produced external reports (separate from the annual report) on ESD and environmental performance of various forms. The majority of these were reports on individual activities via departmental websites, through newsletters and journals, or to stakeholders on issues of concern.

4.28 At the highest end of the scale, in 2003 Defence will be producing its first Public Environment Report, and FACS will be producing a TBL report. This is in line with better practice from the private sector and is a significant development. The use of stand alone sustainable development reporting also mirrors the Canadian experience, where selected agencies are now preparing sustainable development reports separate from their annual departmental performance reports.

Balance—successes and shortcomings

4.29 As with any form of performance reporting, reporting on ESD and environmental reporting should focus on the issues that are the most important, and give the reader a true sense of both achievements and challenges remaining for the future. Where targets have been set and missed, agencies should provide information on the reasons for targets being missed, and strategies for their achievement in the future.

4.30 Annual reports currently focus predominantly on successes and achievements. Overall, there is little sense identified in reports of challenges remaining for agencies in the future. Agencies surveyed by the ANAO highlighted multiple recent successes as a result of monitoring and reporting on ESD and environmental matters. The majority nominated more effective

dialogue with stakeholders, reduced direct negative impact on the environment from agency operations, and better targeted programs as their most significant successes. Fifteen of 44 agencies surveyed indicated that ESD successes were not routinely identified.

4.31 In terms of challenges remaining for the future, agencies surveyed nominated a range of issues. These are set out with an indication of their relevance to agencies in Table 4.1.⁵⁸ None of these were included in agencies' annual reports:

Table 4.1

Challenges remaining for the future—agencies surveyed by ANAO

Challenge for the future	Percentage of surveyed agencies nominated
Establishing baseline data	48
Establishing performance indicators	55
Data collection	52
Meeting ESD and environmental targets	30
Raising staff awareness	55
Reporting on outcomes	36
Other ⁵⁹	18

Source: ANAO survey of Commonwealth agencies, October 2002.

4.32 Commonwealth agencies do not compare well with their Canadian counterparts in this regard. A number of international public and private sector entities including British Petroleum (BP) and Chiquita have also been commended for reporting their ESD challenges remaining for the future. This includes reporting on incidents and breaches, with the aim of providing a balanced picture of performance during the year under review. A Canadian public sector example is set out in Case study 4.2.

⁵⁸ Fifteen of 44 agencies surveyed indicated that challenges remaining for the future were not routinely identified.

⁵⁹ Other challenges identified included: implementing an EMS; understanding long term ESD impacts; and developing strategies for ESD.

Case study 4.2

Reporting on outstanding challenges

As well as reporting on successes over the previous year, Public Works and Government Services Canada's (PWGSC's) Sustainable Development Performance Report notes that there were some targets where there was room for improvement. The report states that:

Specifically, significant underachievement has been identified related to storage tank management, environmental emergency response plans and hazardous materials replacement. Specific plans are being prepared to focus corrective attention on these issues. The target to diminish the vehicle fleet size was also missed; however, this is partially offset by the accomplishment of all other vehicle fleet management targets. Weaknesses in data gathering were [also] identified. Experience gained ... has led to smarter target development, improved management processes and enhanced results monitoring systems. PWGSC is well positioned to build on its successes and learn from its shortcomings, as it moves ahead with implementation of its updated Sustainable Development Strategy.⁶⁰

4.33 However, some better performing Australian agencies did report on outstanding challenges in 2001–02. For example, Centrelink noted that reducing greenhouse gas emissions was a challenge remaining for the future. Other Australian examples are outlined in Case study 4.3.

⁶⁰ Public Works and Government Services Canada, *Sustainable Development Performance Report 2000–01*, 2001.

Case study 4.3

Reporting on outstanding challenges—Defence, DITR and Health

Defence

During 2001–02, Defence spent \$13.3m on water—an increase on the \$12.9m spent in 2000–01. Defence has identified the need to develop a water conservation strategy during 2002–03.⁶¹

DITR

There remains potential to increase savings in waste management, and the Department aims to reduce waste through staff education in effective recycling and reuse practices. The education of staff about waste management and recycling has commenced through dissemination of information in all-staff emails.⁶²

Health

Although the Department is heavily reliant on private building owners to control the level of energy consumption through existing heating, cooling and lighting facilities, the Department will endeavour to ensure that future leasing arrangements will reflect the objectives of the Act in relation to energy reduction strategies.⁶³

Conclusion

4.34 The requirement to report on ESD and environmental performance is only two years old, and it is understandable that much reporting by Commonwealth agencies does not compare well with international better practice. Annual reporting on operational environmental impacts is of fairly good quality, with some agencies identifying targets, and actively managing and reporting quantitatively on their achievement. Given many agencies are moving towards implementation of EMSs, this aspect of reporting should continue to improve in the future.

4.35 However, beyond this aspect of performance there is a significant lack of reliable data across the Commonwealth. Agencies are relying on qualitative measures of performance, and reporting could be more consistent on areas of common concern. At present, information reported across the Commonwealth varies considerably and this makes it difficult to get a sense of ESD and environmental performance at the whole-of-Commonwealth level.

4.36 While the ANAO found that there was a slight improvement in the quality of agencies' annual reports on ESD and environmental performance from 2000–01 to 2001–02, it is of particular concern that many agencies are not yet

⁶¹ Department of Defence, *Annual Report 2001–02*, 2002, p. 232.

⁶² Department of Industry, Tourism and Resources, *Annual Report 2001–02*, 2002, Appendix 4.

⁶³ Department of Health and Ageing, *Annual Report 2001–02*, 2002, p. 466.

complying with all of the mandatory reporting requirements of the EPBC Act. EA has a key role to play in terms of assisting agencies to improve the quality of their reporting by analysing and feeding back to them on the quality of their ESD and environmental reports. While agencies should do more to enhance the quality of their reporting, EA should also ensure that the support it provides is effective in terms of improving the quality of Commonwealth reporting on ESD and environmental performance in the future.

Recommendation No.3

4.37 In order to improve Commonwealth reporting on ESD and environmental performance, the ANAO *recommends* that Environment Australia:

- (a) regularly review the quality of annual reporting on ESD and environmental matters;
- (b) provide the results of these reviews to agencies for the purposes of continuous improvement;
- (c) encourage agencies to report consistently on issues of common concern, such as operational environmental impacts; and
- (d) consider collating the outputs of this reporting for the purposes of a whole-of-Commonwealth report on ESD and environmental performance.

Environment Australia's response

4.38 Recommendation 3(a). Agree with qualification, subject to continuation of Sustainability Support Service. Whether EA will be able to provide reviews of annual section 516A reporting on an ongoing basis will depend on whether the review of the Sustainability Support Service concludes that the service should continue.⁶⁴

4.39 Recommendation 3(b). Agree. Any such reviews that are conducted will be provided on the EA website.

4.40 Recommendation 3(c). Agree. As mentioned earlier, EA is developing sets of generic ESD and environmental performance indicators. A checklist of matters to be reported in preparing a comprehensive environmental and ESD report will also be developed, resources permitting. These measures should foster a degree of consistency in reporting among agencies on matters of common concern.

⁶⁴ The review of the Sustainability Support Service is yet to be announced.

4.41 Recommendation 3(d). Agree with qualification, subject to judgement on relative priorities for the application of available resources. Collating the outputs of Commonwealth reporting, if and when a degree of consistency is achieved, for the purposes of a whole-of-Commonwealth report on ESD and environmental performance, would be possible only if substantial additional resources were available for the task.

Canberra ACT
7 May 2003



P. J. Barrett
Auditor-General

Appendices

Appendix 1

Australian and international ESD reporting experiences

Australian States and Territories

Victoria

In 2000, the Victorian Government committed to developing a TBL approach to decision-making, which integrates sustainable economic growth objectives with social development and environmental stewardship, and reports on economic, social and environmental performance. As part of this commitment, a Commissioner for ESD was appointed, and a State of the Environment report for Victoria is to be produced on a regular basis.

In 2002, the Victorian Government undertook to introduce best practice business tools for environmental management in Government Departments. Under this initiative, Victorian Government Departments will be required to adopt an EMS, develop an environment improvement plan which includes waste reduction targets, comply with a Green Purchasing Policy, report annually on their environmental performance, and audit their EMS.

Western Australia

The Western Australian (WA) Government is also developing a State Sustainability Strategy. The intention is for the State Strategic Plan to inform the structure of future budgets and include environmental, social and economic goals for government. The WA Department of Treasury and Finance is investigating TBL reporting at a whole of government level.

As part of this initiative, selected WA agencies will prepare their annual reports against a TBL framework. These reports will be reviewed with a view to making such reporting a government-wide requirement for WA in the future. The WA Government will also report publicly on the implementation of the State Sustainability Strategy.⁶⁵

Australian Capital Territory

The Australian Capital Territory (ACT) has established a Commissioner for the Environment to, among other things, 'progressively improve the environment and to work towards sustainability'. The Office of the Commissioner for the

⁶⁵ *Focus on the Future: The Western Australian State Sustainability Strategy: Consultation Draft, 2002*, p. 49.

Environment produces State of the Environment reports for the ACT, as well as liaising with community and government on environment and sustainability issues. A series of indicators covering environmental, social and economic issues have been prepared, and are used in State of the Environment reporting for the ACT.⁶⁶

Canada

Since 1995, Canadian federal government departments have been required to produce a sustainable development strategy and to update that strategy every three years. A sustainable development strategy is an outline of a department's objectives and an action plan for integrating sustainable development into its policies, programs and operations.

The Commissioner of the Environment and Sustainable Development (CESD), within the Office of the Auditor-General, audits against the goals, objectives, targets and actions outlined in each department's sustainable development strategy. Over the last five years, the CESD has found agencies' sustainable development reports to be wanting in a number of aspects. Overall, the CESD considers that there should be a greater focus on:

- assessing achievements, impacts and challenges remaining for the future;
- setting clear targets that agencies, parliamentarians and the public can use to judge performance;
- committing to change in order to better protect the environment and promote sustainable development;
- strengthening the planning of sustainable development strategies and drawing clear links between the departments' activities, the significant impacts of those activities, and priorities for action; and
- accelerating the development of management systems needed to turn strategies from talk into action.⁶⁷

The CESD has also pointed to the need for a strategic approach to sustainable development across the whole of government.

United Kingdom

In 1999, the United Kingdom (UK) Government committed to a strategy for sustainable development. This strategy requires the UK Government to report

⁶⁶ See ACT Commissioner for the Environment, 2000, viewed 8 April 2003, <<http://www.envcomm.act.gov.au/Soe2000/IndicatorDescriptions/Indicatorlist.htm>>.

⁶⁷ Commissioner of the Environment and Sustainable Development, *Moving up the learning curve: The second generation of Sustainable Development Strategies*, 1999, p. 1 & p. 5.

annually on progress towards four sustainable development objectives. As part of this, UK departments were asked to produce Sustainable Development Reports for the Spending Review in 2002. The Environmental Audit Committee of the House of Commons monitors national progress against 15 headline indicators.

All UK government departments were asked to develop their sustainable development strategies by the end of 2002. These strategies were to clearly articulate how departmental responsibilities and activities will contribute to the delivery of the government's overall goal of sustainable development. The strategies were also to incorporate indicators, targets and deadlines, and a commitment to provide annual reports on progress.⁶⁸

New Zealand

While ESD reporting is not a requirement in New Zealand, the Ministry for the Environment (MfE) is promoting TBL reporting for government agencies, and has funded a number of TBL reporting projects for both the public and the private sector. It has recently released a report on TBL reporting in the public sector for both central and local government agencies.⁶⁹

Private sector organisations

Long-term investors, in particular, are leading calls for increased environmental disclosures by private sector companies given that environmental risks are material to any assessment of financial risk. In this regard, the materials and energy, utilities, transportation, and media sectors have been identified as the sectors with highest environmental risks.⁷⁰

The absence of an agreed template or model for ESD and environmental reporting has been an ongoing challenge for both private and public sector reporters. However, there are four major international frameworks recognised for TBL reporting, which have a high take-up rate among larger companies: the UN's Global Compact, AccountAbility 1000, Social Accountability 8000, and the Global Reporting Initiative.

The Global Reporting Initiative (GRI) was convened in 1997 by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Programme (UNEP). The GRI was established to elevate

⁶⁸ UK Department for Environment, Food and Rural Affairs, *Achieving a better quality of life: Review of progress towards sustainable development*, March 2002.

⁶⁹ See Ministry for the Environment, *Triple Bottom Line Reporting in the Public Sector*, 2002, viewed 8 April 2003, <<http://www.mfe.govt.nz/publications/ser/triple-bottom-line-dec02.pdf>>.

⁷⁰ PSS / CSS, 'Position paper: Environmental Disclosure—effective risk management and exposure mitigation,' October 2002.

sustainability reporting practices to a level equivalent to financial reporting in terms of comparability, credibility, rigour, timeliness and verifiability. Stakeholders include private sector organisations, environmental and social NGOs, accountancy organisations, and other stakeholders around the world. The GRI released an updated version of its sustainability reporting guidelines in 2002.⁷¹

EA has also published a framework for public environmental reporting for private sector organisations. The framework includes steps for planning, measuring, reporting and reviewing environmental performance. It includes environmental indicators, and best practice principles to guide organisations in preparing a Public Environmental Report.⁷²

⁷¹ See Global Reporting Initiative, *Global Reporting Initiative*, 2002, viewed 8 April 2003, <<http://www.globalreporting.org>>.

⁷² Environment Australia, *Public Environment Reporting: An Australian Approach*, 2000, viewed 8 April 2003, <<http://www.ea.gov.au/industry/eecp/publications/per.html>>.

Appendix 2

Commonwealth agencies surveyed by ANAO

Aboriginal and Torres Strait Islander Commission
 Airservices Australia
 Australian Agency for International Development (AusAID)
 Australian Bureau of Agricultural and Resource Economics
 Australian Bureau of Statistics
 Australian Centre for International Agricultural Research
 Australian Customs Service
 Australian Greenhouse Office
 Australian Heritage Commission
 Australian Maritime Safety Authority
 Australian Public Service Commission
 Australian Radiation Protection and Nuclear Safety Agency
 Australian Tourist Commission
 Australian Trade Commission (Austrade)
 Bureau of Meteorology
 Centrelink
 Civil Aviation Safety Authority
 Commonwealth Grants Commission
 Commonwealth Ombudsman
 Commonwealth Scientific and Industrial Research Organisation
 Department of Agriculture, Fisheries and Forestry—Australia
 Department of Communications, Information Technology and the Arts
 Department of Defence
 Department of Education, Science and Training
 Department of Employment and Workplace Relations
 Department of Family and Community Services
 Department of Finance and Administration
 Department of Foreign Affairs and Trade
 Department of Health and Ageing
 Department of Immigration and Multicultural and Indigenous Affairs
 Department of Industry, Tourism and Resources
 Department of the Treasury
 Department of Transport and Regional Services
 Environment Australia
 Food Standards Australia New Zealand
 Geoscience Australia
 Great Barrier Reef Marine Park Authority

Human Rights and Equal Opportunity Commission
National Capital Authority
National Environment Protection Council Service Corporation
National Occupational Health and Safety Commission
National Oceans Office
Productivity Commission
Sydney Harbour Federation Trust
Torres Strait Regional Authority

Appendix 3

Commonwealth agencies' annual reports reviewed by ANAO

Aboriginal and Torres Strait Islander Commission
Airservices Australia
Australian Heritage Commission
Australian Radiation Protection and Nuclear Safety Agency
Australian Tourist Commission
Australian Trade Commission (Austrade)
Centrelink
Commonwealth Scientific and Industrial Research Organisation
Department of Agriculture, Fisheries and Forestry—Australia
Department of Defence
Department of Education, Science and Training
Department of Finance and Administration
Department of Health and Ageing
Department of Industry, Tourism and Resources
Department of Transport and Regional Services
Environment Australia
Great Barrier Reef Marine Park Authority
National Capital Authority
National Oceans Office
Sydney Harbour Federation Trust

Appendix 4

Australian Headline Sustainability Indicators⁷³

No.	Sustainability Indicators
1	Gross National Income (GNI) per capita (GNI = GDP less net income paid overseas)
2	Gross per capita disposable income
3	Percentage of people aged 25-64 who have attained upper secondary and / or post secondary level qualifications including vocational training
4	Disability adjusted years life expectancy (DALE)
5	Number of occasions where concentrations of pollutants exceeded NEPM standards for ambient air quality in major urban areas
6	Total SO _x , NO _x and particulate emissions
7	Multi-factor productivity (Gross product per combined unit of labour and capital)
8	Real GDP per capita
9	<ul style="list-style-type: none"> i) National Net Worth ii) National Net Worth per capita
10	<ul style="list-style-type: none"> i) Surface water units within 70% of sustainable yield ii) Ground water management units within 70% of sustainable yield
11	Total area of all forest type
12.	Percentage of major Commonwealth managed harvested wild fish species classified as fully or under fished
13	<ul style="list-style-type: none"> i) Renewable energy use as a proportion of total ii) Total renewable and non-renewable energy use
14	Net value of rural land (Interim indicator—'net value of agricultural land use' not yet available)

⁷³ Environment Australia, *Are we sustaining Australia? A report against Headline Sustainability Indicators for Australia*, 2001, pp. 9–10.

15	Adult female full time (ordinary time) average weekly earnings as a proportion of adult male (ordinary time) average weekly earnings
16	Percentage difference in the year 12 completion rate between bottom and top socio-economic decile
17	<ul style="list-style-type: none"> i) Percentage difference in burden of life years lost due to disability between bottom and top socio-economic quintile ii) Percentage difference in burden of life years lost due to mortality between bottom and top socio-economic quintile
18	Percentage difference in the year 12 completion rate between urban and remote locations
19	<p>Extent and condition of native vegetation, freshwater habitats, coastal habitats, estuarine habitats and marine habitats including extent to which represented in reserves and non-reserve systems. Actual indicators used:</p> <ul style="list-style-type: none"> i) Proportion of (354) bio-geographic sub-regions with greater than 30% of original vegetative cover ii) Proportion of (354) bio-geographical sub-regions with greater than 10% of the sub-region's area in protected areas
20	<p>Number of extinct, endangered and vulnerable species and ecological communities. Actual indicators used:</p> <ul style="list-style-type: none"> i) Number of extinct, endangered and vulnerable species ii) Number of endangered ecological communities
21	Total net greenhouse gas emissions
22	Estuarine condition index—proportion of estuaries in near pristine or slightly modified condition
23	Proportion of assessed sites which are with high in-stream biodiversity, based on macro-invertebrate community structure (Interim indicator—'river condition index' not yet available)
24	Catchment condition index—proportion of assessed catchments that are in moderate or good condition

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