

2004



Report of the
**Commissioner of the
Environment and
Sustainable Development**
to the House of Commons

Chapter 3
Sustainable Development Strategies:
Using the Tax System and
Managing Office Solid Waste



Office of the Auditor General of Canada

The 2004 Report of the Commissioner of the Environment and Sustainable Development comprises six chapters, and The Commissioner's Perspective—2004. The main table of contents is found at the end of this publication.

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Chapter

3

Sustainable Development Strategies

Using the Tax System and Managing
Office Solid Waste

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies, and practices of the Office of the Auditor General of Canada. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

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Sustainable Development Strategies

Using the Tax System and Managing Office Solid Waste

Main Points

3.1 The federal departments and agencies we audited need to do more to meet their sustainable development commitments in two key areas: examining ways to use the tax system to better integrate the economy and the environment, and managing solid waste generated by federal offices.

3.2 Using the tax system. Finance Canada has analyzed a range of issues associated with its tax-related commitments. However, it has not clearly stated what it is trying to achieve with these commitments, in terms of the performance that is targeted or is expected to occur. Its approach to implementing these commitments has been piecemeal and fragmented, because key steps such as pinpointing the main areas that need analysis are missing. Consequently, it is not in a position to tell Parliament and Canadians the extent to which it has analyzed how the tax system impedes or favours the attainment of sustainable development.

3.3 A systematic review, based on risk, of key opportunities for using the tax system to better integrate the economy and the environment is an important step toward using the tax system as a tool for sustainable development.

3.4 Managing office solid waste. The six departments and agencies we examined made specific commitments to manage office waste in their 2001 sustainable development strategies. We found that all the offices we visited were recycling; however, the departments cannot demonstrate that they are meeting all of their commitments.

3.5 Waste management initiatives in departments are products more of provincial legislation, municipal programs, and the commitment of individuals, than of direction from the federal government. Due to a lack of reliable measurements and inconsistent feedback to building occupants on their waste management performance, departments and agencies are not likely achieving the level of performance that is possible. This is not the model of excellence the government desires.

3.6 In 1990 the federal government set a target to reduce its waste by 50 percent by 2000. No government-wide measurement strategy was implemented and responsibilities were not assigned. Today, the government does not know if it met its target. Central leadership is needed to set government-wide priorities and develop guidance, tools, and practices for managing solid waste within the context of greening government operations.

Background and other observations

3.7 The Commissioner of the Environment and Sustainable Development monitors and reports to Parliament on the progress of federal departments and agencies in implementing their sustainable development strategies.

3.8 Using the tax system. The tax system, by influencing the actions of Canadians, can have important direct and indirect impacts on the environment and sustainable development. As the department responsible for analysis and advice on the structure of the tax system, Finance Canada has the opportunity to influence sustainable development in Canada by better integrating the economy and the environment. In its 2001–2003 *Sustainable Development Strategy*, the Department made three tax-related commitments for that purpose.

3.9 As part of the 2002 World Summit on Sustainable Development Plan of Implementation, the Government of Canada along with other countries agreed to pursue certain commitments to address environmental issues, while recognizing that the tax system can affect the environment.

Finance Canada has responded. The Department's responses to our recommendations are included in this chapter. The Department does not commit to any actions beyond those already in place or previously planned. These actions were already taken into account in our conclusion and recommendations. Consequently, the Department does not appear to accept our recommendations.

3.10 Managing office solid waste. As the largest single enterprise in Canada, the biggest landlord, and the largest owner of office property, the federal government generates significant amounts of waste, including recyclable materials such as paper, cardboard, metal, and glass. We audited the Canada Customs and Revenue Agency (now the Canada Revenue Agency and the Canadian Border Services Agency), Department of Justice, Environment Canada, Natural Resources Canada, Public Works and Government Services Canada, and Veterans Affairs Canada.

The Government of Canada has responded. The Government of Canada's responses to our recommendations are included in this chapter. The government has indicated the actions it is taking or planning to take to address our recommendations. However, it has not clarified whether and how it plans to address the specifics of our recommendations. For example, the government does not address the renewal of its targets on waste management.

Introduction

Reporting on sustainable development progress

3.11 Federal departments and agencies set out a series of commitments in their sustainable development strategies, which they are required to prepare and update every three years. The first strategies were tabled in Parliament in December 1997, the second round in February 2001, and the third round in February 2004. The Commissioner of the Environment and Sustainable Development monitors and reports on the federal government's progress toward sustainable development, including the implementation of sustainable development strategies.

Focus of the audit

3.12 We assessed the progress of seven departments and agencies toward commitments made in their 2001 sustainable development strategies. We looked specifically at

- how Finance Canada examines ways to use the tax system to better integrate the economy and the environment; and
- how the Canada Customs and Revenue Agency, the Department of Justice, Environment Canada, Natural Resources Canada, Public Works and Government Services Canada, and Veterans Affairs Canada manage office solid waste.

3.13 The chapter looks at the progress the government has made toward sustainable development in two areas that are at opposite ends of the environmental and sustainable development spectrum: the tax system, which is policy based; and managing office waste, which is operational based.

3.14 Using the tax system. We focussed on three commitments made by Finance Canada in the context of its sustainable development objective to examine ways to use the tax system to better integrate the economy and the environment.

3.15 Managing office waste. We focussed on specific sustainable development commitments made by six departments and agencies on managing office waste.

3.16 For more information on the objective, scope, approach, and criteria, see **About the Audit** at the end of the chapter.

Using the Tax System

Finance Canada's role in influencing sustainable development

3.17 Integrating economic and environmental goals is fundamental to ensuring the prosperity of Canadians and safeguarding Canada's natural heritage for future generations. As a policy-oriented department, Finance Canada has limited direct involvement in delivering programs or services to

Canadians. However, as the lead department responsible for the Budget, the federal tax system, and designing tax policies, it has the opportunity to influence sustainable development in Canada.

3.18 Finance Canada officials provide analysis and advice on the structure of the tax system, including its potential to better integrate the economy and the environment. They have an important part to play in providing information for decision making on tax issues that may impede or favour the attainment of sustainable development. It is the Minister of Finance and cabinet who make the decisions, taking into consideration the analysis and advice received and other factors.

3.19 The tax system raises revenues, which now exceed \$156 billion annually, and enables the government to achieve a variety of economic, social, and environmental objectives. Sometimes there are trade-offs among these objectives; the federal government needs to make informed choices in determining the most appropriate tax policy.

3.20 The tax system can exert great influence on the behaviour and decisions of Canadians. For example

- the tax deduction for Registered Retirement Savings Plans (RRSPs) has encouraged Canadians to invest billions of dollars each year for their future; and
- tobacco taxes may discourage Canadians from smoking, which in turn would reduce adverse health impacts.

3.21 The tax system can have an important influence on the environment directly or indirectly, by

- encouraging environmentally positive activities (through, for example, tax credits or deductions for donations of ecologically sensitive land); and
- discouraging environmentally negative activities.

3.22 The federal government has looked at using the tax system to achieve its environmental and sustainable development objectives for over a decade (Exhibit 3.1). Finance Canada in its *2001–2003 Sustainable Development Strategy* made three commitments to examine ways to better integrate the economy and the environment through targeted use of the tax system (Exhibit 3.2).

3.23 The Tax Policy Branch of Finance Canada is responsible for these three commitments and for developing and evaluating tax policies and legislation. The Canada Revenue Agency is responsible for collecting taxes and administering tax law.

3.24 Finance Canada sees its sustainable development strategy as one of its main plans and strategies, in addition to the Budget and its report on plans and priorities. One of the strategy's fundamental goals is to more fully integrate economic, social, and environmental considerations and objectives into policy making. In its strategy, the Department clearly ties this goal to its work on the tax system.

Did you know?

- The total amount of federal tax revenues for the year ended 31 March 2003: **\$156.4 billion**
- The amount of that total that came from
 - personal income tax: **\$89.5 billion**
 - corporate income tax: **\$22.2 billion**
 - the goods and services tax (GST): **\$28.3 billion**
 - energy taxes: **\$5.0 billion**
 - other sources: **\$11.4 billion**

Source: Public Accounts of Canada, 2002–03

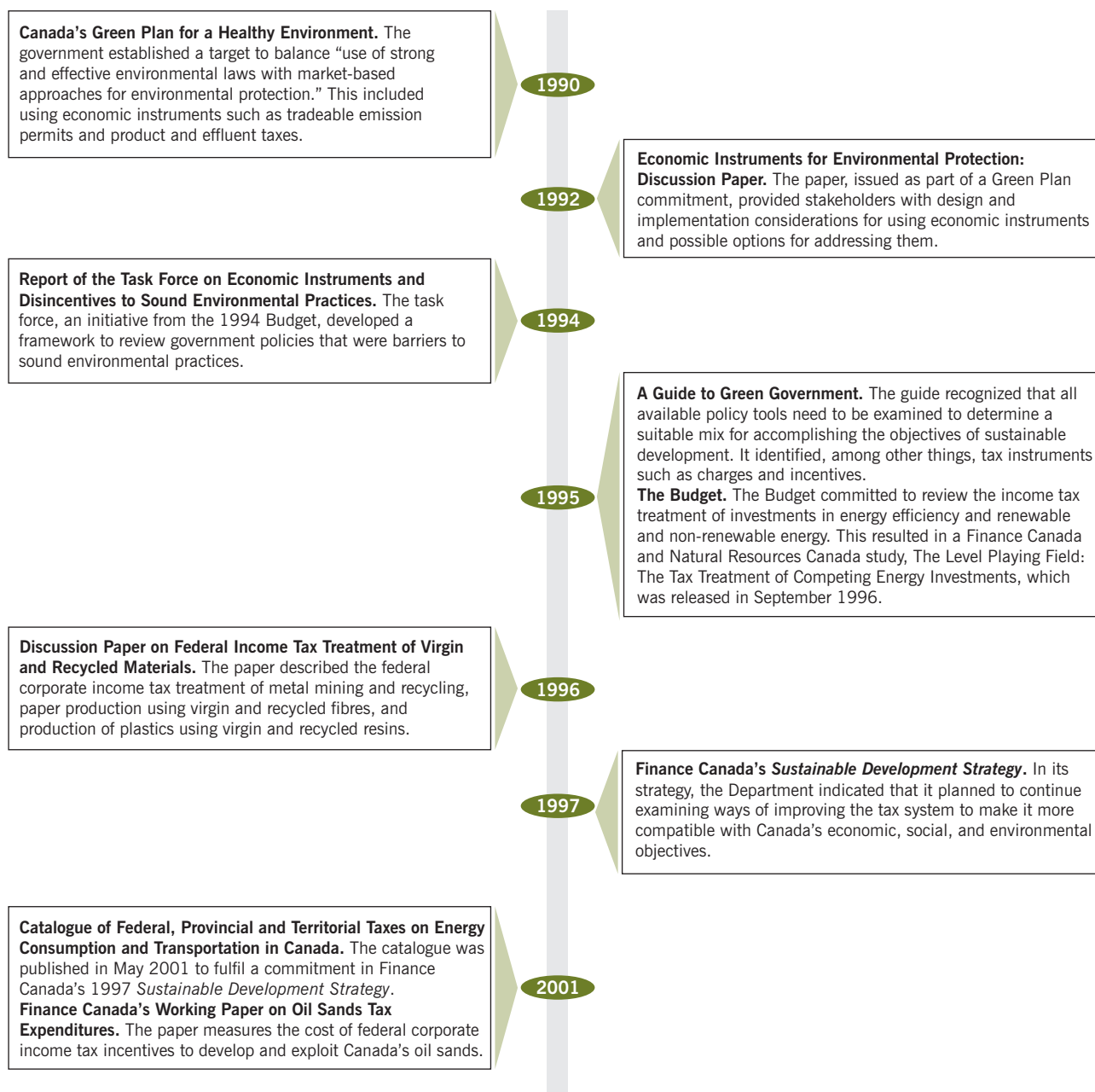
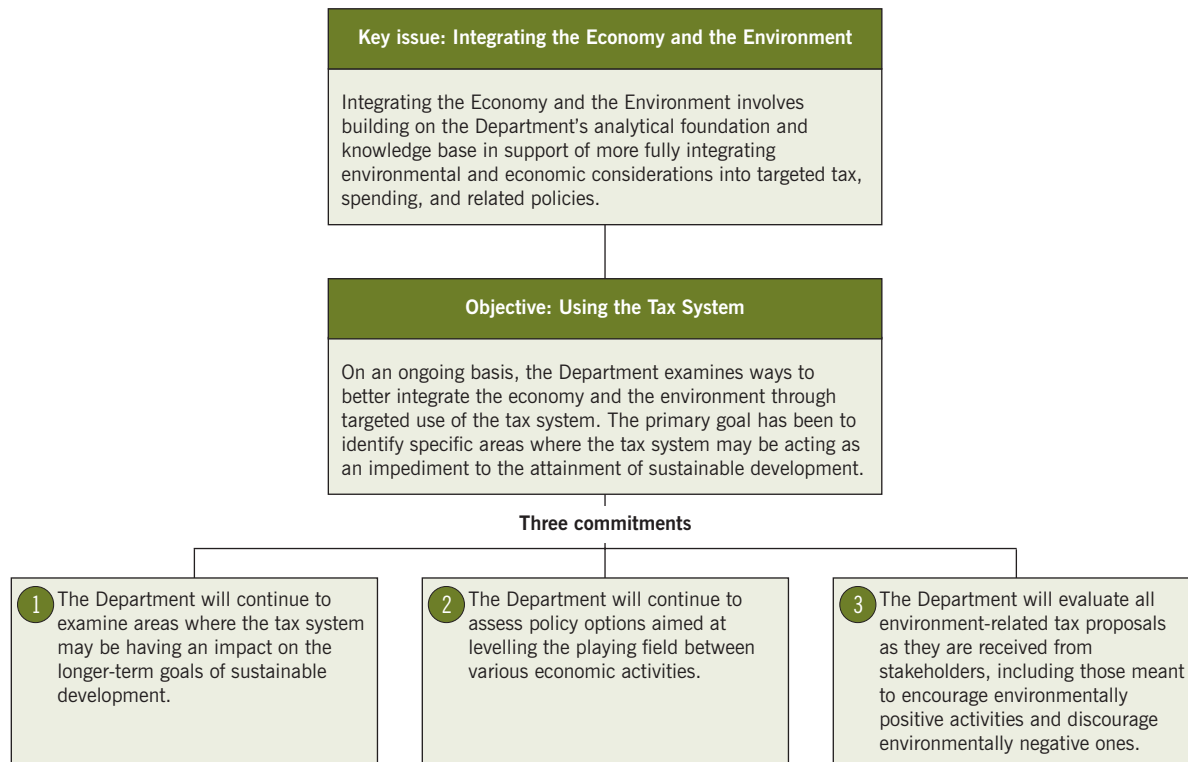
Exhibit 3.1 Key federal statements and studies that refer to using the tax system for environmental and sustainable development objectives since 1990

Exhibit 3.2 Finance Canada's three commitments to examine ways to better integrate the economy and the environment by using the tax system

Source: Adapted from 2001-2003 Sustainable Development Strategy, Finance Canada

3.25 Various ways to enhance the use of the tax system for sustainable development have emerged, such as ecological fiscal reform or “green” budgeting (see A primer on ecological fiscal reform on page 7). Finance Canada officials told us that the government has not officially endorsed ecological fiscal reform as a guiding principle, though it has implemented a variety of measures that are consistent with this approach.

3.26 As part of the 2002 World Summit on Sustainable Development Plan of Implementation, the Government of Canada and other countries agreed to pursue certain commitments such as

- Encouraging the consideration of sustainable development in decision making by continuing “to promote the internalization of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the costs of pollution, with due regard to the public interest and without distorting international trade and investment.”
- Recognizing that “policies to reduce market distortions would promote energy systems compatible with sustainable development through the use of improved market signals and by removing market distortions, including restructuring taxation and phasing out harmful subsidies, where they exist, to reflect their environmental impacts.”

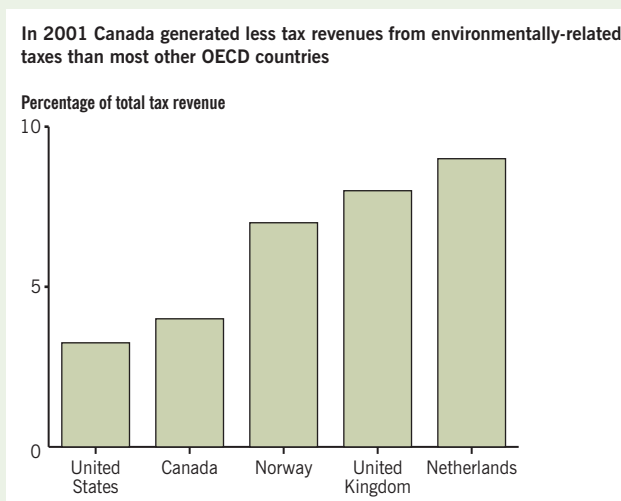
A primer on ecological fiscal reform

An important area in environmental policy is exploring economic incentives to achieve sustainable development. This includes using economic signals to reward environmentally responsible actions and discourage those that are contrary to sustainable development. It is one way some governments have tried to implement the “polluter pays” principle, since market prices often only reflect economic costs and not harm to the environment. This has come to be known as ecological fiscal reform (EFR) or “green” budgeting.

EFR uses policy tools such as taxation (tax exemptions, credits, and rebates), tradeable emission permits, direct spending, and program expenditure to “green” the way people buy, sell, and invest in the economy. An example is the federal government’s decision to exempt from the federal excise tax alternative fuels such as ethanol produced from renewable sources.

EFR can also include ecological tax reform—adjusting taxes to make them sensitive to environmental impacts or imposing new taxes as an incentive to reduce environmental impacts. The revenue from the new tax could be recycled to fund, for example, reductions in existing taxes.

Over the past decade, several countries from the Organisation for Economic Co-operation and Development (OECD) have expanded the use of such tools to address environmental issues. The OECD has reported that Canada uses them less than most other OECD countries to achieve its sustainable development goals.



The majority of environmental tax revenues in OECD countries comes from motor fuels and vehicles. However, most of the countries reduce the effectiveness of their environmental taxes by giving significant exemptions to polluting and energy-intensive industries.

The National Round Table on the Environment and the Economy, an independent advisory body reporting to the Prime Minister, began a study on EFR in June 2000. Finance Canada is an observer to this process. The study explored the key challenges and opportunities of EFR and its potential in Canada. The national round table published the first phase of its study in June 2002. It defines EFR as a strategy that redirects a government’s taxation and expenditure programs to create an integrated set of incentives to support the shift to sustainable development. Although Finance Canada has not defined EFR, Environment Canada defines it as changing the way governments tax and spend to create incentives for sustainable development.

The national round table suggests that EFR options be evaluated along with other measures, including regulatory and voluntary instruments, when addressing an issue. However, it notes that the final policy package may or may not include EFR tools.

The tax policy environment

3.27 Finance Canada officials informed us that they establish analytic priorities for tax measures on the environment, as with tax measures generally, based on numerous factors that affect the policy environment. Important factors in how the Department allocates its limited analytic resources are

- the government’s overall policy direction on economic, social, and environmental issues, and
- the interest of parliamentarians, taxpayers, non-governmental organizations, and other departments in particular issues.

3.28 Without a policy statement from the government on the extent to which the tax system is to be used to integrate the economy and the environment, Finance Canada officials rely on various sources for direction, such as

- the Speech from the Throne, federal budgets, and the Climate Change Plan for Canada;
- the goals of programs approved by Cabinet and Parliament, such as a policy to develop renewable energy sources;
- government responses to parliamentary committees; and
- the Minister of Finance.

Observations and recommendations

The Department has examined a range of issues associated with its commitments

3.29 Consistent with its role in influencing sustainable development, Finance Canada’s three tax-related commitments in its 2001–2003 *Sustainable Development Strategy* (Exhibit 3.2) focus on analysis and use the words “examine, assess, and evaluate” to describe what the Department intends to do.

3.30 The process of analysis of the tax system is an ongoing one. For the period covered by its strategy, Finance Canada analyzed a number of issues associated with its three commitments. The analysis covered certain existing tax provisions with environmental consequences and potential new measures to further environmental objectives.

3.31 A number of factors influence which tax proposals are accepted by ministers. Progress against these commitments is represented by the analysis and advice provided by the Department rather than by the tax measures approved by the government and Parliament. Exhibit 3.3 provides examples of tax measures introduced, as well as other issues examined that the Department identified.

Finance Canada needs to describe more clearly what it is trying to achieve with its three commitments

3.32 In examining its three commitments, we set out to determine if the Department was doing what it said it would do. We expected the Department to have established clear performance expectations for these commitments to

Exhibit 3.3 Examples of tax measures introduced and other issues examined, 2001-04

Finance Canada analyzed a range of measures introduced, including

- Extending the intergenerational tax-deferred rollover (for example, from parent to child) for farm property to transfers of commercial woodlots, which are farming businesses and operated according to a prescribed forest management plan (Budget 2001).
- Expanding the range of renewable energy and energy efficiency equipment eligible for accelerated tax depreciation (Class 43.1) to include additional small hydro facilities and “blast furnace gas” (Budget 2001).
- Allowing more than one test wind turbine in a wind farm to qualify for flow-through share financing (2002).
- Extending the “look-back” rule for eligible expenses in energy efficiency and renewable energy projects financed using flow-through shares (2002).
- Expanding Class 43.1 to include certain stationary fuel cells, equipment used to produce bio-oil, and certain renewable energy equipment used in greenhouse operations (Budget 2003).
- Exempting bio-diesel fuel and the bio-diesel, ethanol, or methanol component of blended diesel fuel from federal excise tax on diesel fuel (Budget 2003).
- Eliminating the deductibility of fines and penalties imposed by law, including those under environmental protection laws (Budget 2004).

The Department also examined other issues, including

- Incentives for wind power production.
- Projections of tax expenditures associated with new investments in oil sands projects.
- Tax treatment of a possible domestic emissions trading system.
- Tax relief for employer-provided transit passes.
- Operation of the ecological gifts program (contribution to a review by Environment Canada).
- Tax credit for energy efficient vehicles.
- Tax on toxic substances.
- Catalogue of federal, provincial, and territorial taxes on energy and transportation.

ensure transparency and accountability. Achievements could then be compared against the stated expectations to allow an assessment of performance. It is important for the Department, as well as Parliament, to know what these commitments have achieved over time with the available resources.

3.33 We found that Finance Canada’s three commitments were not expressed in clear and concrete terms: they are vague and open to interpretation, and they do not describe the performance that is targeted or is expected to occur.

3.34 Key steps for implementing the commitments not identified. We found that the Department did not identify the key steps for implementing its commitments. Instead, its approach to implementing them has been piecemeal and fragmented. The Department has stated that its primary goal is

to “identify specific areas where the tax system may be acting as an impediment to the attainment of sustainable development” (Exhibit 3.2). Given its current approach, it is not clear how the Department intends to achieve this goal.

3.35 In our view, to accomplish this goal for the first two commitments, the Department needs to assess, using its knowledge and best judgment, where the tax system most likely impedes the attainment of sustainable development. Such an assessment is critical; it would allow the Department to focus its analysis on the key areas of concern or risk. Once these areas are identified, the Department would need to rank them based on its assessment of opportunities to integrate environmental and economic considerations. Given the tax policy environment in which the Department operates, the amount of time and resources available to undertake discretionary analysis may be limited. Thus, ranking would serve to guide the Department in selecting its areas for discretionary analysis. Such a systematic approach would enable the Department to establish clear and concrete performance expectations for the first two commitments. Without such expectations, the Department only has a list of measures analyzed, and it is not in a position to tell Parliament and Canadians the extent to which it has analyzed how the tax system impedes the attainment of sustainable development.

3.36 Departmental officials told us that they have a good understanding of how aspects of the tax system can affect relative prices and thereby influence economic decisions that may impact environmental objectives. This understanding helps inform the determination of priorities for analysis, though this is not documented comprehensively. It is therefore unclear how and why the issues analyzed were chosen.

3.37 The third commitment is, to some degree, more reactive in nature. Tax proposals from stakeholders that affect the environment may, however, be linked to another commitment or to a government priority. They can also be repetitive in nature, which affects how much analysis each needs. If a proposal had been examined, further analysis may not be needed; if it was new, the environmental, economic, and social benefits needed to be considered.

3.38 Finance Canada listed some of the factors used to determine the extent of analysis on various issues. It views stakeholders as an important source of information and feedback concerning the operation of the existing tax system. It states that stakeholder information complements its internal sources of information and helps it to take into account current developments and concerns in its analytical work.

3.39 An approach to systematically assessing the tax system. In its 1995 report, *Keeping a Promise: Towards a Sustainable Budget*, the House of Commons Standing Committee on Environment and Sustainable Development made recommendations on how to proceed with a baseline study of federal taxes, grants, and subsidies to identify possible barriers and disincentives to sound environmental practices. The federal government’s

July 1996 response outlined a phased approach for identifying priority areas. It indicated that the initial work should focus on measures that, among other things,

- have a large impact on the environment,
- target a major sector, or
- involve significant government resources.

It also outlined a two-stage process that would be used once priority areas for this review had been determined:

- identify barriers and disincentives to sound environmental practices, and
- identify options to address the barriers and disincentives that have been identified.

Given the size and complexity of the tax system and the resources available, in our view, such a systematic approach to assessing the impact of the tax system on sustainable development is a way to fulfil the Department's commitments. This approach was not applied in a comprehensive manner. The government did, however, undertake some work linked to this response, such as producing a 1996 *Discussion Paper on Federal Income Tax Treatment of Virgin and Recycled Materials*.

3.40 A descriptive framework of the Department's assessment process is being developed. In its 2004–2006 *Sustainable Development Strategy* released in February 2004, the Department states that it will develop and make public “a framework setting out the general parameters and criteria that guide the Department in the assessment of proposals to use the tax system to achieve sustainable development objectives.” The framework will focus on criteria used by the Department to assess potential tax measures, regardless of whether the measure comes from the Department or stakeholders. We encourage the Department to develop this framework as soon as possible; it could help to clarify for Parliament and Canadians how the Department examines ways to use the tax system to achieve sustainable development objectives.

3.41 Finance Canada's commitment in its 2004–2006 strategy is no clearer. The 2004–2006 strategy commits to continue to evaluate research on environmental tax measures and to assess the potential of proposals received from stakeholders. Although not clearly stated, the departmental officials told us that the new commitment “maintains the essence of the previous commitments” but does not necessarily involve the same tasks.

3.42 While integrating the economy and the environment continues to be one of the Department's key issues for furthering sustainable development, this strategy, unlike the previous two strategies, no longer includes the explicit objective of “Using the Tax System.”

3.43 It is not clear how the Department plans to continue to examine ways to integrate the economy and the environment through targeted use of the tax system. While the 2004–2006 strategy states that the Department is

working to integrate the economy and the environment, its departmental mandate and mission statements refer to economic and social objectives but not to the environment. The Department has, however, indicated that the environment is often included for purposes of general discussion under the heading of economic and social objectives.

3.44 Recommendation. To demonstrate that it intends to maintain the essence of its three 2001–2003 *Sustainable Development Strategy* commitments on examining ways to use the tax system, Finance Canada should

- develop clear and concrete expectations for their implementation;
- articulate the key steps for implementation;
- identify key areas where the tax system hinders the integration of the economy and the environment through a systematic review, based on risk; and
- inform Parliament and Canadians about its expectations, its key steps for implementation, and the results of its review.

Finance Canada's response. The Department provides analysis and advice on policies, particularly economic policies, that support Canada's economic and social goals, including the environment. In keeping with this role, the Department made commitments in its 2001–03 *Sustainable Development Strategy* to examine certain areas of the tax system and policy options, and evaluate all environment-related tax proposals received from stakeholders. These commitments have been fulfilled. The Department has undertaken analysis of a wide range of aspects of the tax system that may affect the interaction of the economy and the environment, and this analysis has informed decision making by the government in respect of tax and environmental policies.

Going forward, the Department has committed in target 2a.5 of its 2004–06 *Sustainable Development Strategy* to “continue to evaluate research concerning environment-related tax measures” and to “assess the potential of proposals received from stakeholders for using the tax system to assist the Government in meeting its environmental objectives.” These commitments describe how the Department's analysis integrates sustainable development considerations. The Department will continue to develop analysis as it has done in the past to meet its commitments.

Resources will be focussed on evaluating research concerning environmental related tax measures and assessing the potential of proposals received to assist in meeting environmental objectives, where such measures and proposals are judged to hold the greatest potential to help the government achieve its objectives. The Department will continue to report in its departmental performance report on the range of activities undertaken, subject to the confidentiality concerns referenced in the Department's response to recommendation 3.60.

Consideration of environmental impacts could be improved

3.45 We found in some cases, that Finance Canada could have given greater consideration in its analysis to the environmental impacts of proposed tax measures. While we do not question the decisions taken by the federal government in these cases, we do note that informed decision making requires that environmental impacts be properly understood, recognizing that decision makers take into consideration other factors as well. The analysis is an important means to identify existing or proposed mitigative measures at the government's disposal to address potential environmental impacts. Such an analysis is required by the Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals (see Chapter 4 of this Report).

3.46 In the 2004 Budget, the government announced a tax measure to increase the rate per year that companies can depreciate computer equipment for tax purposes by 50 percent (from 30 to 45 percent per year) to better reflect the useful life of the assets. Under the Cabinet Directive, the Department completed an initial screening of the environmental impact of the increase and concluded that it would likely not have any important (positive or negative) environmental effects. The assessment did not refer to any specific environmental impacts associated with computers, such as those related to toxic substances (lead, cadmium, and mercury), which can pose a risk to human health and the environment if they are not properly disposed. Departmental officials told us that they considered these issues, but they could not provide us with supporting documentation. A more comprehensive analysis would have documented the environmental impacts, including whether the impact of a 50 percent increase in the depreciation rate could lead companies to acquire or dispose of computers more quickly. To address these impacts, it could also have identified existing or proposed mitigative measures at its disposal or that of other departments.

3.47 Another case where the Department could have analyzed more fully the environmental impacts is Bill C-48: An Act to amend the *Income Tax Act* (Natural Resources) (Exhibit 3.4).

3.48 The fact that the Department did not consider these two measures under the umbrella of its tax-related sustainable development commitments is revealing. In both cases, the driver behind the tax measure was economic as opposed to environmental. Given the nature of the commitments, we expected the Department to adequately analyze the potential environmental impacts of every tax measure under consideration.

3.49 **Is the Department's capacity for environmental analysis appropriate?** To conduct environmental research and analysis on tax measures, the Department needs to have appropriate environmental expertise at the analyst level and at more senior levels.

3.50 The Department has not formally assessed its needs for environmental expertise to determine whether its current capacity is adequate. However, it has outlined initiatives for training and building awareness on the

Exhibit 3.4 Bill C-48: Environmental impacts could have been analyzed more fully

The government announced in its 2003 Budget that it would reduce the corporate income tax rate from 28 to 21 percent over a five-year period for the resource sector and would improve its tax structure by removing some preferential treatment. The 2000 Budget reduced the corporate tax rates for all other sectors not already eligible for special tax treatment. In June 2003, the government introduced *Bill C-48: An Act to amend the Income Tax Act (Natural Resources)* in the House of Commons. Bill C-48 was given Royal Assent on 7 November 2003.

Finance Canada states that the reduction in the income tax rate for resource income would result in a marked improvement in Canada's competitiveness. However, the Department did not estimate the increased activity that could follow or the potential environmental effects. The resource industries covered by Bill C-48 are energy-intensive and affect the environment in various ways. For example, these industries release polluting substances and greenhouse gas emissions that have implications for climate change. In the absence of mitigating measures, an increase in activity would result in greater negative environmental impacts. At the same time, there may have been some positive environmental impacts with the removal of certain preferential treatment.

We found that Finance Canada did not conduct a strategic environmental assessment of the environmental implications, negative or positive, of the changes set out in Bill C-48. Such an analysis is required by Cabinet Directive.

environment—part of its strategic environmental assessment process (see Chapter 4 of this Report for more information on strategic environmental assessment). While training and awareness building on this process are good first steps, they alone may not enable Finance Canada officials to sufficiently consider the environmental implications of tax measures.

3.51 The Department relies on its officials to examine proposals at a very high level and determine whether other expert departments need to be involved. It can consult or request environmental analysis from other departments. However, if the Department lacks appropriate capacity for environmental analysis, it may not be able to provide decision makers with appropriate information on environmental impacts and their implications.

3.52 Is the Department's capacity for environmental analysis appropriate? It did not document an understanding of the environmental effects of some initiatives including, as noted in paragraphs 3.46 and 3.47, increasing the depreciation rate of computer equipment and of Bill C-48. In our view, the Department needs sufficient environmental capacity to

- analyze proposals,
- assess the analysis provided by other departments,
- integrate the environmental considerations with the economic and social considerations, and
- consider measures at the government's disposal to eliminate or reduce the negative environmental impacts of a proposed tax measure, where appropriate.

3.53 Recommendation. To facilitate informed decision making, Finance Canada should ensure that potential environmental impacts are adequately analyzed for all proposed tax measures and policy options, and integrated with economic and social impacts.

Finance Canada's response. The Department is committed to integrating environmental considerations into the analysis and advice it prepares to support decision making in accordance with the Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals. In May 2003, the Department put in place an enhanced strategic environmental assessment process to ensure that advice to the minister on all proposals includes an assessment of potential environmental effects. All policy proposals submitted to the minister for decision are subject to an initial screening to determine whether they are likely to have important positive or negative environmental effects. If so, a strategic environmental assessment is conducted. The guidelines for implementing the Cabinet Directive indicate that departments conducting assessments are encouraged to seek the advice of environmental specialists in other expert federal departments where appropriate, which the Department will continue to do as it has done in the past.

Reporting progress against commitments needs to be improved

3.54 Finance Canada needs to improve how it monitors, assesses, and reports on progress in conducting analysis on the potential use of the tax system to better integrate the economy and the environment. Currently departmental reporting on progress against its commitments is limited.

3.55 Finance Canada includes a list of tax measures that have been implemented over a period of time in an annex to the Budget Plan, which is produced for each federal budget. Its performance reports also list some implemented measures. In the absence of stated performance expectations, this reporting does not provide sufficient information to allow an assessment of progress against the commitments. This, in turn, makes it difficult to obtain a clear picture of how the Department is doing on its primary goal associated with its three commitments (Exhibit 3.2).

3.56 Recommendation. Finance Canada should monitor, assess, and report progress on implementing its tax commitments against clearly established expectations.

Finance Canada's response. At the outset of each year, the Department reports on planned activities with respect to its sustainable development commitments in its report on plans and priorities. Following the end of each year, the Department reports on its activities in the departmental performance report, which includes a detailed supplementary document setting out activities undertaken in support of its sustainable development strategy commitments.

The Department's ability to report in greater detail about analysis planned or conducted with respect to specific tax changes is restricted by the confidentiality concerns referenced in the Department's response to recommendation 3.60.

3.57 We identified several options that could help Finance Canada improve its reporting. In our view, the Department could enhance transparency by making public the analysis of the anticipated environmental impacts of the tax measures included in the Budget. This could be reported in an annex to the budget or separately.

3.58 As well, in certain circumstances, it may be appropriate for Finance Canada to publicly disclose the analysis of tax measures that were examined but not implemented. For example, Finance Canada received a proposal from various stakeholders to allow employees to receive employer-provided transit passes as a tax-free benefit with the objective of increasing transit ridership. The measure was not implemented; the Department's analysis concluded that the proposal would not be cost-effective because the increase in ridership would be modest. The Department provided analytical information on this issue to the House of Commons Standing Committee on Finance in February 2002. This case illustrates that information on measures examined but not implemented can sometimes be made public.

3.59 These options would help Parliament and the public to hold the Department to account for the extent of progress on its commitments and the adequacy of the analysis undertaken. Public exposure also allows greater scrutiny, improves the quality of public debate, and ultimately improves the information. However, we recognize that increased transparency may not always be feasible in order to maintain budget secrecy for measures still under consideration.

3.60 Recommendation. To improve its reporting against its tax commitments, Finance Canada should consider publicly disclosing the analysis of the potential environmental impacts of

- tax measures that are implemented, and
- where feasible, tax measures examined but not implemented.

Finance Canada's response. The Department is committed to releasing a public statement of environmental effects in accordance with the Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals when a detailed assessment of environmental effects has been conducted in respect of a new measure.

To further improve transparency, the Department has also committed to publicly issue a framework setting out the general parameters and criteria that guide the Department in assessing proposals from stakeholders to change existing tax measures or implement new tax measures to further sustainable development objectives. This document will make it easier for stakeholders to understand the Department's assessment process with respect to tax policy proposals in general.

The Department's ability to report on its analysis of specific tax measures or proposals in greater detail is constrained by the need to avoid influencing decision making by economic agents who may attempt to either take advantage, or avoid the impacts, of a possible future tax measure. Furthermore, the normal confidentiality of the policy development process

must also be respected to ensure that ministers have the benefit of candid advice in their deliberations. Similar factors are also recognized in the established principles of Cabinet confidence and in the various discretionary exemptions available under the *Access to Information Act*.

Conclusion

3.61 For the period covered by its 2001–2003 *Sustainable Development Strategy*, Finance Canada has analyzed a range of issues associated with its tax-related commitments. However, it has not clearly stated what it is trying to achieve with these commitments, in terms of the performance that is targeted or is expected to occur. Therefore, we are not able to assess the extent of progress it has made against its commitments.

3.62 The Department's approach to implementing these commitments has been piecemeal and fragmented, because key steps such as pinpointing the main areas that need analysis are missing. Consequently, it is not in a position to tell Parliament and Canadians the extent to which it has analyzed how the tax system impedes or favours the attainment of sustainable development.

3.63 Finance Canada needs to do more work to meet its tax commitments, including its primary goal of identifying specific areas where the tax system may be acting as an impediment to the attainment of sustainable development. A systematic review, based on risk, of key opportunities for using the tax system to better integrate the economy and the environment is an important step toward using the tax system as a tool for sustainable development.

Managing Office Solid Waste

Solid waste and the federal government

3.64 The federal government is the largest single enterprise in Canada. It employs more people than the largest Canadian private sector company. It is also the biggest landlord and the largest owner of office property. An organization of these dimensions generates large amounts of solid waste.

3.65 Responsibility for managing waste in Canada is shared among municipal, provincial, territorial, and federal governments.

- Municipal governments collect and dispose of household waste and manage landfill sites and incinerators.
- Provincial and territorial governments develop waste management regulations and policies.
- The federal government supports the provinces and territories with research and public education initiatives and manages waste in its own operations.

The primer on waste management on page 18 provides more information on waste management.

Did you know?

- The number of tonnes of waste generated by Canadians in 2002: **31 million**
- Percentage of that waste that was disposed of in landfills or incinerators: **79%**
- Revenues for Canadian waste management firms in 2002: **\$4.1 billion**
- Number of people that are employed in the private and public sectors of the Canadian waste management industry in 2002: **32,400**
- The amount that the municipal sector spent on waste management in 2002: **\$1.5 billion**

Source: Statistics Canada

3.66 Non-hazardous solid waste generated in federal offices is typically composed of paper, cardboard, metal, plastic, glass, and organics (Exhibit 3.5). In this chapter we will refer to this as office solid waste or office waste.

3.67 The government uses a variety of voluntary commitments, goals, guidelines, strategies, and targets to manage its solid waste. Many of its commitments appear in the sustainable development strategies.

A primer on waste management

When waste is not managed properly, its by-products can have serious effects on human health and the environment—they can enter the air we breathe and the water we drink. To avoid the economic and environmental costs of transportation, landfill sites must be located close to the people that generate waste; however, the cost of real estate near urban areas is high and people do not want landfills close to where they live. These issues underscore why effective waste management programs, practices, laws, and regulations are important for individuals, industry, local governments, provincial governments, and for the Canadian federal government.



A machine covers garbage at the Trail Road landfill site, City of Ottawa

Photo: Solid Waste Services, City of Ottawa

The 3Rs

There are many things that individuals, organizations, and manufacturers can do to minimize waste.

Reducing. The most desirable option is to reduce initial consumption and the amount of waste generated. Individuals and organizations can reduce by avoiding packaging and single-use products and purchasing reusable, repairable, rechargeable, or refillable products.

Reusing. The next best option is to reuse goods and materials.

Recycling. Recycling reprocesses an old or used product to make a new product.

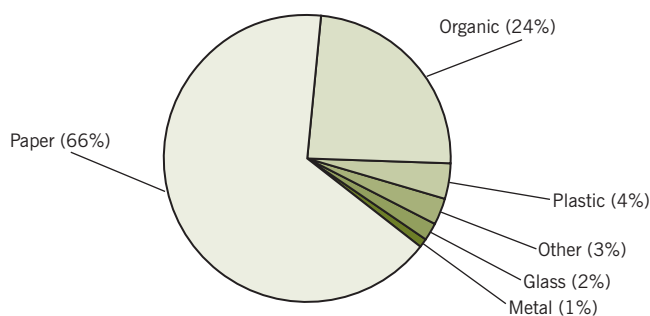
Reducing consumption and reusing goods are preferable to recycling from an environmental standpoint and is embodied in the 3Rs: reduce, reuse, and recycle. The 4th R, recovery, takes useful materials from products that have been discarded.

The value of waste

Recognizing the valuable materials that are in waste has led to a new way of looking at waste management and involves taking lessons from nature. “Cradle to cradle” design emulates natural processes; it uses manufacturing methods to produce products whose biological and inorganic components can be used again and again for other useful goods.

Exhibit 3.5 Office solid waste in the federal government (by weight) 2000-03

Data are based on total waste in nine federal waste audits from the six departments and agencies audited

**Observations and recommendations****Has the government met its waste reduction target?**

3.68 For more than a decade, the federal government has made strong commitments and set specific targets for waste reduction:

- **1989.** The Canadian Council of Ministers for the Environment (CCME) recommended a target of 50 percent reduction in waste generation by 2000.
- **1990.** The *Green Plan* committed the federal government to reducing waste from its own operations by 50 percent by 2000.
- **1995.** The *Guide to Green Government* called on departments to “move progressively toward pollution prevention” and “realize the Canadian Council of the Ministers of the Environment (CCME) target of 50 percent reduction by the year 2000, using 1988 as a base year.”
- **1999.** In the Speech from the Throne, the federal government affirmed it would make itself a model of environmental excellence in its own operations.

3.69 Given the history of federal government solid waste management targets, the commitment to excellence in greening government operations, and the tangible nature of office solid waste management, we expected to find significant progress.

3.70 However, the government had no implementation plan to achieve its targets. There was confusion over whether the target covered waste diversion as well as waste reduction; there was no government-wide measurement strategy; and no accountabilities or responsibilities were identified. Accordingly, the government does not know if it met its target to reduce waste by 50 percent by 2000.

Waste reduction—Waste reduction at source reduces the amount of waste generated, collected, and managed.

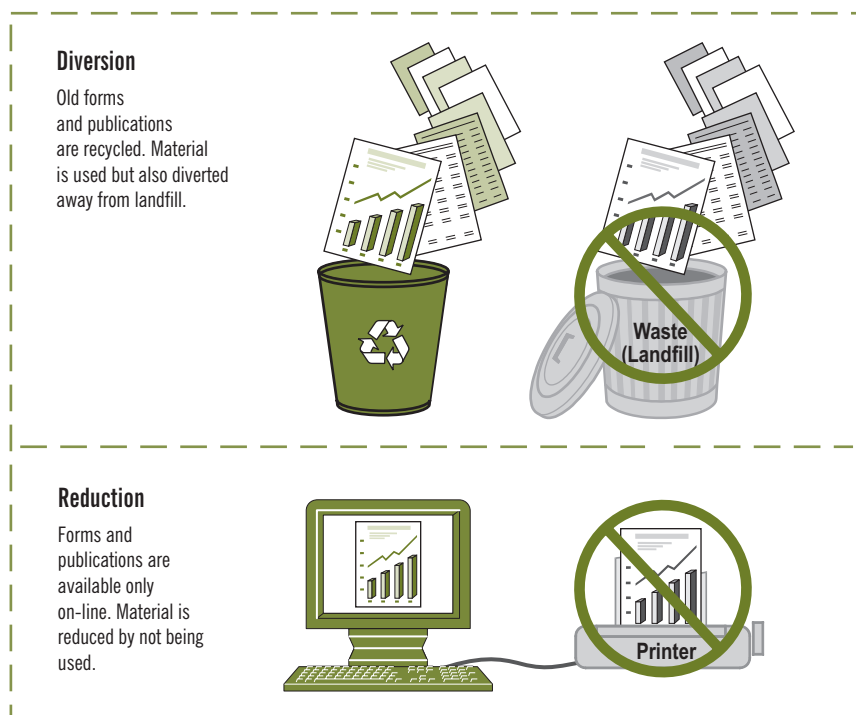
Waste diversion—Waste diversion redirects waste away from disposal by reusing, recycling, or recovering the waste. It does not include waste reduction.

3.71 Most departments target waste diversion. In a 2003 report, Environment Canada noted that “the primary challenge in Canada (for waste management) is to reduce the amount of solid waste generated. The secondary challenge is to increase the amount of waste diverted from landfill.” Therefore, waste reduction as well as waste diversion, through recycling, are important. Our audit found that five of the six departments and agencies we examined made numerical commitments in their strategies to divert waste by recycling. Although some departments made commitments to reduce paper use, Natural Resources Canada is the only department that included an overall waste reduction target in its sustainable development strategy.

3.72 By emphasizing waste diversion targets, departments and agencies may not focus enough on source reduction initiatives such as “green” procurement. A comprehensive solid waste management program needs to include targets to address waste reduction and waste diversion. Exhibit 3.6 illustrates the difference between reduction and diversion.

3.73 Although most of the departments we audited are not targeting reduction in waste generation in their sustainable development strategies, they are all undertaking initiatives to reduce waste. For example, the Canada Customs and Revenue Agency has several initiatives to reduce paper including using electronic forms and publications. Similarly, the Department of Justice has implemented the Barrister’s Briefcase Project, which helps government litigators manage documents electronically. In its 2004–2006 *Sustainable Development Strategy*, Veterans Affairs Canada notes that recycling

Exhibit 3.6 Waste reduction versus waste diversion



has been an important part of its program to date but that the key to success lies in reduction.

Office waste is being recycled

3.74 During our audit, we visited buildings occupied by federal employees in seven cities and five provinces. Some buildings were owned by the federal government, and others were leased from the private sector; some were managed by Public Works and Government Services Canada (PWGSC) or their contractors, and others were managed by private owners. We found that office waste was being managed to some degree, primarily through recycling and disposal in all of the facilities we visited.

3.75 All the buildings we visited recycled paper and cardboard. Recycling plastics, glass, and metal and composting food and paper towels varied according to locally available recycling programs, provincial regulations, and individual commitment of federal employees and building management.

3.76 In almost all locations, employees and building managers provided examples of how they were managing waste. Some examples include units to sort recyclable materials, composting initiatives, and signs for recycling bins.



A typical unit to sort recyclable material

Departments cannot demonstrate that they are meeting their commitments

3.77 Although most building occupants and managers believed they had made progress, departments and agencies could not provide us with reliable measurement results to demonstrate that these initiatives have improved office waste management. Departments and agencies could not demonstrate that they were meeting all of their sustainable development strategy commitments. Exhibit 3.7 looks at the strategy commitments made by the six departments and agencies and the performances reported by them.

3.78 All six departments and agencies we audited set reasonably clear and concrete numerical commitments for managing office waste. However, only the Canada Customs and Revenue Agency could demonstrate that it had met two of its three waste commitments. The other departments could not demonstrate that they had met their commitments.

Key reasons for the performance gap

3.79 Incomplete implementation plans. In order to achieve and measure progress against commitments, departments need to take the steps to turn their commitments into action. These steps could be called an implementation plan. For example, an organization would need to

- identify roles and responsibilities,
- ensure that appropriate infrastructure was in place,
- provide ongoing education and awareness programs,
- implement cost-effective ways to measure waste, and
- ensure regular feedback to building occupants.

Without an implementation plan, sustainable development strategy commitments exist only as words on paper and have little possibility of being achieved.

Exhibit 3.7 Sustainable development strategy commitments and performance reported by six departments and agencies

| Strategy commitments | Performance reported | Our observations |
|---|---|--|
| Canada Customs and Revenue Agency | | |
| <p>Develop environmental management program for solid waste management.</p> <p>Divert an average of 50% solid waste from landfill in priority Agency-owned facilities.</p> <p>Divert an average of 70% solid waste from landfill in priority leased facilities.</p> | <p>The Agency developed an environmental management program for solid waste.</p> <p>For owned facilities, it diverted waste by 43%; for leased facilities, it diverted waste by 79%.</p> | <p>The Agency has a sampling method for measuring waste and monitoring commitments. It met two of its three commitments.</p> |
| Department of Justice | | |
| <p>By 31 March 2004, divert from landfills 76% of total solid waste produced nationally.</p> | <p>The Department reported in its 2004–2006 strategy that it had partially achieved its commitment:</p> <ul style="list-style-type: none"> • It cannot measure the amount of waste diverted at leased private sector sites. • It diverted 80% of its waste at headquarters. | <p>The Department does not know its national diversion rate.</p> <p>The reported 80% diversion rate at headquarters included surplus crown assets, such as furniture, that are typically not considered waste.</p> |
| Environment Canada | | |
| <p>Put in place Environment Canada's Environmental Management System action plan on solid waste management and commence annual reporting on progress toward targets, by 31 March 2002.</p> <p>By 31 March 2004, divert 70% of solid waste from landfill—that is, 70% by weight of all solid waste is to be recycled. (Adopted from SDGO guidance)</p> | <p>The Department changed its approach from department-wide to facility-based. The facility-based action plans are incomplete.</p> <p>The Department has not reported publicly on its progress toward the 70% target.</p> | <p>The Department is still developing its action plans and its department-wide measurement strategy.</p> <p>Internal data shows the Department has not met its commitment to divert 70% of waste.</p> |
| Natural Resources Canada (NRCan) | | |
| <p>By 2003, maintain, expand and promote NRCan's waste-free program.</p> <p>The Performance Measurement Framework targets a 50% reduction in solid non-hazardous waste from the level measured in 1995–96 audits by 2000.</p> | <p>The Department reported some program maintenance, expansion, and promotion for the National Capital Region.</p> <p>The <i>2001–02 Performance Report</i> shows a 42% reduction in average waste generated per person per year.</p> | <p>The Department's promotion and expansion of its waste-free program is limited.</p> <p>The 42% reduction rate is unreliable based on problems identified with the data on which this percentage was based.</p> |

Exhibit 3.7 Sustainable development strategy commitments and performance reported by six departments and agencies (Continued)

| Strategy commitments | Performance reported | Our observations |
|--|--|--|
| Public Works and Government Services Canada (PWGSC) | | |
| By 31 March 2004, achieve and maintain a 60% diversion rate of office solid waste from landfill and incineration in all Crown-owned Real Property Service facilities, i.e., 60% by weight of all solid waste is to be recycled. | The Department reported in its <i>2002 Sustainable Development Performance Report</i> that it diverted 62% of waste. | During our audit, PWGSC re-examined its data and determined that it diverted 57% of its waste. However, this is not reliable based on problems identified with the data on which this percentage was based (see paragraph 3.82). |
| Veterans Affairs Canada | | |
| Divert 5.6 % of solid waste from landfill per year until March 2004. Note: The original commitment (<i>1997 Sustainable Development Strategy</i>) was developed based on the Guide to Green Government's recommended 50% waste reduction between 1988 and 2000. Using 100 as the value for waste in 1988, it was calculated that a 5.6% reduction each year, from 1988 to 2000 would obtain a 50% waste reduction by 2000. | PWGSC's most recent waste audits for the two headquarters buildings in Charlottetown indicate that waste was diverted by 91% and 76%. Based on this information, the Department reports that it has exceeded its commitment. | The Department used the same commitment in all three of its sustainable development strategies; it is not able to measure performance department-wide. |

Environmental management system—An environmental management system includes organizational structure, planning activities, responsibilities, practices, procedures, processes, and resources for developing, implementing, achieving, reviewing, and maintaining an environmental policy and elements of a sustainable development strategy.

3.80 We asked the departments and agencies to provide us with their implementation plans. Although none had taken all the steps to turn their commitments into action, some had introduced important elements:

- The Canada Customs and Revenue Agency developed a program to manage solid waste through its **environmental management system**.
- Environment Canada, PWGSC, and Veterans Affairs Canada are linking their commitments to their environmental management systems, which could eventually serve as implementation plans.
- Natural Resources Canada identified a list of next steps in its *2001–02 Performance Report* but did not develop detailed work plans to achieve its waste reduction target.

3.81 Missing or unreliable measurements. Veterans Affairs Canada and the Department of Justice set specific targets for diverting waste but do not have a department-wide strategy to measure progress toward these targets.

3.82 PWGSC provides office accommodation and other facilities for over 187,000 public servants and parliamentarians. The Department uses CatchAll, a database to capture and report information on office waste at

its 321 Crown-owned and operated facilities. We found CatchAll data to be unreliable in a number of ways:

- Data for entire facilities were missing from the National Office Waste Management Roll-Up Summary, which rolls up data supplied by CatchAll.
- Information input into CatchAll is inconsistent among buildings and regions. For example, recycled shredded paper and bottles and cans are captured for reporting in some buildings and in some regions, but not in others.
- Regional staff reported that CatchAll is difficult to use and information is not entered with attention to quality control in some locations.

3.83 Natural Resources Canada also has solid waste measurement procedures in place. However, the numbers reported by this department were also unreliable. Based on the obvious errors and inconsistencies we found in the data reported by PWGSC and Natural Resources Canada, it appears that no one reviewed the accuracy of the data prior to reporting it to departmental management, the public, or to Parliament.

3.84 Our audit found examples of cost-effective methods of measuring office waste management performance:

- The Canada Customs and Revenue Agency developed a sampling method that uses **waste audits** and questionnaires to obtain data for its owned and leased facilities.
- A company in Ottawa provides monthly reports for property managers and tenants and uses abbreviated waste audits and existing **hauler reports** to monitor and measure waste performance in large office buildings each year.

Waste audits—A waste audit includes a physical sort of waste and recyclables for a specific period of time and in specific parts of a building. It reports on the composition of the waste, and the waste diverted and potentially diverted from landfill.

Hauler reports—A hauler report provides information on the amount of material recycled and sent to landfill in weight or volume for a specific facility. The availability of haulage records depends on the contract that a property manager negotiates with its service providers and whether the terms of the contract are enforced. Haulage companies can provide records monthly, quarterly, yearly, or on request.

3.85 Inconsistent feedback on performance. Many of the building occupants we talked to were not satisfied with the feedback they received on their recycling performance. We found cases, in each of the organizations we audited, where waste information was not regularly provided to building occupants in a manner that would help them understand their performance and work to improve it. In some cases, the information was not available because waste audits had not been undertaken; in other cases, the property managers had the information but did not regularly provide it to building occupants.

3.86 Due to the lack of reliable measurements and the inconsistent feedback to building occupants on their performance, departments and agencies are not likely achieving the level of performance that is possible. If managers and building occupants do not know their level of performance and the reasons for it, performance is difficult to improve.

3.87 Perceived roles and responsibilities are not clear. During our audit, building occupants from the Canada Customs and Revenue Agency, Environment Canada, and Veterans Affairs Canada reported a need for more clarity about the roles and responsibilities involved in managing office waste.

In 1996, the *Department of Public Works and Government Services Act* confirmed PWGSC's responsibilities for Crown-owned office buildings and the management of related infrastructure on behalf of departments. Prior to this, Environment Canada and Veterans Affairs Canada report that they had a more direct role in managing solid waste. For example, they report that the current lack of direct control in buildings they occupy within PWGSC inventory contributes to problems in obtaining data on a consistent basis.

3.88 PWGSC and its tenant departments sign "occupancy instruments." These establish terms of occupancy and the cost of the accommodation and services provided. Leases are used to specify these terms where buildings are privately owned. Occupancy instruments and leases do not always specify who is responsible for managing waste activities such as providing recycling services and collecting and reporting data on waste. In the fall of 2003, PWGSC developed a "green" lease that is used as new leases are negotiated. Clause 11.1 of the green lease deals specifically with recycling and clarifies responsibilities for managing and measuring waste.

Problems at a higher level

3.89 Some of the issues identified in the six organizations examined are also reflected government-wide. For example, five of the six departments and agencies we audited cannot demonstrate that they are meeting their commitments to divert office waste, and the government cannot demonstrate that it met its target to reduce waste generated by 50 percent by 2000.

3.90 **No central leadership for waste management.** In the early 1990s, the Office of Waste Management housed within Environment Canada worked "with all departments to develop and co-ordinate federal waste management policies, programs and initiatives, and provide for informed decision making." It was dismantled between 1995 and 1997 as a result of program review. In the late 1990s, PWGSC became involved in recycling by providing the infrastructure required for tenants' recycling activities. PWGSC has no overall mandate to manage, measure, and report on solid waste for the whole federal government, nor does any other department or agency.

3.91 **Priorities are not clear.** All government operations generate office waste that must be managed in some way. Most of the departments and agencies that prepared a 2001 sustainable development strategy made commitments to manage solid waste in the context of greening their operations. However, the government-wide target of the 1990s is dated, and it is not clear if the 50 percent reduction remains a goal. The priority placed on waste management was not clear to departments and agencies we examined and was not clear to us in our audit.

3.92 **Sustainable Development in Government Operations is an important initiative.** Sustainable Development in Government Operations (SDGO) is an inter-departmental initiative chaired by Environment Canada, Natural Resources Canada, and Public Works and Government Services Canada. It provides departments and agencies with guidance on common performance measures and targets and reports on progress made in six areas

of government operations including managing non-hazardous solid waste and “green” procurement. The 2003 SDGO report, *Greening the Federal House*, is a government-wide effort to measure progress toward greening of government operations and is a significant achievement toward this goal. However, SDGO does not have a system to verify the quality of the data it collects and reports. There are significant problems with the way departments measure and report data to the SDGO, and therefore the reliability of waste data reported by the SDGO is questionable.

3.93 The ability of the SDGO (now managed by the Sustainable Federal House in Order steering committee) to co-ordinate, consolidate, and educate departments and agencies in monitoring and reporting on greening initiatives such as office solid waste is promising. However, the SDGO can only encourage participation; departments and agencies contribute on a voluntary basis. The SDGO currently has no authority to ensure that the common performance measures are used or that data is gathered and reported correctly or comparatively.

Examples of best practices

Provincial legislation. The Waste Resource Management Regulations in Prince Edward Island require all businesses, residences, institutions, and industries to sort, recycle, and compost. A waste audit at Veterans Affairs Canada’s headquarters in Charlottetown indicated that 91 percent of waste was being recycled, including paper, cardboard, glass, metals, and plastics.

Commitment of individuals. A key factor of successful office waste management is individual commitment. We noted that successful initiatives were supported by enthusiastic and committed federal employees and managers. For example, Environment Canada employees in Edmonton use a volunteer recycling system in the absence of municipal programs.

3.94 Where is the model of excellence? The federal government has stated that it wants to be a model of environmental excellence in its own operations. Yet it does not have the performance information to verify whether it has achieved its numerous commitments to manage solid waste. Furthermore, the waste management initiatives that are in place at the department level have more to do with provincial legislation, the presence or absence of municipal programs, and the commitment of individuals, than with direction from the federal government.

3.95 The example provided by the Quebec region of PWGSC shows what can be done (Exhibit 3.8). It took a strategic, comprehensive approach to managing office waste and demonstrated good results using sampling measurement methods.

3.96 Problems identified in 2000 continue. In 2000, the Commissioner’s chapter, *Greening of Government Operations—When Will the Government Measure Up?*, made several recommendations to improve the federal government’s performance in measuring the progress in greening government

Exhibit 3.8 A federal recycling model that works

In 1997 PWGSC launched its New and Improved Recycling Program in the Quebec region. The program now serves approximately 18,000 federal employees in over 30 federal departments and agencies located in over 50 buildings across 30 cities in Quebec. Materials that are recycled include paper, cardboard, metal, plastic, and glass.

The program is comprehensive and takes into consideration all aspects of waste management: materials, stakeholders, users, equipment, contracts, funding, and communications. It has a clear implementation plan, a strategic sampling method for measuring data, and reports a waste diversion rate of 67 percent.

The program serves as a model to Recyc-Quebec, a provincial Crown corporation that promotes, develops, and encourages reduction, reuse, recovery, and recycling.

operations, including waste management. Although very different in scope, the 2000 audit shares a number of common observations with this audit, including a lack of central leadership, the need for action plans, and gaps in data and measurement strategies.

3.97 Given the history of federal government commitments and targets for waste management, the uncertainty surrounding current priorities and goals, and the failure of five out of the six organizations to show they have met their strategy commitments, attention is required to get federal solid waste management back on track. Options could include one or more of the following:

- using the existing provisions of the *Canadian Environmental Protection Act* to develop regulations for federal solid waste management;
- designating an organization to manage, measure, and report on solid waste for the federal government; and
- strengthening existing mechanisms across departments such as the Sustainable Development in Government Operations initiative.

3.98 Recommendation. The Privy Council Office, as the central authority responsible for the machinery of government, should designate a department or departments to lead the revitalization of the approach to waste management for the Government of Canada. This should include renewing the government's targets for waste reduction, waste diversion, and green procurement within the government's wider context of greening government operations.

Government of Canada's response. Over the past decade, the government has taken steps to manage its office solid waste by implementing several innovative recycling programs and reduction and reuse initiatives. The government recognizes the need to continue and enhance implementation of 3Rs initiatives and to further develop common performance measurement and reporting. Working through the Sustainable Development in Government Operations (SDGO) initiative, the government initiated aggregate reporting with the first *Greening the Federal House* report.

Expertise related to environmental management, waste reduction, waste diversion, and green procurement exists within a number of federal organizations. Also, implementation of specific waste management initiatives often requires a partnership with municipalities and private-industry. The Privy Council Office will work with these departments to facilitate co-ordination and effective horizontality.

3.99 Recommendation. The designated lead department or departments should work with other departments and agencies to develop implementation guidance on waste management. The guidance should be available in time to assist departments and agencies in preparing the next round of sustainable development strategies due in December 2006. It should consider the following:

- using environmental management systems, where available;
- identifying roles and responsibilities;
- providing appropriate infrastructure;
- establishing criteria for recycling in the absence of municipal programs, such as composting;
- developing education and awareness programs;
- providing regular performance feedback to building occupants;
- contracting practices for waste and recyclable hauling;
- providing common measurement indicators and cost-effective methods to measure performance across government; and
- providing a common reporting template to facilitate consolidated reporting.

Government of Canada's response. Work is underway with the Treasury Board Secretariat and key Sustainable Federal House in Order (SFHIO) departments to develop a performance management framework for sustainable operations. (The SFHIO is the governance structure integrating the SDGO and Federal House in Order initiatives.) That framework will identify the following themes: built environment, green procurement, land use management, transportation, water conservation and wastewater management, and solid waste management. Once the theme of solid waste management is fully developed, the accountability, performance, and measurement requirements of this operational aspect will be defined in time to provide guidance for the next round of sustainable development strategies due in 2006.

Environmental management systems (EMSs) provide departments and agencies with a tool to systematically address all aspects of their operations from an environmental perspective. An EMS also allows departments and agencies to use a risk management approach to managing their operations, dealing with those aspects which they determine have a more significant negative impact upon the environment.

The government will continue to strengthen these mechanisms.

3.100 Recommendation. Once implementation guidance has been developed, deputy heads should ensure that all departments and agencies adopt the guidance and work toward the new government-wide office solid waste commitments and goals within the wider context of greening government operations.

Government of Canada's response. Existing mechanisms are in place outlining the roles of deputy-heads. Using a risk management approach, the government will continue to work in a co-ordinated and strategic manner to ensure that its operations are managed effectively from an environmental perspective.

3.101 Recommendation. The designated lead department or departments should review progress and prepare a consolidated regular report on these commitments and goals.

Government of Canada's response. The application of the SFHIO Performance Management Framework will ensure that progress is reviewed and reported. In the interim, work is under way to produce the next version of the government's aggregate report, *Greening the Federal House*, to be completed by summer 2005.

Conclusion

3.102 All six departments and agencies we examined made specific commitments to divert waste in their 2001 sustainable development strategies. In most cases, the commitments were numerical, clear, and concrete.

3.103 Most departments and agencies believe they have improved how office waste is managed; however, overall they could not provide reliable information to demonstrate that they had met their sustainable development strategy commitments on office solid waste. Therefore, we could not assess to what degree progress had been achieved against these commitments. The Canada Customs and Revenue Agency met two of its three commitments and is an exception.

3.104 Departments and agencies cannot demonstrate that they are meeting their commitments because they have not implemented all the steps necessary to turn their commitments into action. Examples such as the Quebec region of PWGSC show what can be accomplished with a comprehensive approach and measurement strategy.

3.105 Some of our observations are also reflected at a higher level. The government does not know if it met its 1990 target to reduce waste generated by 50 percent by 2000. Furthermore, current departmental targets focus on diverting waste, which may not achieve the goal of reducing waste. A comprehensive waste management program needs to include targets for reduction and diversion. The federal government needs to revitalize its approach to ensure that targets and commitments will be achieved.

Conclusion

3.106 Through its policies, programs, and operations, the federal government has the opportunity to make tangible progress toward sustainable development. This year we audited a series of policy and operational commitments from the 2001 sustainable development strategies of selected federal departments and agencies. Overall, our audit found the departments and agencies we examined need to do more to meet their commitments.

3.107 The seven federal departments and agencies we audited were able to provide examples of activities undertaken toward their sustainable development commitments. However, with a few exceptions, they could not demonstrate that they have met their commitments.

3.108 It is easy to include commitments in sustainable development strategies; departments and agencies have put hundreds of them on paper. However, managing and implementing these commitments is another story. Overall, we found that departments did not pay enough attention to their commitments. Departments need to follow through with the necessary steps to turn their own words into action and demonstrate they are serious about their commitments.

About the Audit

Objective

The objective of this audit was to assess the progress made by seven federal departments and agencies on specific commitments made in their 2001 sustainable development strategies.

Scope and approach

This chapter is divided into two sections:

Using the tax system. This section focusses on three commitments made by Finance Canada in the context of its sustainable development objective to examine ways to use the tax system to better integrate the economy and the environment.

We analyzed Finance Canada's 2001-03 *Sustainable Development Strategy* and its relevant files and documents, and interviewed its officials.

Managing office solid waste. This section focusses on commitments made by six departments and agencies to manage office waste:

- Environment Canada,
- Natural Resources Canada,
- Public Works and Government Services Canada,
- Canada Customs and Revenue Agency,
- Department of Justice, and
- Veterans Affairs Canada.

The first three departments are co-champions of the Sustainable Development in Government Operations initiative and have responsibilities in solid waste management.

The last three organizations were selected, in part, because they have not often been audited by the Commissioner of the Environment and Sustainable Development. In December 2003, the government separated the Canada Customs and Revenue Agency into two agencies: the Canada Revenue Agency and the Canada Border Services Agency. The commitments we examined for the Canada Customs and Revenue Agency were those in place prior to the reorganization.

Our audit approach consisted of

- developing and issuing a questionnaire to survey the departments and agencies;
- reviewing documents and files;
- visiting office buildings and observing how waste was managed in Alberta, Nova Scotia, Ontario, Prince Edward Island, and Quebec; and
- interviewing staff responsible for managing waste at headquarters and regional locations.

Some quantitative information in this chapter is based on data drawn from various federal and other sources indicated in the text. We are satisfied with the reasonableness of the data, given their use in our chapter. However, the data have not been audited, unless otherwise indicated in the chapter.

Criteria

To assess the progress made by the departments and agencies, we expected that they were

- meeting their performance expectations (they were doing what they said they would do), and
- measuring the results they achieved.

Audit team

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