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Preparing for the costs of climate change:

How new climate reporting requirements will help local authorities prepare and respond

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As this year's flooding in Canterbury and the West Coast has reminded New Zealanders, climate change – and the more extreme weather events that accompany it – increasingly threatens and impacts our communities and the infrastructure that supports them.

When climate change impacts are overlaid against New Zealand's typically aging infrastructure, the costs of upkeep for ongoing operation are also increasing – such as with continual maintenance of roads and pipes, and investment in protection structures such as higher stopbanks and seawalls.

The 2019 LGNZ report '*Vulnerable: The quantum of local government infrastructure exposed to sea level rise*,' identified as much as $14 billion of local government infrastructure at risk from sea level rise.

Citing the urgent need to adapt to climate change and reduce greenhouse gas emissions, the Government has passed the Zero Carbon Act, committing New Zealand to a 30 percent reduction of greenhouse gas emissions below 2005 levels by 2030, and declaring a climate change emergency.

More recently, the independent Climate Change Commission also released its final advice to the Government, which has until year's end to set its first three emissions budgets out to 2035 and to release the first national emissions reduction plan.

Such climate change legislation and advice will drive New Zealand's transition to a more resilient low-emissions economy.

It will also provide significant impetus and opportunity for local authorities to invest time and resource in developing more climate-resilient strategies and infrastructure.

Yet, the lack of widespread disclosure of information on climate-related financial risks and opportunities hinders informed and consistent decisions on investment, lending, and insurance underwriting.

Responding to this global need, the internationally recognised Task Force on Climate-related Financial Disclosures (TCFD) framework was developed to provide clear, comprehensive and high-quality information on the impacts of climate change.

This includes risks and opportunities presented by rising temperatures, climate-related policies, and emerging technologies.

The TCFD is being increasingly applied as a way of better informing stakeholders and improving decision making – and is a framework that New Zealand's local and central government, councils and authorities should become familiar with.

An overview of the TCFD framework

The TCFD framework is structured around four core categories, which the Zero Carbon Act also adopts as required climate-related reporting categories for councils and the public sector:

- *Governance* – the organisation's governance around climate related risks and opportunities and management's role in assessing and managing these.
- *Strategy* – the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.
- *Risk management* – the processes used by the organisation to identify, assess, and manage climate-related risks.
- *Metrics and targets* – the metrics and targets used to assess and manage climate-related risks and opportunities.

The TCFD framework's consistent categorisation of climate-related risks and opportunities enables organisations to evaluate and disclose those risks and opportunities most relevant to their business activities.

Climate-related risks covered by the framework are broadly divided into two categories: physical risks (both acute and chronic) and risks inherent in not successfully transitioning to a low-emissions economy.

Transition risks from climate change include policy and legal risks, including litigation from ratepayers. They also include risks to organisations' reputations from inaction or maladaptive action, and risks from assuming that new technologies, such as electric vehicles, will be sufficient to help New Zealand meet its national emissions budgets.

For example, because New Zealand has committed to emissions reduction targets for 2030 and 2050, local authorities should manage the transition risks of investing in new emissions-intensive infrastructure. If the Government continues to look at the transport system for much of New Zealand's near-term emissions reductions, that emissions-intensive infrastructure could need to be replaced with more lasting, low emissions infrastructure within a few years.

Physical risks in New Zealand – such as droughts, flooding and other extreme weather events – are increasing nationally, as are rising sea levels. Besides direct damage to assets and disruption to supply chains, physical risks pose a significant threat to the stability of New Zealand's financial system.

New Zealand's first National Climate Change Risk Assessment, published in 2020, listed the risk of financial instability among its ten most significant physical risks from climate change.

Transparent disclosure of climate-related risks and opportunities to investors and financial regulators is an essential precondition for a financial system that is resilient, despite climate change.

New Zealand leading the pack in mandating climate risk reporting across our financial system

New Zealand aims to be the first nation in the world to mandate disclosure of financial risks and opportunities from climate change using the TCFD framework, with some local authorities already taking positive steps in this direction. Auckland Council, for example, recently became the first New Zealand council to do this, using the TCFD framework for its inaugural climate risk disclosure in its 2019 Interim Report.

Mandating climate-related disclosures will empower investors and enable companies to better assess climate-related opportunities and risk when making investment and other financial decisions.

Mandatory disclosures will begin with the next financial year, once the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill passes Parliament.

Beginning next year, reporting on climate-related risks and opportunities using the TCFD framework will be required for the financial sector. This includes banks, insurers, funds, and asset managers, as well as council-controlled organisations listed on the New Zealand Stock Exchange (NZX) (including some airports and ports), and all companies and councils with debt or equity listed on the NZX.

Crown financial institutions will also be expected to report using the TCFD framework, as NZ Super already has in October 2020.

Local authorities will be covered by either or both of two parallel climate reporting regimes

For local authorities covered by the mandatory disclosures bill, as well as all other local authorities, climate-related reporting is already required under the Zero Carbon Act legislation passed in 2019.

The Zero Carbon Act empowers the Minister for Climate Change and the independent Climate Change Commission to request information from around 670 New Zealand organisations that provide essential public services.

These include local authorities; public and private lifeline utilities providing electricity, water, transport, fuel, and telecommunications infrastructure; the Police and New Zealand Defence Force; Crown entities, and all Central Government agencies and state-owned enterprises.

The categories of information the Minister or Commission can request conveniently align with the TCFD framework.

Even in the absence of a broad, public sector-wide mandate for climate-related disclosures in the legislation now before Parliament, the Zero Carbon Act's reporting mechanism could be used to request TCFD-aligned climate-related disclosures from local government.

The value to local government of the TCFD framework

Risk disclosure and the TCFD framework are some of the most important tools we have, to speed progress in responding to climate change. They empower and incentivise organisations to act, driving investment to those that are helping to lead the way. Even local authorities that aren't required to use the TCFD framework for their climate-related reporting should consider the inherent value of the reporting exercise.

First, banks and insurers will increasingly seek information from local government to prepare their own TCFD disclosures, so it will help to have this information readily available and in the same format.

Second, although the TCFD framework is targeted towards the financial sector, it can be used by all types of organisations, including local government. It can also include risks that are not purely financial, such as risks to human life or social risks.

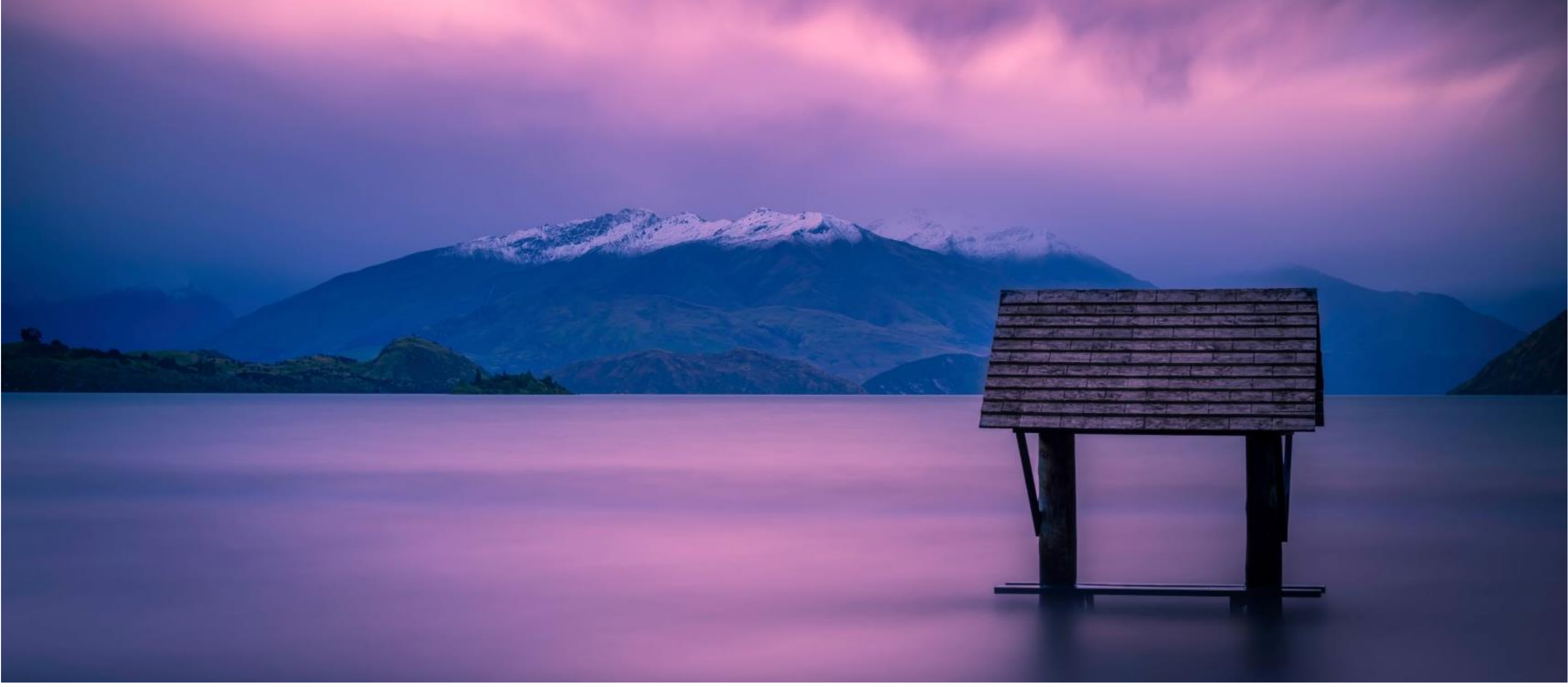
Third, underpinning the TCFD framework is a valuable climate scenario analysis exercise, in which local authorities and other organisations use different climate scenarios to test how resilient their strategies are to climate change. The TCFD framework mandates that the climate scenarios used in the analysis exercise include at least one scenario that is aligned with the Paris Agreement's multi-national commitment to limit global warming to two degrees above pre-industrial levels.

Crumbling cliffs on the Cape Palliser coastline CREDIT: Getty Images

By performing climate scenario analysis and following the TCFD framework's process, local authorities will better understand which actions are needed to manage their climate-related risks and to pursue new opportunities. Such actions may include better preparation for civil defence emergencies or better procurement decisions that are consistent with councils' decarbonisation trajectories.

Climate reporting using the TCFD framework will also provide valuable evidence for business cases when considering long-term investments such as infrastructure, transport, or urban development. Under the proposed Strategic Planning Act (one of three acts that will replace the Resource Management Act), local government will need to consider the effects of climate change as part of the planning process.

Climate scenario analysis and TCFD reporting can provide some of the support for local authorities' decisions, demonstrating that those decisions are appropriate for long-term decarbonisation, for climate change adaptation, or both.



Flooded Lake Wanaka CREDIT: Getty Images

Conclusion

The more entities that disclose their climate-related risks and opportunities under the TCFD's framework, the more useful that information becomes to fighting climate change, identifying economic opportunities, and building a stronger and more resilient economy.

Local authorities should begin preparing TCFD reports and performing climate scenario analysis now, whether to meet reporting obligations under the new legislation or Zero Carbon Act, to use the TCFD process and climate scenario analysis to make better informed decisions about climate change, or both.

Despite the uncertainty inherent in climate change, preparing climate-related disclosures using the TCFD framework and performing climate scenario analysis will help councils be more resilient to climate change and provide more opportunities for future-proofed financial decisions.

Invest wisely.

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