# Climate-related financial disclosure

# Treasury Consultation Paper

Submitted by: The Health, Environment & Waste Branch, Logan City Council

Should you have any questions in regards to the comments and feedback provided in this consultation paper, please direct them to [redacted], Senior Environmental Planning Officer E:[redacted]

Available: *Climate-related financial disclosure - Consultation paper (treasury.gov.au)

Due: 17 February 2023 E: climatereportingconsultation@treasury.gov.au

NOTE: Text in **bold** relates to the Reform Principles outlined in the document.

Logan City Council has an endorsed 10 year Climate Change Resilience Strategy, that supports our commitment to carbon neutrality for our business, as well as the vision to be resilient to the impacts of a variable and changing climate for our city's environment, community and economy. As one of only two Councils in Queensland and 15 Council's Australia wide, we are proud to be certified as carbon neutral. Our interest and participation in the Queensland Treasury's Climate-related Financial Disclosure Discussion Paper relates to actions we have committed to in our Strategy.

Since the Taskforce on Climate-related Financial Disclosures (TCFD) released its recommendations in 2017, there has been a steady increase in demand for disclosure by investors and jurisdictions mandating TCFD-aligned disclosures. However, there is an identified gap for local governments on what/how they can also account for and report on climate-related financial disclosures.

Local governments can be large or small complex organisations. Logan City Council has $6.9 billion worth of city assets and an annual budget of $1.014 billion, that includes over 1,700 staff that provide more than 85 diverse services to the community. We must gain a better understanding of the extent of climate change risks (both physical and transitional) and the potential impacts, so that we can be a resilient city that is adaptable.

Currently, Council reports on scope 1, 2 and 3 emission sources. In reporting on scope 3, we use a combination of input/output financial expenditure and consumption data where available. However, we recognise that part of our carbon footprint is also embodied assets that we buy, items we hire and construction material we use etc. While we use the Federal Governments' conversion factors, there is room for more bespoke tailored modelling.

Local government standards that uniformly guides disclosure improves the quality of data, **improves information flows**, and enhances our own knowledge to help manage the risk as well as aides the public to **well-understand** obligations. The current lack of guidance to local governments leaves Council's vulnerable and exposed to climate risks, which could be costly for the city and economy.

Logan City Council would request that the Government develop and introduce fit for purpose guidance and standards for local governments that align with the voluntary reporting requirements on climate-related financial disclosures around governance, strategy, risk management, targets and metrics including greenhouse gases. In so doing, this will **support climate goals** facilitating Australia's transition to net zero emissions by 2050, enabling adaptation to a changing climate (managing systemic risk) and promote a sustainable financial system within local governments.

Discussion Paper Q1. What are the costs/benefits of Australia aligning with international practice on climate-related financial risk disclosure (incl mandatory reporting for certain entities)?

1.1 What are the costs and benefits of meeting existing climate reporting expectations?
1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

It is important to recognise that there is an initial cost to gather and report on the data (set up systems/processes, train staff etc), therefore a phased approach would allow larger entities time and resources to work through any issues first before rolling out broadscale. The benefits would see increased opportunity in Australia and overseas for investment by more investors/banks, philanthropic investment and partnership opportunities, thereby decreasing the unknown risks of investment.

We support and recommend that equivalent reporting requirements be tailored to the local government sector (and statutory bodies of state government), as an entity not listed nor considered a financial institution. This would need to be a voluntary reporting framework for local governments, with resources that support Council staff by standard-setting bodies, potentially the Local Government Association of each State, and/or financial reporting bodies initially.

Discussion Paper Q2. Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure and the timing of future phases?

Support is given to Australia adopting a phased approach to climate disclosure, providing sufficient notice is given to those entities to enable them to create the required systems/processes, undertake training, employ staff etc to facilitate data collection and reporting requirements.

Discussion Paper Q3. To which entities should mandatory climate disclosures apply initially?

3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?

It is recommended that thresholds be consistent with State Government thresholds in particular utilised for the Financial Sustainability Framework.

3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?

On page 8 of the Discussion Paper, there is no reference to consider inclusion of local government. We would ask that in future, consideration be given to include guidance documents for local governments (and statutory bodies of state government) voluntarily reporting on climate-related financial disclosure, given the value and amount of assets Councils, Energy providers and Waste/Waterboards etc manage. This would provide consistency in reporting across these entities including voluntary options for local government, creating opportunity to participate in QTC Green Bonds investment and aide the public sector aiming for a lower carbon economy.

Discussion Paper Q4. Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB (International Sustainability Standards Board) implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?

4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

Logan City Council does not have any specific comments on this, however, careful consideration should be given in comparing Australia's risk management, metrics and targets to that of the ISSB (northern hemisphere) as to potential skewing of data.

Discussion Paper Q5. What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?

The framework needs to be consistent and transparent in relation to information on the global market to help investors, lenders and insurance underwriters assess and price climate-related risks and opportunities in order to make informed investment decisions, while cutting risks.

In regard to potential future voluntary reporting by local government (and statutory bodies of state government), it could be based on private sector international best practice and the TCFD framework for public sector disclosures of climate risks and opportunities, as per a trial conducted by the New South Wales Government. The disclosures allow for more information on climate change to be made available to the public, improving the government's management of climate change impacts on the state and potentially tailoring it to the needs of the community and market participants.

Discussion Paper Q6. Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?

It would be recommended that the Annual Report would be the appropriate platform for reporting.

Discussion Paper Q7. What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration?

We would not overly support 'enterprise value' as a useful consideration, particularly if or when including at a future stage for local governments, energy providers and water boards etc.

Consideration should be given regarding cost and time investment when imposing reporting guidelines, particularly for smaller entities.

Discussion Paper Q8. What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?

Assurance should be undertaken through a process where an organisation can gain certification over a period of time (5 yearly). Providers should be independent and held to quality management standards as this would reduce false and/or misleading reporting. However, having an assurance requirement on an annual basis would be an additional cost and given reporting is undertaken yearly this would take time and present a barrier for organisations. Consideration should be given for an assurance process that only requires periodic review (5 yearly) and where an organisation can demonstrate sufficient internal processes to meet quality assurance requirements – therefore not requiring external providers annually.

Discussion Paper Q9. What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

Significant scope 3 emissions should be reported on however they need to be undertaken in a consistent manner across the board. Further emission conversion factors are required to make better use of the framework and transparent reporting.

Discussion Paper Q10. Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

Yes. Having consistency allows comparisons to be made.

Discussion Paper Q11. What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

A public disclosure statement from the entity – could involve a periodic certification process (whereby an organisation demonstrates sufficient internal processes/procedures) and periodic audits (5 yearly) would be a way to manage this, as well as the inclusion of consistent metrics and reporting requirements for organisations. This would also add value to any independent audits, as they would be auditing against a consistent framework.

Question Paper Q12. Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?

Phasing/staged approach is essential to allow organisations time and capacity to meet requirements. Significant scope 3 emissions should be included to highlight the out-sourced activities.

Discussion Paper Q13. Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

13.1 How and by whom might any data gaps be addressed?

For climate-related risk analysis, there needs to be guidance as to which RCP scenario to adopt, so there is consistency of reporting risk across organisations.

For emissions, the data challenge is for consumption emission factors for scope 3 sources such as construction material.

13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

No comment.

Discussion Paper Q14. Regarding any supporting information necessary to meet required disclosures (eg. Climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?

It would be useful for a scientific body or (potentially) a standard-setting body to provide agreed scenarios to be used in the scenario analysis, as similar comparisons may be made, providing it is also made clear the variables, exclusions and assumptions. It would be recommended that an agreed RCP model would be selected and used. However, it is not just the RCP scenario but the percentile range that makes a big difference. Australia often uses 10%-90%, while in the USA they go up to 97% or 99%. This makes their upper limits much higher than Australia, which may then skew the data should they be compared or lumped together.

Discussion Paper Q15. How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?

Further consideration should be given as to how this may impact upon public sector CEO's in future, if the public sector voluntarily or will ever be mandated to report on financial climate disclosures.

Discussion Paper Q16. Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements and how should these interactions be addressed?

No comment.

Discussion Paper Q17. While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?

The Taskforce on Nature-related Financial Disclosures (TNFD) would align with the Australian Government's Nature Positive Plan. Therefore, flexibility should be built in to allow progression of other sustainability reporting factors to be included in future.

Discussion Paper Q18. Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?

Simple and easy to use digital reporting is supported. There would have to be some universal system that would readily be able to lodge the digital reports…At what and whose cost would it be to install/train staff/ to use the system?

Discussion Paper Q19. Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

Potential Structure 2 – AASB would focus on the traditional accounting standards, however a separate Sustainability Board would provide oversight of defined sustainability measures including climate related disclosures. If included in the Annual Report, it would still be auditable to ensure transparency and consistency.

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