23 September 2022

Auckland Council's submission on Climate-related disclosure framework: *Aotearoa New Zealand Climate Standards*

Thank you for providing Auckland Council Group (the group) with the opportunity to submit on the climate-related disclosure framework. The group's submission is attached. It incorporates feedback from Auckland Council, Auckland Transport, Ports of Auckland and Watercare Services.

This submission is endorsed by Auckland Council's Audit and Risk Committee and Auckland Council's Chief Financial Officer.

Please contact me if you have any queries regarding our submission.

Ngā mihi,

Peter Gudsell
Chief Financial Officer
Auckland Council

Submission to External Reporting Board

Climate-related disclosure framework: Aotearoa New Zealand Climate Standards

September 2022

Mihimihi

Ka mihi ake ai ki ngā maunga here kōrero,
ki ngā pari whakarongo tai,
ki ngā awa tuku kiri o ōna manawhenua,
ōna mana ā-iwi taketake mai, tauiwi atu.
Tāmaki – makau a te rau, murau a te tini, wenerau a te mano.
Kāhore tō rite i te ao.

I greet the mountains, repository of all that has been said of this place,
there I greet the cliffs that have heard the ebb and flow of the tides of time,
and the rivers that cleansed the forebears of all who came those born of this land
and the newcomers among us all.
Auckland – beloved of hundreds, famed among the multitude, envy of thousands.
You are unique in the world.

Introduction

1. Auckland Council along with its subsidiaries welcomes the opportunity to provide feedback to the External Reporting Board (XRB) on the consultation document “Climate-related Disclosure Framework: Aotearoa New Zealand Climate Standards Consultation Document”.

Tāmaki Makaurau context

2. The group declared a climate emergency in June 2019, committing the group to necessary action to manage and mitigate climate-related risks and make use of the opportunities climate change presents.

3. The group adopted Te Tāruke-ā-Tāwhiri: Auckland’s Climate Plan in December 2020 as the region’s long-term approach to climate action. The plan commits to reducing Auckland’s regional GHG emissions by 50 per cent by 2030 and to achieve net zero emissions by 2050 while preparing for the impacts of climate change.

4. Climate action has been identified as a priority area for investment through the Group’s Long-term Plan 2021-2031 (LTP) with $152 million specifically allocated to climate action over the next 10 years. 2021 was the first year the group had included a specific Climate Action Investment Package in its LTP.

5. Auckland Council (the Council) became a signatory to the C40 Cities Divest/Invest policy which commits the Council to divest from companies involved in the production of fossil fuels and increase our financial investments in climate solutions to help promote decent jobs and a just and green economy.

6. The group has raised more than $1 billion in green bonds to finance and refinance projects such as electric trains and cycling infrastructure and were the first entity in New Zealand to issue a green bond. The Council will be a mandatory participant in the proposed climate reporting regime due to the issuance of its bonds.

7. The Council has been an early adopter of the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations in New Zealand and has voluntarily disclosed under the framework since 2020.

8. The Council recognises that applying the recommended disclosures of the TCFD framework requires the group to make fundamental changes to our organisation to ensure climate risk management is embedded into our governance structures, strategic, and financial planning processes. We believe that these disclosures will enable more informed decision making that will benefit all stakeholders.

Responses to Consultation Document Questions

Q1: Do you think draft Aotearoa New Zealand Climate Standards will meet primary user needs?

We think that the standards will more than meet primary user needs.

Q1(a): Do you think that the proposed disclosure requirements will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.

We consider that the depth and breadth of disclosure, including the high level of detail is beyond the needs of primary users. We acknowledge that international climate standards also call for similar, if not greater levels of detail. However, we question whether many primary users will be able to interpret the information, and if it will be useful in making financial decisions. It would be useful if the XRB uses this lens when considering to add any further disclosures, particularly if they are technical in nature.

Q1(b): Do you consider that draft Aotearoa New Zealand Climate Standards are clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

In general, the draft Aotearoa New Zealand Climate Standards (the Standards) are relatively clear and unambiguous. We would however like the following matters to be considered:

1. Objective of the standard

From a primary user perspective, the objective of climate standards is to provide users with an understanding of the current and potential future financial impacts of climate risk on the entity. The current Objective paragraph in NZ CS 1 is lengthy and this point is somewhat conveyed towards the end. In addition, the paragraph states that the ultimate aim is to support the allocation of capital towards a climate resilient future. Whereas we do support the allocation of capital to a climate resilient future, we feel that this isthe objective of standard setters or the central government, not the primary objective of preparers in preparing the climate statement. We think the objective paragraph should be simplified, and only convey the objective of preparers.

2. Scope of the standard

As we move to a future where climate change action is front and centre of an entity's performance, public benefit entities will include climate metrics and targets in their service performance reporting. We believe that the Scope section of NZ CS 1 should clarify the context of the reporting under the standard e.g. if an entity reports on a climate metric in their service performance such as GHG emissions, should NZ CS 1 and NZ CS 3 apply to the disclosure, either explicitly, or because NZ CS 1 and NZ CS 3 are considered best practise for disclosure of climate metrics.

Q1(c): Do you consider that draft Aotearoa New Zealand Climate Standards are comprehensive enough and achieve the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance? Please consider your answer to question 5 when responding to this question.

1. Use of the word "must"

We do not believe that the standards are principles-based. Although they state the principles to be achieved, they go on to state that to achieve those principles, entities ***must*** disclose x, y and z. The word "must" conveys obligation and necessity. The current wording is likely to lead to overly prescriptive interpretation by auditors and regulators, which in turn could lead to entities being required to disclose information that is not material or in keeping with the intentions of the standards. This would conflict with flexibility required to allow reporting entities to provide more or less information depending on the extent to which they are impacted by climate change. We suggest that the disclosures state that in order to achieve the objective, entities ***should consider disclosing*** x, y and z, or something similar. We also suggest using a system similar to that used in the New Zealand Accounting Standards, where the main principles are stated in bold type. This system provides clarity on the distinction between prescriptiveness and principles-based disclosure.

2. Prescription of scenarios

The prescription of the 1.5 degree Celsius and 3 degree Celsius scenarios means that the standards are at risk of not being fit for the future in this rapidly changing environment. We understand that a post-implementation review is planned, however so much will have changed between now and the time of the review. We would suggest that the wording is broadened e.g. scenarios should include one that is based on a 1.5-2 degree Celsius future and one that is based on a current 'business as usual' emissions pathway.

3. Greenhouse gas emissions

ED NZ CS 1 states that emissions should be classified as scope 1, 2 or 3, which is derived from the GHG Protocol. Entities are increasingly reporting emissions in categories as per ISO 14064-1:2018. Given that quantification and categorisation of emissions is constantly evolving, we recommend that the wording of the standards are broadened to allow reporters to use the most up to date and relevant guidance on emissions measurement and categorisation. The requirement for the initial auditing of emissions could be amended to require the audit to be restricted to all direct emissions and indirect emissions from purchased energy in the first year and all other indirect emissions included post of the first year.

Q2: Do you have any views on the defined terms in draft Aotearoa New Zealand Climate Standards?

Defined term: governance body

The Group supports the replacement of the term board with the defined term governance body.

Defined term: primary user

Climate-related Disclosures (NZ CS 1) has been written for profit-oriented entities and as such the definition of primary users is "*Existing and potential investors, lenders and other creditors*". We are fully

supportive of the purpose and objectives of the standard, but for Public Benefit Entities, capital comes from many sources and the public accountability means that the concept of primary user of the Annual Report may be much broader. We believe the definition of primary user needs to be widened, and we propose that the standard requires entities to define their primary users if they are parties besides the currently defined primary users. With careful wording, this will not give preparers the opportunity to reduce disclosures, however, would allow them to consider things such as the level of detail, the complexity of information presented, and what is material to those particular users.

We further suggest that the primary users "other creditors" should be "other significant creditors", as some entities may have a large number of small immaterial creditors, and the report is unlikely to be written for them.

Q3: Do you have any practical concerns about the feasibility of preparing the required disclosures in draft Aotearoa New Zealand Climate Standards? In responding to this question, please consider the proposed first-time adoption provisions in NZ CS 2 and your answer to question 4. Please also clearly explain what would make the specific disclosure unfeasible to disclose against either in the immediate term or the longer term.

We are highly supportive of the Standards. However, note that there are practical concerns and potential challenges.

1. Implementation time and operationalisation of risk management requirements

1.1. We acknowledge the one-year exemption for financial quantification of risks and opportunities, but this may still not be enough time. The financial part can only be done once scenarios are developed and the risks identified and assessed. This takes time, particularly in large and complex organisations like the Auckland Council Group where this process will need to be completed for Auckland Council, its five CCO subsidiaries and Ports of Auckland. Further, the tracking of climate costs in the financial year is likely to require changes to IT and financial processes, and in some cases, changes to IT systems. This requires a significant amount of time for the number of policies and procedures required to be implemented to embed climate disclosures within the entity. With knowledge gaps, no industry best practice, not enough resource, and the current market risk of attracting and retaining skilled staff, this quantification may be challenging for entities. A one-year exemption may not be enough. We recommend that entities be allowed to provide some quantitative analysis as they progress their disclosures in the early years, and that guidance is provided on how to best report progress and changes to the information reported from year to year. This would require a continuous improvement/ phased approach to implementation of financial quantification, however In the absence of this, we recommend a two-year exemption from fully complying with these provisions.

1.2. Identifying and assessing climate risks is technically challenging, and in the past has generally been left to sustainability professionals to deal with, which meant they were excluded from organisation-wide risk assessments. Embedding climate risk into an entity's organisation-wide risk management processes is challenging and will take time to implement and operationalise.

- The traditional risk assessment methodologies such as that in ISO31000 do not lend themselves to climate change risk assessment (NZCS1 17(b)). This is because physical climate change risks are generally much longer term than other risks, and they change over time. Climate risks are pervasive and are often dependent on socio-economic trends, policy

design and physical changes that do not happen in a linear fashion. Further, when assessing risks within a scenario, the likelihood is difficult to assess as risks from climate change result from the interaction of vulnerability, exposure, and hazard rather than likelihood. Using a likelihood by consequence methodology doesn't work because the likelihood is always likely for climate-related risks, which could lead to many risks being incorrectly rated as high. Organisations will have to redesign their risk methodologies to incorporate climate risk in their overall risk management framework.

- Risk management personnel and other staff responsible for climate risk management will need to upskill in relation to climate change, the risks that arise from it and risk assessment methodologies that are appropriate. Further, operational management will need to upskill, to understand the impact of climate risk on their areas of responsibility.
- Many other aspects of the entity will also have to change to embed climate risk into its strategic and financial planning processes such as policy, planning (methodologies, assumptions and processes), cost and option analysis etc. All of these require the focus of climate experts to support the change.
- In summary, a significant amount of work is required in the risk management and strategy space which may mean that it isn't possible to both identify and assess climate risks in the first year, and then assess their anticipated impact (financial and otherwise). For this reason we suggest that a first-time adoption provision is provided which allows for one year's delay for determining the anticipated impacts of climate-related risks (ED NZ CS 1 14(a)). For the same reason we suggest a delay to disclosing the amount or percentage of assets vulnerable to transition or physical risks (ED NZ CS1 21(c) and (d)).

2. Selection of scenarios

2.1. During our scenario analysis, we chose two transition scenarios that aligned with a 1.5 degrees Celsius and a 3-4 degrees Celsius world with a time horizon out to 2050. We also selected two physical scenarios, RCP 4.5 & RCP 8.5, with a time horizon out to 2100. We chose the physical scenarios due to the long time horizons of city infrastructure and planning for human settlements. When it came to risk identification, it was difficult for those involved to distinguish the risks between the two RCP's selected given the difference between them is generally only degrees of intensity. As a result, we removed RCP 4.5 from our risk identification process. We will use both RCP 4.5 & 8.5 in our risk rating assessment, however, the difference between these scenarios may only be significant at a project level e.g. the size of a watermain pipe would be different depending on whether you're designing for RCP 4.5 & 8.5. For this reason, we do not believe that having a third scenario will add any further value.

3. Further clarity and guidance requested

3.1. Climate risk assessment is a judgement that will need to be made by each entity, taking into account factors such as the nature of climate risks that may affect the entity and the rate of change in the physical, social, political and economic environments. Guidance on the frequency of climate risk assessment would be useful.

3.2. Designing suitable, plausible scenarios and then determining anticipated costs of climate change using scenario analysis requires a considerable investment in time and resources. Once determined, it is unlikely to change materially from one year to the next. It would be beneficial to have guidance on best practice for updating scenario analysis and determining future costs, including frequency and depth of analysis. We would expect that full updates of scenarios would not be required more frequently than every three years, with a review of risks on a more frequent basis.

3.3. As noted in Question 3, 1.1 above, we recommend a phased approach or a two-year exemption from disclosing current and anticipated financial impacts. We recognise that these disclosures are important to achieve the objectives of climate statements but will prove challenging and there is likely to be large discrepancies in approaches between responders, especially in the early years. Further guidance on quantitative analysis would also be helpful.

3.4. As we increasingly experience extreme weather events, and make the required changes to our operations and assets (e.g. upgrade assets to withstand extreme weather within our ongoing maintenance programmes, or abandon or retreat from certain areas) it will become increasingly difficult to attribute costs specifically to climate change. A significant number of judgements and assumptions would need to be made, and at some point, the identification of costs attributable to climate change will become irrelevant as we work towards embedding climate risk management into our financial planning processes. What is most important is that entities factor the impacts of climate change into their long-term plans e.g. plan to build assets that withstand extreme weather etc. We recommend:

- The issuance of guidance on categorising financial costs between climate-related and "business as usual" costs.
- The requirement for entities to disclose the most significant assumptions made in determining the financial impacts. This also applies to the assumptions underlying the calculation of greenhouse gas emissions.
- That the XRB future-proofs the standards by looking beyond isolating the current and future financial impacts, and rather considers how entities could best disclose how they have incorporated climate change risks and opportunities into their long-term financial plans.

4. Audit considerations

4.1. Implementing new climate standards comes with significant challenge and is likely to result in very different disclosures by entities as moderation occurs and generally accepted practise is developed. We think that auditors, and regulators should allow time for that moderation process. To the extent possible, based on the overall principles of the standards, we strongly recommend that as auditing standards are considered, at least for the medium term, the audit process should be focussed on assisting with learning and upskilling rather than looking for deficiencies.

Q4: Do you agree with the proposed first-time adoption provisions in NZ CS 2? Why or why not?

We agree with the first-time adoption provisions. The provisions generally relate to more complex disclosures which build on the foundations of other disclosures. Those foundations need to be in place before the more complex disclosures can be tackled.

Q4(a): Are any additional first-time adoption provisions required? If so, please provide specific details regarding the adoption provision and the disclosure requirement to which it would apply, and the period of time it would apply for.

We recommend a first-time adoption provision for the inclusion of industry-based metrics of at least one year. These metrics are likely to require New Zealand specific considerations, and many industries will not have industry-based metrics to look to internationally. This would require collaboration of industry groups which takes time to establish. Our experience is that meaningful metrics are derived from climate change plans and based on the risks identified during scenario analysis, and that are subsequently

assessed as being significant risks. Once metrics have been determined, they need to be socialised within the industry. Once consensus has been achieved, it takes time to put processes in place to collect and validate the required information.

Apart from recommendations in other sections above, we do not have any other first-time provisions to suggest.

Q5: Do you think the draft staff guidance documents will support CREs when making their disclosures and support consistent application of the disclosure requirements? Why or why not?

1. Reference to overseas materials

A lot of the guidance material refers to specific sections in overseas guidance materials e.g. TCFD documents, EU guidelines, UK guidelines etc. It might be simpler and require less ongoing maintenance to refer users to those documents upfront on the XRB website and focus guidance on New Zealand specific matters.

2. Sector specific information and tools

We note that although consistency will be achieved across reporting entities there is a high degree of judgement required in terms of the type of disclosure so comparability will be challenging. Sector guidance would help those sectors where there is limited guidance available (e.g. the public sector) and will provide overall industry comparability. We think it would be beneficial for the XRB to provide a repository for sector specific information and tools, particularly New Zealand specific sector guidance. The repository could contain information prepared and maintained by third party sector experts but would be vetted by the XRB before allowing it to be published.

3. Metric and targets guidance

There are some good references to consistency across all time periods. This is helpful and will ensure the reporting remains focused. The cross-industry metrics are also well defined and include good examples.

Q5(a): Do you think the guidance is under, adequately or overly specific and granular?

We think it is sufficiently granular, and due to the plethora of guidance available in relation to other climate reporting frameworks, we do not think further levels of detail are required.

Q5(b): Do you consider that anything in the guidance should be elevated into the standard? Should anything be demoted from the standard into guidance?

We do not consider that anything should either be elevated or demoted.

Q6: Paragraphs 13 to 19 of draft NZ CS 3 are the proposed location of disclosures requirements. Paragraphs BC14 to BC20 of the basis for conclusions on draft NZ CS 3 explain the XRB Board's intent regarding these proposed requirements. Do you agree with the proposed location of disclosures requirements? Why or why not?

The group agrees with the proposed location of disclosure requirements.

Further Comments

1. Statement of compliance

ED NZ CS 3 states that a statement of compliance should be provided, indicating compliance with all requirements of the climate standards. We don't see this statement of compliance as being the same as a statement of compliance in relation to financial reporting standards. Those standards are truly principle-based, and everything comes down to a clear and understandable concept of materiality. With the way that the climate exposure drafts have been written, the wording in ED CS 3.30 makes it clear that very little discretion may be applied in deciding whether not to report on any of ED NZ CS 1's requirements. Many of the requirements build on each other, and because the rapid change in the impacts of climate change as well as the associated legal, regulatory, social, and economic environments, information on which disclosures may be based, may become out of date before they can be built on. Entities will strive for compliance, but it may be beyond the reach of most reporters for a long time. This poses a threat to the credibility of the disclosures. We recommend that the XRB considers how compliance might be achieved, and amends some of the wording of the standard (e.g. removing the word "must", making it clearer that you can be compliant even if requirements are not met because they don't exist for the entity) accordingly.

2. Materiality

We acknowledge the XRB's discussion of materiality in the Basis of Conclusions, and particularly in BC26. What we believe however is that for government-related PBEs who issue debt, investors gain security in the entity's ability to tax or issue rates to cover any shortfall, rather than from enterprise value. For this reason, we do not support the use of enterprise value alone as a basis for materiality and recommend that the XRB amends the definition so that it also applied to public sector entities.

3. Net emissions

We note that ED NZ CS 1 is silent on net emissions. We agree that we need to focus on reducing gross emissions, however, there are certain industries or economic activities that produce emissions which in the absence of radical technological advancement, will not be able to reduce their gross emissions beyond a certain point. In our group, for example, one of our activities is wastewater treatment. Biosolids produce greenhouse gases, and even if they are transformed into other materials such as fertilizer, they continue to produce greenhouse gases. We cannot ask Aucklanders to use the wastewater system less. In this case, we are reliant on offsetting our emissions through investment in carbon sequestration. We feel that it is important to report on carbon offsets where we have no other reasonable alternative but to emit. For this reason, we recommend that the XRB includes the requirement to report on carbon offsets if they are being used to achieve an entity's target and provide an explanation as to why they are required.

Summary of recommendations

We recommend that the XRB:

1. considers the ability of primary users to understand disclosures when considering adding future disclosures, particularly if they are technical in nature
2. updates the objective paragraph of NZ CS 1 to focus on the ultimate objective, being to provide users with an understanding of the current and potential future financial impacts of climate risk on the entity
3. updates the scope of NZ CS 1 to outline in what circumstances the requirements of NZ CS 1 should be applied
4. changes the wording of the disclosures from “must disclose” to “should consider disclosing”
5. uses bold type for the main principles of the standards’
6. broadens the wording around the types of scenarios that should be selected e.g. scenarios should include one that is based on a 1.5-2 degree Celsius future and one that is based on a current ‘business as usual’ emissions pathway
7. broadens the wording around emissions measurement and categorisation to allow reporters to use the most up to date and relevant guidance
8. allows for the definition of a primary user to be widened, allowing entities to define their primary users if they are parties besides the currently defined primary users
9. amends the wording of “other creditors” as primary users, to “other significant creditors”
10. removes the requirement for a third scenario
11. prepares guidance on best practice for updating scenario analysis and determining future costs, including frequency and depth of analysis
12. considers a continuous improvement/phased approach for disclosing current and future financial impacts within its guidance, and how that might work in practise
13. issues guidance on categorising financial costs between climate-related and “business as usual” costs
14. updates references to disclosure of assumptions, to the disclosure of the ***most significant*** assumptions used in determining financial impacts and calculating greenhouse gas emissions
15. considers whether disclosure of how climate change risks and opportunities are incorporated into long term financial plans may be more meaningful in the long run, as opposed to focussing on current and future financial impacts
16. to the extent possible, ensures that at least for the medium term, the audit process is focussed on assisting with learning and upskilling rather than looking for deficiencies
17. creates first-time adoption provisions for the following matters:
    - 17.1. a provision which allows a one-year delay for determining the anticipated impact of climate-related risks
    - 17.2. a provision which allows a one-year delay for to disclosing the amount or percentage of assets vulnerable to transition or physical risks

17.3. a provision which allows for at least one year delay in disclosure of industry-based metrics

17.4. a provision which allows a two-year delay from fully disclosing of current and future financial impacts of climate change.

18. considers reducing guidance to New Zealand specific guidance, and on the XRB website, provides preparers with links to other sources of guidance that may generally be referred to

19. considers creating a repository for third party created sector specific information and tools

20. considers how the standards can be re-worded so that entities can provide a statement of compliance

21. amends the definition for materiality to take into account public benefit entity considerations

22. includes the requirement to report on carbon offsets if they are being used to achieve an entity's target and provide an explanation as to why they are required.


Auckland
Council