



ESGs and the WADI Project

*Submission to the WA Legislative Assembly Public Accounts Committee
Inquiry
into how the Western Australian Government's progress towards achieving
Environmental,
Social and Governance outcomes is assisting to secure international
investment*

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About ANDI and the authors

1. *ANDI (Australian National Development Index Limited)* is a registered Australian not-for-profit, public interest corporation. ANDI's constitutional mission is to develop a comprehensive framework to measure national progress and wellbeing and promote the use and application of such frameworks, in government and the community, across Australia. Our approach is based on citizen engagement and democratic practice, partnerships, high quality research, and a central focus on equitable, sustainable wellbeing. ANDI and its predecessor body have worked in this field for over 25 years in Australia and internationally, with the OECD, national governments, the Senate, the ABS and many organisations in the community, local and state government, environment, public health, human rights, indigenous and university sectors. ANDI is currently working with the WA government, community and research organisations to develop a nation-leading progress and wellbeing framework for WA. More information about ANDI's work and organisation is provided on our website at www.andi.org.au.

Mike Salvaris is a Director of ANDI Limited and Honorary Senior Research Fellow at the Melbourne Graduate School of Education, University of Melbourne, and has worked for over thirty years in public policy and the measurement of progress and wellbeing.

Prof Fiona Stanley is a distinguished epidemiologist, Founder of the Australian Research Alliance on Children and Young People, a former

Australian of the Year and ABC Board member, and currently ANDI's principal Ambassador.

The PAC inquiry: context and overview

2. In March 2023, when the Public Accounts Committee (PAC) was considering the scope for its present inquiry, Research Officer Michele Chiasson wrote to ANDI seeking further information about the Western Australian Development Index (WADI) and asking if someone from the organisation could speak to the Committee about the project. We provided a written briefing on the WADI project, its likely benefits for WA and the potential role of the PAC (see *Appendix A*). On 17 May we gave video evidence to the PAC to amplify these points.
3. PAC members generally responded positively to the WADI project. They supported the WADI's role in making 'the all-important connection between finding out what is important and how do we make change'; recognised that the WADI could help bring a 'significant policy shift' by (for example) putting more emphasis on early intervention than clinical responses to ill-health; and agreed on the need for better social wellbeing and progress measures. However, the Committee made it clear that it was currently considering a narrower focus for its inquiry than a state-wide wellbeing framework such as the WADI and that in any event, it did not see a role for itself in this field if other agencies were already involved and making progress. The Committee indicated it was interested in the role of ESG (Environment, Social and Governance) outcomes and especially environment and climate change issues and their implications for the State government. However, it did agree that the WADI would itself provide important measures of ESG outcomes.
4. We responded by urging the PAC that, if it was to focus on ESG outcomes and environmental issues, it should do so in the wider context of links to overall wellbeing and the importance of preventative action and understanding the causal pathways of social problems, not just 'treating the disease'. We stressed that the WADI was designed as a comprehensive measure of all key dimensions of progress and wellbeing for WA (economic, social, environmental and governance), to be used by the community and all government departments; it was therefore important that whatever measures were developed as part of an ESG approach should be integrated within this, rather than seen as a separate framework.
5. In the event, the PAC's Terms of Reference are focussed more narrowly than our initial discussion suggested: on the link between government progress in achieving ESG outcomes and securing international investment. The context for the inquiry as the PAC describes it is that (1) there is a global climate crisis, urgent action is needed and global emissions reduction is accelerating; (2) as a result there is growing interest in sustainable finance markets, with international investors looking for greener

investments and companies adopting ESG frameworks; and (3) pressure is building on governments to adopt ESG frameworks and embed environmental and social considerations in their public sector decision-making so as 'to ensure their competitiveness on the global investment market'. We would argue that the primary rationale for adopting such a framework is to improve the wellbeing of citizens and the effectiveness of government, even if there may be flow-on benefits for global investment, as we suggest below.

6. The PAC has identified 5 specific focus issues for its consideration:
- How the State Government's commitment to net zero emissions by 2050 will help improve ESG outcomes.
 - How the State Government is actively engaging Aboriginal and young people in this decision-making.
 - Milestones in place for achieving ESG outcomes including any monitoring and reporting requirements.
 - Best practice in other jurisdictions.
 - The financial implications of doing nothing.
7. On 28th June 2023, the PAC Chair Ms Lisa O'Malley wrote to us requesting a submission to the inquiry. Our comments below briefly address a number of these issues, and we then consider the broader issue of the relationship between the WADI state progress and wellbeing framework and the further development of a program of ESGs, including the possible benefits of aligning their development.

Impact of Net Zero emissions on ESG Outcomes

8. On current trends, with the increasing influence of ESG criteria in the business and investment communities, it could be expected that if the state achieves its goal of net zero emissions by 2050 (which would be a major ESG milestone), it would significantly improve WA's prospects as a destination for international investors¹. However, and perhaps more importantly, there is a good deal of evidence and research to suggest that achieving this goal would bring very substantial benefits for the citizens of WA and their present and future wellbeing, simply because it will reduce the considerable harm that climate change and pollution cause across many fields: economic, health, social and especially to the most vulnerable.²
9. As we argued to the PAC, one of the major benefits of a comprehensive wellbeing framework such as the WADI is its capacity to map the inter-relationship and linkages between various forms of social, economic and environmental wellbeing (or 'ill-being').

Engaging Aboriginal and young people in decision-making

10. We are unable to comment on how effectively the state government is currently 'actively engaging Aborigines and young people in decision making' concerning ESGs. However, we think it relevant to point out that the WADI

program proposes an intensive 2-year program to consult with and engage Western Australians in determining priorities for the State's progress and development. This program (for which we will be seeking funding from Lottery West) will be carried out across a range of diverse and accessible engagement platforms, including social media, interactive surveys, film and video, local and town meetings, school education material and scientific surveys, aimed to directly reach over 100,000 Western Australians.

11. We suggest that there will be considerable benefits in the State government ensuring that its efforts to engage young and Aboriginal Western Australians in its ESG development are aligned with the WADI project, for at least two reasons: first, because the WADI engagement process is designed to give particular weight to the engagement of young people and remote and aboriginal communities; and secondly, because two of the key wellbeing domains in which detailed measures of progress and outcomes will be identified specifically relate to young people and Aborigines.

Milestones and monitoring progress in achieving ESG outcomes

12. In our submission to the Federal Treasury on 'Measuring what matters' in February this year, we set out a process and a list of 13 'Key technical issues' for developing a national progress and wellbeing measurement framework. We plan to apply this process to the WADI project and suggest that it may also be relevant to the way milestones might be set and progress monitored in the achievement of ESG outcomes.
13. One critical issue is the need to ensure that progress is measured against a clear and agreed benchmark. In the broader progress wellbeing movement 'beyond GDP', it is generally agreed that 'true progress means movement towards (our) specific goal or destination, rather than merely providing snapshots of historical change without specific context or comparison'³. In the case of ESG's, this means that across all three dimensions - economic, social and governance - the government will need to identify a series of specific goals and targets against which progress can be measured.

Best practice in other jurisdictions

14. In its Inquiry Terms of Reference, the PAC proposes to 'look to jurisdictions with established ESG or sustainability frameworks to examine how these frameworks were developed, if they are achieving the intended outcomes and how these approaches could be adopted in WA'.
15. We recommend that the Inquiry examine not just ESG or sustainability frameworks, but broader progress and wellbeing frameworks developed in leading countries over the past two decades. Most of these include both ESG and broader wellbeing dimensions and many have been applied and even 'built in' to government. They could provide useful models and approaches that might be adopted in WA. The OECD has generally been one of the most

reliable sources for reporting on and analysing these different models⁴. In our submission to the Federal Treasury (referenced earlier) and in several other reports⁵, we have summarised some of the leading projects in this field. As we said in our Treasury submission:

There are now many important applications for such frameworks which go well beyond the mere statistical measurement of progress and which aim to build wellbeing into government at different levels: in budgeting, policy making and planning across all departments, in legislation and as the basis for major economic reform towards a wellbeing economy ... A majority of OECD countries now have some form of holistic wellbeing measurement framework; and many have national community engagement programmes and surveys supported in varying degrees by the government and non-government sectors.

16. In our view, the current 'World best practice model' is to be found in Wales and could be replicated in WA:

Probably no other country has built wellbeing so comprehensively and thoughtfully into its legislation, policy making, planning, budgeting and education processes as Wales. The Welsh legislation, the Wellbeing of Future Generations Act, is far sighted and visionary; it defines clear, sustainable wellbeing goals and values; it requires all government agencies to abide by these values, and to set their own goals and evaluate progress against them; it is powerfully focused on young people and developing youth leadership; it establishes a Commissioner for Future Generations with extraordinary powers to interrogate and intervene in government policies and decisions; and it nurtures an imaginative and inclusive community engagement and schools education program. It is not for nothing that the Secretary General of the United Nations a few years ago proclaimed Wales as an example to the world and a model for the UN itself. And there is no reason why Australia could not work towards such a model.⁶

The benefits of integrated development

17. We conclude that both the WADI project and the Government's ESG program will benefit if their development is generally aligned and integrated.
18. ESGs have an important role, but they cannot substitute for a comprehensive state progress index that measures equitable and sustainable wellbeing across all the key dimensions of life that matter to people. ESGs were designed for a narrower purpose - to guide corporate behaviour and investment criteria⁷ - and they are therefore more limited in their scope and application. As a general principle, they will tend to emphasise those issues in the economic, social and governance fields which are most relevant to corporations and investors.
19. The current WA government's ESG program exemplifies this. It does not purport to be a comprehensive framework but describes itself as a program that 'outline(s) (selected) policy commitments and actions to improve ESG Outcomes in Western Australia'. As the latest ESG report states, 'It was prepared primarily as an information pack for investors in Western Australian Government bonds'⁸. The initiatives selected are presumably those which likely to carry most weight with potential investors in WA, and they are in five Environmental fields (Carbon transition; Climate adaptation;

Clean transportation; Conservation and rehabilitation; Circular economy and waste management); three Social Fields (Social housing; Gender equality; Improving outcomes for Aboriginal people); and one Governance field (Efficient and coordinated institutions).

20. We believe that the full development of the WADI project will also have the effect of benefiting future investment in the State. The WADI is designed to move the state towards higher levels of equitable, sustainable wellbeing, more effective governance and stronger democracy, and to measure its progress towards these goals. As the State improves in these fields, it will inevitably increase its ESG ranking from the perspective of ethical international investors, because as a general rule, the countries which have the highest general level of fairness, wellbeing, sustainability and good government will also be those which will provide the best investments for ethically minded and ESG-conscious investors.

Appendix A. Background on the WADI Project

(The AWBF) believes that this program represents a unique opportunity to set Western Australia on a new trajectory encompassing greater equity and social justice, health and life expectancy, environment and sustainability - as well as social, economic and cultural sustainability - and planetary health.

(David Mackenzie, Environment Director, Angela Wright Bennett Foundation)

(The WADI) is an initiative that is transformative and supports our long-term plan to work collaboratively with local government. It will ensure as a government we understand what is needed to make WA thrive and can measure this progress over time.

(Hon David Templeman, when Minister for Local Government)

Email Mike Salvaris to Michele Chiasson. 17-5-23

Dear Michele

On behalf of Prof Fiona Stanley and myself, I am writing to provide further background and a progress report on the WADI project for your Committee, as promised in my email earlier today.

Origins of the proposal

The original idea for the project came from Prof Stanley's discussions in 2019 with the then CEO of Lotterywest, Ms Susan Hunt, who was keen to see the development of statewide wellbeing measures. This led to a proposal to the then Minister for Local Government, Hon David Templeman, whose department provided \$50,000 for a five-year business plan, which was developed by Ernst and Young WA working with ANDI.

Aims and key features of the WADI

Fiona's letter (attached) summarises these. The WADI is intended to be a multi-purpose framework for defining and measuring progress and wellbeing across the state, including both current and future wellbeing (the latter by measuring the key 'capitals' or resources needed for future wellbeing). It is designed as a collaboration between the community, research and government sectors, based on an extensive and inclusive community engagement program, and expert research collaboration, over five years. Our aim for the project is for WA to develop a nationally leading policy tool, which, when fully developed will help to: guide planning, policymaking and evaluation; directly improve the wellbeing of Western Australians; strengthen democracy and transparency; and help create a shared vision for WA's development. Each year, the WADI will produce key indicators and an index of overall state progress as well as progress in around 12 key dimensions of life such as health, education, the environment, justice, indigenous wellbeing and child and youth wellbeing.

Scale and Funding

Full five-year funding for the project is estimated at around \$13 million, with approximately half to be provided by the philanthropic sector and Lotterywest and the other half by the state government and participating state bodies (in cash or

kind). In relation to the philanthropic and community contributions, we have in-principle agreement from Lotterywest and the Angela Wright Bennett Foundation to provide around \$6.6 million, and we are currently working to secure state government participation through discussions with state government ministers and departments over the next 6 months.

ANDI and the project partners

ANDI is an incorporated not-for profit public interest organisation which (in its current and earlier forms) has been involved in the work of developing citizen engaged and research-based wellbeing and progress measures, in Australia and internationally, for over 20 years. We have worked as advisors and consultants to the OECD, the governments of Canada and New Zealand, and various Australian state and local governments. Our key partners in the WADI project include the University of WA, the Western Australian Council of Social Service (WACOSS), the Western Australian Local Government Association (WALGA) and Ernst and Young WA.

Progress and plans

In the past year, we have developed a comprehensive and fully costed Business Plan, held widespread and generally positive discussions with potential project partners and funders, and secured expressions of support from several key Ministers and department heads. Over the next few months, we will be (1) working with AWBF to finalise a program to secure government participation; (2) arranging further meetings with additional government ministers and department heads; and (3) submitting to Lotterywest a detailed funding proposal for community engagement and research elements of the WADI. Key 'start up' activities in the first half of 2023 (subject to funding being available) will include: convening a partners meeting in the next two months; setting up a WADI website; designating a panel of WADI 'Ambassadors'; finalising the research agenda with UWA and other universities; and initiating the first stage of a statewide community engagement consultation.

Relevance to public accounts

The development of a comprehensive and authoritative framework of state-wide measures of progress and wellbeing 'beyond GDP' is a project that we believe is entirely consistent with the broader notion of public accounts and good government. Such frameworks have been developed in a wide range of countries over the past decade, by government and non-government bodies, and in a number of cases, incorporated by laws and regulations into parliamentary reporting and budgetary, planning and policymaking processes (for example, in Wales, Scotland, Italy, New Zealand, France and Canada). As you will be aware, the Federal Treasurer has proposed the development of a new national progress measurement framework 'Measuring what matters', and commitments to develop similar frameworks have been made in the last 12 months by a number of state governments, including Tasmania and NSW, while the ACT already has a reasonably well-developed model in place.

We would be delighted to work with your committee in the development of the WADI in whatever is an appropriate arrangement. Fiona and I would be pleased to provide more details and to answer any questions that you or your committee members might have, either in person or by Zoom or Teams. I will check with Fiona to see if your proposed date in May suits her.

I am attaching some additional documents which provide more detail and context both of the WADI project and the wider global movement referred to:

- the five-year development plan for the WADI (please note that this was initially drafted over a year ago and is currently being updated)
- the background 'e-Book' developed for WA government and community groups to explain the WADI.
- ANDI's submission last month to the Federal Treasury

With kind regards
Mike Salvaris

6: Notes

¹ 'Many in the investment industry believe the development of ESG factors as considerations in investment analysis to be inevitable. The evidence toward a relationship between consideration for ESG issues and financial performance is becoming greater and the combination of fiduciary duty and a wide recognition of the necessity of the sustainability of investments in the long term has meant that environmental social and corporate governance concerns are now becoming increasingly important in the investment market. ESG has become less a question of philanthropy than practicality.'

https://en.wikipedia.org/wiki/Environmental,_social,_and_corporate_governance
(Accessed 10-8-23)

² See, for example: Lu, S. 2020 'The psychological, economic, and social costs of air pollution'

<https://mitsloan.mit.edu/ideas-made-to-matter/psychological-economic-and-social-costs-air-pollution>; Steffen, W. et al. 2019. 'Compound Costs: How climate Change is Damaging Australia's Economy'. Climate Council of Australia Limited.

<https://www.climatecouncil.org.au/wp-content/uploads/2019/05/Costs-of-climate-change-report.pdf>.

As the Australian Museum reported 'The impacts of climate change include more frequent extreme weather like bushfires, heatwaves, storms and cyclones. Not only are property, crops and infrastructure lost, so too are lives. Often, it's the poor and vulnerable members of society who are likely to be hit the hardest from these events. In our communities, the impacts of climate change are broad. It damages our health, including mental health, the livelihoods of industries that are suffering (tourism and hospitality particularly) and it adds to the stresses on our medical and emergency services.

(Australian Museum, Impacts of Climate Change)

<https://australian.museum/learn/climate-change/climate-change-impacts>

³ 'Measuring what matters', ANDI Submission to the Australian Treasury, February 2023. See: <https://www.andi.org.au/library/>

⁴ See, for example: OECD. 2023. Measuring wellbeing and progress: Research and ongoing work. <https://www.oecd.org/wise/measuring-well-being-and-progress.htm>

⁵ Salvaris, M. 2022. 'Wellbeing, measurement and public policy: a review of current and international work'. Download at: <https://www.andi.org.au/library/>

⁶ 'Measuring what matters', ANDI Submission to the Australian Treasury, February 2023. See: <https://www.andi.org.au/library/> For the details of the Welsh model, see: Wales. 2023. Wellbeing of future generations. <https://gov.wales/well-being-of-future-generations-wales>

⁷ See note 1 above.

⁸ WA Government, 2023, 'Supporting Continuous Improvement in ESC Outcomes for Western Australia': <https://www.wa.gov.au/system/files/2023-07/june-2023-update-supporting-continuous-improvement-in-esg-outcomes-for-western-australia.pdf> On the government's ESG policy generally, see <https://www.watc.wa.gov.au/western-australia/was-esg-commitment/>