

Climate risk governance

Climate change through a
financial and liability lens

City of Hobart
16 November 2021

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City of **HOBART**

Climate Change Information for
Decision Making

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City of Hobart

Policy

Title:	Climate Change Adaptation
Category:	Environment, Development and Planning Control
Date Last Adopted:	23 November 2020



Developing a Tasmanian Local Government Climate Strategy and Council Climate Action Plans

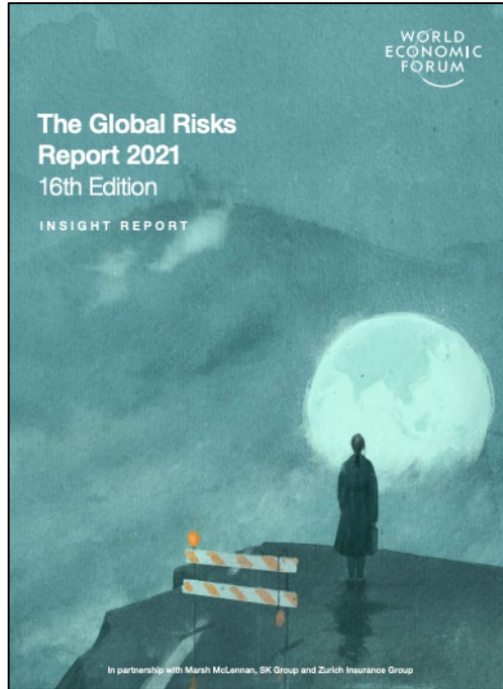
A collaboration between:

STCA Councils & Clarence City, Glenorchy City and Kingborough Council

16 August 2021

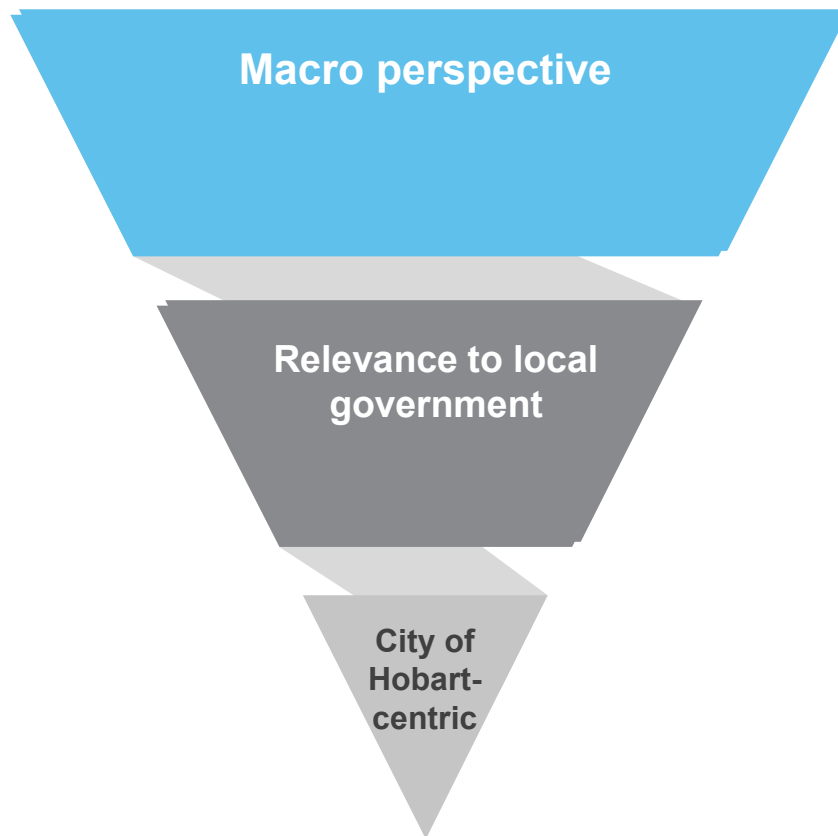
So, this is about *financial* risk ...?

The greatest risk to the global economy is not COVID-19



Why is climate change relevant across the City's operations?

- A** **Global context – the great acceleration**
 - What is 'climate change' – and why is it a material *financial* risk (opportunity)
- B** **Local government context – why is climate change relevant for local government?**
- C** **City of Hobart context – risks and opportunities across the City's operations**



This is a different kind of green: the weight of money



Key messages:

- Climate change has evolved from a purely ‘ethical, environmental, non-financial’ issue, to one that presents **material risks & opportunities** within mainstream investment horizons (& political cycles)
- Financial & legal imperatives underpin the need for proactivity in both climate change **mitigation (emissions reduction) AND adaptation** (impact risk management & strategy)
- Key to efficient risk management & value capture is a **whole-of-Council approach**



01

Climate change as a financial issue



Climate change through a finance and liability lens

Three categories of climate-related financial risks – these risks manifest within mainstream investment horizons, including the shorter term



Physical risks

Ecological impacts (gradual onset & extreme catastrophic)



Economic transition risks

Market impacts driven by policy, technology, social responses to those physical risks



Liability risks

Failure to mitigate, adapt or disclose

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Physical risks in context

Catastrophic

Extreme weather events: increase in frequency and intensity (e.g. drought, flood, bushfires, storms, cyclones)

Gradual onset

Sea level rise, ice melt, ocean acidification, regional temperature and rainfall variations

Ecological impacts

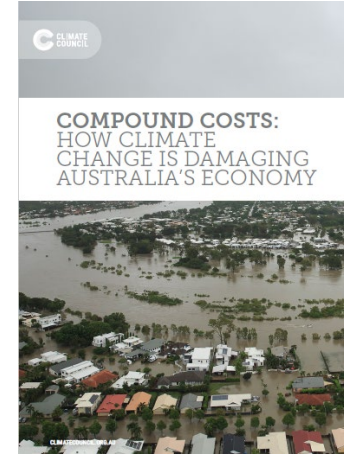
Mass extinctions of flora and fauna, biodiversity loss, fresh water loss

NSW fires cause problems for Snowy Hydro 2.0 with machinery lost and town half-destroyed

By political reporter [Melissa Clarke](#)
Updated 7 Jan 2020, 1:01am



PHOTO: Lob's Hole, the remote site of the Snowy Hydro 2.0 project, was significantly damaged by bushfires. (Supplied: Snowy Hydro)



Climate change on track to make world 'uninsurable': IAG

POLITICS FEDERAL BUSHFIRES

Bushfires may crimp living standards long term as insurance costs hit \$2b

Climate change and extreme weather are projected to reduce property values by \$571 billion by 2030, \$611 billion by 2050 and \$770 billion by 2100.



Consider: broader impacts on Council's built environment?

- **Capital & maintenance planning** - gradual onset & the new normal for extreme catastrophic?
- **Infrastructure & asset damage & availability?** Buildings, storm water & sewerage, utility services, transport infrastructure, access?
- Soil contraction? Fluvial/pluvial flooding? Drought & water scarcity?
- **Private property damage** – pressure on the City to protect/support?
- **Planning & development regimes?**
- **Valuation** – impact on useful lives, capital maintenance & upgrades?
- **Design** including cross-dependency assessments? *Power, water, sewerage, access?*
- **Materials** selection & performance integrity?
- **Contractual risk** allocation & management (including force majeure)?
- **Asset efficiency & operation?**
- **Supply chain** disruption?
- **Workplace** – performance, safety, WHS liabilities?
- **Financial sustainability/stability & insurability?**

Consider: impact on community & Council service provision?

- Increase in **mosquito- & water-borne** disease
- Increase in **cardiovascular, respiratory & allergic** diseases as changing temperatures / weather patterns impact airborne pollution
- Increase in **acute event-based physical injuries** (fatalities & disabilities) (↑ bushfire (air pollution), inland flood)
- Increase in **chronic depression & mental health issues** – eg financial & social impacts, post-extreme weather event (bushfire, flood), ‘eco-anxiety’ amongst young people
- **Heat stress** – wider population, construction workforce, City workforce
- Increased **interactions with wild animals** – habitat squeeze for some species, ↑ ideal breeding for others
- **Emergency management & evacuation plans?**
- **Increased vulnerabilities & duties of care?**

Accelerating economic transition risks (and opportunities)



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Liability risks

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Economic transition risks on the pathway to net zero



Regulatory and policy responses

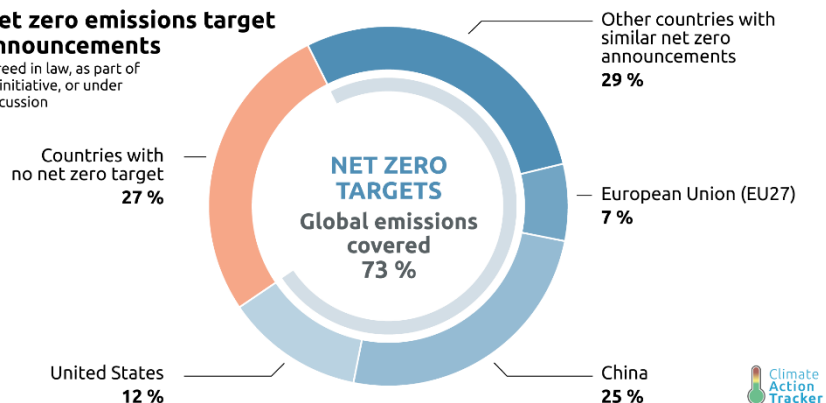
- 73% of the global economy has a net zero target
- All Australian states & territories have net zero target
- Key trading partners have net zero targets (China, Japan, South Korea)
- Carbon border tariffs / trade policies

Capital markets & green finance

- Credit ratings agencies
- Retail & investment banks
- Race to the top – elevated prudential requirements (e.g. EU Green Finance Taxonomy)

Net zero emissions target announcements

agreed in law, as part of an initiative, or under discussion



Consider: what are the potential impacts of these economic transition risks (opportunities) for City of Hobart?

- **Major projects** – finance, fitness for purpose, supply chain/works interruption?
- Council-held **asset valuation**, impairment & capital works?
- Council **access to finance** & insurance?
- **Insurability** - & mortgagability - of private property within the rate base?
- **Community infrastructure provision** – changing needs & potential for maladaptive expenditure?
- Utilisation of **renewable/pilot technology**
- **Procurement opportunities**



Elevated liability exposures



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Failure to mitigate, adapt or disclose

Key trends in litigation & claims



- **Administrative claims (merits and judicial review)**
 - *Murray-Darling Basin claims*
 - *Bushfire Survivors vs EPA*
 - *Environment Vic v EPA*
 - *LCANZI – Nelson City Council*
- **Planning and regulatory approvals (mapping and development approvals)**
 - E.g. *Sharma v Minister for the Environment*
 - Heathrow Airport runway expansion litigation
- **Contractual risk allocation (i.e. force majeure?)**
 - E.g. *Stephens Ranch Wind Energy LLC et al v. Citigroup Energy* (Supreme Court NY – not significant judicial precedent, but squarely relevant analogy)
- **Negligence & nuisance** – failure to take reasonable precautions against the reasonably foreseeable risks associated with climate change
 - E.g. *Illinois Farmers*
 - AR6 has heightened ‘reasonable foreseeability’ of physical impacts of climate change
- **Breach of directors’ duties? Misleading corporate disclosure? Greenwashing?**
 - E.g. *McVeigh v REST, O’Donnell v Commonwealth*

‘Even the most impassioned eco warrior has nothing on a homeowner facing negative equity’

- Myles Allen

THE AUSTRALIAN

FOR THE INFORMED AUSTRALIAN

Beach home owner laments: why did nobody tell me?

By **SIMONE FOX KOOB**, JOURNALIST and **MARK COULTAN**
12:00AM JUNE 9, 2016 • 138 COMMENTS

One of the owners of a multi-million-dollar storm-devastated Collaroy property on Sydney’s northern beaches is threatening to take legal action against the local council, claiming he wasn’t warned about the risks.

The threat comes as a legal storm over who is to blame for the lack of a sea wall, and who will pay for it, is brewing after extensive damage to 10 homes along the beach over the weekend left them uninhabitable. Owners face paying up to \$140,000 each towards construction of a sea wall, which could cost up to \$10 million.

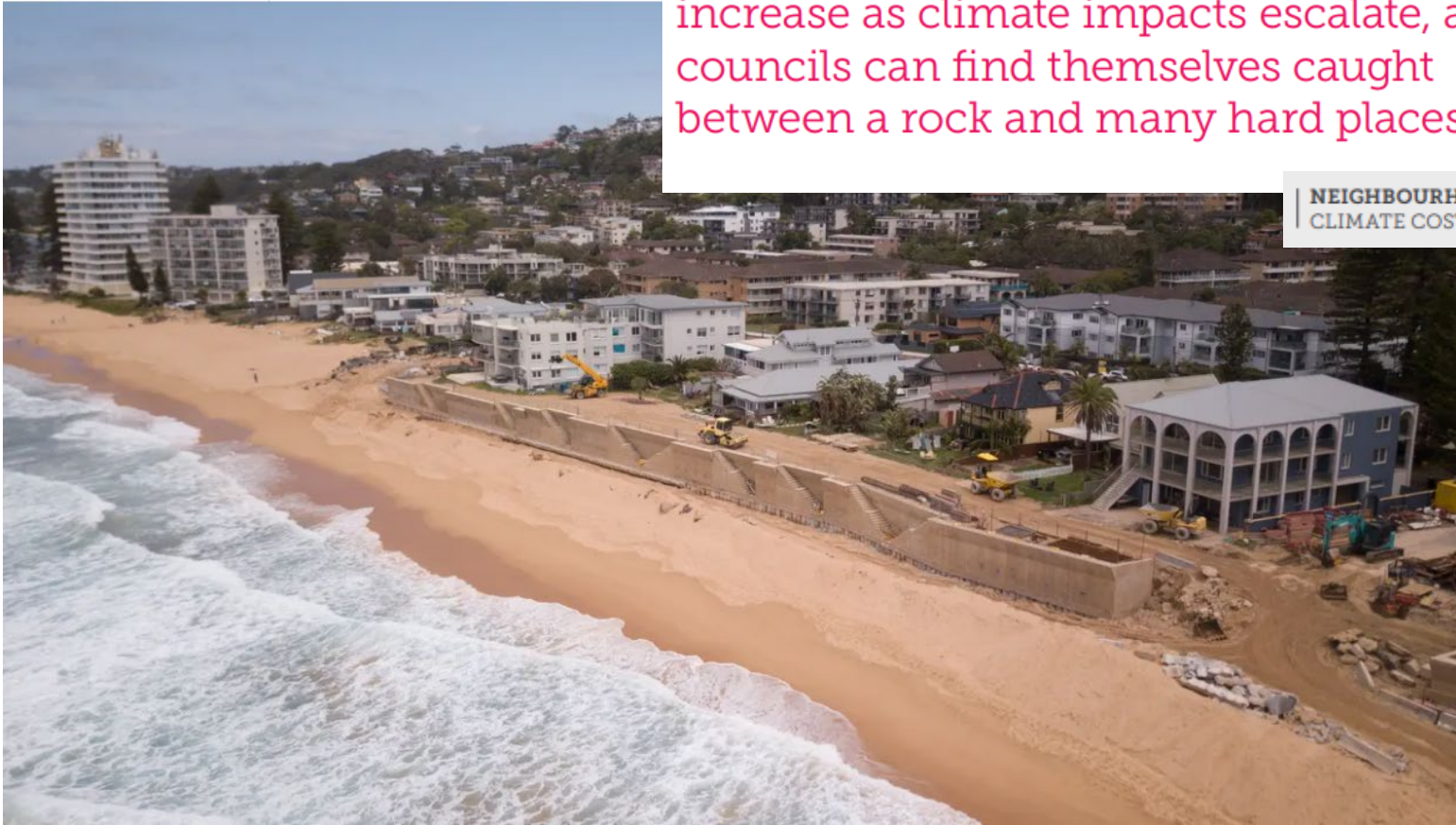
Home owner Tony Cagorski said he would “follow every course he can” to take the council and the real estate agents who sold him his waterfront property to court, claiming he wasn’t told about the risks to his home when he bought it.



Litigation against councils is likely to increase as climate impacts escalate, and councils can find themselves caught between a rock and many hard places.



NEIGHBOURHOOD ISSUE:
CLIMATE COSTS AND RISKS TO COUNCILS



Photograph: Lewis Isaacs/The Guardian



02

Where to now?

MinterEllison

Strategic Planning

LOCAL GOVERNMENT ACT 1993 - SECT 70

Long-term financial management plans

- (1) A council is to prepare a long-term financial management plan for the municipal area.
- (2) A long-term financial management plan is to be in respect of at least a 10 year period.
- (3) A long-term financial management plan for a municipal area is to –
 - (a) be consistent with the strategic plan for the municipal area; and
 - (b) refer to the long-term strategic asset management plan for the municipal area; and
 - (c) contain at least the matters that are specified in an order made under [section 70F](#) as required to be included in a long-term financial management plan.

LOCAL GOVERNMENT ACT 1993 - SECT 66

Division 2 - Plans and report Strategic plan

- (1) A council is to prepare a strategic plan for the municipal area.
- (2) A strategic plan is to be in respect of at least a 10 year period.
- (3) In preparing a proposed strategic plan, a council is to consult with the community in its municipal area and any authorities and bodies it considers appropriate.
- (4) The general manager is to make a copy of a proposed strategic plan available for public inspection at the public office during ordinary office hours.

LOCAL GOVERNMENT ACT 1993 - SECT 70B

Long-term strategic asset management plans

- (1) A council is to prepare a long-term strategic asset management plan for the municipal area.
- (2) A long-term strategic asset management plan is to relate to all assets that are within a class of assets specified in an order under [section 70F\(3\)](#) to be major assets.
- (3) A long-term strategic asset management plan is to be in respect of at least a 10 year period.



Taskforce on Climate-related Financial Disclosures?

Core recommendation of the TCFD: stress-testing & scenario planning across the plausible range of climate futures, on a forward looking basis

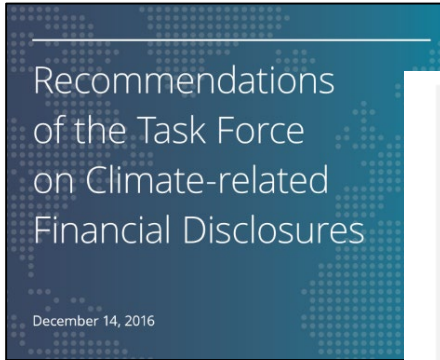


Figure 2

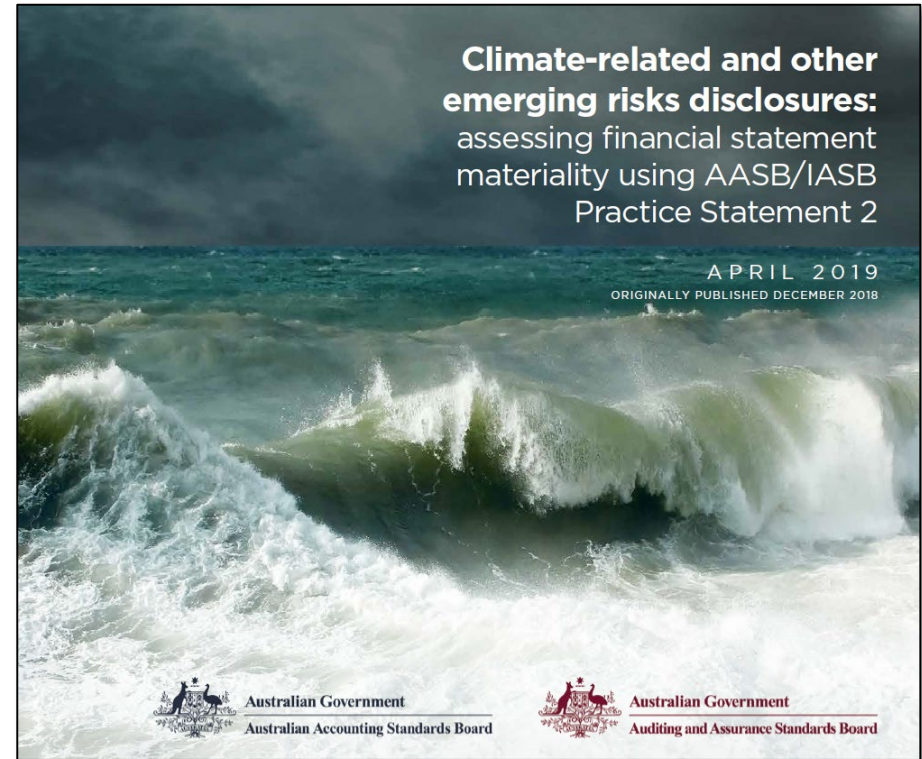
Core Elements of Recommended Climate-Related Financial Disclosures



Balance sheet items ripe for consideration



- Asset fair valuation and impairment
- Changes in useful life of assets
- Increased costs and/or reduced demand for products and services affecting impairment calculations and/or requiring recognition of provisions for onerous contracts
- Potential provisions and contingent liabilities arising from fines and penalties
- Changes in expected credit deterioration / losses from loans and other financial assets





03

Key questions and practical
tips

—

MinterEllison

Key learning

This is a material risk (& opportunity) across all Council functions

Past experience is not representative of future risk

Disclosure

Key issues for City of Hobart

- *This is not just an issue for Sustainability & Waste.*

Ask:

- How do we assess relevant risks (& opportunities)? Do we understand which climate risks arise where, & their potential magnitude?
- How is climate-related risk management & resilience-building integrated across all functional divisions?
- How can this knowledge be applied to facilitate improved outcomes at no extra cost?

- *Strategy & planning must take a forward-looking approach to stress-testing & scenario planning.*

- *Consider Taskforce on Climate-related Financial Disclosures.*

Ask:

- What will the operating context look like in 5, 10, 30 years?
- What variables are key to our ability to maintain financial sustainability & continue to deliver services?
- What are the decision signposts that we should monitor?
- Have we identified the risk interdependencies?

- *A stitch in time will save 9.*

Ask:

- What is an appropriate climate change governance & risk management structure?
- How do we ensure that our legal & finance teams remain across this dynamic risk area?
- What updates can be made to our by-laws & contract management processes to protect Council's position?
- To what extent are relevant risks covered under our insurances?
- How do key climate-related variables & assumptions impact on Council finances – both P&L (revenue & expenses) & balance sheet (asset useful lives, fair value, impairments)?

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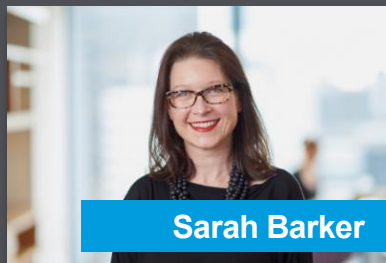
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We create
lasting
impacts.

The logo consists of a central vertical bar with four diagonal bars extending from its right side, forming a stylized sunburst or star shape.