Every Queensland community deserves to be a liveable one

17 February 2023

Corporations Branch
Market Conduct Division
Treasury
Langdon Cres
Parkes ACT 2600

Email: climatereportingconsultation@treasury.gov.au

Dear Sir/Madam,

RE: LGAQ Submission – Climate-related Financial Disclosure Consultation Paper

The Local Government Association of Queensland (LGAQ), as the peak body for Queensland's 77 councils, welcomes the opportunity to provide feedback to Treasury on the Consultation Paper: Climate-related Financial Disclosure (December 2022).

In accordance with the LGAQ Policy Statement, Queensland councils are committed to:

- providing a leadership role to assist local communities, including industry, to understand and address climate risk including acute and chronic physical risks and transition risks associated with moving to a low carbon economy.
- working in partnership with all spheres of government, industry and the community to develop and implement effective climate risk management strategies focusing on emissions reduction and adaptation.
- utilising the best available scientific information, robust risk assessment methodologies and community engagement when developing climate risk management strategies and action plans, establishing priorities and the allocation of resources.

Overall, the LGAQ and Queensland councils support the intent of Federal Government's commitment to introduce standardised, internationally-aligned reporting requirements for businesses to make disclosures regarding governance, strategy, risk management, targets and metrics – including greenhouse gases. This will mean greater transparency and accountability and will assist in tracking and meeting emission reduction targets set by Commonwealth, State and local governments, as well as supporting commitments such the delivery of Brisbane 2032 as a climate positive Olympic and Paralympic Games.

The LGAQ understands the standardised climate-related financial disclosure requirements are proposed to apply to certain publicly listed entities covered by the *Corporations Act 2001* and large financial institutions (such as banks, insurers, credit unions and superannuation funds). Notwithstanding, Queensland councils do have an interest in these reforms.

Many local governments are developing climate change risk management strategies focussing on emissions reduction and adaptation and undertaking a range of actions such as setting emissions reduction targets, monitoring and reporting on scope 1, 2 and 3 emission sources where this data is available and seeking to procure low emissions products and services to meet these goals.

Specifically in relation to the procurement of low emissions products and services, Queensland councils passed the following resolution at the 2021 LGAQ Annual Conference:

Resolution 35: That the LGAQ calls on the State Government to develop:

1. *A targeted, long-term capacity building program for Queensland businesses, particularly suppliers to government, to support their transition to low emissions products and services, and*
2. *Guidance and capacity building for local governments to advance their emissions reduction goals through procurement.*

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Since the Taskforce on Climate-related Financial Disclosures (TCFD) released its recommendations in 2017, the LGAQ understands there has been a steady increase in the demand for disclosure by investors and jurisdictions mandating TCFD-aligned disclosures.

The proposal for a phased approach to the roll out of the disclosure requirements to large entities in the first instance is supported, noting that this should be accompanied by appropriate transition timeframes, further consultation and backed by a full regulatory impact assessment to adequately consider the costs and benefits of the reforms.

Local governments across Queensland are at varying stages of climate risk management, the setting of targets, ESG reporting and/or carbon accounting. Within Australia for example, only 15 out of 537 councils (including 2 from Queensland – Brisbane City Council and Logan City Council) are certified as carbon neutral through the Australian Government initiative, Climate Active. As such, the proposal to not subject local governments to mandatory disclosure requirements is also supported.

The LGAQ is not able to specifically comment on the climate disclosure standards being issued by the International Sustainability Standards Board (ISSB) and the particular considerations that should apply in the Australian context. However, local governments in Queensland do broadly seek:

- appropriate policy and legislative frameworks from Federal and State governments to allow necessary decision making and responses to climate risk to occur without prejudice or undue risk exposure to councils.
- timely access to high quality, nationally consistent but locally appropriate data, methodologies, standards and codes from Federal and State governments to ensure responses to climate risk are safe, timely, proportionate and equitable.

Consistent with the 2021 LGAQ Annual Conference resolution, councils also specifically seek the following:

- To support Queensland businesses, particularly suppliers to government:
  - the development of sector-appropriate greenhouse gas emissions accounting/reduction skills
  - one on one support for small and medium businesses to identify and leverage emissions reduction business opportunities
  - appropriate tools or funding to support business emissions management
  - marketing Queensland's low emissions products and services, and
  - guidance to best present this information when tendering to government and other markets.
- Further training, advice, templates and/or guidance material is needed for councils to support:
  - an informed assessment of emissions intensity for products and services
  - balanced consideration of local benefits and organisational emissions reduction goals
  - consistency for suppliers in tendering for government contracts, including assistance in responding to emissions-related information requests
  - upskilling of staff for low emissions procurement, policy development, practice and how to integrate this into project management throughout the life of procurement, and
  - an overall reduction in scope 3 emissions through supply chains.

In preparing this submission, the LGAQ has also received detailed officer-level feedback from some Queensland councils in response to the specific issues raised in the Consultation Paper. This feedback is captured in **Attachment 1**.

If you have any questions regarding the contents of the submission, please contact [redacted] – Lead, Planning & Development and Climate Risk & Resilience via emai [redacted] or phone: [redacted].

Your sincerely

[redacted]

CHIEF EXECUTIVE OFFICER

ATTACHMENT 1 – Specific Local Government Feedback

Please note: The following comments have been received by the LGAQ in preparing this submission. It should be noted that the below does not necessarily reflect the views of all Queensland councils or a whole of council endorsed policy positions but does reflect the knowledge, expertise and insights of professional officers within Queensland councils.

Costs, benefits and scope of disclosure requirements - Covered entities and timing

- It is accepted that climate risk needs to be managed by capital markets, regulators and corporations. This includes both the physical risks of climate change and the transition risks associated with policy, regulatory and technological change brought on by efforts to mitigate climate change.
- Consistent with international implementation of climate disclosure, any implementation in Australia should follow a 'phased' approach to an initial set of entities, 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. This could then be gradually expanded to a greater range of entities.
- Whilst there may be an initial cost to gather and report on the data (set up systems/processes, train staff etc), 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.
- Sector-specific requirements and exemptions should be considered. In particular, there needs to be regard to the following:
    - A recent joint paper by Griffith University's Climate Action Beacon and Ernest and Young, conclude that '*beyond its obvious relevance to borrowings, the application of the TCFD to broader government policy is less apparent given that:*
        - *The primary focus of government is on delivering public good services outside of markets.*
        - *The strict financial intent of market discipline which the TCFD seeks to enable is largely inconsistent with the process of public administration.*
        - *Many non-financial climate risks cannot be robustly measured in monetary units and applying the TCFD's financial lens may lack relevance to the broad array of stakeholders to whom government is accountable.' (Edwards et al. 2020, p. 2-3).*
    - For councils, landfill waste is likely to be the dominant source of direct emissions. The waste sector has not been considered specifically in international or national reports, so it is difficult to draw more detailed conclusions about councils' transition risks from these direct emissions activities.
    - Councils cannot, in many cases, divest themselves of particular assets or activities (i.e., choose to 'exit' to reduce their transition risk).
- There needs to be clarity regarding the relevance of TCFD to local government. Currently, there is no specific reference in the discussion paper with regard to applicability to local governments as entities.
- Local government standards that uniformly guides disclosure improves the quality of data, improves information flows, and enhances knowledge to help manage the risk as well as aides the public to well-understand obligations.
- Consideration should be given to developing guidance documents for local governments (and statutory bodies of state government) to support the equivalent voluntarily reporting on climate-related financial disclosure, given the value and amount of assets councils, energy providers and waste/water boards for example, manage. This would:
    - 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.
    - provide consistency and strengthen the opportunity for councils to participate in Queensland Treasury Corporation (QTC) Green Bonds investment and aide the public sector aiming for a lower carbon economy.
- TCFD considerations would need to be scalable and flexible with due regard to the size and capability of each local government. An initial phase of the transition process for local government should be the delivery of standardised guidelines for financial accounting/audit purposes for local government areas given the nature/type of their service delivery and asset investment.

International alignment of disclosure requirements and Australia's regulatory framework

- It is suggested that careful consideration should be given in comparing Australia's risk management, metrics and targets to that of the ISSB (northern hemisphere), given the potential skewing of data.
- A new regulatory 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.

Periodic reporting requirements, materiality and assurance of climate risks

- It is suggested that the Annual Report would be the appropriate platform for reporting.
- 'Enterprise value' is not deemed to be 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.
- Assurance providers should be independent and held to quality management standards to minimise false and/or misleading reporting.
- It is noted that having an independent assurance provider would be an additional cost given reporting is undertaken yearly and will take time, however it is suggested that consideration could be given to quality assurance reviews being undertaken every two years instead.

Data, capability and reporting

- 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.
- A common baseline of metrics should be defined so that there is a degree of consistency between disclosures, including industry-specific metrics. Having consistency allows comparisons to be made.
- Audits would be useful to ensure covered entities provide transparent information about how they are managing climate related risks, 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.
- Significant scope 3 emissions should be included to highlight the outsourced activities but may need to consider a phased timeline for commencement in the disclosure requirements.
- 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.

Governance and liability

- 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.
- Further consideration needs to be given to the liability aspects associated with climate-related financial disclosure.

Other implementation issues and potential structures

- The Taskforce on Nature-related Financial Disclosures (TNFD) would align with the Australian Government's Nature Positive Plan. Flexibility should therefore be built in to allow progression of other sustainability reporting factors to be included in future.
- In relation to digital reporting, a universal system that can be readily used to lodge digital reports would be beneficial. However, further consideration is needed regarding the cost impacts to implement such a system including the costs to install/train staff to use the system.
- It is suggested that 'Potential Structure 2: Establish a separate sustainability standards board' be supported – 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.