

Reality Check 3
Financing Sustainability
Ministerial Summary

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WWF Scotland

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'We want a Scotland that delivers sustainable development, that puts environmental concerns at the heart of public policy and secures environmental justice for all of Scotland's communities.'

A Partnership for a Better Scotland: Partnership Agreement, May 2003

Introduction

Elevating sustainable development to a cross-cutting policy theme in Spending Review 2002 resulted in a number of positive developments and missed opportunities. Building upon the positive developments to date, removing obstacles to progress and learning from past omissions are seen as essential to make Spending Review 2004 better fit the welcome objectives of Building a Sustainable Scotland.

Strengths to build on

- *Political leadership by the First Minister and Coalition on broad based integrated approach to the Sustainable Development agenda,*
- *Publication of vision, strategy, objectives, outcomes, indicators, programmes, policies, actions, targets for progressing towards a Sustainable Scotland,*
- *Implemented short term actions and targets, including waste recycling targets, thermal standards in buildings, resource efficiency initiatives, renewable energy targets,*
- *high profile major public transport initiatives,*
- *Actions for a Sustainable Scotland extending beyond Environment and Rural Affairs, for example into the Enterprise Networks and the Social Justice Department,*
- *Plans to incorporate Sustainable Development into planning guidance, awarding grants and project funding,*
- *Incorporating Sustainable Development into Scottish Executive spending decisions.*
- *Most transparent Spending Review yet, including the publication of Building a Better Scotland and Building a Sustainable Scotland*
- *Departments going beyond W-E-T version of Sustainable Development*
- *Positive contribution of Cabinet Sub-Committee on Sustainable Scotland*
- *Strong social justice dimension to Sustainable Development*
- *Existence of additional resources for Sustainable Development*
- *Implementation of Strategic Environmental Assessment Directive*
- *Emerging Sustainable Development discourse in policy making*
- *Limited number of Sustainable Development Objectives, Targets and Action Points*
- *Recognition of Sustainable Development as a priority, cross-cutting theme*
- *Pool of knowledge of non-WET sustainable development attributes that could be more systematically applied*
- *Commitment to publishing outcome and progress reports*

Missed Opportunities

- *Lack of reform of the structure and processes within the Scottish Executive supporting the Sustainable Development agenda,*
- *Lack of evidence of a coherent and integrated approach to sustainable development,*
- *Rhetoric exceeding delivery of Sustainable Development actions and policies*
- *Limited use of market intervention and reform through regulation and economic instruments.*
- *Corporate confusion over practical implications of Sustainable Development*
- *Action on Sustainable Development still predominantly limited to Waste, Energy, Transport*
- *Short-time scale for major change*
- *Lack of knowledge of other department's Sustainable Development interpretation / action*
- *Creative compliance with Executive instructions*

- *Confusion of the ranking of Sustainable Development relative to the other 6 policy priorities*
- *Inconsistent objectives, outcomes, targets and indicators*
- *Lack of financial transparency and coherency in Spending Review publications*
- *Selective and imaginative reporting of financial plans*
- *Over-emphasis on Executive's direct operations rather than their wider impacts and influence*
- *Building a Sustainable Scotland was published too late for proper scrutiny*

Following the money

In the 'what we will do' section of the Building a Better Scotland¹ less than 1% of Total Managed Expenditure (TME) relates to sustainable development action points. 75% of TME is in departments without a sustainable development objective and only 4 out of the 11 identified departments have Sustainable Development Objectives. Trying to attribute Spending Plans to the Executive's policy agenda is problematic given a budgetary system predominantly designed around administrative functions rather than policies, programmes and actions. It was difficult to identify departmental expenditure plans which have positive sustainable development initiatives. Different approaches taken by different departments in presenting their spending plans using different approaches and different levels of detail. Within *Building a Better Scotland*, there is no systematic information as to how resources, expenditures, managed expenditures, objectives, targets, and action points are linked to the Executive's policy programme. Given that all programmes must be costed in order to prepare departmental spending plans, this seems to be a surprising omission.

It was expected that *Building a Sustainable Scotland* would provide a more detailed analysis of objectives, targets, policies and actions. Unfortunately this was not the case, *Building a Sustainable Scotland* only contains 12 financial figures and only 6 were related to future sustainable development plans. The quantity and quality of financial information in *Building A Better Scotland* and *Building a Sustainable Scotland* is inadequate for its stated purpose.

Divergence Departmental Performance

It would have been expected that Sustainable Development elevation to a cross-cutting policy, combined with strong political leadership and clear authoritative guidance on policy implementation, Departments would demonstrate a consistent, coherent and integrated approach.

Building a Better Scotland and *Building a Sustainable Scotland* present evidence of an inconsistent, fragmented, opaque and, in places, an incoherent account of Sustainable Development actions throughout the Executive. Different interpretations of what sustainable development means, departmental reports used different structures, formats, varying considerably in content. Considerable variations in how and who prepared these reports also existed. This could be down to the short timescale for departments to respond to this radical new topic, with major impacts on all operations. The diversity of departmental approaches does not mean that no Sustainable Development action is being undertaken, but it does not give confidence that there is a coherent, organisation-wide approach to Sustainable Development, despite public pronouncements to the contrary.

Given the potential of all arms of the Executive to contribute towards the sustainable development agenda, it was expected that each department would have some sustainable development objectives, targets and action points. However, only four of the eleven departments had explicit sustainable development objectives, compared with eight departments who had 'closing the opportunity gaps' objectives.

Some progress has been made in extending Sustainable Development actions beyond Transport, and Environment and Rural Affairs, to include Social Justice, and Enterprise and Life-Long Learning. Overall the response to the Sustainable Development policy agenda was patchy and fragmented, and largely seen to be the responsibility of the specific departments

¹ See Appendix 1 for a more detailed analysis of these reports

that currently deal with environmental matters. Department's response to the Sustainable Development policy agenda was pretty much business as usual. There was some superficial changes, tacking on a few initiatives and issues at the periphery of their normal scope of activities.

If Sustainable Development was effectively operating as a cross-cutting policy theme then there would be:

- consistency in translating sustainable development into action across departments,
- a link between sustainable development objectives and how sustainable development manifests itself in departments, and
- consensus as to the meaning of sustainable development and a prioritisation of the W-E-T agenda.

Unfortunately this was not the case, and a number of reasons could potentially explain this.

- Variable level of prior knowledge and understanding of sustainable development.
- Differences in the perceived relevance of Sustainable Development to departments
- Confusion as to the relative importance of the 2 cross-cutting themes ('sustainable development' and 'closing the opportunity gap') and the 5 programme priorities.
- Sustainable development was regarded as so all embracing that all current activities could be easily included within it, requiring no change of approach or emphasis.
- Some confusion as to whether environmental justice was part of sustainable development.
- Some departments strictly adhering to the 'official' sustainable development definition (resource use, energy and transport) and excluded some activities from their plans that have sustainable development impacts.
- Departments responded on those aspects of sustainable development that were familiar to them, such as energy efficiency.
- Short timescale given for departmental responses on a relatively new and wide-ranging issue militated against high quality responses.

Learning from Others

The Executive is not alone in facing these challenges. The Icelandic Government's *Welfare for the Future*, *Infrastructure Auckland*, *Manaaka Whenua*, *EU Strategic Environmental Assessment*² all use a range of simple, practical, yet innovative techniques that could be adapted to the Scottish situation. Important lessons are:

² See Appendix 2 for further details on these systems and suggested reforms

<p>Welfare for the Future</p> <p>clarity of vision and outcome is essential</p> <p>a consultative process is necessary involving all stakeholders</p> <p>an integrated programme-based strategy more effective than one based on existing organisational structures</p> <p>all parts of government must share the strategy and take their part in its delivery.</p>	<p>Infrastructure Auckland</p> <p>all components of sustainable development fully integrated</p> <p>clear and transparent Financial Reporting based on projects and action programmes</p> <p>stakeholder involvement throughout the development and delivery processes.</p> <p>integration of financial, social and environmental information in all planning and control systems</p>
<p>Manaaki Whenua – Landcare Research</p> <p>regular and innovative reports on Sustainable Development status and progress.</p> <p>use strategic sustainable development assessment for all major policy decisions.</p> <p>comprehensive set of Key Performance Areas with integrated Key Performance Indicators.</p> <p>use triple bottom line reporting</p> <p>develop full cost methodologies for use in decision-making</p>	<p>Strategic Environmental Assessment</p> <p>identify strategic options to plan delivery more sustainable</p> <p>collect baseline information for areas significantly affected by plans</p> <p>comprehensive prediction and modelling of environmental effects</p> <p>greater consultation of the public and environmental authorities</p> <p>mitigating and monitoring significant environmental effects of the plan</p>

Tailoring these innovations to the unique Scottish context is an important challenge. If done successfully it will not only to remove a series of obstacles to progress towards a Sustainable Scotland, but in addition will create a better basis for making sustainable development policy making. Conventional management systems contain systematic biases against sustainable development. For example, the costs of sustainable development programmes are normally over-stated and the benefits significantly undervalued. It is also the case that the costs of unsustainable development programmes are significantly understated and the associated benefits overstated.

Policy Recommendations

Despite high profile political and policy commitment to Sustainable Development, this has not resulted in sufficient concrete programmes and actions. Performance is sporadic and fragmented, and it is difficult to find evidence of any significant changes in the allocation of financial resources as a consequence of including sustainable development as a cross-cutting policy theme. This is disappointing as a number of important factors were in place that led many external stakeholders to expect a greater commitment to sustainable development within the Executive and its departments.

Building on the foundations laid in Spending Review 2002, we offer a number of recommendations for driving Sustainable Development change deeper and wider throughout the Executive. These changes are grouped into four themes³:

1. Greater corporate commitment to achieving sustainable development.
2. Improved integration between policies, strategies, programmes, actions, targets and performance indicators.

³ Further details of these recommendations are contained in Appendix 3

3. Improving department's and sponsored body's accounting for and actual performance on implementing of sustainable development through all of their own programmes, strategies, projects and actions.
4. Reforming the financial management system in line with sustainable development principles.

Enabling greater corporate commitment to Sustainable Development in the Scottish Executive

1: Establish consensus on a working definition of sustainable development

- Develop and implement a single definition and interpretation of sustainable development throughout the Executive at both political and management levels and cascaded throughout the Executive structure.
- The Executive should develop and promote all components of sustainable development, including environmental and eco-efficiency, environmental justice, social justice and social opportunities.
- A template of practical sustainable development actions should be provided to enable departments to evaluate systematically their current practices and potential contribution towards the Executive's Sustainable Development programme.

2: Strengthen Ministerial support for achieving Sustainable Development

- The role of the Cabinet Sub-Committee on Sustainable Scotland strengthened. Specifically, participate in defining sustainable development, providing clear practical and achievable examples. Scrutinise performance across Ministerial portfolios and departmental responsibilities. Act as a source of expertise and guidance, especially through its independent external members. The number and variety of expertise of external members should be increased.
- All Ministers should produce specific proposals for improving the performance on sustainable development for scrutiny by the Cabinet Sub-Committee.
- Develop specific criteria for improving the delivery of sustainable development for use in Spending Review 2004.
- Produce an annual report of performance on sustainable development for each Ministerial portfolio, for scrutiny by all key stakeholders.

3: Improve the machinery on sustainable development within the Executive

- Establish and implement sustainable development responsibilities of all Accountable Officers in the departments, agencies, NDPBs and other funded bodies.
- Review the role of The Sustainable Development Directorate.
- Each department should appoint a Sustainable Development Coordinator reporting directly to the Head of Department.

4: Develop a Corporate Culture for Achieving Sustainable Development

- The approaches and priorities of departments, agencies, NDPBs and other funded bodies should be reviewed and recommendations for implementation in individual organisations made.
- The culture and organisational structure of the Executive should be reviewed by the Management Group as part of its 'Change to Deliver' programme with the assistance of the external members of the Cabinet Sub-Committee on Sustainable Scotland in order to achieve a more coherent and more effective delivery of sustainable development.

- Develop more integrated and co-ordinated policy approaches to Sustainable Development, including formally mapping out the relationship between Sustainable Development outcomes and Ministerial Responsibilities.

Integrating objectives, targets, policies, actions and expenditure

The Executive has produced a number of important reports and policies in relation to Sustainable Development, that has undergone substantial revisions. This is welcomed as it represents a positive evolution in their approach to Sustainable Development, but it does leave a policy residue with a great deal of internal inconsistency and confusion. We make the following specific recommendations:

5: All programmes should be linked directly to sustainable development in terms of goals, aims, objectives, targets and actions

- Introduce an integrated approach to sustainable development, linking all objectives, policies, actions, targets and spending plans on sustainable development.
- All objectives should have targets and action points that are logical, transparent and capable of measurement.
- All Ministers and all Heads of Departments given formal responsibilities to develop, implement and systematically report on sustainable development programmes in their areas of responsibility.

6: Undertake a Comprehensive Strategic Sustainable Development Review of the Executive

- Prepare and disseminate specific guidelines covering the implementation of Sustainable Development actions, measuring their impact on plans and actions in all expenditure programmes.
- An independent audit of the implementation of this review and regularly publish a report on their effects on the delivery of sustainable development.
- Review all past Sustainable Development policies and documents and reconstruct them in line with best Sustainable Development thinking and practise.

7: Consider new and innovative approaches to stimulating Sustainable Development

- Review of all existing economic instruments from a Sustainable Development perspective.

8: Restructure Sustainable Development Reporting

- Departments to account for the Sustainable Development impact of ALL of their objectives/targets/action points and spending plans.
- Departments to in an estimate of the impact of objectives, targets, action points and spending plans on the **Sustainable Development indicators**.
- All targets / action points should be costed using a standard valuation basis.
- The time frames of financial information, targets and action points should be integrated.
- Departments should justify **why they have not** adopted feasible sustainable development actions. Reporting on what they could but are not doing.

9: Revise Sustainable Development Indicators

- A comprehensive set of social, environmental and economic indicators and targets for measuring sustainable development should be agreed at official and Ministerial levels.
- This set of indicators should be used systematically throughout the Executive's .

Improving Departmental Performance

Our assessment is that departmental performance is very variable and urgent action is required to bring performance up to the highest level. We make a number of recommendations.

10: clarify and strengthen responsibilities of departments

- Heads of Departments given a specific duty and targets to deliver sustainable development action plans according to the 'Partnership for Government' programme.
- Departments with relatively poor performance in relation to Spending Review 2002 to should be given testing targets and their performance closely scrutinised.

11: Undertake regular internal benchmarking exercise

- The Permanent Secretary and Heads of Departments should meet to discuss the differences in their interpretation of Sustainable Development.
- Each department to provide proposals on incorporating sustainable development in Spending Review 2004 and in their overall programmes. Attention placed on achieving greater consistency of performance throughout the Executive.
- The Finance Minister should establish mechanisms for linking expenditure and sustainable development in Spending Review 2004

12: Improved Setting of Priorities

- Priorities should be identified where environmental and social justice performance remains inadequate.
- It is important that full consideration is taken in priority setting of the medium and longer term dimensions, avoiding biases towards short-term projects.

Improving Financial Management Systems

13: linking sustainable development to programmes and expenditure

- All Spending Plans based on programmes, as well as administrative units, reflect the integrated approach which sustainable development demands.
- All Total Managed Expenditure linked with sustainable development. All action points should be costed and linked to sustainable developments outcomes.
- Where it difficult to assess the sustainable development implications of some major projects, decisions on these projects and programmes should be conditional until, a full sustainable development evaluation has been undertaken.

14: Clarification of the importance of Sustainable Development in Spending Review 2004

- Agree at the outset of any Spending Review that sustainable development is a key issue in the allocation of resources and the improved delivery of services. Guidance given on how to incorporate Sustainable Development into the existing financial management system.

15: Building in realistic timescales

- The time scale for Incorporating Sustainable Development into the Scottish Executive should reflect the complexity and importance of this task.

- Future Spending Reviews must allow for the publication of the necessary reports to enable effective scrutiny of Executive plans by the Scottish Parliament.

16: Embark on a rolling programme of reforming the Executive's Financial Management System

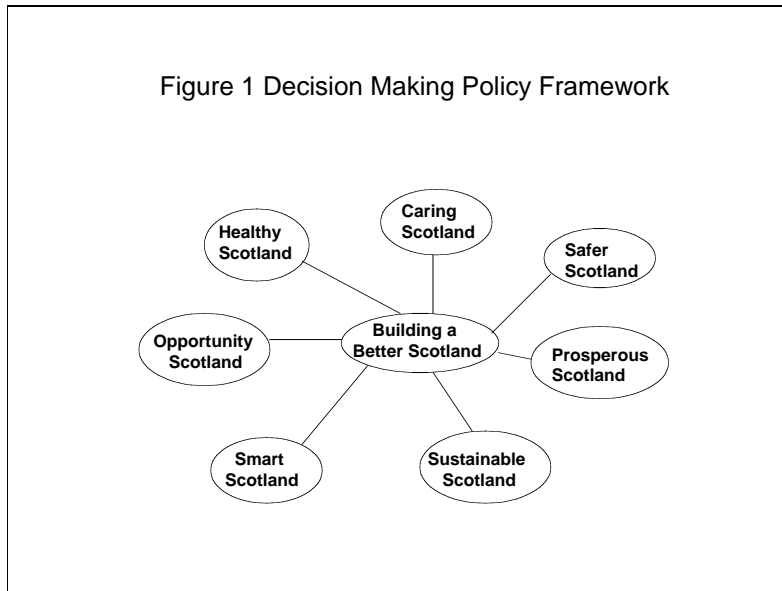
- Regular account of current Sustainable Development state.
- Comprehensive and integrated objectives, outcomes, actions, targets, indicators and resources.
- External reporting of action programmes, enabling constructive engagement and mutual learning.
- Evaluation processes consistent with Sustainable Development strategy.
- Major policy decisions subjected to a Strategic Sustainable Development Assessment.
- Multiple-criteria approach integrating non-financial and financial implications openly and transparently.
- Internal budget planning and control systems consistent with policy evaluation methods.
- Sustainable cost evaluations of all policies.
- Triple bottom line reporting adopted.

Final Comments

This report indicates that some progress is being made towards a Sustainable Scotland. Actions, policy, plans and projects are emerging along with a more sophisticated understanding of Sustainable Development and its implication in all areas of our life and the eco-system we share with many diverse forms of life. Transforming an unsustainable nation, such as Scotland, will take time and this must be recognised. The main criticism is the missed opportunity of the last Spending Review. The stated objectives of that Review, which were admirable and challenging, were manifestly not achieved and progress fell short of what could reasonably been expected. However, some progress has been made. Sustainable Development is now part of the political discourse. The challenge is to move Sustainable Development beyond dialogue into real action that will have concrete benefits. This report is intended to contribute constructively to this next stage.

Appendix 1 Building a Better and Sustainable Scotland

The political recognition that a 'Better Scotland' has to be a more 'Sustainable Scotland' is a welcome development. The Spending Review 2003-2006, published as **Building a Better Scotland**, recognises sustainable development as one of two cross-cutting themes (along with 'closing the opportunity gap') and one of seven issues that '*matter most to the people of Scotland*'. These seven issues are illustrated in Figure 1 and it is claimed that a new financial and performance regime has been put in place to ensure that all expenditure has maximum impact in meeting policy priorities. Within the Executive all spending plans should be systematically evaluated against all policy objectives. The 'Building a...' set of reports published in 2002 describe how these policy frameworks were incorporated in the Spending Review 2003-2006.



Building a Better Scotland and **Building a Sustainable Scotland** should explain to Scottish citizens what the Executive has done, is currently doing, and is planning to do and spend on Sustainable Development. These reports should allow citizens to participate in the democratic process and practical reforms necessary to build a sustainable and better Scotland. Reviewing these reports, unfortunately identified a number of critical weaknesses in relation to:

1. lack of integration between expenditure plans, objectives, targets, policies and actions and sustainable development (and inconsistency between Executive publications on Sustainable Development), and
2. widely differing performance between departments.

These issues are dealt with in turn and suggestions for improvement made.

1 Lack of integration between sustainable development and expenditure

If sustainable development is to be achieved in practice, then it is essential that all programmes and their component parts and expenditure plans have clear and unambiguous links to sustainable development.

Reviewing the content of **Building a Better Scotland** demonstrates weaknesses in the links between stated objectives, targets and actions and sustainable development. Overall:

- 9 out of 52 stated objectives are associated with Sustainable Development
- 4 out of 11 departments have Sustainable Development objectives
- £710.8m out of £72,921m Total Managed Expenditure (TME) is linked to Sustainable Development action points
- 75% of TME is in departments without a Sustainable Development objective
- 74% of TME is in departments without a sustainable development target
- 85% of departmental objectives are not related to Sustainable Development
- 88% of departmental targets are not related to Sustainable Development
- 85% of action points are not related to Sustainable Development.

The result of assessing departmental expenditure against Sustainable Development objectives, targets, action points and costed action plans, contained in **Building a Better Scotland**, is given in Table 1.

Table 1
Departmental Expenditure Summary (2003 – 2006) and Analysis of Costed Action Plans
(all figures in £m)

	TME	Sustainable Development Costed Action Points ³
Justice	2,412.0	16.0
Crown Office & Fiscal Services	269.0	0
Education & Young People	1,000.0	0
Tourism, Culture & Sport	698.0	0
Health & Community Care	23,759.0	0
Enterprise & Life Long Learning	6,925.0	0
Social Justice	2,705.0	483.5
Transport	4,509.0	0
Environment & Rural Dev.	3,491.0	2,011.3 ¹
Finance & Public Services	25,882.0	0
Administration	748.0	0
Total	72,398.0²	2,510.8

¹ This figure is inflated by the inclusion of £1.8billion expenditure by Scottish Water that is not included in the Total Management Expenditure figures.

² £313m for Scottish Parliament and Audit Scotland and £213m for the Contingency Fund have to be added to this figure to give the Total Managed Expenditure of £72,921 in the Spending Review. There is a £3 m difference due to rounding in the figures produced by the Scottish Executive in Building a Better Scotland.

³ These figures are drawn from the Departmental 'What we will do' sections in Building a Better Scotland

Trying to attribute Spending Plans to the Executive's policy agenda is problematic given a budgetary system predominantly designed around administrative functions rather than policies, programmes and actions. It was difficult to identify departmental expenditure plans which have positive sustainable development initiatives. However, it was possible to identify the level of expenditure in departments with no sustainable objectives, targets and/or action points. Analysing these Spending Plans was further complicated by the different approaches taken by different departments in presenting their spending plans, particularly the level of detail provided. Social Justice, Transport, and Environment and Rural Affairs are worthy of note in that these departments presented their plans in relation to broad programmes and therefore provided more useful information. Within **Building a Better Scotland**, there is no systematic information as to how resources, expenditures, managed expenditures, objectives, targets, and action points are linked to the Executive's policy programme. Given that all

programmes must be costed in order to prepare departmental spending plans, this seems to be a surprising omission.

The lack of transparency in the Executive's published budgets obscures the impact of Sustainable Development in this Spending Review. This is not surprising given that the main objective of the current financial planning and control regime is designed to prevent departments spending money in an inappropriate fashion, rather than providing information to relevant stakeholders about the financial implications of policies, plans and actions. However, the publication of supplementary reports, such as ***Building a Sustainable Scotland***, could provide this level of detailed analysis of objectives, targets, policies and actions. There is no reason why different reports could not offer alternative presentation of the financial spending plans. This was not the case in this Spending Review. For example, ***Building a Sustainable Scotland*** only contains 12 financial figures and only 6 were related to future sustainable development plans.

The quantity and quality of financial information in ***Building A Better Scotland*** and ***Building a Sustainable Scotland*** is inadequate for its stated purpose. For example, there is no consistent approach to costing action points, only 12.4% of TME can be identified with action points. In some cases the expenditure linked with action points does not form part of TME. Education and Young People costed action points exceeds their TME. Another example is the inclusion of Scottish Water's expenditure of £1.8bn in the action points of Environment and Rural Development, despite this not forming part of their Total Managed Expenditure. It could be assumed that calculating the percentage of TME identified with sustainable development action points would give one indication of the Executive's commitment. Based on the information contained in ***Building a Better Scotland***, sustainable development action plans account for only 0.98% of TME. If we were to 'follow the money' as a way of identifying strong commitment to sustainable action, we would be extremely disappointed.

In addition, there is an unacceptable level of inconsistency within and between public documents in relation to Sustainable Development. For example, within ***Building a Better Scotland***, not all of the objectives have targets or action points, not all targets have action points and not all action points are linked with targets or objectives. Similarly, there are objectives, targets and action points related to Sustainable Development in ***Building a Better Scotland*** that are not discussed in ***Building a Sustainable Scotland***, and objectives, targets and action points discussed in ***Building a Sustainable Scotland*** that are not included in ***Building a Better Scotland***.

Take, for example, the objective to *Influence Scotland's industry towards more sustainable patterns of development*. The only related target is *Regional Selective Assistance (RSA) grants in excess of £2million to be assessed against the Executive's sustainable development objectives by 2004*, but there are no obvious related action points. In ***Building a Sustainable Scotland***, this target becomes *'RSA has the benefit, in terms of sustainability, of encouraging employment where there is need for it without travel or relocation. We will examine how applications for RSA for large projects, covering about 60% of the programme spend, could include a requirement to demonstrate planning for resource use'*. We consider that this statement is substantively different from the target outlined in ***Building a Better Scotland*** despite deriving from the same source. It is also worth noting that there are no Sustainable Development Indicators that could be used to measure the attainment of the objective to *Influence Scotland's industry towards more sustainable patterns of development*.

This lack of integration and consistency also applies between ***Meeting the Needs- Priorities, Actions and Targets for Sustainable Development*** and ***Building a Better Scotland***, ***Building a Sustainable Scotland*** and ***Indicators of Sustainable Development for Scotland***. In particular, there is a lack of integration between the targets and action points in ***Building a Better Scotland*** and ***Indicators of Sustainable Development for Scotland***. Many action points in ***Building a Better Scotland*** intended to improve the Sustainable Development of Scotland would not result in an improved score in the Sustainability Indicators

package. In addition, many unsustainable actions/plans would not result in a negative score in the Sustainability Indicators package.

Take for instance, the indicator on *Travel Accessibility* measured as the % of *Scottish Households within 6 minutes walk of a bus service*. Closing local railway stations would not impact upon this indicator despite having a major impact on travel accessibility. Similarly the introduction of the Edinburgh Tram System, and the Border Rail Network, both clearly beneficial from a transport accessibility perspective would not impact on this indicator. Considerable sums of money could be spent on these projects with no measurable improvement in the Sustainable Development Indicators, despite an improvement in the real world.

Whilst welcoming the intentions underpinning the publication of these reports, it is difficult to conclude that, in their present formats, they meet their stated aims and objectives. In their present form, they do represent a considerable advance on past published information, but fall short of delivering the required quantity and quality of information. In particular, we conclude that the inconsistencies between the vision, strategy, policies, targets, indicators and action dimensions of Sustainable Development will lead to serious problems in delivering Sustainable Development in Scotland.

3 Diverse Departmental Performance

In the Spending Review 2003–06 clear, authoritative guidance was given to departments on how to apply Sustainable Development as a cross-cutting policy theme. Despite this central guidance, *Building a Better Scotland* and *Building a Sustainable Scotland* present evidence of a failure of this guidance to produce a coherent account of Sustainable Development actions within departments. The extent of this incoherence ranged from divergence in the meaning of sustainable development, the structure and content of departmental reports, and the method of preparing these reports. It should be recognised that perhaps this was inevitable given the short timescales within which departments had to respond to a radical new topic, with potentially major implications for all aspects of their operations. However, what can be inferred from the observed diversity of approaches is the relative failure of Sustainable Development as an over-arching policy initiative throughout the Executive. This observation should not be interpreted as meaning that no Sustainable Development action is being undertaken, but rather that there is no evidence of a coherent, organisation-wide commitment to Sustainable Development, despite public pronouncements.

If Sustainable Development was operating effectively as a cross-cutting theme then it should be expected that each department had at least one sustainable development objective with related targets and action points. However, only four of the eleven departments had explicit sustainable development objectives, despite all departments having the potential to contribute towards the sustainable development agenda. This could be compared to the other cross-cutting policy theme – closing the opportunity gap – where eight of the eleven departments had objectives that could be identified with this policy theme. The number and distribution of zeroes in Table 2 is one measure of the failure of Sustainable Development as a policy theme. What is slightly more encouraging is that some progress has been made in extending Sustainable Development actions beyond Transport, and Environment and Rural Affairs, to include Social Justice, and Enterprise and Life-Long Learning. However, the overall departmental responses are best described as patchy and fragmented, and appear to be seen as the responsibility of the specific departments that previously and currently deal with environmental matters in their normal functions.

**Table 2 Departmental Sustainable Profiles:
% Objectives, Targets and Action Points related to Sustainable Development**

	Objectives	Targets	Action Points
Justice	0%	0%	11%
Crown Office & Procurator Fiscal	0%	0%	0%
Education & Young People	0%	0%	0%
Tourism, Culture & Sport	0%	10%	0%

Health & Community Care	0%	0%	9%
Enterprise & Life Long Learning	17%	10%	0%
Social Justice	40%	34%	36%
Transport	25%	25%	45%
Environment & Rural Development	80%	67%	53%
Finance & Public Services	0%	0%	0%
Administration	0%	0%	14%

In the four departments with Sustainable Development objectives, there is evidence of the objectives extending beyond the Waste-Energy-Transport agenda (the so-called W-E-T agenda). Only three of the nine sustainable development objectives are limited to the W-E-T agenda. The other objectives link Sustainable Development to industrial development, rural development, the natural environment and housing. Unfortunately, these non-WET objectives are not always backed up with targets, action points or identifiable expenditure programmes.

To examine the potential impact of objectives, it is important to evaluate how the rhetoric translates into targets and action points. Unfortunately, it is not the case that all Sustainable Development objectives are assigned Sustainable Development targets.

For example, in Environment and Rural Development, the success of the Sustainable Development objective *Conserve and improve the natural heritage of Scotland and everyone's enjoyment of it* is measured only by meeting the target of *increasing the numbers of walkers visiting*.

In addition to mis-specified targets, the general absence of Sustainable Development targets in over half of the departments gives cause for concern. This absence could be construed as further evidence of the low relative importance given to Sustainable Development. As departments will be appraised on their performance against their published targets, it is not unreasonable to assume that priority will be given to actions that lead to their achievement. Departmental effort will understandably be concentrated on attaining targets. Objectives without measurable targets are likely to be a lower priority than Objectives with measurable targets. Only 13 out of 105 targets can be seen to be linked to sustainable development. Whilst attaining these targets would improve the Sustainable Development impact of the Executive, in the main these targets are limited to dealing with waste, reducing domestic energy use and increasing the number of people using public transport (i.e. the W-E-T strategy). These targets are likely to reduce some of the avoidable negative impacts but do not cover the range of policies and actions required to pursue a more radical Sustainable Development agenda.

In *Building a Better Scotland* departments identify the key activities they will be undertaking in the next three years to attain their targets and meet their objectives. This provides an opportunity to observe how Sustainable Development will translate into action, but, as Table 2 illustrates, Sustainable Development does not appear to figure in all departmental action plans. Over half of the departments have no sustainable development action plans. Where departments do specify sustainable development action plans, they are limited to the W-E-T agenda.

Building a Sustainable Scotland claims to demonstrate how each department has risen to the challenge of sustainable development in relation to the Spending Review 2003–06. It does contain a range of interesting facts, details of actions, plans and policies, but it falls far short of achieving its objective. What is remarkable in this document is the lack of financial details relating to departmental actions. There are only 12 financial figures in the report. Only three departments, *Social Justice*, *Environment and Rural Affairs*, and *Finance and Public Services*, provide limited additional financial information to augment the information provided in *Building a Better Scotland*. *Enterprise and Life Long Learning* did include a claim that 80% of their spend goes towards skills, education, student support and an external audit demonstrated that this emphasis is *not incompatible* with the aims of Sustainable Development; what this actually means is not clear. *Building A Sustainable Scotland* lacks the quantity and quality of information required to assess the spending commitment of the Scottish Executive towards Sustainable Development. *Building a Sustainable Scotland*

Figure 2 demonstrates that within the Executive, Sustainable Development is broadly defined and extends beyond the W-E-T agenda, particularly along the social justice dimension. This picture of sustainable development attributes is a composite one, based on a mention by at least one department. It must not be assumed that these attributes apply throughout the activities under the control of a department or extend systematically throughout the Executive. It must be recognised that this is a representation of the scope of organisational understanding rather than its systematic implementation.

For example, the Justice Department account states:

*'the Scottish Police Forces **may** contribute to reduced exhaust emissions by phasing in **some** LPG-fuelled cars when replacing the existing fleet'* (emphasis added).

It does not mention whether this strategy applies to Scottish Prison Service vehicles or Court vehicles as well, or why it is not to be applied to the whole police fleet. The only other mention of alternative fuelled vehicles in **Building a Sustainable Scotland** is in the Administration department:

70% of the Executive Core Vehicle Fleet, including the Government Car Service, are now alternative fuel vehicles – 111 Liquefied Petroleum Gas and 2 electric powered – compared with 54% in 2000-2001.

None of the other nine departments (including Transport) consider the possibility of using alternative fuelled vehicles or encouraging their use, despite the minimal impact this would have on their operations and the substantial financial savings to be made in the longer term. The Administration Department only mentions their alternative fuel vehicles as a past achievement and does not discuss any plans to extend this to all Executive vehicles.

Figure 2 should be seen only as an outline of the scope of Sustainable Development within the Executive. However, the scope of knowledge is important, given that knowledge is a prerequisite (but not always a driver) to change. If all these attributes were systematically adopted throughout the Scottish Executive, then they would be amongst the UK's leading organisations on Sustainable Development. Unfortunately, the distribution of these attributes and related actions within departments and amongst departments is partial and fragmented. The extent of this fragmentation becomes clearer from analysis of Table 3.

Table 3 presents a distribution of Sustainable Development attributes across departments, demonstrating gaps in departmental reporting of their Sustainable Development agenda. Many of the gaps seem surprising given the specific instructions issued in the Executive. The shaded boxes in this table indicate sustainable development attributes that are potentially applicable to departments. An X indicates that this is currently incorporated in the departmental report. On average, around half of the Sustainable Development potential is being overlooked by the departments.

Table 3 Departmental Sustainable Development Attribute Analyses

	Justice	Crown	Transport	Environ	Finance	Admin.	Enterprise	Soc. Just	T, C & S	Health	Education
NATURAL ENVIRONMENT											
Protect Natural Environment	X	X		X	X	X		X	X		
Protect Water	X			X							
Biodiversity	X			X							
Protect Wildlife	X			X					X		
Enforce Environmental Protection	X	X		X							
Sustainable Land Use				X	X			X			
ECO-EFFICIENCY											
Increase recycling	X			X	X	X			X	X	X
Reduce waste	X			X		X		X	X	X	X
Reduce water use	X		X	X	X	X			X	X	
Reduce air emissions			X	X					X	X	
Staff travel initiatives	X					X			X	X	
Reduce travel	X				X	X		X		X	X
Reduce voc, chemical use	X										
Video links	X		X		X						
LPG vehicles	X					X					
IT based solutions	X	X	X	X	X	X		X			
Reduce energy use from non-renewable	X		X	X	X	X	X	X	X	X	X
Renewable energy				X		X	X	X			
MANAGEMENT											
EMS / Certification schemes	X			X	X	X			X	X	X
Centres of eco-experts			X	X	X	X	X				X
Social / Environmental Impact Studies	X		X	X	X	X	X		X		X
Eco-purchasing	X				X	X		X	X		
Integration across agencies	X	X	X	X		X	X				X
Life cycle thinking				X							
BUILDINGS											
Buildings & Estate Management	X		X	X	X	X		X		X	X
Locating new offices / centres			X		X	X		X	X	X	
New build to higher eco-standards	X					X		X	X		X
Refurbish & repair rather than new build	X					X		X	X		X
SOCIAL											
Infrastructure investment			X		X						
Sus. awareness training, education	X		X	X	X	X	X		X		X
Visual, aesthetic impact				X	X			X	X		
Economic redistribution			X		X	X		X		X	X
Reduce waste of human capital					X		X	X	X	X	X
Effective citizenship					X	X					X
Social inclusion			X	X	X	X		X		X	X
Social justice					X	X		X		X	X
Safer, fairer Scotland	X				X			X			
Local Purchasing									X		
BUSINESS											
Enhance productivity			X			X	X	X			X
Promote Sustainable Development			X	X	X	X	X		X		
Networking, collaboration				X	X	X	X	X	X		X
Financial Incentives /sanctions	X		X	X	X		X	X	X	X	
R & D new/cleaner technology				X				X			
Eco-design, products & services			X	X	X		X	X	X		
Sustainability as business opportunity							X		X		
Change regulations	X			X	X			X			

1.4 Building a Better and Sustainable Scotland: Conclusions

The First Minister's commitment, and that of the governing coalition, to sustainable development appears to have only had a limited impact on Executive programmes and departmental actions. There is very little consistency as to how each department has translated this policy commitment into action. It would appear that Sustainable Development was considered subordinate to the normal priorities and actions of each department. It is difficult to observe a systematic relationship between ***Building a Better Scotland*** and ***Building a Sustainable Scotland***. The degree of difference in how sustainable development actions were reported by departments is so wide as to suggest the relative failure of Sustainable Development as a cross-cutting policy initiative in this Spending Review. Unfortunately, this leads to the conclusions that little real change occurred in the presentation of programmes and in the allocation of expenditure, despite the existence of increased funding earmarked for Sustainable Development.

The lack of systematic consideration by all departments even to the W-E-T agenda, does suggest a lack of departmental commitment to the specific Sustainable Development agenda developed in the Executive. However, what is encouraging is the inclusion of a range of Sustainable Development actions and plans that **go beyond** the limited W-E-T agenda, e.g. sustainable land use, social justice, visual and aesthetic impact, Life-cycle thinking, eco-purchasing. These demonstrate limited pockets of support for a broader, more inclusive understanding of Sustainable Development. There are a number of welcome initiatives that stop some wasteful and unnecessary actions in relation to W-E-T priorities, but these are mostly correcting things that should not have been done in the first place and even if fully implemented would not result in a 'Sustainable Scotland'. It is difficult to conclude that there is a coherent, comprehensive, commitment to achieving a 'Sustainable Scotland'.

There are a number of reasons for the apparent low level of commitment to sustainable development:

- There was a variable level of prior knowledge and understanding of sustainable development.
- The perception of its relevance to individual departments varied.
- There was some confusion over the relative priorities between the 2 cross-cutting themes ('sustainable development' and 'closing the opportunity gap') and the 5 programme priorities (education, health, jobs, crime and transport).
- Sustainable development was regarded as so all embracing that all current activities could be easily included within it and required no change of approach or emphasis.
- There was some confusion as to whether environmental justice was part of sustainable development.
- Sustainable development was considered by some departments as only consisting of the 3 articulated priorities: resource use, energy and transport and therefore many activities not connected with these priorities in departments were not regarded as relevant to sustainable development.
- Departments responded on those aspects which were more familiar to them, such as energy efficiency.
- The short timescale given for departmental responses on what was a new or relatively new and wide-ranging issue for many of them militated against high quality responses.

There is clearly evidence of action taking place and of limited progress towards Sustainable Development. But our overall conclusion is that the commitment to Sustainable Development has failed to galvanise integrated and comprehensive action despite evidence of leadership by the First Minister, additional financial resources and its status as a cross-cutting issue.

Appendix 2 Learning from Others' Experience

2.1 Overview

This section examines the response of three organisations that have faced a similar Sustainable Development challenge, presenting a range of techniques that may prove useful to the Scottish Executive in pursuing its Sustainable Development policy. There are other organisations that have developed innovative sustainable development management techniques, but the choice of these three cases was influenced by their ability to integrate sustainable development throughout the budgetary system, financial reporting, long term planning in a politically-controlled, democratic, public service oriented body, that could build upon, not work against, the emergent sustainable development practices in the Executive. We also review the value of Strategic Environmental Assessment. From these cases we identify a number of ways of improving the financial management practices of the Scottish Executive in relation to sustainable development.

2.2 Welfare for the Future: Iceland's National Strategy for Sustainable Development 2002 – 2020

Welfare for the Future outlines the strategy for a Sustainable Iceland. A full English language copy of this report is available at www./eng.umhverfisraduneyti.is/publications/nr/393

This strategy takes cognisance of Global and European Frameworks but is grounded in local policy formulation and action. This document exemplifies thinking globally, acting locally. The report identifies and clearly integrates: Sustainable Development objectives, Iceland's current and desired situation, means of implementation, targets and indicators. The report is structured on desired sustainable outcomes, rather than civil service departments / ministerial portfolios. The ministerial responsibilities are mapped onto sustainable development objectives. Actions to achieve a Sustainable Iceland are identified and then attributed to all of the appropriate ministries, providing a good example of how sustainable development can operate as overarching, cross-cutting policy theme.

The key attributes of the Icelandic approach are:

- a clear Mission Statement,
- integrated and comprehensive set of objectives, outcomes, means of attainment, targets, indicators and resources,
- Strategy and Vision integrated with action plans, targets and indicators,
- a system based on programmes, cutting across administrative functions, and
- consulting with stakeholders to develop the strategy, beginning with the first Icelandic Environmental Assembly.

It does have two weaknesses:

- The social dimension of sustainable development is lacking, and
- It is primarily an environmental agenda led by the Environmental Minister and may not be seen as central to other Ministers and departments.

The specific lessons for the Scottish Executive are:

- 1: clarity of vision and outcome is essential
- 2: a consultative process is necessary involving all stakeholders
- 3: an integrated strategy related to programmes is likely to be more successful than one related to organisational structures
- 4: all dimensions of sustainable development must be reflected in the strategy in an integrated way
- 5: all parts of government must share the strategy and take their part in its delivery.

2.3 Infrastructure Auckland (New Zealand)

The principal function of Infrastructure Auckland is to fund transport and stormwater infrastructure projects in the Auckland region. It has a statutory responsibility for making grants to projects that benefit the general community. *Infrastructure Auckland* offers a rare example of a system that links organisational vision and strategy with operational plans over the short, medium and long terms and accounts for economic, social and environmental performance. Money flows in *Infrastructure Auckland* appear to be affected by social and environmental impacts.

A common evaluation framework is used in: project appraisal, project and general budgeting, internal management, financial reporting and discharging their accountability duties. Within their published reports, it is possible to track an application for grant funding through the evaluation process, annual progress and final completion, based on financial, social and environmental measures.

At the core of this budgeting system is a multiple criteria evaluation (MCE) framework applied to all projects. Full details of the MCE system, including worked examples are accessible on www.ia.org.nz. *Infrastructure Auckland's* accounting system allows a far greater level of transparency than most private and public sector organisations, enabling more effective engagement with external stakeholders and a fuller discharging of their accountability responsibilities. External stakeholders are given a far greater voice in this accountability relationship through the establishment of an Electoral College with clearly defined powers of governance.

Infrastructure Auckland's financial management systems appear to have been designed to effectively support changes in the organisation's strategy, culture and operations. Like the Scottish Executive they publish their long term funding plans and financial reports, but there are some significant differences:

- All projects are systematically evaluated using a similar approach, fully costed, social, economic and environmental impacts assessed and made public
- The accounting focus is projects, measured in financial, economic, social and environmental terms.
- There is a visible link between organisation vision, strategy, and operations in financial plans and reports
- Methods and processes of project appraisal are published and transparent
- Details of failed and incomplete projects are also published
- Budgets are set based on projects, not administrative function
- Performance indicators and targets are consistent and supportive of organisational objectives and vision
- Sustainable accounting is in addition to conventional accounting disclosures.

The key attributes of the Infrastructure Auckland approach are:

- Clear and regular Statements of Intent for short, medium and long term and Clear Mission Statement
- Regular account of current Sustainable Development Status,
- Major policy decisions systematically subjected to a Strategic Sustainable Development Assessment,
- External reporting based on programme actions and policies, accounting to stakeholders and enabling constructive engagement and mutual learning,
- Structured Multiple-Criteria Approach to Sustainable Development Assessment – integrating non-financial and financial implications in an open and transparent process,
- Internal budget planning and control systems consistent with policy evaluation methods,
- Integrated and comprehensive set of objectives, outcomes, means of attainment, targets, indicators and resources,

The specific lessons for the Scottish Executive are:

- 6: All the components of sustainable development should be included in a fully integrated way (as in lesson 4 from the Icelandic approach)
- 7: Financial accounting should be clear and transparent throughout, especially the links between projects and programmes
- 8: Need for formal stakeholder involvement throughout the process of development and delivery.
- 9: Sustainable Development will require the integration of financial, social and environmental information in all planning and control systems

2.4 Manaaki Whenua⁴ (Landcare Research)

Manaaki Whenua is a New Zealand Crown Research Institute and a limited liability company, which undertakes research on sustainable management of land-based natural resources for production and conservation. Its strategic goal is to make a difference for a truly clean and green New Zealand, recognising the importance of the indigenous Maori culture. Manaaki Whenua has developed an expertise in applying two innovative sustainable development accounting techniques: sustainable cost calculation and triple bottom line reporting. 'Sustainable costs' are a financial account of the gap between current and more sustainable operations. They attempt to calculate the cost at the end of the accounting period to return the planet to the point it was at the beginning of the accounting period and therefore seek to value remediation costs of any social and environmental damage. This alternative approach to costing has significantly affected the way Manaaki Whenua understands its relationship with social and environmental factors, and the way they do things; it has resulted in a shift of priorities towards more sustainable options.

Their annual reports are full of examples of their operations and documentation of these changes. In particular their 2002 Report is a model of sustainability reporting, that integrates conventional financial performance, triple bottom line reporting, sustainable cost valuations, and effective use of non-financial indicators in a clear, understandable and informative format. Material is available on www.landcareresearch.co.nz

Their triple bottom line approach means actively managing and reporting on three dimensions (social, environmental and economic) of organisational performance. The approach is to identify the key performance areas that relate to company values and purpose, stakeholder expectations, governance systems, risk management, legislation, regulations and global issues. Every key performance area has interlinked social, environmental and economic dimensions that are difficult to separate. It is important to identify key environmental, social and cultural, and economic performance indicators for each key performance areas. Key performance indicators are the measurable strands, the statistics, that give accountability to an organisation's performance.

The key attributes of the Manaaki Whenua approach are:

- Regular account of current Sustainable Development status,
- Clear and regular statements of Intent for short, medium and long term,
- Major policy decisions systematically subjected to a Strategic Sustainable Development Assessment,
- Sustainable cost evaluations being developed and used in management decision making,
- External reporting based on programmes of action, accounting to stakeholders and enabling constructive engagement and mutual learning,
- Triple bottom line reporting adopted,

It would be wrong to suggest that Manaaki Whenua reformed its systems overnight. It has adopted an evolutionary approach to developing these tools, shaping them to its individual

⁴ [Manaaki whenua, maaaki tangata, haere whakamua, Care for the land, care for the people, go forward.](#)

circumstances. Many of the tools may not be directly transferable, but the concepts underpinning them could be. One important lesson from Manaaki Whenua is the value of undertaking this exercise in learning about your own organisation, rather than the production of the accounts.

The lessons for the Scottish Executive are:

- 10: clear and transparent reporting systems, including regular reports on Sustainable Development status.
- 11: use a form of strategic sustainable development assessment for all major policy decisions.
- 12: develop a coherent and comprehensive set of Key Performance Areas with integrated Key Performance Indicators.
- 13: the benefits arising from triple bottom line accounting.

2.5 Strategic Environmental Assessment

One useful driver of change is the EU Strategic Environmental Assessment Directive (2001/42/EC). This Directive requires a strategic environmental assessment for all plans and programmes, which are prepared for agriculture, forestry, fisheries, energy, industry, transport, waste management, water management, telecommunications, tourism, town and country planning or land use. The stated objective of this Directive is to provide for a high level of protection for the environment and to contribute to the integration of environmental considerations into the preparation and adoption of plans and programmes with a view to promoting sustainable development. The Directive introduces a number of new dimensions:

- identifying strategic options that make delivery of the plan more sustainable
- collecting baseline information, particularly for areas significantly affected by the plan
- rigorous prediction of environmental effects
- greater consultation of the public and environmental authorities
- mitigating and monitoring significant environmental effects of the plan.

The Directive is clearly aligned with the Scottish Executive's policy framework, but lacks details on the social dimension of Sustainable Development. The Executive's stated intention is to include strategies, as well as programmes and plans, but only to apply the approach to new programmes. Adapting the SEA framework, adding social criteria (using the *Infrastructure Auckland* model) and integrating this into resource allocation decisions would provide the foundations of a Sustainable Development management system. If SEA is not integrated with existing management systems, it runs the risk of being yet another decoupled bureaucratic appraisal system, co-existing with other more powerful systems in the day-to-day 'real-politique' of the Executive. A plethora of disparate appraisal systems, offering different and potentially conflicting advice, allows scope not for effective choice of decision options, but rather for choosing the appraisal mechanism for a pre-selected option, justifying politically expedient priorities.

2.6 'Sustainable-Development-Friendly' Financial Management Systems

Financial management systems have proved to be an obstacle to organisational change as a component of sustainable development, especially when the strategic vision and rhetoric is decoupled from day-to-day decisions on how to spend scarce resources. Section 2 described the disjunction between the strategic commitment to a Sustainable Scotland and the actual plans for sustainable development action. One observation is that the current accounting procedures within the Scottish Executive are not commensurate with an organisation committed to sustainable development. The Executive's accounting system has not been amended to take into account sustainable development issues. Conventional accounting is based on a set of assumptions that are biased against sustainable development. The cost of sustainable development programmes is often over-stated and the benefits significantly undervalued. It is the case that the cost of unsustainable development programmes are significantly understated. The cases discussed earlier in this section demonstrate how

sustainable accounting reforms in organisations can have a positive sustainable development impact on the way these organisations make decisions and allocate resources. These techniques are not that different and many simply involve a minor change in the way calculations are carried out and how financial results are presented. Others such as sustainable cost calculations and triple bottom line reporting are more challenging, yet offer considerable potential for positive change. It is argued that in the long term all these reforms are necessary and achievable in order that the financial management system supports rather than obstructs a significant shift toward Sustainable Development.

It is not the case that the Executive needs to start from scratch with all their current initiatives scrapped. There is a sound foundation to build upon and on some issues their thinking is well-advanced. For example, the Executive's incorporation of eco-justice (social) in Sustainable Development policies is commendable. In comparison the Icelandic *Welfare for the Future* can be criticised for its lack of inclusion of social issues, yet commendable in terms of eco-effectiveness. Combining the strengths of both approaches would allow considerable synergies.

Standardising the set of social, environmental and economic indicators to be used systematically in programme planning, evaluation, goal setting, project progress monitoring, performance measurement, resource allocation, programme completion reviews, and internal and external reporting is an important step in developing Sustainable Development in the Executive. *Infrastructure Auckland's* Multiple Criteria Evaluation Framework offers an approach that offers a range of benefits. What is clear is that the set of Sustainable Development indicators currently proposed by the Executive is simply not up to this task. There is a pressing need for the Executive to reconsider their choice of Sustainable Development Indicators.

Infrastructure Auckland's multiple criteria evaluation model is based on a very similar approach to Sustainable Development to that of the Scottish Executive. What it does offer is a practical systematic method of measuring and managing the complex set of criteria associated with sustainable development decision making. Considerable benefits arise from using a structured set of criteria systematically throughout the financial management system. It is also the case that there are a number of examples of programme based budgeting and financial reporting currently operating with the Executive. The criticism expressed in this report is based on the fact that programme-based accounting is used piecemeal and inconsistently across different ministerial portfolios.

The systematic adoption of *Infrastructure Auckland* inspired financial management techniques (tailored to the Scottish context) would result in a budgeting and financial reporting system that is both sensitive to sustainable development and transparent, allowing greater democratic accountability and civic engagement. Through the implementation of a systematic, structured approach to accounting for sustainable development many of the sustainable development initiatives undertaken by the Scottish Executive and/or its agencies currently not reported in ***Building A Sustainable Scotland***, would provide a better and more comprehensive representation of its Sustainable Development activity profile. In the longer term, this system should evolve towards a triple bottom line style of accounting similar to that operated in Manaaki Whenua. Even developing sustainable cost valuations based on social and environmental impact studies, is building upon processes already used within some departments in the Executive.

The main suggestion is to begin to integrate all these sustainable development actions and initiatives into a strategic, sustainable and structured framework, reforming all anti-sustainable practices, including the financial management systems. The political and policy commitment towards sustainable development and the Strategic Environmental Assessment Directive provide an opportunity to bring about real reform and start shifting the money into the spaces/action only previously occupied by fine words and rhetoric. Once freed from the misrepresentation of conventional management thinking and the distortions of conventional accounting systems, it will be seen that the optimal use for our scarce financial resources is the sustainable use.

Taking into account the experience of the cases described earlier and evaluating their relevance to the Scottish situation, and the current state of the Executive's Financial Management System in relation to sustainable development, we suggest the following as desirable attributes of a Financial Management System for a Sustainable Scotland.

Desirable Attributes of Financial Management System for a Sustainable Scotland

- Clear Mission Statement
- System based on programmes and cutting across administrative functions
- Regular account of current Sustainable Development state
- Clear and regular Statements of Intent for short, medium and long term
- Integrated and comprehensive set of objectives, outcomes, means of attainment, targets, indicators and resources
- Evaluation processes and performance measurements consistent with Sustainable Development principles and strategy
- All major policy decisions systematically subjected to a Strategic Sustainable Development Assessment
- Structured multiple-criteria approach to Sustainable Development Assessment – integrating non-financial and financial implications in an open and transparent process
- Internal budget planning and control systems consistent with policy evaluation methods
- Sustainable cost evaluations of all policies
- Triple bottom line reporting adopted, identifying Key Performance Areas and Key Performance Indicators
- External reporting based on programmes of action, accounting to stakeholders and enabling constructive engagement and mutual learning

Appendix 3 Detailed Recommendations

Enabling greater corporate commitment to Sustainable Development in the Scottish Executive

Recommendation 1: Establish consensus on a working definition of sustainable development

The absence of a common definition and shared understanding of sustainable development was one of the reasons why Spending Review 2002 did not fulfil its potential on sustainable development. As a result, the following specific recommendations are made:

- 1.1 It is essential that a single definition and interpretation of sustainable development is developed and implemented throughout the Executive at both political and management levels and cascaded throughout the Executive structure.
- 1.2 The Executive should develop and promote all components of sustainable development, including environmental and eco-efficiency, environmental justice, social justice and social opportunities along the lines of the material presented in Table 3. The narrowly based W-E-T agenda should be actioned only as one of many components of sustainable development.
- 1.3 A template of practical sustainable development actions should be provided to enable departments to evaluate systematically their current practices and potential contribution towards the Executive's Sustainable Development programme. This should be based on a clear definition of sustainable development and examples of objectives, targets and actions, which relate to programmes and to running costs.

Delivering these recommendations will require action by the Sustainable Development Directorate to draft suggestions and for these to be vetted and approved by the Cabinet Sub-Committee on Sustainable Scotland and by the Executive's Management Group. These recommendations could be completed by April 2004.

Recommendation 2: Strengthen Ministerial support for achieving Sustainable Development

The leadership of the First Minister and the commitment of the coalition partners are commendable. However, a number of actions are needed at Ministerial level to improve the prospects of achieving Sustainable Development. Ministers and officials responsible for programmes must jointly accept responsibility for improving performance on the achievement of the Scottish Executive's sustainable development commitment. We make the following specific recommendations:

- 2.1 The valuable role of the Cabinet Sub-Committee on Sustainable Scotland should be continued and strengthened. Its specific roles should be to participate in defining sustainable development, providing clear examples of what it means in practice, what is achievable and, crucially, to scrutinise performance across Ministerial portfolios and departmental responsibilities. More generally, it should act as a source of expertise and guidance, especially through its independent external members. The number and variety of expertise of external members should be increased and should include members with knowledge and experience of financing sustainability.
- 2.2 In Spending Review 2004 all Ministers should produce specific proposals for improving the performance on sustainable development within their portfolios for scrutiny by the Cabinet Sub-Committee.
- 2.3 Specific criteria for improving the delivery of sustainable development through Ministerial portfolios should be developed for use in Spending Review 2004.
- 2.4 An annual report of performance on sustainable development for each Ministerial portfolio should be produced for scrutiny by the Cabinet Sub-Committee on

Sustainable Scotland, by the relevant Committees of the Parliament and by the public.

Recommendation 3: Improve the machinery on sustainable development within the Executive

It is essential to ensure that responsibility for sustainable development in the Scottish Executive is clear and unambiguous and that staff are given a mandate from the Permanent Secretary. We make the following specific recommendations:

- 3.1 There should be early implementation of the sustainable development responsibilities of all Accountable Officers in the departments, agencies, NDPBs and other funded bodies. This should include clear timescales for cascading these responsibilities to all budget holders along with the provision of appropriate guidance and training.
- 3.2 The Sustainable Development Team is becoming a Directorate and its role should be reviewed in the light of the recommendations in this report and those of the Centre for Scottish Public Policy, and in view of the appointment of a new head of the Directorate. The Directorate should derive its mandate more clearly from the Cabinet Sub-Committee on Sustainable Scotland and from the Management Group's 'Change to Deliver' Programme. It should have clearer links with, if not be part of, the Executive's Policy Unit, rather than the present position where the accountability line is through the Head of Environment Group to the Head of SEERAD (a position which reinforces the perception within the Executive that Sustainable Development is an environmental policy). Its mandate should be approved by the Executive's Management Group. The Directorate should be the coordinator for all policy, should set in place means of reviewing performance, should provide regular and systematic feedback to departments on their performance using material similar to that presented in Tables 1-3 of this report, should be responsible for ensuring consistency between all publications on sustainable development, and should work directly with the Cabinet Sub-Committee on Sustainable Scotland.
- 3.3 Each department should appoint a Sustainable Development Coordinator reporting directly to the Head of Department to act as a help and advice point, to stimulate responses from across the department, to disseminate good practice, and to coordinate production of programme submissions covering sustainable development and to produce an annual performance report.

Recommendation 4: Develop a Corporate Culture for Achieving Sustainable Development

The culture and organisational structures of the Executive and its other delivery agencies has to be more integrated and more corporate in order to achieve the Executive's Sustainable Development ambitions. We make the following specific recommendations:

- 4.1 The approaches and priorities of departments, agencies, NDPBs and other funded bodies should be reviewed and recommendations for implementation in individual organisations made. At the very least, improvements on effective working together between organisations will be needed. This task should be undertaken independently through an external commission and the project overseen by the Cabinet Sub-Committee and managed by the Sustainable Development Directorate.
- 4.1 The culture and organisational structure of the Executive should be reviewed by the Management Group as part of its 'Change to Deliver' programme with the assistance of the external members of the Cabinet Sub-Committee on Sustainable Scotland in order to achieve a more coherent and more effective delivery of sustainable development. Consideration should be given to reforming departmental structures and responsibilities and re-engineering the Executive's institutions to fit their policy priorities. Given the growing importance of 'joined-up' thinking and integrative policy programmes, such as sustainable development and reducing the opportunity gap, structures need to be put in place to enable their effective delivery. This may mean

moving to a more flexible structure based on programmes of action, cutting across administrative functions. It is important that any change in structure is accompanied by changes in the financial management system. A 'joined-up' organisation needs a 'joined-up' accounting system.

- 4.2 Sustainable Development creates a need to develop policy approaches that cross the historic departmental divides, existing policy silos, and delivery mechanisms adopting a more integrated and co-ordinated approach. It is important to formally map out the relationship between Sustainable Development outcomes and Ministerial Responsibilities and to use this map to design effective methods of working.

Integrating objectives, targets, policies, actions and expenditure

In their relatively short existence the Executive has produced a number of important reports and policies in relation to Sustainable Development. It is clear that, even in this short space of time, their approach to Sustainable Development has undergone substantial revisions. In many cases, this is welcomed as it represents a positive evolution in their approach to Sustainable Development, but it does leave a policy residue with a great deal of internal inconsistency and confusion. We make the following specific recommendations:

Recommendation 5: All programmes should be linked directly to sustainable development in terms of goals, aims, objectives, targets and actions

- 5.1 Arising from our analysis of the key Executive reports, we consider that the prime necessity is to introduce a new, broader-based and integrated approach to sustainable development embracing all programmes and expenditure areas of the Scottish Executive, linking specifically all objectives, policies, actions and targets on sustainable development and ensuring that there are clear linkages to expenditure.
- 5.1 All objectives should have linked targets and action points. There should be no target or action point that is not linked to an objective. The linkages should be logical, transparent and capable of measurement.
- 5.2 All Ministers and all Heads of Departments should be given formal responsibilities by The First Minister and the Permanent Secretary respectively to develop, implement and report on sustainable development programmes in their areas of responsibility. All programme and expenditure areas should include aims, objectives, targets and actions on sustainable development. If they do not have any then departments must provide an account as to reasons why they do not.

Recommendation 6: Undertake a Comprehensive Strategic Sustainable Development Review of the Executive

Building a Sustainable Scotland does not represent a full and comprehensive account of the Sustainable Development actions within the Executive, and may even underreport their actions. If Sustainable Development is to be an effective cross-cutting policy then it is crucial that a comprehensive and systematic assessment of Sustainable Development actions is undertaken. The need for this review can be seen as part of the proposed introduction of the Strategic Environmental Assessment Directive. We make the following specific recommendations:

- 6.1 Detailed and specific guidelines, approved by the Scottish Executive's Management Group, should be prepared and disseminated throughout the Executive covering the implementation of Sustainable Development actions, measuring their impact on plans and actions in all expenditure programmes, and the development and implementation of performance monitoring of departmental sustainable development plans.
- 6.2 Consideration should also be given to the independent audit of the implementation of these responsibilities and accountabilities and the effects on the delivery of sustainable development should be established. This Sustainable

Development assessment should be performed and published on a regular basis and be an integral part of any Spending Review.

- 6.3 The Executive should review all past Sustainable Development policies and documents and reconstruct them in line with best Sustainable Development thinking and practise.

Recommendation 7: Consider new and innovative approaches to stimulating Sustainable Development

Very little progress has been made by the Executive using economic instruments to adjust markets that are currently biased against sustainable development. Market interventions which correct perverse incentives, remove unsustainable subsidies, provide grants that positively reward sustainable development actions, align taxation and duties in accordance with Sustainable Development, have been found to be effective. We make one specific recommendation:

- 7.1 A review of all existing economic instruments from a Sustainable Development perspective should be undertaken and submitted to the Cabinet Sub-Committee on Sustainable Scotland for their consideration.

Recommendation 8: Restructure Sustainable Development Reporting

Any future **Building A Sustainable Scotland** must be integrated with future **Building A Better Scotland** and future **Sustainable Development Indicators**. We make the following specific recommendations:

- 8.1 Within **Building a Sustainable Scotland**, each Department must account for the Sustainable Development impact of ALL of their objectives/targets/action points, avoiding selective disclosure.
- 8.2 Departments should include a Sustainable Development appraisal of other significant activities not included in the **Building A Better Scotland**.
- 8.3 This report should contain an estimate of the impact of objectives, targets and action points on the **Sustainable Development indicators**.
- 8.4 All targets / action points should be costed using a standard valuation basis.
- 8.5 The time frames of financial information, targets and action points should be integrated.
- 8.6 Departments should justify **why they have not** adopted feasible sustainable development actions. Departments should account for what they could but are not doing.

Recommendation 9: Revise Sustainable Development Indicators

The current sustainable development indicator set is inadequate for achieving the full implementation of sustainable development. We make the following specific recommendations:

- 9.1 A comprehensive set of social, environmental and economic indicators and targets for measuring sustainable development should be agreed at official and Ministerial levels.
- 9.2 These indicators should clearly distinguish between process indicators, downstream indicators and outcome indicators defined as follows:
- Process indicators measure the efficiency of internal operations. e.g. % energy from renewable, % waste recycling, % of vehicle fleet converted to LPG.

- Downstream indicators measure the impact the Executive and all institutions under its control and influence have on the external environment via its purchasing of goods and services.
- Outcome indicators measure the effectiveness of the combined impact of the Executive's actions on the Key Sustainable Outcomes. Examples of these outcomes include; Clean Air, Clean Freshwater, Safe food products, Environment free from Hazardous Materials, Wilderness conservation, Protection of Ozone Layer, Protection of Biodiversity.

9.3 This set of indicators should be used systematically throughout the Executive's activities, e.g. policy planning, goal setting, policy progress monitoring, performance measurement, resource allocation, programme completion reviews, internal and external reporting.

Improving Departmental Performance

It should be clear from our assessment of the Executive's reports that departmental performance is very variable and urgent action is required to bring performance up to the highest level. We make a number of recommendations.

Recommendation 10: clarify and strengthen responsibilities of departments

A number of actions need to be undertaken to place fuller responsibility and accountability on departments for implementation of sustainable development. We make the following specific recommendations:

- 10.1 Each Head of Department should be given a specific duty and targets, agreed with the Permanent Secretary, to deliver sustainable development programmes and action plans (improving on past performance) according to the themes in the 'Partnership for Government' programme.
- 10.2 Departments with relatively poor performance in relation to Spending Review 2002, such as The Crown Office & Procurator Fiscal Services, Education and Young People, and Finance and Public Services, should be given testing targets and their performance scrutinised more closely by the Cabinet Sub-Committee and by the Permanent Secretary.

Recommendation 11: Undertake regular internal benchmarking exercise

Benchmarking of performance between different parts of organisations has proved to be a very powerful tool for stimulating improvements in performance. We make the following specific recommendations:

- 11.1 The Permanent Secretary and Heads of Departments should meet to discuss the differences in their interpretation of Sustainable Development. The initial focus could be based on Table 3 of this report that maps the individual department's scope of sustainable development. This exercise could be structured around asking departments to justify why they are not undertaking actions when other departments are.
- 11.2 Each department should provide proposals on how they intend to incorporate sustainable development in Spending Review 2004 and in their overall programmes. Particular attention should be placed on achieving greater consistency of performance throughout the Executive. For example, it could be based round the attributes of Sustainable Development outlined in Table 3, where Departments will be asked to conduct feasibility studies of the potential contribution of the blank shaded boxes.
- 11.3 The approach suggested in recommendation 11.2 should be reinforced by the Finance Minister establishing mechanisms for linking expenditure and sustainable development in Spending Review 2004

Recommendation 12: Improved Setting of Priorities

Improvements are needed in setting priorities in relation to sustainable development aims, objectives and policies. We make the following specific recommendations:

- 12.1 Priorities should be identified not just where results can be achieved quickly but also in those areas where, on any assessment of environmental and social justice, performance remains inadequate; for example, development of public transport for disadvantaged areas compared with new road schemes.
- 12.2 Situations where action can be taken quickly to implement expenditure decisions and where the sustainable development implications could be significant and potentially less positive for environmental and social justice should be very carefully considered and balanced against those actions which will take longer to implement but have much greater and tangible social and environmental justice benefits. For example, there will be greater benefits from community based care schemes compared with eccentric locations of all-purpose facilities. It is important that these priorities have medium and longer term dimensions and are not always short-term in nature.

Improving Financial Management Systems

A systematic and comprehensive approach to developing sustainable development programmes and action plans for all programmes and expenditure areas should be implemented as part of Spending Review 2004 and continued for all subsequent reviews. We make the following recommendations for improving the financial management systems of the Scottish Executive:

Recommendation 13: linking sustainable development to programmes and expenditure

We make a number of specific recommendations:

- 13.1 All Spending Plans should be based on programmes and not on administrative units such as Departments. This will provide better linkage to sustainable development and therefore reflect the integrated approach which sustainable development demands.
- 13.2 All Total Managed Expenditure should be linked directly to sustainable development. Specifically, all action points should be costed and the costings linked to sustainable developments outcomes.
- 13.3 All documents on public spending should show, in a transparent manner, the linkage between programme expenditure (present and future) and sustainable development.
- 13.4 It is often difficult to assess the sustainable development implications of some major projects and schemes as part of the spending review process as they are not sufficiently well defined and specified. Therefore decisions in principle on these projects and programmes should be conditional until, inter alia, a full sustainable development assessment has been undertaken and the results evaluated.

Recommendation 14: Clarification of the importance of Sustainable Development in Spending Review 2004

The next Spending Review provides an excellent opportunity to learn lessons from the previous one and to ensure that sustainable development has a much greater impact on the distribution of financial resources. We make one specific recommendation:

- 14.1 There should be agreement at the outset of any Spending Review that sustainable development is a key issue in the allocation of resources and the improved delivery of services. Whether it is defined as cross-cutting or overarching is unlikely to matter. Guidance must be given on how to incorporate Sustainable Development into the existing financial management system. It is far from a simple task and in the short term, support must be given on how to graft sustainable development onto the Executive's financial system.

Recommendation 15: Building in realistic timescales

The inclusion of Sustainable Development should be an integral part of the planning process for future Spending Reviews. We make the following specific recommendations:

- 15.1 At the outset realistic timescales should be set.
- 15.2 Incorporating Sustainable Development into the Scottish Executive is not a trivial task and the time scale for doing so should reflect the complexity and importance of this task. The timescale of last Spending Review was too short for key staff to provide the required quality of thought, level of critical reflection and planning.
- 15.3 Future Spending Reviews must allow for the publication of the necessary reports to enable effective scrutiny of Executive plans by the Scottish Parliament.

Recommendation 16: Embark on a rolling programme of reforming the Executive's Financial Management System

The Scottish Executive's current financial management system is more likely to obstruct than support a transition to Sustainable Development. We make the following specific recommendations:

- 16.1 The lessons from the three case studies should be integrated to create a roadmap for the development of a strategic sustainable development accounting system.
- 16.2 The specific elements which should be included in the new accounting system are as follows (Section 3.6 provides more detail):
 - Regular account of current Sustainable Development state.
 - Comprehensive and integrated objectives, outcomes, actions, targets, indicators and resources.
 - External reporting of action programmes, enabling constructive engagement and mutual learning.
 - Evaluation processes consistent with Sustainable Development strategy.
 - Major policy decisions subjected to a Strategic Sustainable Development Assessment.
 - Multiple-criteria approach integrating non-financial and financial implications openly and transparently.
 - Internal budget planning and control systems consistent with policy evaluation methods.
 - Sustainable cost evaluations of all policies.
 - Triple bottom line reporting adopted.