



Federation of European Accountants  
Fédération des Experts comptables Européens

**FEE Roundtable on the Public Sector and Sustainability**  
**“Accounting, Sustainability and the Public Sector –**  
**policy and accountability, a route map”**

**Summary Note - 8 July 2009**

The FEE Roundtable was held with the following participants:

**Guest Speakers:**

Hans van Damme	FEE President
Richard Howitt	MEP

**Panelists:**

Paul Druckman	Chairman of the Roundtable Chairman, FEE Sustainability Policy Group
Anatoli Bourmistrov	Associate Professor at Bodø Graduate School of Business (HHB, Norway)
John Conway	Senior Executive Officer at Department of Food and Rural Affairs (Defra)
Martin Dees	Netherlands Court of Audit
Roberto Giacomelli	Senior Manager, Director of Climate Change & Sustainability Services, Italy
Nancy Kamp-Roelands	Chair FEE Sustainability Working Part
Ernst Ligteringen	Chief Executive of Global Reporting Initiative (GRI), Amsterdam
Caroline Mawhood	Chair FEE Public Sector Committee, CIPFA President, UK
Larry Pinkney	Deputy Head, Financial Reporting Policy at HM Treasury, UK
Lisa Scott	Environmental Management Accountant, Highways Agency, UK

## Introduction

FEE President Hans van Damme opened the Roundtable by welcoming the participants. He thanked Mr. Richard Howitt, Member of the European Parliament (EP) and EP rapporteur on Corporate Social Responsibility, for opening the debate. He introduced the objective of the Roundtable as *“how can sustainability in the public sector be improved and integrated both in terms of policy and reporting?”* The current economic and financial crisis with its long term effects has given an increased impetus to sustainability. Sustainability nowadays claims to be a tool for internal change and the Roundtable discussions are intended to give further insight.

In his opening speech, Mr Richard Howitt confirmed that he will be active in Corporate Social Responsibility (CSR) matters in the new EP. CSR is often seen as relevant to the private sector but companies also request policy makers to enquire about the related responsibility in the public sector and Non-governmental organisations (NGOs). He underlined that there should not be a different set of expectations on CSR for the public sector, including local governments and NGOs, compared to the private sector: any such distinction is false. The public sector is the biggest employer and hence importance of sustainability for the sector is primordial. Discussion is not about whether or when sustainability should be considered in the public sector, but how!

The public sector will need a cultural change to make this happen and the methods of accountability may need to be different from the private sector as the exposure, complexity and risks appear to be greater. However the public sector is used to working with both quantitative and qualitative targets. Integrated reporting is increasingly important in the private sector but such reporting might be more difficult to achieve in the public sector. Pension funds in certain countries such as Ireland and Norway are very active in the CSR field and are promoting sustainability. Practical ways to achieve this will need to be identified otherwise politicians might not apply this in the public sector. The EC should set an example by reporting on CSR. A few years ago DG Employment set such an example by preparing its own sustainability report.

The main issues debated at the Roundtable were the following:

- Policy and Accountability
- Reporting on Sustainability
- Operational Excellence by Government and Government Agencies
- Role of the EU in Climate Change

The main suggestions of and issues raised at the Roundtable are the following:

### **Policy and Accountability**

- Public policy often has a sustainability impact, e.g. building of airports, marine environment, etc. The public administration is responsible for the integration of sustainability in public policy. However measuring sustainability is complex. An example of best practice guidance on the sustainability impact of policy measures is the UK “Green Book” which requires including environmental impacts in developing the business case for a new project. It would be helpful if a common approach to addressing the sustainability impact of policy was developed.
- There is a need for an agreed conceptual understanding of sustainability and what it means for the public sector. From the academic perspective there are a variety of alternative approaches for conceptualising sustainable development, for example:
  - The triple bottom line; or
  - The capitals approach - Human capital; Infrastructure capital; Environmental capital; Social capital; or
  - The footprint.

The concepts need to be able to address how to trade-off one capital for another to optimise sustainability. Private sector concepts cannot directly be applied to the public sector but require translation.

- Sustainability, like integrity, needs to become part of the process of decision making in the public sector. Also NGOs should embed sustainability in their strategy and operational activities in order to create a level playing field. What works for small businesses can also work for the third sector. One should not make the mistake to assume that NGOs cannot apply sustainability considerations due to their size.
- Transparency on targets and public reporting on the extent to which they have been achieved, is needed to assess the effectiveness of the public policy and to build trust. This is part of being accountability. Targets for public policy are, in fact, targets for the whole country.

- By demonstrating sustainable operational performance the public sector could be leading by example. Benchmarking performance in the public sector in the form of standardised indicators on sustainability is very useful but reporting needs to remain succinct in order to be manageable. Benchmarking performance in the public sector can include development of target Key Performance Indicators (KPI) and qualitative information in narrative notes on the social and environmental impact, stakeholder engagement and materiality of sustainability issues. Agencies and other public entities could also benchmark with the private sector. Better solutions can be found if performance can be compared between entities and over time. Data collection remains a problem in both the private and the public sector

### *Economic Crisis*

- The question is what kind of economy does one want to emerge from the economic crisis? There is a significant risk of a second much bigger crisis: climate change; and with no guarantee that one will come out of this climate crisis. Sustainability will no longer be the issue, but the real question then becomes survivability. The biggest challenge is that climate change and sustainability are longer term issues. People need to understand the challenges, because otherwise they will not accept what their governments must do and the politicians will therefore not be able to take the necessary actions, sticking to shorter term measures “we know what to do but we do not know how”.
- Accountability for the economic crisis and sustainability should encompass both external and internal management reporting and these should be an integrated component of public sector accountability. Such reporting should be included in the formal reporting, for example to the Parliament.
- One of the big challenges is to be sustainable and efficient at the same time.

### **Reporting on Sustainability**

- There are significant differences between reporting in the private and public sectors and this is also true for sustainability reporting by the private and public sectors. In the private sector, reporting is to shareholders with an interest in the value of the company, and is about financial performance. Budgets are commercially confidential. There is an argument to suggest that this model of reporting does not promote sustainability.

- In the public sector, budgets are more important and there is sometimes less interest in accounting and reporting. However, the objective of public sector reporting is to link financial reporting to the budgeting in one document as a useful source of information. The extent of reporting is a political decision and there are examples of sustainable development being built into financial accounts. But it may be that for sustainability reporting to be widely adopted, it will need to be made mandatory. Accountants have a role to play in raising interest in and awareness of sustainability reporting.
- Non-financial indicators and sustainability information need to be put in the proper context. If sustainability reporting is integrated in financial reporting then it would have to be related to accounting and financial reporting. One possible way forward would be the connected reporting route for reporting on the entity's strategy and environmental impacts and expenditures.
- One can wonder whether adding sustainability reporting to the financial statements is the right way forward. However it can also be argued that as all public services should be sustainable, reporting should be integrated. Public services may operate within their Government's Sustainable Development Strategy and set their own sustainable development action plans. So sustainability should be integral to public services and reporting should not separate sustainability reporting from other forms of reporting.
- Reporting should be based on adequate data systems that have been subject to independent validation. Governments need to make decisions based on reliable information reports. Internal and external auditors in public administrations can help validation. In the public sector the performance audit is of crucial importance in the assurance process and performance audits can provide assurance on sustainability activities and report on the sustainability of wider government measures.
- The European Commission has a role to play in relation to the credibility and reliability of reporting. The European Commission can lead by example.

### **Operational Excellence by government and government agencies**

- There are no fundamental reasons for differences between public sector and private sector organisations in the extent to which they emphasise sustainability in their day to day operations. It makes no difference if the value for money approach is aimed at the shareholder or the tax payer. If the political will is there public sector organisations can, like some private sector organisations, set an example in reducing their carbon footprint.
- The main difference is that the public sector aim, through public policy, is not only to bring short term value to citizens but also to focus on the longer term sustainability, although those goals may be undermined by the shorter term perspective of some politicians, in particular, in the light of re-election.

- New Public Management has led to the public sector placing emphasis on outputs/results rather than on resources spent by government. However the importance of process and efficiency should not be lost. Sustainability considerations are increasingly important in operational excellence and also in the outcomes achieved. The public sector needs to take into account in its due process both legal and ethical aspects which should both integrate sustainability issues rather than addressing sustainability as a separate issue. Operational excellence should include the identification, measurement, reporting and management of risks and benefits and would need to go beyond climate change. Appropriate KPIs need to be developed to measure how well sustainability is addressed in processes but also the sustainability of the results.
- Public procurement is a key opportunity for addressing sustainability. Sustainable procurement can achieve efficiency savings while also achieving greater sustainability for example carbon emissions reduction. Public services can specify criteria that suppliers must meet and consistency in this across government can strengthen the approach. Product criteria are also essential. A win – win situation can be created. In this way by introducing sustainability in public procurement criteria, change can be driven since about 16 % of the economy is based on public procurement. The Green Public Procurement Criteria (GPPC) are commended as a step in the right direction.
- Best practice examples from all over the world can stimulate governments and government agencies in Europe to integrate sustainability considerations in their strategy and policies: such as criteria for good public buildings in the US; the approach to measuring energy efficiency in Ireland; and standard consideration for all public sector purchases and databases of sustainable suppliers in Norway.

### **Role of the EU in Climate change**

- There should be a push pull strategy: there needs to be proper standards and criteria for sustainability reporting in the public sector developed at EU level. Stakeholders and society as a whole can only make the right decisions if they are provided with correct and comprehensive information which includes the sustainability implications. The validity of the data can be enhanced by some form of verification. The public sector should have an educational role in presenting the sustainability implications of policy decisions taken. The public sector can use different communication tools..
- The public sector, as policy maker, has a major role to fulfill in the Copenhagen Climate Change Summit and can lead by example by showing that sustainability can be integrated at all levels of the public sector. The public sector should set the example for the private sector and for society, in particular in the current times of crisis where the state influence in the private sector has increased.

- Climate change measurement is an emerging area and therefore there should be sufficient flexibility to allow it to develop and to adapt to the particular local situation, but consistency of indicators is also needed in order to compare and to benchmark. Flexibility should not undermine speaking the same sustainability language. A list of different indicators is required to have a common measure across entities and countries.
- Climate change should in particular be seen as a challenge and be addressed at local government level: Municipalities are key as this is what citizens see.

### **Conclusion**

- The public sector should report on sustainability as part of its normal accountability. Government policy needs to be linked to key non-financial indicators as well as to financial indicators. The concept of sustainability and the related reporting concepts need to be better developed in the public sector. Sustainability should be integrated in the performance audits. The internal and external accountants have a role to play in enhancing the integration of sustainability within the governance structures in the public sector.

## QUESTIONS AND STATEMENTS ADDRESSED

### A. Policy and Accountability

- A.1 Consideration of sustainability impacts, intended and unintended, need to be integrated into the design of public policy. A set of criteria that need to be considered should be developed, as well as measures of sustainability in the appraisal and evaluation of public policy.
- A.2 How important is reporting on organisational and operational performance in sustainability reports for the public sector? Is transparency on sustainability related issues of lesser importance to the public sector?
- A.3 Some policy areas such as waste and transport already incorporate a strong sustainability emphasis. Would it be useful to benchmark performance for these services using standardised indicators?
- A.4 What role can sustainability play in relation to recovering from the economic crisis and avoiding future crises?
- A.5 Since the state has a wider public interest role to fulfill; financial organisations that receive substantial state aid or are state-owned should be required to publish a certain minimum of sustainability information.

### B. Reporting on Sustainability

- B.1 Are there differences in sustainability reporting by the private sector and the public sector (goals, indicators, stakeholders, audience, etc)? What are the objectives of public sector sustainability reporting?
- B.2 Sustainability is not sufficiently embedded in public sector strategic planning and decision making processes. Could mandatory sustainability reporting on sustainability for public sector organisations be a stimulus?
- B.3 Sustainability reporting for public sector organisations is easier than for private sector organisations in that public sector organisations are already used to reporting on non-financial information (including non-financial key performance indicators (KPIs)).
- B.4 What role could the European Commission have in promoting disclosure of sustainability information by public sector organisations? Should such information be subject to assurance to support improved decision-making?
- B.5 Given the complexity and potential difficulty for some public sector organisations producing sustainability reports should longer reporting cycles be considered (2 or 3 years instead of 1 year)?



### **C. Operational Excellence by government and government agencies**

- C.1 Are there any fundamental differences between public sector and private sector organisations in the extent to which they emphasise sustainability in their day to day operations?
- C.2 Whereas previously attention focused on the resources spent by government ('inputs'), the focus is now increasingly on results ('outputs'). What are the implications for the measurement of operational excellence and performance indicators.
- C.3 What initiatives can be taken at EU or government level which have a positive impact on sustainability. Do you have examples of existing initiatives and how effective are those measures?
- C.4 Public procurement can play an important role in stimulating sustainability considerations as part of projects undertaken at various government levels. What is your experience with the use of public procurement? What are the downsides?
- C.5 In view of the constantly changing social and political environment, the design of a non-financial information system to measure operational excellence must always allow flexibility. What is your experience on such systems and how can those systems be enhanced?

### **D. Role of the EU in Climate Change**

- D.1 What internal policies are governments taking to contribute to the reduction of climate change and how and what is publicly reported. Is there a difference between the government and government agencies?
- D.2 What challenges does climate change bring for local government: how is local government providing accountability on measures taken?
- D.3 Climate change is often on the front page of the newspapers. In the run up to the Copenhagen Climate Change Summit there is an opportunity to gain momentum and promote the reduction of emissions and address other factors contributing to climate change to a wider audience. What role is the public sector playing? What are the initiatives in your country?