
Appendix one – Response from agencies

Response Department of Planning, Industry, and Environment



Ms Margaret Crawford
Auditor General
NSW Audit Office

Our ref: DOC21/671914
Your ref: D2116018/PA66

By email: mail@audit.nsw.gov.au

Dear Ms Crawford

Subject: Performance audit on managing climate risks to assets and services

Thank you for the opportunity to consider and respond to your performance audit of the Department of Planning, Industry and Environment (DPIE) and Treasury – Managing climate risks to assets and services.

I appreciate the significant work and effort by your audit team to develop this report on what is a complex matter where best practice is continuing to evolve. It is pleasing that the audit found the Department has a robust approach to developing the NSW and ACT Regional Climate Modelling (NARClIM) climate projections and acknowledges recent work to support for government agencies to manage climate risks to their assets and services.

NARClIM climate projections are world leading in their application of the latest science and technology. Our Climate Risk Ready program, developed with Treasury, is building capabilities in climate risk management not only in NSW Government agencies and councils but also in other Australian jurisdictions and the private sector. The program materials are also being used by other Australian state governments to develop their own capability building activities in climate risk management.

The scope of this audit has focused on the development of our NARClIM climate projections and support for agencies to use these projections, and how DPIE and Treasury are supporting agencies to manage their climate risks. We welcome the audit recommendations, which offer a useful external perspective on how we, with Treasury, could build on what we are already doing to better support agencies in their climate risk management approaches.

We would like to thank Treasury for its continued collaboration and would like to acknowledge Treasury ownership of the overall risk management and financial reporting frameworks, including related policies and monitoring activities.

We also note climate risk management is a complex and systemic challenge for governments that needs to be addressed across multiple policy and management functions, such as asset management. DPIE is committed to supporting agencies in fulfilling their climate risk management responsibilities, including by advising how their processes could better align with best practice. We encourage agencies to approach us to understand how we could support their approach to climate risk management.

A detailed response to all recommendations is enclosed below.



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DPIE is leading the NSW Government's commitment to taking action on climate change, including taking decisive and responsible action to reduce emissions. To achieve this, the Government has set a clear objective to achieve net zero emissions by 2050. DPIE actively supports government agencies to reduce emissions from their activities so Government can lead by example to achieve this objective.

Once again, we would like to thank your audit team for their efforts and consultations during the audit and appreciate the flexibility shown by all in conducting the audit virtually due to the COVID-19 pandemic.

Yours sincerely,

A handwritten signature in black ink that reads 'Jim Betts'.

Jim Betts
Secretary

Enclosure

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Department of Planning, Industry and Environment response to audit recommendations

Recommendation	Responsibility	Response
By December 2021, the Department and NSW Treasury should, in partnership:		
1. Enhance the coordination of climate risk management for State agencies' assets and services by: a) developing the proposed roadmap to improve agencies' capability to manage climate risks, including an agreed program of actions that are relevant and proportionate to identified risks, with delivery targets and reporting b) implementing a clearly resourced plan to expand the reach of the Climate Risk Ready NSW Guide and Course across agencies, and periodically improve its content c) ensuring agencies have access to relevant, robust information on the physical climate risks, and associated costs.	DPIE, Treasury	Supported We welcome this recommendation, which builds on our existing work with Treasury to coordinate the support of climate risk management for government assets and services. A proposed roadmap to improve agencies' capability to assess and respond to climate risks is under development. As part of this roadmap we will consider the required resourcing. DPIE will continue to work with Treasury to provide access to information on climate change impacts and leading practice guidance to agencies, allowing them to assess potential climate risks, and analyse the potential financial impacts of those risks on their balance sheets over time.
By December 2022, the Department should:		

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Recommendation	Responsibility	Response
2. Strengthen supports that improve agencies' management of physical climate risks to their assets and services by: a) ensuring regional climate modelling (NARClIM v2.0) is released, and that climate projection information is updated on the climate data portal and Adapt NSW website b) implementing a targeted education strategy on using climate projections and a feedback mechanism for agencies climate risk assessments and adaptation plans	DPIE	Supported The recommendation is consistent with our current plans on the release of NARClIM v2.0 and update of NARClIM climate projection information on the climate data portal and Adapt NSW website. We welcome this recommendation to build on our existing communications to better educate agencies on NARClIM climate projections and implement more formal mechanisms for agencies' climate risk assessment and adaptation plans.
3. Monitor the progress of agencies in managing physical climate risks to their assets and services, especially the use of NARClIM and take-up of the Climate Risk Ready NSW Guide and Course. This should include three-yearly surveys and reporting on progress.	DPIE	Supported The recommendation is consistent with our current plans. We have been undertaking three-yearly surveys of agencies on their climate change risk management practices for their assets and services since 2015. We conducted the last survey in 2018 in collaboration with Treasury. Our next survey is planned for late 2021 and will include questions on the uptake of the Climate Risk Ready guide and course.
4. Comprehensively review its land-use planning and development guidance, and the Building Sustainability Index (BASIX) requirements, and identify	DPIE	Supported-in-principle Climate change is already a key consideration in the development of new and updated land-use planning and development guidance. Recent examples include the development of the Design and Place SEPP, a natural disaster clause included in the Standard instrument LEP

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Recommendation	Responsibility	Response
opportunities to promote climate risk management.		<p>template earlier this year, exhibition of the draft Natural Hazards Guidelines to support consideration of natural hazards at the strategic planning stage (currently being finalised) and an update to the Coastal Design Guideline planned to be exhibited later this year to update matters to be considered for rezoning proposals along the NSW Coast. Additionally, the Department recently completed the flood prone land package, including the revision of the standard instrument LEP clause for flooding. That clause is the first example of explicit referencing of climate change in the standard instrument.</p> <p>The Design and Place SEPP is bringing together multiple initiatives to promote climate risk management in the planning system including consideration of sustainability targets and Net Zero ambitions through BASIX (for the residential building sector) and other building typologies (e.g. commercial). One of the key principles underpinning the SEPP is around planning for 'resilient places that are designed with adaptive capacity to respond to shocks, chronic stresses, and climate change'. This is carried through multiple initiatives in the SEPP and the broader planning system.</p> <p>We support the recommendation to identify opportunities to promote climate risk management in land-use planning and development guidance as much as possible, including in the BASIX requirements, noting a comprehensive review of BASIX including current stringencies is underway and is an extensive exercise which may not be able to be completed within the stipulated timeframe.</p>

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Recommendation	Responsibility	Response
		The development and implementation of new and updated land use planning and development guidance, including the BASIX requirements, would be subject to Government consideration and approval.
By December 2022, NSW Treasury should:		
5. Strengthen its guidance to agencies on climate risk-related matters, including by updating the Risk Management Toolkit (TPP12-03), clarifying requirements for State Owned Corporations, and adding a climate risk management attestation requirement in the Annual Reporting and Compliance Checklist.	Treasury	N/A
6. Coordinate the finalisation of guidance on resilience in infrastructure planning related to natural hazards, maintaining its alignment with NSW Treasury's business case guidelines, in conjunction with relevant agencies.	Treasury	N/A
7. Review how effectively climate risks have been considered in the assurance of agencies' asset management plans (according to the Asset Management Policy, TPP19-07), and take steps to	Treasury	N/A

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Recommendation	Responsibility	Response
address gaps in conjunction with relevant agencies.		
8. Monitor how effectively agencies are reflecting the effects of climate-related matters in their financial statements, and determine whether the existing NSW Treasury guidance is sufficiently clear, and if agencies require further support.	Treasury	N/A
By June 2023, the Department should:		
9. Deliver a climate change adaptation action plan for the State, which includes actions that support agencies to manage the physical climate risks to their assets and services, reflecting commitments in the 2016 NSW Climate Change Policy Framework.	DPIE	Supported We welcome this recommendation. Work is underway to progress this recommendation and will be subject to Government consideration.
By June 2023, the Department and NSW Treasury should:		

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Recommendation	Responsibility	Response
10. Implement climate risk management across their respective clusters, in line with the Climate Risk Ready NSW Guide. This should include adopting an enterprise-wide climate risk statement; allocating oversight to a central role (such as a climate risk officer); and integrating climate risk assessment into risk management, monitoring and reporting systems.	DPIE, Treasury	Supported We welcome the recommendation on how we could improve climate risk management and are pleased to observe the recommendations are based on our Climate Risk Ready Guide. Our current risk management practices recognise climate risks. To further implement this recommendation, our focus across the cluster will be on the continuing recognition of climate risks in our documentation and risk management practice. We will consider how best to incorporate the recommended elements of an enterprise-wide climate risk statement and allocation of oversight to a central role as part of our current planned updates to risk management processes.

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Response from NSW Treasury



Contact: Alison Weaver
Telephone: [REDACTED]
Your Reference: P21/2741

Ms Margaret Crawford
Auditor-General of NSW
Level 15
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Sydney, NSW 2000

Dear Ms Crawford,

Performance audit – Managing climate risks to assets and services

Thank you for your letter dated 12 August 2021 and the opportunity to respond to the final NSW Auditor-General's Report, *Performance Audit – Managing climate risks to assets and services* (the Report).

I welcome the Report's findings and recommendations relevant to NSW Treasury (Treasury).

I am pleased to note the conclusions and findings recognising that Treasury and Department of Planning, Industry and Environment (DPIE) have been working in partnership to provide coordinated support to the sector. This concerted effort has seen the joint release of a nation-leading capability uplifting guide, *Climate Risk Ready NSW Guide*, in early 2021.

The findings also reflect Treasury's Whole-of-State (WoS) approach to managing climate risks, in partnership with DPIE. This approach is consistent with Treasury's central responsibility to manage risks to the State's balance sheet and fiscal position, including climate risk, in a coordinated and consistent manner. I expect to continue Treasury's partnership with DPIE and work with other agencies, and ensure that Treasury continues to provide sufficient and targeted support in this area.

I note the findings suggesting that Treasury's overall support to the sector was previously insufficient, and that gaps remain in some relevant policies and guidance to the sector.

Climate risk is a complex subject matter where best practice is continuing to evolve. As the steward of the State's overall risk management framework, Treasury has always provided guidance and support for agencies in managing risks across their portfolios. This includes incorporating climate risk consideration into policy guidance for risk management and economic appraisal, such as the NSW Government Guide to Cost-Benefit Analysis (TPP17-03).

Treasury's guidance for managing climate risk is intended to be largely principles-based, given the evolving nature of climate risk management. Treasury has been proactive in providing sector leading guidance on how to reflect the effects of climate-related matters in financial statements, which is designed to complement and be framed within already

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mandated standards. There can be risks in publishing overly specific guidance that users apply a 'checklist' approach and potentially overlook the impacts of climate risk that are unique to their organisations. Noting this, I would welcome the opportunity for Treasury to work with the Audit Office to better understand where more specific, targeted guidance could be provided.

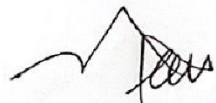
Considering rapidly evolving practices and increasing demand for managing climate risks and opportunities over the recent years, Treasury has significantly elevated its effort in guiding agencies' climate risk management, with more detailed and targeted support. In addition to Treasury's partnership with DPIE, other key actions include:

- establishing a dedicated sustainable finance function within Treasury;
- chairing climate risk focused governance committees, e.g. inter-agency Climate Risk Steering Group and Treasury's Sustainable Finance Steering Committee;
- updating or releasing a range of policy guidance incorporating climate risks, including: Internal Audit and Risk Management Policy for the General Government Sector (TPP20-08); and
- incorporating comprehensive climate and energy modelling into the 2021 Intergenerational Report, establishing a baseline for agencies to inform their relevant strategic planning documents, and policy and program proposals.

I welcome the audit recommendations relevant to Treasury. These recommendations are strongly aligned with Treasury's current and planned work program to continue to support agencies' climate risk management, in partnership with DPIE. The recommendations will provide valuable inputs to shaping Treasury's future work program. I look forward to continuing to partner with DPIE in implementing the Report's recommendations and thank them for their ongoing collaboration.

I would like to thank the Audit Office's review team for its considerable efforts in undertaking this review and for working collaboratively with Treasury and DPIE to deliver this constructive and valuable report.

Yours sincerely



Michael Pratt AM
Secretary
30 August 2021