

# environmental accounting

*spécial number*  
september 2003

Version française  
English version

International  
newsletter  
of CLEAR PROGRAMM

C L E A R  
City and Local Environmental Accounting and Reporting



progetto  
cofinanziato da  
LIFE AMBIENTE

## Editorial

Eco Maires is a French national association of mayors bringing together around 600 communities, all of which have made the environment and sustainable development a priority in their municipal policy.

The association aims to be a place for policy and discussion as well as acting as a laboratory for new practices with a strong European dimension.

Membership of the association is therefore open to European communities, which are then eligible for the Eco Actions trophies that we award every year to the towns that have been the most innovative in relation to the environment. This year several European towns took part.

Many of our actions are concretely reflected in European programmes, in particular the Miriad 21 project (Major Industrial Risk Integration in Agenda and Development 21) in which the Italian presence is important. Venice, ARPAV and the Federchimica are partners in this project along with eight other European countries. The objective is to draw up an Agenda 21 methodology for towns with similar problems to Seveso.

The CLEAR programme is the realisation of both our mobilisation on the question of environmental accounting and our motivation to work with Italian communities. In France Eco Maires are responsible for a Life Environment programme that will put environmental accounting in place in communities (FEAT - for environmental accounting tool). We therefore have the opportunity to compare, push forward, improve our methods and consequently are able to envisage the harmonisation of tools across Europe.

The challenge for states and for local government organisations is this: to identify and classify investment and operational expenditure and non expenditure in order to incorporate environmental variables and more generally include sustainable development options in decision making processes. With this aim in view, organised environmental accounting systems need to be created.

For good sustainable development practices to be really effective, new evaluation and information methods have to be designed. We therefore need long term accounting and, as soon as possible, we have to move towards taxation that supports sustainable development policies - yet another urgent topic!

Today our measurement systems are essentially designed to measure financial flows. More qualitative systems therefore have to be put in place, measuring physical and biological flows. The systems for measuring financial flows related to the environment also have to be refined.

In using this approach, which now brings together several European programmes, co-ordination and organisation of the various national and European systems needs to be ensured, but it is also necessary to be able to rely on the ability of the local government organisations to invent and become involved. This is the objective Eco Maires have set in bringing together Italian and French experiences.

The partnership with Italian towns and with the other players in the environment is a very efficient reality. In addition to the specific actions our two countries have undertaken, I congratulate myself on some very fruitful exchanges. Thus in our discussions we have adopted what the Italians include in the issue of «the social environment», something that we have now taken on board. Italian and French elected representatives are able to share a dynamic political position that focuses on improving both the living conditions of our most disadvantaged co-citizens and those areas and economic sectors under threat.

Dominique Jourdain  
Mayor of Château Thierry  
President of Eco Maires



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Heading towards sustainability means bringing clearness on how to manage the environment and how to promote involvement and responsibility. Now is the time to set a «tool box» for administrators working on the territory.

At the local level, not only in large towns but in small ones as well, environment is a very concrete problem involving the control of pollution and the quality of the territory, protection policies and strategic opportunities, resources availability and their social distribution.

What are the environmental effects of territorial policies today? In other words, how much does the environment cost, or better, how much each single authority is already spending to handle these problems? And how much it shall or should spend in the future? According to estimations, at a national level, the cost of the environment is somewhere around 2% of the GDP; at a local level, this cost varies between 18 and 22%. These problems and costs are still expressed according to administrative criteria only and do not appear in the public budget.

How to explain and enhance this expenditure to citizens and to the government?

To head towards sustainability, public administrators need new and simple tools that are adequate to collect, record, manage and communicate costs and environmental benefits for all their actions on the territory. These tools may give birth to new projects, important challenges and new policies.

## What is CLEAR

CLEAR (City and Local Environmental Accounting and Reporting) is the first Italian project for environmental accounting applied to local authorities. It foresees «environmental budgeting» to be drawn and approved by 12 Municipalities and 6 Provinces in Italy.

The project which was born in October 2001 and shall be finished in October 2003 was approved and 50% co-financed by the European Commission as part of the LIFE-ENVIRONMENT program. The total value of CLEAR is 1.928.664 Euro.

In English, CLEAR means limpid, transparent, clean and «to clear» means to clarify. Clarify public accounts, bring to light the environmental costs of development. Give local administrators the possibility to take decisions, aware of the effects and impacts of policies on the environment.

CLEAR is testing the first law proposal on environmental accounting for Municipalities, Provinces, Regions and Government, presented in '97 by senator Fausto Giovanelli and subscribed by all parliamentary groups. The proposal acknowledges all the recommendations included in the V Action Program on Environment of the European Union, stressing the importance of environmental accounting for a sustainable development. The Italian Senate is now studying this law proposal.

## What is new in CLEAR

### New institutional process

CLEAR is an innovative project because it inserts the environmental accounting, thus the organized and systematic information on the state of the territory and of natural resources, into the institutional process of democratic management.

This means that Municipalities and Provinces which are partners of CLEAR shall not only draw up environmental budgets but shall examine, discuss and approve them following the same procedures as for the financial budget and balance sheet.

Administrators shall thus assume the responsibility towards their voters not only for the economic data on development but for ecological data as well.

## New decision-making process

Thanks to CLEAR, the environmental accounting leaves experts' laboratories and goes straight to the bodies. To draw up the environmental budgeting, local administrators will be brought face-to-face with territory stakeholders.

CLEAR foresees to achieve a flexible model of environmental budgeting, so that each body, starting from a common base, may customise a «made-to-measure» budget, depending on its own specific management requirements.

## New governance

The approval of the financial budget and the «green» one during the same session will allow useful debates enabling to identify and explain the environmental effects of economic and sectorial policies.

This means that territory management shall ground on a natural (and transparent) base of knowledge of the environment resource values, thus accounts can be optimised making policies more eco-efficient.

Designed this way, the environmental accounting may become one of the most efficient instrument in the «tool box» for a renewed governance.

## Who takes part in CLEAR

CLEAR's prominent players are 18 Italian local authorities, of small, medium and large size, located in the North, Centre and South of Italy, in very different territories.

The leader is the Municipality of Ferrara. Municipalities of Bergeggi, Castelnovo ne' Monti, Cavriago, Grosseto, Modena, Pavia, Ravenna, Reggio Emilia, Rovigo, Salsomaggiore, Varese Ligure as well as Provinces of Bologna, Ferrara, Reggio Emilia, Modena, Naples and Turin take part in it.

These 18 players are a representative sample also because of their frequent municipality-province partnership, which is one of the variables that the project shall take into consideration to set vertically-integrated local territorial policies.

Local authorities taking part in the CLEAR project, are leaders in environmental monitoring and in effectiveness / efficiency control of these policies. In fact, all of them have already adopted at least one environmental management tool or environmental accounting system to help policy makers in taking decisions. Besides writing periodical Reports on the

State of Environment, they have all adopted the «Local Agenda 21» procedures for a sustainable development and are members of the Italian «A21L» Coordination.

The other partner of the project is the Emilia Romagna Region, which coordinates the local experiences on the territory with a view to a possible expansion of the «CLEAR Method» to Regions.

## Where does CLEAR lead

The project is born to improve local governance on environment and to provide administrators with practical tools to support their decision-making process.

CLEAR has been divided in three phases. During the first (October 2001 - December 2001), the project was launched and started and the methodology perfected.

The second phase (year 2002) is devoted to the coordinated testing and it foresees that each partner will draft its own environmental budgeting. The structure of the budget, the organisation of data and the procedures used are the same for all partners, but each document will be different as it will acknowledge the administrators' and the community's requirements. During discussion and monitoring workshops, Municipalities and Provinces study and share the contents and the method. Finally, Town and Province Councils will approve the environmental budget as they do for the financial budget and for other planning documents.

During the third phase (January 2003 - October 2003), participants will take stock of the various experiences and of collectively acquired knowledge; on these basis the «CLEAR Method» will be prompted, taking into consideration the accounting principles, the procedures and the best practices.

The great number of local authorities taking part and their representativeness ensure that the «CLEAR Method» may be easily reproduced and extended to other Municipalities and Provinces, and in the future to Regions as well.

## What happens with CLEAR

### The local environmental budget

It is a document which records all that happens to the environment of a certain Municipality during one year. For example: how much waste has been produced, how

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much water has been consumed, how much soil has remained unbuilt, if and how green has increased or decreased, the level of air pollution, how much energy has been produced and consumed, how many resources have been used or made available.

The local environmental budget does not include only numeric data (physical and/or financial) but also information on the environmental results of policies implemented or to be implemented by the public administration. If for example, a Municipality has decided to grant new planning permissions, the environmental budget shall record the expected ecological impacts (increase in the production of waste, increase in the energy produced and consumed, state of the green, parks and gardens, condition of the uncultivated land etc.). If a Province has decided to build a cogeneration plant, the environmental budget shall record the environmental results related to it (disposed waste, produced energy, used energy etc.).

With time, there shall be a final environmental balance sheet including results of implemented policies, and a budget containing the information and analysis about future planning.

## Data and indicators

There are numerous available data on the condition of the environment and on the relationship between economy and ecology, which are collected and processed according to various models and methods. CLEAR proposes local administrators to choose the most significant and useful ones according to their specific requirements and adopt them to assess the liveability of the urban environment.

To reach this target, CLEAR grounds on a series of statistic tools internationally validated and used, such as: pressure indicators (measuring the pressure of human activity on the environment in terms of pollution and the policies implemented); sustainability indicators of the European Commission; the Ecological Footprint; the SERIEE (Système Européen de Rassemblement de l'Information Économique sur l'Environnement, a system of specific satellite accounts along the traditional financial budgeting), the EPEA (belonging to the SERIEE and used to assess the effectiveness and efficiency of the expenditure to be made to protect the environment).

# Environmental Accounting as a Instrument of Sustainable Development

by Fausto Giovanelli,

senator, rapporteur of the first bill concerning the environmental accounting of the Municipalities, Provinces, Regions and the State

Environmental crises are more and more frequently, and on all levels, on the agenda of debates in the press and in politics. And, more and more frequently, they look more like crises of the sustainable management of human beings and their actions than like «simple» crises of ecological and natural systems. They have a global and a local dimension. They concern rich and dynamic realities just as much as weaker and less visible realities; they strike urban and metropolitan systems, but also medium- or small-size systems. One persuasive example is that of smog, which has seriously affected many large and medium-sized Italian cities, to the point of jeopardizing their capacity to function on a day-to-day basis.

It is increasingly obvious that the legislative and institutional instruments of defense of the environment, from antipollution laws to the delegations in charge of the Environment and the control agencies rapidly set up in the last few years, are not able to successfully meet the challenge of sustainable development in environmental matters. When all goes well, they just manage to limit the damage, to shorten the highest and most noxious peaks of disequilibrium and pollution.

It is even clearer (witness, once again, the example of the antismog strategies recently implemented by the Ministries, Regions, Provinces and Municipalities) that the sector-by-sector approach and the related instruments are organically incapable of matching the strategies and changes required in the fields, in the sectors, in the most diverse theaters of operations, not only in ecology. This is also true in areas ranging from industry to commerce, from services to the management of city time tables, from research to the market, from taxation to the administration of the territory.

There is no doubt that the idea of sustainable development on the global level-and, therefore, on the local level as well-has made a forcible entry not only in the language, but also in the actual intentions of political decision makers. However, this awareness, spawned by necessity, is not matched by a comprehensive analysis that is valid once and for all, or by the determination of a more precise reading key or of operational and «governance» instruments able to

decrypt the complexity of a problem, which, by nature, does not accept simplifications, the search for a single causal factor or a given «solution». This is why, apart from the application of policies of defense, of command and control, of state-directed and planning policies which end in failure with increasing frequency, the search for new instruments of «governance» has begun-it is capable of analyzing, monitoring, informing, orienting and verifying policies that aim to achieve sustainable development, and to do so not only in words.

The spreading of the local *Agenda 21*, the adoption of certifications extending from enterprise systems to government administrations and territorial systems, the issue of the budget and of environmental accounting go in the exact same direction.

Spreading knowledge, transparency, environmental responsibility on all institutional and decisional levels is the great way, the fundamental axis around which finally appropriate policies and choices can be constructed.

Here again, the crisis of urban systems concerning the problem of smog can enlighten us. It is not possible to face it by remaining within the framework of environmental policies in the strict sense. Nor is it possible to face it *una tantum*, via intermittent applications. A number of elements-not only polluting agents-must be monitored at all times, as these elements are but the result of a thousand interwoven economic and social factors in addition to technical and scientific factors.

It is becoming necessary to develop-inside the public apparatus of the Municipalities, Provinces and Regions called upon to meet the challenge-human resources, institutional places and processes aiming to gain a constant and regular knowledge of, and responsibility for, the factors and processes that we want to manage. Naturally, it is not simply a matter of training technicians, since the problem consists of conferring their full responsibility on politics, on the forms of democratic representation, on elected officials and their advisers. More precisely, the problems and solutions cannot be examined or provided on a purely technical level because they contain and express contradictions, as well as interest and value contexts, that only politics

## Environmental Accounting as a Instrument of Sustainable Development

can deal with. This is a requirement not of environmentalism, but of politics as a whole.

This is, as we say today, a «bipartite» proposal, since the fact of necessarily vesting in it a more thorough and clearer responsibility in the light of environmental factors leaves to each force and to the resources of everyone, quite obviously, the freedom to search for and to give answers.

Various research and study centers (such as the economic forum of Davos, and, now, of New York) and different institutions-such as the EU, for instance-are in the process of elaborating and using sustainable management indicators in the broad sense. A constant and regular practice of environmental accounting is applied in several major corporations and groups.

On the political level, the proposed adoption of environmental accounting by government administrations, presented at the Rio conference and formally received by the European Parliament since 1995, is still being debated and tested.

It is now established that this proposal can be implemented in the form-desired by the European Parliament-of satellite accounts, parallel to economic and financial accounts but distinct from the latter, since we do not possess single yardsticks and units of measurement valid for both economic and environmental values.

The legislative activity of the Italian Parliament and the CLEAR-LIFE experimental project are taking this path.

During the past legislative period, a bill-prepared on the basis of a study by the National Council for the Economy and Labor as well as of contributions by various parliamentary forces-was approved by the Senate but did not manage to make its way to the Chamber.

During the present legislative period, the already approved framework bill has again been introduced in the Senate by the DS Group; it has also been put on the agenda of the XIIIth Committee on the Environment and the Territory, along with another (quite similar) bill subsequently introduced by Alleanza Nazionale.

As always, the progress made by the bills is problematic. However, today, this parliamentary proposal is supported by a greater measure of experiments in the field, which makes more concrete and more credible the model proposed that we gradually adopt in all Municipalities, Provinces and regions, and, of course, at State level.

The Finance Act for 2001 and an opinion issued by the Ministry of the Environment, presented even before the CLEAR project was approved, have placed the

testing of environmental accounting among their objectives.

Taking environmental accounting out of the laboratory of statisticians and researchers concerned with indicators, and causing it to become part of the ordinary life of institutions-beginning with the municipalities-is the essential and common goal of the bill and of the experiments now in progress.

The wealth of data, knowledge and analyses that we find in many reports on the state of the environment, as well as the final purpose given to statistical and information systems regarding the environment, are put in the service of a procedure which urges political bodies to assume, not only the duty to know the state of the environment, but also that of taking responsibility for the organization of data according to schemes useful to the evaluation process, for accounts that have their place in the political debate as well as vis-à-vis public opinion.

What the bill-and also the experiment-wants to define is the fact that, on the basis of a consolidated and reliable technique-based on groups of given environmental indicators and other valuation instruments-we can establish a budget document in the environmental field and subject it to a confrontation of points of view, a discussion and a vote by the municipal, provincial and regional councils within the framework of the budget session.

The evaluation, measurement, rendering of accounts and verification of the factors of sustainable management and of the quality of the environment would thus become an ordinary and stronger element of the democratic life of the local institution as a whole, and at its highest level.

Through its comparison and its procedural and political relationship with ordinary budget practice, environmental accounting could provide an adequate medium for a more aware, more responsible and more transparent decision-making capacity vis-à-vis the environment. In time, a high-level approach to the relation between the choices of the community (Municipality, Province, Region) and the economy, the territory and the environment would gradually be put in place.

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# Technical proofs of the CLEAR LIFE budget : the environmental accounting plan is born

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by Ilaria Di Bella

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Which data must the environmental budget of a specific municipality or of a defined province contain? How must one design a document reflecting the demands and priorities of the local administration and making it possible to monitor policies? What characteristics must it have in order to be approved at the same time as the traditional budget?

The reply to all these questions is found in the «accounting plan», a newborn named CLEAR LIFE. It is a kind of large matrix within which the policies applied by each partner organization are pooled in macro areas of competence, specifying in detail the commitments and activities implemented, and relying on physical and monetary indicators that make it possible to monitor the effects of the actions.

For example, one may say that the accounting plan looks somewhat like the budget tables of the State. It consists of a set of tables, one for each local competence in the environmental field, containing information on what has been done (or will be done in the case of the preventive budget) in a well-defined sector for the improvement and safekeeping of natural resources and ecosystems. Whereas the structure of the tables is the same for all partner agencies, obviously the contents change in accordance with the goals and priorities of each administration.

The accounting plan will constitute the backbone of the environmental budget that the partner agencies of the CLEAR project will approve by the early months of 2003.

**What must be reported on?  
One genuine discovery:**

**the environment is a  
«cross-business» matter!**

There are eight local areas of competence recorded in the accounting plan for Municipalities (public and private green spaces, sustainable mobility, urban development, water resources, waste disposal, energy, information and participation, other environmental management plans and activities) and nine for the Provinces (productive activities, water resources, safekeeping and management of the natural environment, waste, air, noise and electromagnetic pollution, energy, education and information, sustainable mobility, management of territories and soil utilization, the system of environmental management internal to the agency and other sectors).

The choice is made by the task forces on the basis of the environmental importance of the areas of competence that are the legal responsibility of municipalities and provinces, and results from the necessity to define, for the first year of experimentation, the sectors to be dealt with in the report on the environmental budget.

Each area of competence is in turn divided into «reporting sectors and sub-sectors» obtained by cross-referencing the 10 indicators of sustainable management of the Strategic Environmental Valuation (VAS) with the areas of competence.

For instance, as regards the area of competence of the Municipalities' public green spaces, the sustainable management criteria of the VAS are:

«keeping and improving the condition of the wildlife (flora and fauna), of habitats and landscapes» (criterion No. 4) and «keeping and improving the quality of the local environment» (criterion No. 7). The reporting sectors of «administration of public green spaces», «administration of private green spaces», «administration of natural systems» therefore provide for a series of sub-sectors ranging from maintenance to recycling, including the expansion of green zones which pools the actions and commitments of the agency as regards the zones containing public and private green spaces and the natural systems of the territory.

Such is, simplified to the extreme, the structure of the accounting plan.

But what should be put in the boxes? What does a municipality or province effectively do in each area of competence? And what has an effect on the environment?

In order to answer these questions and define in detail the policies and actions that the municipality and the province engage in, the teams dedicated to the experiment worked in collaboration with the auxiliaries and leaders of the departments involved: budget, Transportation, Public works, Productive activity. One of the goals of the project was in fact to record the environmental aspects of the different policies without being caught in the trap which consists of considering as environmental only the direct areas of competence of the departments concerned with the environment and ecology. Therefore, the discovery concerns the administration: the

## the environmental accounting plan is born

environment is a «cross-business» matter. And it may be beneficial to «contaminate» the other departments with the environment in order to ensure a better management of the cycle of financial and natural resources.

### Set priorities

By following the directives for the experiment that were defined in the «facilitation document» for the definition of policies and activities already implemented (final budget) or to be engaged in (projected budget), the teams that are part of the experiment (made up of experts and of municipal and/or provincial employees) reviewed the budget documents, the program planning documents, the executive management plans, the regulating plans, the provincial plans of territorial coordination and all the other planning and programming documents approved by the municipal and provincial committees and councils.

From this initial analysis arose a very long list of activities, actions and commitments of expenses in the process of being implemented by the local agency, which list was divided only into areas of competence (and which the persons assigned to the work jokingly nicknamed «the long list»).

The next step consisted of finding our way in it, i.e. of identifying the political priorities of intervention-still linked with the goals of the program- of each local administration by meeting and interviewing auxiliaries and managers.

Therefore, the accounting plan is not only a list, it is also a grid for identifying the goals and policies of the municipality or province through which one can understand (over time) the end purposes, the hierarchy of interventions and the results.

### Physical indicators, monetary indicators and

### reclassification of the budget

How can one measure the environmental efficacy of the different policies? After filling out the boxes of the sectors and sub-sectors of the accounting plan reports, it is necessary to choose physical and monetary indicators capable of pointing to the progress and the results of the actions, and therefore of providing precious information to the administrators and the population.

The philosophy of the CLEAR project is that of pointing to the «transition from the laboratory to the institutions», i.e. of drawing attention to the need to immediately produce a «tool box» for administrators instead of looking for perfect recording instruments.

To this end, the directives relating to the CLEAR LIFE experiment indicate quite a precise process, which consists of choosing data of a physical nature that are a more suitable match, within the framework of the set of data already furnished to the 21 Local Agencies, thanks to the Reports on the state of the Environment, for the program of 10 sustainable management indicators of the European Commission.

Each partner agency therefore chose its own physical indicators on the basis of the ones it already used, and associated it with the policies, activity and commitments. As common indicators, which will be defined in toto only at the end of the project, during the drafting-of-principles stage, there are 11 indicators of the European Union («Towards a local sustainability profile - European common indicators»), of which five are considered as mandatory and six as optional (for more information, consult the clear-life.it site, in the article «Metodi, Contenuti, Strumenti», and in the article «Indicatori»).

The accounting plan will also contain monetary indicators. The partners

have in fact reclassified the final budget according to the EPEA (Environmental Protection Expenditure Account) model of analysis of environmental protection costs developed by Eurostat, the Office of Statistics of the European Commission, which makes it possible to extrapolate and to examine the share of costs devoted to the environment (see the article by Clementina Chieffo). In certain cases, the gross indicator of political priority will also be constituted by the costs sustained in a specific area of competence.

# Birth of the CLEAR-LIFE Environmental Budgets

by Ilaria Di Bella

What is the structure of the environmental budget of a municipality or province? What data does it contain? What should it be like in order to become an instrument in the hands of local administrators?

A document just produced within the framework of the CLEAR-LIFE project workshops, entitled «Instructions regarding the preparation of the environmental budget», answers these questions.

What was heretofore only a theory is becoming a practice-the experimental phase has now reached the heart of the issue. The municipal and provincial councils of the CLEAR partners are scheduled to approve the first environmental budgets in January 2003. Before the beginning of February, all 12 municipalities and six provinces taking part in the initiative will also have adopted a «green» budget at the same time as the economic and financial budget. This is the first time in Italy that such a large group of local governments prepares an environmental budget in a coordinated way, and, especially, approves it after subjecting this document to the same review procedures as the economic and financial budget.

## The testing phase is over: the CLEAR-LIFE budgets are seeing the light of day.

The «Instructions regarding the preparation of the environmental budget» include the results and contents of the experimental phase, which involved all the partners and consultants in a coordinated manner and will come to an end in January after one year of work in the field and comparisons during monitoring seminars.

The «green» budget named CLEAR-LIFE contains both physical and monetary data concerning the state of the environment in the territory within the scope of the administration, as well as the main policies applied, which are examined «across the board», not simply by referring to the ones more closely related to the environment.

In accordance with the end purpose of the project, the 18 local governments decided, as regards the eco-budget, to follow the procedures used for the economic

and financial budget, even though, this year, the review will not take place during the same budget session due to considerations of time and also of political opportunity, as the intent is to seek the broadest audience possible for the first environmental budget. The document will therefore be on the agenda of the municipal and provincial councils of the partner administrations, which will discuss it and put it to a vote. Once this is done, the environmental budget will be able to be considered as a genuine satellite budget attached to the economic and financial budget. This is the first time that a sample of local governments engages in an experiment of this kind in Italy and also agrees to continue it during the coming years.

## The eco-budget index: Priority to the policies

The contents of the CLEAR-LIFE environmental budget (see box 1) reflect the indications relating to all the reports of the biggest organizations that have dealt with this theme, such as the guidelines of the Global Reporting Initiative, as well as the structure of the documents that will generally be submitted to the elected bodies of the local governments. The document will be discussed and voted on by the council.

The presentation of the environmental budget to the councilmen is backed by an introductory letter from the mayor or from the president of the Province, from an deputy or from the management executive in charge of following up the project.

After a preamble situating each «green» budget within the limits of the CLEAR project, co-financed by the European Commission within the framework of the LIFE-AMBIENTE initiative, the environmental accounting document mentions the salient aspects of the responsibility-inducing process implemented on the local level. In this context, it is a particularly important element, given that the eco-budget produced by each partner is still, in reality, only an experimental product that has to be improved and refined in the next few years. However, its implementation required a «cross-business» approach

## Birth of the CLEAR-LIFE Environmental Budgets

to the theme of the environment, involving several delegations and their respective structures in terms of organization. This, in itself, is a first major achievement of the project, since it aims to reform local «governance» by gearing it toward the integration of the environment variable in the decision-making processes.

Next, the «green» budget contains an analysis of the territorial context, which analysis is performed from the environmental, social and economic points of view. This is the chapter describing the situation at the outset, on which the policies must have an effect by identifying the strong and weak points of the municipality or province, the state of the environment and of natural resources, the particular characteristics and the critical areas of the landscape, of the urban structure, of the infrastructures, of the productive fabric, as well as the economic and social development orientations and the main surrounding problems. It is also the chapter in which the interdisciplinary aspect of ecology appears most clearly, including, especially, the need to take into consideration, all at the same time, in order to be effective, the three keys of sustainable development—the social, environmental and economic dimensions.

This is the context in which takes place the consultation of what one calls the stakeholders, i.e. the social groups and the main organizations present in territory—from labor unions to trade associations, from schools and academic institutions to environmental defense associations, from neighborhood local-interest committees to volunteer organizations, from senior citizens' centers to parishes. The discussion of the structure and of the final purpose of the environmental budget with the stakeholders was organized by the local government partners within the framework of the Agenda 21 Forum or by means of ad hoc meetings. The goal was to produce a budget that also meets the demands for information of the local society.

However, the policies or strategies, plans or interventions that the municipal or provincial administration implemented or scheduled to implement in the various sectors (not only that of the environment), are what dictates the rules in the CLEAR-LIFE environmental budget—from urban development to energy, from mobility to waste disposal. As we have already reported in the present newsletter (see «Technical effects of the CLEAR-LIFE budget: the environmental accounting plan is born», Environmental Accounting No. 2), the starting point of the implementation of the environmental accounting system truly was the review of the sector-by-sector policies, their classification by area of

competence, and, consequently, the association of physical and monetary indicators able to measure their capabilities and their efficacy over time.

The local teams isolated eight areas of competence for municipalities (public and private green spaces, sustainable mobility, urban development, water resources, waste disposal, energy, information and participation, other environmental management plans and activities) and nine for provinces (productive activities, water resources, safekeeping and management of the natural environment, waste disposal, air, noise and electromagnetic pollution, energy, education and information, sustainable mobility, management of the territory and soil utilization, the system of environmental management internal to the local government, and other areas). Next, they analyzed, by reviewing the budgetary and program planning documents and holding discussions with the auxiliaries, the policies in the process of being applied (for the final budget) and those already scheduled (for the budget projection), and they «itemized» them appropriately.

In the environmental budget document, the result of this work may be perused under the heading «Priority commitments of the local Government», which precisely reports on the orientation of the administration, as well as under the headings «Physical accounts» and «Monetary accounts».

### The budget core: Physical accounts and monetary accounts

The true core of the environmental budget consists of the immediately succeeding chapters, which contain the physical accounts and the monetary accounts of the local government.

The «Physical accounts» heading includes in fact what is called the «accounting plan» of the municipality or province, namely an articulated system of tables (one for each area of competence of record), in which one or more physical indicators are associated with each policy or intervention in such a manner as to be able to check its effectiveness and capabilities. The indicators are chosen among the 10 European sustainable development indicators already contained in those used by each administration within the framework of the Report on the state of the environment, while limiting the reliance of new costly measurements to a minimum, in order to adjust, as much as possible, the final purpose of the instrument as an aid to the decision-making process.

## Birth of the CLEAR-LIFE Environmental Budgets

The monetary accounts, whose use was explored in depth by certain local governments in the group, consist of the reclassification of the economic and financial budget made through the EPEA (Environmental Protection Expenditure Account) model of analysis of environmental protection expenditures that is part of the European SERIEE system (European System for Gathering Economic Information on the Environment). During this phase of the experiment, a good many partners in the group reclassified the final budgets for 2000 and 2001. On the other hand, the municipality of Caviago (province of Reggio Emilia) reclassified the budget projection for 2003, by submitting to the Council the data obtained in December 2002, at the same time as the economic and financial budget for the following year.

The next heading, «Complementary data», is supposed to include the information relating to the enhancement of the natural heritage and to the accounts rendered to the higher-level organizations, that is to say the data and indicators suggested by the Region of Emilia-Romagna (a partner in the project).

### The budget for the year 2003

During this experimental phase, the CLEAR-LIFE environmental budget mainly relates to operations already completed, but also contains budget lines projected for 2003. In general, the program planning part for the following year is described in «Priorities for the year 2003» (see box 1), and also-for the governments which also participate in the «Eco-budget» project and those which wish to venture in the operation-in the quantitative annual sustainable management goals, precisely defined as being «the Targets».

In 2002, the data of the (economic and financial) budget projection developed by the administrations between October and December were still not available for purposes of the experiment, and were thus sheltered from the review conducted by the municipal or provincial council.

In principle, however, there will be two environmental budgets examined by the elected bodies of the municipality or province, one projected and the other final, completely analogous and parallel to the budget documents. The examination and approval of the two (environmental and economic/financial) budgets by the council will also have to take place at the same time in order to guarantee the comparability, the reciprocal influence and the «cross-referencing» approach of/to the environment themes.

The lead municipality of CLEAR, Ferrara, also participates in the LIFE «Eco-budget» project, which precisely consists of defining annual targets in environmental matters as priority objectives of the administration. For instance, a municipality may undertake to reduce the discharge of carbon dioxide or benzene in the air, to increase the percentage of collection of sorted waste, or to extend green spaces by implementing ad hoc policies on a sector-by-sector basis. Each objective must be matched by a quantitative parameter (e.g. tons of CO<sub>2</sub> or tons of sorted waste collected) to be complied with during the following year. The effectiveness and the capabilities of the policies implemented are evaluated on the basis of the results achieved.

The possibility to supplement the CLEAR-LIFE environmental budget with the Eco-budget is interesting and has a wealth of implications. As a result, this possibility was inserted in the «Instructions» as an option. The targets set in advance by the local government have the same function as the limit of expenditures of the economic and financial budget, by guaranteeing the opportunity to verify the effects of policies in a clear and concrete way and to achieve transparent results, an objective in which the administration as a whole is involved-not only, through force of circumstance, the delegation in charge of the environment.

# The monetary accounts of the Province of Naples

## Some observations on the application of EPEA scheme

by Clementina Chieffo

Président of the Association of Corporate Environmental Economists

We are now concluding phase of the process of local testing of the CLEAR-LIFE project, and it may therefore be interesting to dwell a while on the choices that the Province of Naples has made in the area of environmental budget expenditures.

In a previous article, I dealt with the problems relating to the initiation of the process of evaluation of expenses (see, in this regard, «Environmental expenses in economic and accounting terms», Environmental Accounting, no. 2). On the other hand, it is now necessary-it is not an easy task- to give detailed explanations of the results achieved, of the difficulties faced, as well as of the ambiguities we had to confront in this work in order to set in motion the virtuous circle of continuing improvements.

Before venturing to tell how we designed environmental accounts, I must not forget to thank the entire task force of the Province of Naples, including the Division of Community Policies (C. Pomella and C. Manzo), General Accounting (A. Concione, A. Sena and G. Cruiscuolo), the Division of the Environment (N. Napolitano, B. Mazza, A. D'Agostino and A. De Francesco). Without their enthusiasm and their patience, we could not have achieved this result.

For the Province of Naples, the reclassification of monetary accounts concerned the final 2001 Budget and the related EMP (Executive Management Plans) as a whole. We are now in the process of reclassifying the 2002 Budget projection.

For purposes of the experiments, we found it useful to ascertain which results, in terms of valuable information, may be derived from a final budget, and, in particular, which problems are posed by the reclassification of expenses for a budget projection. Obviously, by working on already approved documents (such as, precisely, the latest final budget available), the time taken to discuss the political orientation relating to the destination of expenditures of the regional government is missing at the experimental stage. The time gap existing between the experimental project and the periods of approval of the annual budget projection and of the report of projections and program planning for the year 2003 will not allow the majority of the

partners taking part in the project to discuss the first environmental budget projection at the same time.

The reclassification was made on the basis of a table, shared by all other project entities, designed in such a manner as to interconnect budget chapters with each account of the EPEA form (Environmental Protection Expenditure Account) as well as with the different accounting sectors already defined previously in the context of the CLEAR project.

For each EMP corresponding to a division of the Province, all expense headings were analyzed so as to characterize the benchmark project, and, on a corollary basis, to select the headings to which an «environmental» character may be attributed. These headings were then reclassified according to the abovementioned table.

In the first section of the table, the following data were inserted:

- a code comprised of four digits corresponding to the type of expenditures, the function, the intervention and the chapter, respectively;
- the type of expenditures (current/investment);
- the number of the budget chapter;
- the type of funds (remainders/competence);
- the project identification number;
- the amount «paid out».

In the second section, relating to the EPEA, each expense heading was reclassified and charged to one of the nine EPEA sub-accounts corresponding to the classes of the CEPA (Classification of Environmental Protection Activities). This scheme was used for reclassifying a provincial budget for the first time.

It should be understood that, by doing the reclassification according to the EPEA scheme, no heading was added, which means that the scheme was not adjusted (expanded) by adding expense headings recorded, in particular, on the basis of specific accounting sectors. This choice was imposed by the necessity to check that the EPEA matches a sector-based statement. In fact, we reasoned on the basis of the applicability of a model national statement to a local reality. In the final analysis, we found that, just as

## The monetary accounts of the Province of Naples

### Some observations on the application of EPEA scheme

there exist, by comparison, differences in expression between the Budget of the State and that of regional governments, there is, likewise, a difference between the EPEA and the accounting sectors, expressly spread over a system of statements of environmental expenses in a local sector, even if the accounting method may be the same.

For the «Environmental Budget» section, each selected expense heading was classified on the basis of the accounting sectors and sub-sectors determined within the framework of the coordinated testing of the project.

During this phase of the testing process, the first problem concerned the reclassification of general operating expenses borne by each division. Given the difficulties faced when one tries to obtain precise data about the costs of personnel employed in projects of an «environmental» nature, it was decided to charge operating costs on the basis of values (expressed as percentages) proportional to the costs borne by the division for the projects in question.

However, major difficulties were encountered on the level of the link between the expense headings and the EPEA sub-accounts. The following was noted:

- difficulties relating to the choice of the EPEA sub-account to which certain types of expenses should be charged;
- the absence of sub-accounts lending themselves to the reclassification of expenses relating to areas of competence taken into account in the definition of the accounting sectors;
- the risk linked with the loss of information on qualitative expenses, particularly because of the absence of a corresponding EPEA account compared to the specific sector of accounting. It is hazardous to use «Other environmental protection activities» in a very general way.

In the first case, the problem appeared mostly in connection with the reclassification of expense headings relating to the following projects: «Study, follow-up and performance of work for urgent interventions in defense of the soil» and «Topographical record of the stream...». Due to the lack of specific headings in sub-account 4, «Defense of the soil and underground water», it was deemed useful to record the abovementioned expenses in sub-account 8, «Research and Development». However, one is not quite clear about the types of expenses that the latter must rigorously contain, i.e. if it is necessary to mention in this heading the costs exclusively borne for technological innovation projects aiming at environmental protection and preservation.

As far as the second point is concerned, we were able to observe that the EPEA account does not provide for any activity within the purview of the provincial government in environmental matters, and that, as a result, it is inconsistent with the accounting sectors chosen within the framework of the project. For instance, reference is made to activities that come under the following domains:

- tourism and culture - the expenses relating to the projects to promote and develop the tourist and cultural resources of the Province of Naples were charged to sub-account 9, «Other environmental protection activities»;
- water - the EPEA only takes into account waste water and underground water, but these two aspects are not the only areas of competence of this regional government. The problem came up, in this specific case, in connection with the expenses relating to the contributions [made] by the sector agencies;
- energy and transportation - the absence of sub-accounts devoted to these items creates difficulties in terms of the reclassification of headings that relate, for instance, to the Energy Plan, to interventions for the promotion of alternative energy sources or for sustainable mobility.

These are headings that must necessarily converge to sub-account 9, thus limiting the clarity and transparency of the budget because of an erroneous explanation of the information pertaining to the management of environmental expenses.

These are a few of the difficulties and uncertainties that appeared during our work, but all this must and will be useful to the development of a better recording system.

During the experiment concerning the monetary accounts and their classification in terms of environmental expenses, it seemed quite obvious that the EPEA account does not allow a complete representation of the accounting sectors. At the same time, the accounting sectors better express the relation between environmental policies and the commitments of the regional government in terms of environmental expenditures, whether final or projected.

To a first classification of environmental expenses according to the EPEA scheme, one must therefore also add the classification of expenses as a function of other classifications that make a distinction between current and investment expenses, and that separate costs, within each theme, on the basis of the type of intervention (prevention, maintenance or repair) as

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well on the basis of the type of direct intervention or transfer (partnerships, etc).

In conclusion, I believe it is important to remind everyone-and myself in the first place-that this is an experiment involving the initial phases of the implementation of a process. At the same time, I also want to emphasize that, contrary to the economic and

financial accounting that has heretofore been the only expression of a «quantitative welfare» situation, the existence of environmental accounting, albeit on an experimental basis, represents a first expression of «qualitative welfare values». I think and hope that we will build the future with these.

# The operating manual is coming

## Step by step, it explains how to prepare the Environmental Budget of a Municipality or Province according to the CLEAR-Life Method

by Ilaria Di Bella

The CLEAR-Life project has been concluded successfully. The 18 local government partners have approved their respective Environmental Budgets, which contain a budget for last year (and, in some cases, even for 2001), plus projected budget lines for 2003, so that it can be attached to the traditional economic and financial budget. The eco-budget has in fact followed the same institutional procedure as the other economic and financial program documents-it has been reviewed and approved by the auxiliaries, the proposal has next been submitted to the competent committees (mainly the Environment and Budget committees), and finally it has been discussed and approved by the municipal or regional council.

This is the first time in Europe that so many local administrations approve an environmental Budget, which, moreover, is the result of two years of experiments made in coordination with the same procedures used for the economic and financial budget.

In June, the executive committee, composed of the political and administrative representatives of all the partners, gave the green light to the preparation of the manual of operations (CLEAR method: from accounting to environmental policy): It consists of the directives to be used, based on the experience just completed, for the preparation of a «green» budget according to the tested method, the characteristic of which is that it favors a so-called «political» approach, i.e. the provision of an instrument useful to the administrators of municipalities and provinces, with a view, not only to set the priorities of interventions, but also to evaluate the effectiveness of,

and the capacity for, actions, interventions, plans and programs in all sectors where an impact on the environment is felt.

### The operating manual

The CLEAR Method groups all the items of which the operating manual is composed. Various authors helped introduce the philosophy that underlies the experiment; the central part of the volume describes the method applied, designs a benchmark model and provides information on the main problems to be tackled as well as a few solutions, both theoretical and practical. The attachments contain examples, tables and accounting summaries that may be useful when drafting the budget.

The volume will be available in September, along with a CD (The CLEAR project: instruments, methods, results) which also contains the methodological instruments, the budgets approved by all the local governments, as well as articles commenting on and evaluating the results.

### The benchmark philosophy

The approach consists of passing from «counting» to «accounting» to «rendering accounts», a model that can be translated into English by two words, «accounting» (i.e. «keeping the books») and «accountability» (i.e. «rendering accounts», which also means «taking responsibility for one's statements»), where the second phrase marks a step supplementing the first.

The «counting» phase is that of monitoring and collecting data on the

state of the environment and on the main dynamics interconnecting the economy (and, therefore, man and his activity) and the ecosystems. It cannot depend exclusively on political decisions, but it is certainly a fundamental starting point.

In the next phase of «accounting», the data, information, knowledge of the environment and of interactions with human activities are introduced in the system so as to be able to establish relations, if not of cause and effect, at least of interconnection and influence between economic and social systems and the different forms of pollution. Thus is born the Report on the State of the Environment, a sort of eco-photograph of a specific territory which makes it possible to trace the outline of the trend and of the results of environmental phenomena.

In sum, by «counting» and «accounting», it is possible to «administer what one measures», i.e. to manage information on the environment-which, without this, would be doomed to end up in the data cemetery-in order that it may be of use. This is what English-speaking people call «accounting»: we are already in the sphere of environmental accounting, but not at its acme, that of «rendering accounts». This approach may correspond to the word «accountability», which truly has heavier implications but has no real precise equivalent in Italian.

Indeed, rendering accounts means «accountability»: for a public administration headed by elected bodies as well as on the level of a local government, this implies the acceptance of responsibilities vis-à-vis

## The operating manual is coming

a specific state of the environment, especially as regards the impacts, positive as well as negative, of the economic, social, sector-based policies on the ecosystem of reference. And since the policies applied by a municipality or a province depend on the competences allocated to the local community by the law and on the state of health of the territory, as well as on the priorities set by the administration's program, and, therefore, on the decisions made by the committees and councils, the adoption of a «green» budget (according the philosophy of «rendering accounts») has translated into the fact of guaranteeing more transparency, democracy, and, hence, good «governance» to the citizens. In brief, it means «measuring what is administered by the local government».

To the process that has just been described also corresponds a historical change in environmental management instruments. From the simple monitoring and collection of «gross» data of the 1980s, during which, in Italy, the delegations dedicated to the environment and the corresponding ministry were created, we have moved, during the 1990s, to Reports on the State of the Environment, and then to the adoption of more sophisticated instruments such as environmental management systems, Agenda 21, environmental accounting, and, in the end, the eco-budget.

### Definition of the accounting structure

The first question one asks when preparing to draft the environmental

budget of a local administration is: what must we account for?

The question may seem banal, but it is far from that, since we have been accustomed to consider as «environmental» only policies that directly relate to the sector of the environment, i.e. green spaces and parks, interventions for cleaning up polluted areas, in certain cases the defense of the soil, information and education about sustainable development, and nothing more. In reality, the sectors that have more effects, direct or indirect, on the environment are productive activities, public works, urban development, energy, transportation.

The greatest challenge that the project had to face was trying to develop an «interdisciplinary», «cross-business» view of the environment, trying to evaluate the impact on the

**Table 1**

#### Accounting structure for a Municipality

##### AREAS OF COMPETENCE AND ACCOUNTING SECTORS

|                                                      |                                                                                                                                                                                                                                                                   |
|------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. URBAN GREEN SPACES AND PROTECTION OF BIODIVERSITY | 1.1 Administration of public green spaces<br>1.2 Administration of private green spaces<br>1.3 Administration of natural systems<br>1.4 Protection of animals                                                                                                     |
| 2. SUSTAINABLE MOBILITY                              | 2.1 Interventions on infrastructures relating to sustainable mobility<br>2.2 Sustainable management of mobility<br>2.3 Technologies and measures to be used for reducing the impact of traffic                                                                    |
| 3. SUSTAINABLE URBAN DEVELOPMENT                     | 3.1 Criteria for the sustainable management of planning instruments<br>3.2 Recovery and improvement of the urban environment<br>3.3 Recycling and recovery of abandoned industrial sites<br>3.4 Reduction of the impact of public works on the environment        |
| 4. WATER RESOURCES                                   | 4.1 Management of the water supply<br>4.2 Management of waste water<br>4.3 Control of bodies of water                                                                                                                                                             |
| 5. WASTE                                             | 5.1 Orientations to be followed for waste management<br>5.2 Management of the collection and recovery of materials / of energy derived from waste<br>5.3 Control of the environmental impact of waste management                                                  |
| 6. ENERGY RESOURCES                                  | 6.1 Planning in the field of energy resources<br>6.2 Reduction of the environmental impact of the public use of energy resources<br>6.3 Control of facilities                                                                                                     |
| 7. INFORMATION, PARTICIPATION, INNOVATION            | 7.1 Education, training and consciousness-raising in sustainable development<br>7.2 Listening to and discussing with the local government<br>7.3 Instruments, practices and procedures for reducing the environmental impact of the local government's activities |
| 8. OTHER COMMITMENTS ON THE ENVIRONMENTAL LEVEL      | 8.1 Other possible accounting sectors not included in the above                                                                                                                                                                                                   |

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territorial ecosystem of the main sector-based policies, not simply those typically defined as environmental. Therefore, the problem was to define the «sectors» of the environmental budget, i.e. the limits of the activity of «rendering accounts».

What was later called «areas of competence» was obtained by cross-referencing the sustainable management criteria of the Strategic Environmental Evaluation used by the European Union in order to evaluate projects, plans and programs, and the competences attributed to the Municipality and the Province by the law. Each area of competence was then divided into

several detailed accounting sectors. For Municipalities, there are eight areas of competence, and for the Provinces, ten.

As one can see in the two tables reproduced above, the fields of transportation, energy, urban development, as well as those, more conventional, relating to the management of waste, water resources and green spaces, were considered as sectors subject to environmental effects. Obviously, this conventional classification established by the partners can be broadened in future so as to include the sector of social policies, for example.

## Definition of the policies

But what is the procedure to be followed by a Municipality or Province wishing to prepare its environmental budget?

According to the philosophy of the project, the sieve that made it possible to filter the approach of administration dynamics was that of policies. It was said that, in order to be able to make decisions and intervene, the administrators (mayors, Provincial presidents, auxiliaries, municipal and provincial councilmen) need a «tool box», i.e. instruments making it possible to understand what the environment

**Table 2**

### Accounting structure for a Province

#### AREAS OF COMPETENCE AND ACCOUNTING SECTORS

|                                                       |                                                                                                                                                                                                                   |
|-------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. NATURAL ENVIRONMENT                                | 1.1 Preservation of the flora and fauna<br>1.2 Creation and management of protected natural areas<br>1.3 Enhancing the value of the natural                                                                       |
| 2. WATER RESOURCES                                    | 2.1 Planning<br>2.2 Management<br>2.3 Monitoring                                                                                                                                                                  |
| 3. AIR, ENERGY, NOISE, ELECTROMAGNETISM               | 3.1 Air<br>3.2 Energy<br>3.3 Noise<br>3.4 Electromagnetism                                                                                                                                                        |
| 4. TERRITORY AND SOIL UTILIZATION                     | 4.1 Planning<br>4.2 Protection of the soil and of the coast line<br>4.3 Monitoring                                                                                                                                |
| 5. PRODUCTIVE ACTIVITIES                              | 5.1 Farming<br>5.2 Industry, commerce and crafts<br>5.3 Tourism, sports and culture                                                                                                                               |
| 6. WASTE                                              | 6.1 Planning<br>6.2 Management<br>6.3 Monitoring                                                                                                                                                                  |
| 7. TRANSPORTATION AND ROAD WORK                       | 7.1 Public transportation planning<br>7.2 Public transportation management<br>7.3 Road work planning<br>7.4 Road work management                                                                                  |
| 8. INFORMATION, EDUCATION, TRAINING AND PARTICIPATION | 8.1 Joint and shared program planning<br>8.2 Information and education<br>8.3 Outward-looking training                                                                                                            |
| 9. INTERNAL MANAGEMENT OF THE ENVIRONMENT             | 9.1 Environmental management systems<br>9.2 Reduction of internally generated effects<br>9.3 Internal training activity geared to sustainable development<br>9.4 Optimizing the management of the common heritage |
| 10. OTHER COMMITMENTS                                 | 10.1 Other possible accounting sectors not included in the above                                                                                                                                                  |

## The operating manual is coming

and natural resources have to bear, what can be done with the available financial budgets, what are the most productive «green» investments.

Therefore, one must, above all, define the environmental effects of the main policies applied by local governments. Each Municipality and each Province must draw up a list of policies, divided into sectors, goals and activities, and then reclassify this mass of data (coming from the documentary analysis of political programs, reports, plans and budgets) according to the accounting structure adopted that can help to make the environmental aspects of each intervention clearer. The idea is to «make explicit» the policies in favor of the environment, and, therefore, to bring to light their order of priority, which will of course be the product of the committee's intentions. The players involved in this work, in addition to the management executives and the teams organized for the experiment, are the auxiliaries and their superiors, not only those in charge of the Environment, but also those in charge of the budget, of Transportation, Urban Development or Public Works.

The end result is a detailed list which, by itself alone, illustrates the final data of the environmental accounting system, given the wealth of information it contains on the political strategies already implemented for the environment or at the stage of program planning for the territory. The manual recommends the direct involvement at this stage, not only of the administrative machinery, but also of the auxiliaries, as this is very important in order to achieve

satisfactory results.

### Definition of the accounting system

After «declaring» what the environmental aspects of the policies are, one must prepare an accounting plan, which means choosing the physical indicators to be associated with the corresponding headings of the accounting structure, i.e. the orientations, objectives and activities. The starting point was not to create a new set of indicators, but at most to distinguish, among those already used by the local government partners (for the Status Report on the Environment, for Agenda 21), the ones that are most useful to the monitoring of policies and to the evaluation of their efficacy and capabilities.

In this regard, the 18 local government partners that took part in the project were already at the vanguard as far as the adoption of systems for monitoring the territory are concerned. All of them are members of the Italian Coordination of Agenda 21 and regularly publish a Status Report on the Environment; some hold the EMAS or ISO 14001 certification, others had already tested the first forms of eco-budgets.

Each Municipality and each Province were, at the outset, already in possession of several hundred physical indicators, perhaps even in the form of a historical sequence, concerning, for example, air or water quality, water and energy consumption, the production of waste and pollutants in the territory used as reference. The idea was to introduce order in this enormous quantity of data, and

especially to relate the information to the actions of the administration in order to be able to develop projections and programs and to evaluate their effects later.

The procedure followed during the experiment, and proposed in the manual, consists of choosing, among the physical indicators on the basis of which a local government already collects information, the ones that are the simplest and easiest to record, the ones most closely linked with the competences, policies and objectives of the local government, and, above all, the ones that are most meaningful to the administrators and stakeholders.

The project partners are of the opinion that it is desirable, in time, to adopt the series of 10 indicators plus one of the ECI (European Common Indicators) program of the European Commission, designed for the urban environment and directly transferable to the municipalities in its present form, but, on the other hand, that this series should be adjusted in the case of the provinces.

The accounting plan is the accounting system of the local government. It must be managed by computer so that we may know every year exactly where to look for the data and how to process them.

### Environmental expenses

Environmental accounting provides for a specific section of monetary accounts based on the analysis and reclassification of the local government's budget documents. The purpose is to identify the expenses relating to the environment, whether already incurred or projected, as well as their

#### Box / Difference between orientations, goals and activities

Orientations are the summary commitments, covering a certain period of time, which go beyond the term of office of the administration and which are fulfilled through a coordinated set of short- to medium-term objectives.

Objectives are the strategic short- and medium-term commitments contained in the program for the term of office, in the revision and program planning report, or indicated by the administrators.

Activities are the main actions already taken or which must be taken in the short term in order to pursue the environmental policies of the local government.

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apportionment according to the areas of competence and the accounting sectors used for the classification of policies and physical indicators.

Although the starting point concerning the economic and financial reclassification was the EPEA (Environmental Protection Expenditure Account, from the SERIEE community system), the manual explains that, at the end, a broader definition of «environmental expenses» was provided, and that «green» expenses must be controlled and easily identifiable in the accounting of the local government, that they must have a direct positive effect in environmental terms, and, lastly, that they must be global and not be presented in the form of partial percentages of certain expense headings.

The reclassification is based on the data presented in the financial accounts (the economic accounts, even if they «stick» more closely to the information requirements of the eco-budget, are not common enough in local governments), the documents to be analyzed are, mainly, the Calculation of the real cost, the Budget projection and the Executive Management Plan.

The expenses for which an environmental content has been recognized are then reclassified in accordance with the areas of competence of the accounting structure (see tables 1 and 2). It is also possible to relate, in a more detailed manner, the expense headings to the accounting sectors. It is obvious that the «amounts earmarked» by the local government account for defined policies (i.e. established priorities), «expense commitments» account for the relative state of progress of the implementation of policies, whereas the «amounts paid» by the local

government account for the effective performance of interventions.

It is also recommended to involve the persons in charge of Accounting in the operations relating to the monetary accounts.

A separate chapter concerns the local public services companies which take care of managing water supply, waste removal and urban transportation. For a more realistic picture of the municipal or provincial environmental expenditures, one must also insert a table of these companies' budgets in the environmental Budget of the local government.

### The activity report

The operating manual devotes a whole chapter to the phase of the activity report, which is the most important phase for the preparation of the environmental Budget in compliance with the principles by which it is inspired (increased transparency and responsibility, improved «governance»). When preparing the accounts, it is indispensable to involve all the partners who took part in the construction of the accounting system, including, in particular, the auxiliaries, who must in fact render

accounts for their past or future activity (final environmental budget, environmental budget projection). Therefore, this is a phase of direct responsibility which prepares the phase of discussion of the final document by the auxiliaries, the committees and the municipal council. All the partners used the same accounting scheme.

### The «governance» system

The ultimate goal of the project is to improve local «governance», i.e. all the rules of control and conduct which characterize the administration of municipalities and provinces. The environmental Budget is a factor of increased transparency and fosters the taking of responsibility by the social partners. This is why it must follow the same institutional procedure as the economic and financial budget and the main program planning documents, since this guarantees a democratic discussion of its content and makes it possible to take environmental problems out of their niche and to confront them with economic and social problems profitably. The process ends in approval by the municipal or provincial council, if possible at the same time as the other economic

#### Accounting scheme

|                               |                                                                                                                 |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------|
|                               | LETTER OF PRESENTATION<br>ABSTRACT<br>CONTENTS<br>PREAMBLE                                                      |
| PART I FRAMEWORK              | METHODOLOGICAL ASPECTS<br>THE TERRITORIAL CONTEXT USED AS REFERENCE<br>THE EXPECTATIONS OF THE LOCAL GOVERNMENT |
| PART II budget                | ENVIRONMENTAL ACCOUNTS<br>ENVIRONMENTAL EXPENSES<br>COMPLEMENTARY DATA                                          |
| PART III PROJECTED DIRECTIVES | PRIORITIES FOR THE FOLLOWING YEAR                                                                               |

#### Box / Definition of the environmental expenditure as elaborated by the CLEAR partners

«There must be considered as having an environmental character the expenses sustained for activities of prevention, reduction, elimination and monitoring of pollution, restoration and sustainable management of the territory»

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documents, even though it would be better not to present it as an attachment to the financial budget so as to prevent it from losing some of its interest.

Another fundamental chapter is the necessary complementariness between the «green» budget and the other ordinary instruments of the local government (such as the Executive Management Plan, the Development Plan, the service contracts entered into with local public services companies, the Report of projections and the program planning Report).

The structure of the accounting plan and the accounting system must be discussed with the interest groups present in the territory (the «stakeholders»: miscellaneous associations, schools, trade unions, schools, parishes, immigrant communities, etc.), this also with a view to increase the spreading of responsibility.

In the priorities of the local government, it is possible to include a specific chapter devoted to the targets, the medium-term objectives which, in terms of percentages or absolute values, quantify the local government's commitments to reduce the consumption of natural resources, the production of pollutants, as well

as those relating to other levels of environmental services.

This concerns the application of another project named Life, the Eco-budget of ICLEI, the final data of which can be profitably included in the environmental budget named CLEAR-Life.

### The environmental budget in fact

During the phase of introduction of the environmental accounting process, the eco-budget is, in general, approved once a year, at the same time as the budget projection. In reality, however, the eco-budget follows the same path as the traditional budget, which means that two separate documents are approved: a final budget for the past year and a projected budget for the upcoming year.

What is about to be concluded is but an experimental phase of adoption of the eco-budget. There is no doubt that the method and the procedures followed can probably be improved.

The thorniest part is that concerning the relation between the real competences of the local government and the solution of environmental problems, whose dimension is «global» by nature.

But other questions are still open pending the continuation of this experience.

First of all, one must promote its integration in a major way in the other sustainable management and territorial management instruments adopted by the local government, and, second, one must take into consideration the activity of local public services companies and provide for integration in their budgets.

#### Box 1 / Contents of the environmental budget

Letter of presentation  
Preamble

1. Methodological aspects
2. The municipality/The province
3. Expectation of the stakeholders
4. Priority commitments of the Local Government
5. Physical accounts
6. Monetary accounts
7. Complementary data
8. Priorities for the year 2003

#### Box / Structure of the environmental budget in fact

| Projected budget                             | Final budget                               |
|----------------------------------------------|--------------------------------------------|
| Projected environmental budget               | Calculation of the real environmental cost |
| Letter of presentation                       | Letter of presentation                     |
| Abstract                                     | Abstract                                   |
| Contents                                     | Contents                                   |
| Preamble                                     | Preamble                                   |
| <b>Part I - Framework</b>                    | <b>Part I - Framework</b>                  |
| 1. Methodological aspects                    | 1. Methodological aspects                  |
| 2. The territorial context used as reference |                                            |
| 3. Expectations of the local government      |                                            |
| <b>Part II - Estimates</b>                   | <b>Part II - budget</b>                    |
| 4. Priority commitments                      | 2. Priority commitments                    |
| 5. Environmental policies                    | 3. Environmental accounts                  |
| 6. Projected environmental accounts (target) | 4. Environmental expenses                  |
| 7. Projected environmental expenses          | 5. Complementary data                      |
|                                              | 6. Environmental priorities                |

# Regional bills for the adoption of «green» budgets

An interview of Alessandro Bratti,  
the deputy in charge of the Environment at the municipality of Ferrara

Regional bills for the adoption of «green» budgets by municipalities and provinces. Such is the proposal made by Alessandro Bratti, the deputy in charge of the Environment at the municipality of Ferrara, who, commenting on the first eco-budget of the city of Ferrara, truly sees, in a prospective regional law in Emilia-Romagna, the most immediate and most profitable development of the successful «experience» of the CLEAR-Life project.

Deputy Bratti, the municipality of Ferrara has just approved its first environmental budget within the framework of the CLEAR-Life project, of which it is the leader. Are you satisfied with the way in which the document was received by the other members of the commission and the municipal council?

*Yes, I am extremely satisfied, particularly with the reception of the environmental budget by the municipal council. We had the opportunity to explore the theme in depth and in great detail within the competent committee of the council, with two preparatory meetings, which explains how the councilmen were able to understand the purpose and the content of the budget perfectly.*

According to the basic assumptions of the CLEAR-Life project and to the content of the first environmental accounting bill of the government Administration, the environmental budget is subject to the same procedure as the economic-financial budget. Does this choice seem positive to you? Why do you think that the environmental budget can be an effective support instrument for the decisions of municipal administrators?

*The choice is positive, even if the financial budget is now a consolidated budget which complies with specific rules. The fact of discussing the environmental budget concomitantly with the review of the financial budget was undoubtedly positive, even though I believe that we must take care not to create expectations which, one way or another, might lead to disillusionment. Next year, and in the years to come, we will always have to see to it that the presentations of the two budgets coincide. This is a very important criterion of the environmental accounting act now under review by Parliament. The bill truly gave us an excellent opportunity to experiment, and I now believe that this experiment can in turn help the law. When the*

*regulation procedure began, we did not clearly know what the environmental budget of a municipality or province was. Today, I think that if the legislator finds a little time to read these budgets, he or she will immediately realize that this instrument is relatively inexpensive, extremely useful and not very difficult to apply.*

Looking at things in greater detail, the CLEAR-Life environmental budget reconciles physical accounts constituted by indicators and monetary accounts that make it possible to establish the magnitude of environmental protection expenses. Does this way of formulating things seem effective to you? According to you, what are the strong points and the maneuvering room available for making improvements?

*The reconciliation of physical accounts and monetary accounts is unquestionably quite important. What is fundamental is the adoption of a methodology that can be used in future. I think this is especially valuable for monetary accounts. The indicators used for preparing physical accounts are always more or less the same, because we have a more precise idea of the truly useful data. If we speak of square meters of green spaces per inhabitant, these can be calculated in different ways, but the result does not change.*

*On the other hand, when we speak of environmental expenses, and therefore of monetary accounts, we must be quite clear about what we are talking about; hence, it is indispensable to always use the same method. Even within our project, there is one person who booked the ICI (City Real Estate Tax), or even urban development expenses, in environmental accounts, because they are, so to speak, environmental expenses. It would be better to define, with great attention, what the environmental expense corresponds to and how to calculate the corresponding costs. Next, everyone must observe exactly the same criteria, because otherwise there is a risk that we will speak of different things or give the same name to things that are not the same.*

The CLEAR-Life project is ending on a clear success. Many local governments have already expressed interest in the proposed model and in the procedures adopted, which are totally novel because they are based on the central character of the decision-making moment, and therefore on the need to think of instruments that are

## Lois régionales pour l'adoption de budgets «verts»

truly useful to administrators. According to you, what are the future prospects of the municipal environmental budget?

*On the local level, that of the municipality, I think it is important that the environmental budget become part of the routine of the administration. We are currently working with a view to the presentation of the 2003/2004 budget. I believe that the environmental budget is one of the most effective integrated decision-making instruments now available.*

*As regards the possible extension of this instrument to other municipalities, I believe that the regions can have an extremely important coordinating role. Apart from trying to arrive at a regional environmental accounting network, which is always very complicated, I believe that one can try to obtain regional laws relating to the application of this instrument. In my view, Emilia-Romagna, a region where different cities are involved on this front, could very well serve as the leader and try to extend this project to all municipalities with more than 50,000 inhabitants. This would be a very positive sign.*

environmental  
accounting

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