



Investor
Group on
Climate
Change

Submission: Independent Review of the Australian Climate Service

December 2023

Summary of key points

- **A shared understanding of physical risk is essential to unlock private capital for adaptation and resilience.** Public-private partnerships and other investment vehicles will be required to fund the magnitude of required adaptation and resilience projects. However, there are significant barriers to private investment, including the fragmentation and lack of comparability and consistency in physical risk information.
- **A consistent national evidence base for physical risk in Australia is essential.** Many existing sources of physical risk information are not available for commercial use, difficult to access, not nationally consistent, or lack transparency in their methodology and data sources. ACS should support information that:
 - Has consistent and transparent assumptions and methodologies.
 - Is publicly available in an easy-to-access central repository.
 - Ensures the information is updateable, and there is a clear plan for when and what will be revised.
 - Is developed collaboratively with a wide range of expertise and extensive stakeholder engagement.
- **A long-term view of risk is prioritised for adaptation planning and investment.** To ensure that the development and collation of long-term risk information is prioritised, IGCC recommends that part (at least 50%) of ACS's funding is dedicated to long-term projects (e.g., next generation climate models).
- **Collaborative engagement is required to inform a holistic view of risk and resilience.** IGCC suggests that a process for engaging end-users on current or planned ACS projects is developed. This may include an external reference group on projects and should offer opportunities for input at the planning phase of projects where possible. This would ensure that the information developed is decision-useful and integrates the broad expertise within Australia.

Introduction

The Investor Group on Climate Change (IGCC) welcomes the opportunity to provide a submission into the Independent Review of the Australian Climate Service (ACS).

Relevance for investors

A shared understanding of physical risk is essential to unlock private capital for adaptation and resilience.

IGCC is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of over \$3 trillion in Australia and New Zealand, and \$30 trillion globally. As the long-term custodians of trillions of dollars in retirement funds, investors have a fiduciary duty to deliver long-term returns for their beneficiaries that are commensurate with the level of risk taken. Due to the systemic nature of climate change, unless it is addressed in an orderly and just way, the retirement savings of millions of Australians are under threat.

The physical impacts of climate change will cost the Australian economy hundreds of billions of dollars in the coming decades, primarily driven by loss of life and damage from extreme weather events. Public-private partnerships and other investment vehicles will be required to fund the required magnitude of adaptation and resilience projects, which are essential to avoid detrimental economic impacts for vulnerable people and communities. However, there are significant barriers to private investment, including the fragmentation and lack of comparability and consistency in physical risk information (more information in IGCC's [Investor Expectations: National Climate Risk Assessment](#)).

One of the key objectives of IGCC's [2023-2025 Physical Risk Strategy: Road to Resilience](#) is that investors, companies, governments, and communities develop a shared understanding of physical climate risk. ACS and associated projects (e.g., the National Climate Risk Assessment (NCRA)) have an important role to play in providing consistent, transparent, and easy-to-access physical risk information for a range of stakeholders. This will be essential in building investor confidence to place private capital into adaptation and resilience ([Road to Resilience](#) Objective 4), particularly in regions that are highly exposed to physical risk.

Key recommendations

Orderly and just adaptation requires physical risk information that is consistent, long-term, and collaborative.

A shared understanding of how physical risks will change under different scenarios is crucial to ensure a resilient and prosperous future for Australia. IGCC has compiled the following recommendations on the role of ACS, and the Australian government more broadly, in meeting this objective.

A consistent national evidence base for physical risk in Australia

Many existing sources of physical risk information are not available for commercial use (e.g., CSIRO's Climate Change in Australia), difficult to access (e.g., local council flood studies), not nationally consistent (e.g., flood defence information or downscaled climate projections), or lack transparency in their methodology and data sources (e.g., commercial data vendors). This leads to data brokers (e.g., service providers) often using less accurate and reliable sources, which, in turn, creates a lack of comparability and confidence for data users (e.g., investors).

IGCC's [Investor Expectations: National Climate Risk Assessment](#) outlines some key requirements for credible, decision-useful physical risk information. In summary, ACS should support, through projects such as NCRA, information that:

- Has consistent and transparent assumptions (e.g., emission scenarios) and methodologies.
- Is publicly available in an easy-to-access central repository.
- Ensures the information is updateable, and there is a clearly communicated plan for when and what will be revised. This should be done at a consistent interval (e.g., every 5 years) and consider additional criteria for update (e.g., if the risk in a particular area materially changes).
- Is developed collaboratively with a wide range of expertise and extensive stakeholder engagement (more information in Recommendation 3).

This approach will allow third parties (e.g., service providers and sector groups) to build upon a consistent evidence base and provide comparability for data users. For example, IGCC has been working with the Institutional Investor Group on Climate Change (a European-based investor network) to develop the [Climate Resilient Investment Framework](#) and associated asset-class methodologies (e.g., [Physical Climate Risk Assessment Methodology](#) for infrastructure). Domestically, IGCC members have engaged with the [Climate Measurement Standards Initiative](#) and are advocating for adaptation to be included in the Australian Sustainable Finance Taxonomy (e.g., IGCC's [submission](#) on Australian Sustainable Finance Strategy). The success and impact of these initiatives would be significantly uplifted by consistent physical risk information for Australia.

A long-term view of risk for adaptation planning and investment

To transition to a net zero economy, huge amounts of public and private capital is being invested. It is essential that the long-term physical impacts of climate change are considered

in these investment decisions to ensure new risks are not created, which may lead to stranded assets and other perverse outcomes. In addition, there is increasing pressure on private capital providers (e.g., investors, banks) to consider long-term physical risks. Without reliable and consistent information, followed by proactive management through adaptation, there is significant risk of capital flight.

To ensure that the development and collation of long-term risk information is prioritised, IGCC recommends that part (at least 50%) of ACS's funding is dedicated to long-term projects (e.g., next generation climate models). Alongside forward-looking information, this should also include collecting exposure, vulnerability, and risk information based on historical data into a central repository. This information will be essential to supplement lower resolution data from climate models.

The [Independent Review Discussion Paper](#) raises the challenge of prioritising long-term risks over emergency response. There is value in having both short- to long-term climate information provided by a single entity, as there is significant overlap in expertise and short-term risks influence long-term and vice versa. To alleviate some of the reactive responsibilities of ACS, a sensible delineation could be that ACS supports the National Emergency Management Agency (NEMA) by developing tools for emergency management decision making (e.g., flood intelligence tools), but these are then implemented by NEMA or within relevant organisations (e.g., The Bureau of Meteorology or state agencies and departments) but outside of ACS's remit. This would have the dual benefits of upskilling outside of ACS and reducing the strain on ACS's resource during natural disasters.

Collaborative engagement to inform a holistic view of risk and resilience

While the current customers of ACS are NEMA and the Department of Climate Change, Environment, Energy and Water (DCCEEW), ACS is leading projects that require significant stakeholder engagement and are impactful beyond these departments (e.g., NCRA). This, alongside the proposition to make ACS information publicly available, will increase the expertise needed to effectively execute these projects.

For example, IGCC's experience with the NCRA engagement process was that while there was significant natural hazard and climate expertise within the ACS team, there was a lack of financial understanding. In addition, while there was opportunity for external stakeholders to input into the key risks for the NCRA, there was limited transparency as to how this input would be used.

To address this, IGCC suggests that a process for engaging end-users on ACS current or planned projects is developed. This may include an external reference group on projects and should offer opportunities for input at the planning phase of projects where possible. This would ensure that the information developed is decision-useful and integrates the broad expertise within Australia. In addition, it would provide both government and the private

sector the opportunity to upskill and gain greater understanding of opportunities and challenges in physical risk and adaptation.

Further Engagement

Due to the short time frames for submission, this document only provides some high-level recommendations for the Independent Review of ACS. IGCC would be happy to provide more detailed information in 2024 on any issues raised. For more information or to discuss, please contact:

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