



Government of **Western Australia**  
Department of **Treasury**

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Mrs L M O'Malley MLA  
Chair, Public Accounts Committee  
Legislative Assembly  
Parliament House  
GPO Box A11  
PERTH WA 6837

Dear Mrs O'Malley

#### **REQUEST FOR SUBMISSION INTO INQUIRY**

Thank you for your letter of 28 June 2023, inviting the Department of Treasury (Treasury) to provide a written submission to the inquiry into how the Western Australian Government's progress towards achieving Environmental, Social and Governance (ESG) outcomes is assisting to secure international investment. A joint Treasury and Western Australian Treasury Corporation submission can be found in the attached document.

If you would like further information relating to the submission, please contact the Deputy Under Treasurer, Mr Michael Court at [REDACTED] or on [REDACTED]

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M. Barnes'.

Michael Barnes  
UNDER TREASURER  
17 AUG 2023

Enc. Submission

## Department of Treasury and Western Australian Treasury Corporation

Submission to Public Accounts Committee Inquiry into *how the Western Australian Government's progress towards achieving Environmental, Social and Governance (ESG) outcomes is assisting to secure international investment.*

### **1. How the State Government's commitment to net zero emissions by 2050 will help improve ESG outcomes.**

Decarbonisation is the primary global objective of improving environmental outcomes and connected to several aspects of progressing objectives of the [United Nations Sustainable Development Goals](#). A commitment to net zero emissions by 2050 is an integral part of developing meaningful targets, programs and initiatives to drive good ESG outcomes.

The Government has released a series of publications to highlight the State's ESG credentials, which help maintain the State's competitiveness in attracting international investment.

The *Supporting Continuous Improvement in ESG Outcomes for Western Australia* (the ESG information pack) was developed by the Western Australian Treasury Corporation (WATC), in partnership with the Departments of the Premier and Cabinet, Water and Environmental Regulation, and Treasury, and was released in November 2021. The aim of the ESG information pack is to inform investors in our debt securities about policies and actions that address ESG issues. This included expenditure as part of the 2021-22 Budget indicatively aligned to the 17 UN Sustainable Development Goals (SDGs).

An update to the ESG information pack was released in May 2022 to include progress since the 2021 release, including expenditure as part of the 2022-23 Budget. A further update was released in June 2023, to include progress on key ESG initiatives progressed by the Government, including through the 2023-24 State Budget.

In October 2022, the Government released the *Western Australian Industry Environmental, Social and Governance Information Pack*, to outline industry's contribution to ESG outcomes, including relevant case studies.

The document focused on Diversify WA's eight sectors – energy; tourism, events and creative industries; international education; defence industries; mining and mining equipment, technology and services; space industries; health and medical life sciences; and primary industries.

Further consideration is being given to how the ESG publication series may evolve to support alignment with evolving sustainability reporting standards.

A commitment to net zero emissions by 2050 is intrinsically connected to expectations of investors into the State's bond program and is a cornerstone of recent WATC investor engagement and publications.

### **Attachment 1**

[Supporting Continuous Improvement in ESG Outcomes for Western Australia \(www.wa.gov.au\)](http://www.wa.gov.au) released November 2021.

### **Attachment 2**

[Supporting Continuous Improvement in ESG Outcomes for Western Australia – Update – May 2022 \(www.wa.gov.au\)](http://www.wa.gov.au) released May 2022.

### **Attachment 3**

WATC's [Sustainability Bond Framework](#) April 2023.

### **Attachment 4**

WATC's [Sustainability Bond Framework](#) released in May 2023.

### **Attachment 5**

WATC's [Investor Information Pack](#) released in May 2023.

### **Attachment 6**

[Green Bond issue](#) under the Framework in June 2023.

### **Attachment 7**

[Supporting Continuous Improvement in ESG Outcomes for Western Australia - Update - June 2023 \(www.gov.au\)](#) June 2023.

## ***2. How the State Government is actively engaging Aboriginal and young people in this decision-making.***

Treasury works closely with the Department of the Premier and Cabinet (DPC) as the lead agency responsible for Aboriginal policy and the implementation of the National Agreement on Closing the Gap.

In 2023, Treasury released its first Treasury Aboriginal Empowerment Strategy (TAES) which outlines Treasury's commitment to embed the Closing the Gap Priority Reforms and the Government's Aboriginal Empowerment Strategy principles. A key action of this strategy is to review and transform our processes and systems to embed culture at the heart and elevate the representation of Aboriginal peoples' needs and viewpoints in decision-making. This work is ongoing, and Treasury will actively work to consider how Aboriginal engagement can be improved across all aspects of our work. In line with this, Treasury will support relevant agencies and the DPC Aboriginal Engagement Unit in consideration of appropriate State-wide Aboriginal engagement in relation to ESG outcomes.

During development and implementation of the TAES, Treasury regularly liaised with the Aboriginal Advisory Council of Western Australia for input and feedback on the approach and direction.

### ***3. Milestones in place for achieving ESG outcomes including any monitoring and reporting requirements.***

#### **Green Bond**

Through its Green Bond issue and supporting documentation, WATC has committed to providing annual updates to investors regarding the allocation of proceeds to projects identified in the Green Bond asset pool and appropriate impact indicators to demonstrate progress towards positive environmental outcomes.

The Climate Action and Environment Portfolio Oversight Group (POG), consisting of senior officers from a broad range of Western Australian Government agencies responsible for implementation of green and social projects, oversaw the asset identification and selection process.

#### **WATC Green Bond Monitoring and Reporting Process**

WATC intends to publish a Sustainability Bond Framework Report within one year of issuance, and annually thereafter, until maturity of the bonds.

Allocation data will include:

- net proceeds raised;
- balance of unallocated proceeds (if any); and
- net proceeds allocated per eligible project.

Impact data may include project description, and quantitative impact data (where relevant).

Within one year of issuance, an independent verification reviewer will provide confirmation that the proceeds have been allocated in accordance with the Framework.

#### ***Use of Annual Agency Data***

To fulfill these reporting obligations, WATC and Treasury will work with relevant agencies to track expenditure of asset pool projects, using prior year actual spend as finalised through the annual year-end audit process. This information will be generated through the Treasury Strategic Information Management System (SIMS), that tracks agency capital works by project.

Impact data will be provided by agencies directly to WATC, as part of established partnership agreements.

## *Independent Assurance*

A key expectation from investors to support credibility of an issuer's sustainable finance program is the provision of regular independent assurance that the principles of the program as disclosed to investors are being applied in practice.

Assurance providers fall into two types – ESG research providers and accounting/audit firms, and assurance reports in the format of either 'limited assurance' or 'reasonable assurance'.

### Limited Assurance

Scope consists of:

- verifying proceeds have been allocated to projects that meet eligibility criteria in the Framework through reviewing relevant documentation on project descriptions and expenditure as provided by the issuer;
- verifying that impact indicators and format of reporting are aligned to the Framework; and
- may involve additional data analytics over project eligibility and financial data through requests for additional evidence on a sample of projects.

The statement of assurance is 'limited' by the type of language used in conclusions within the report as being 'not negative', along the lines of:

*Nothing has come to XXX attention that causes us to believe that projects funded are not in accordance with criteria outlined in ISSUER YYY Sustainability Bond Framework.*

### Reasonable Assurance

Reasonable assurance is only provided by accounting firms. The scope of the review is similar to limited assurance but with further rigour on project sampling. The difference in output is provision of conclusions with positive language along the lines of:

*Based on XXX reasonable assurance process, ISSUER YYY issuance and proceeds allocation to projects .... meets the requirements of the ICMA Sustainability Bond Principles*

## Future Evolution of Investor Reporting Expectations

As sustainable finance markets evolve, so too are investor expectations on the availability of relevant data and transparent information from governments to demonstrate how actions and policies are changing to prioritise measurable improvement in ESG outcomes, and to provide relevant ESG disclosures. Future investor requirements that would require both a policy and coordinated information provision response will likely include:

- evidence of adherence to taxonomies to demonstrate that government expenditure priorities are clearly aligned with global sustainability goals. For example, an Australian Sustainable Finance Taxonomy is currently being developed that will provide a common classification system for sustainable economic activities;
- verification that processes which guide government expenditure decisions (e.g. Strategic Asset Management Framework, Expenditure Review Committee) are consistent with sustainable finance taxonomies and will therefore lead to meaningful change, which would reinforce the role of green, social or sustainable (GSS) bond financing as an enabler of change; and
- information and data on progress towards the UN SDGs and evidence of the additional or reprioritised activity designed to progress these objectives compared to existing/previous government decision making processes.

There are significant expectations for ongoing improvements in climate-related and broader sustainability reporting. A number of countries (e.g. New Zealand) already have legislation in place requiring the reporting of Climate Related Financial Disclosures in accordance with the recommendations of the [Task Force on Climate Related Financial Disclosures](#) (TCFD). The Australian Government is now considering introducing similar legislation. Broader requirements for Sustainability Reporting have been developed by the International Sustainability Standards Board (ISSB) – with [updated guidelines published in June 2023](#).

Progress against improving biodiversity outcomes is also becoming a key global focus for setting targets for improvements and reporting on impacts in line with final draft recommendations from the [Task Force on Nature Related Financial Disclosures](#).

It is now standard practice for global investors to review the ESG credentials of all companies or governments in their potential investment universe as part of capital allocation decisions. Therefore, the demand for and expectations of credible and comprehensive ESG-related reporting are rapidly increasing. This demand for ESG information by investors has also led to a proliferation of third-party companies providing ESG rating or scoring services on both companies and governments (e.g. global ESG research firms Sustainalytics and MSCI). However, this is an unregulated service provision that underlies the importance of companies and governments providing their own-source ESG reporting in accordance with the emerging global standards.

## Sustainability Reporting Standards

Globally, sustainability reporting is still evolving, and the initial focus of sustainability standards has been very much on climate.

A recent and important development was the publishing of the first two sustainability disclosure standards by the ISSB on 26 June 2023:

- Disclosure of Sustainability-related Financial Information (IFRS S1); and
- General Requirements for Climate-related Disclosures (IFRS S2).

The standards draw from the recommendations of the TCFD and the industry-specific disclosure topics issued by the Sustainability Accounting Standards Board. They have received global support and are expected to influence investor-focused voluntary and mandatory sustainability reporting across jurisdictions.

Both standards have an effective date of 1 January 2024. However, the ISSB has announced a one-year transitional relief from the requirement to disclose the full range of sustainability risks and opportunities, which has allowed more time for implementation.

The ISSB is expected to develop further standards covering sustainability factors in the future.

The Australian Accounting Standards Board (AASB) also intends to release a set of sustainability standards that are adapted to Australian requirements. Draft standards are expected in the first half of 2024, with the final standards in 2025. Initially, the focus of the AASB standards was the for-profit sector, however the Board has indicated that it is considering including the not-for-profit sector as well.

In determining the Western Australian public sector's climate disclosures, Treasury will consider the recommendations of the TCFD, the ISSB and AASB sustainability standards.

Treasury is working with its counterparts in other jurisdictions through the Board of Treasurers and Council on Federal Financial Relations with the aim to develop consistent and comparable whole-of-government climate risk disclosures.

At this stage, it is intended that jurisdictions will determine their own form and timing of climate disclosures, including the year that their disclosures will commence, and whether reporting should be stand-alone or incorporated in other reports.

Treasury and the Department of Water and Environmental Regulation are developing a Climate Risk Framework to help the Western Australian public sector assess, manage, and disclose its climate-related risks.

A pilot program (for climate reporting) involving a select group of eight agencies commenced in July 2023, with the first meeting taking place on 19 July 2023. The program will run for a two-year period. The agencies participating in the pilot are



Synergy, Western Power, Horizon Power, Water Corporation, Pilbara Ports Authority, Department of Education, WA Health, and Department of Primary Industries and Regional Development.

The aim of the pilot is to assess and uplift the maturity of each of the pilot agency's climate risk assessment, data capturing and reporting capability. It is the intention to use the feedback and lessons learned from the work performed by the more mature pilot agencies to inform and further develop the existing climate risk guidance and reporting for the entire public sector.

A Climate Risk Working Group has been established to oversee the development of the Climate Risk Framework, including the pilot program. Membership of the Working Group comprises representatives from Treasury (as Chair), the Department of Water and Environmental Regulation, Office of the Auditor General (OAG) and the pilot agencies.

Data derived from the pilot will not be published or audited. However, Treasury will consult with the OAG over the course of the pilot period to obtain feedback and recommendations from an audit perspective.

By the end of the period, it is intended that comprehensive climate-risk tools and guidance will be in place for use by all public sector entities.

It is envisaged that public reporting will commence in stages, with initial disclosures focussing on qualitative information, progressing over time to include quantitative information. This will allow important lead time for agencies to build capability to allow for the development of improved data, processes, and systems.

#### ***4. Best Practice in Other Jurisdictions.***

WATC closely reviewed the approach used by other jurisdictions when establishing the Sustainability Bond Framework. In particular, the [New South Wales Treasury Corporation](#) (TCorp) has the most established Sustainable Finance Program and longest history of detailed annual reporting which is a joint output from TCorp and New South Wales Treasury.

On the issue of broader sustainability reporting and ESG disclosures, the Queensland Government has established the most comprehensive approach to this, which is broadly aligned to ISSB guidelines. The [Queensland Sustainability Report](#) is produced by the Department of Treasury but represents whole-of-government coordination and standardised reporting, with agencies having reporting obligations and data provision coordinated by the Queensland Government Statistical Office. The Queensland Treasury Corporation (QTC) also has a key role in guiding on content, as the report is a key resource provided to investors.



## Reporting Assurance in Other Jurisdictions

### Treasury Corporation of Victoria (TCV)

TCV has published one annual report on its Sustainability Bond Framework containing a reasonable assurance from EY. It is noted that TCV also obtained a pre-issuance reasonable assurance from EY before launch of its inaugural Sustainability Bond.

### Queensland Treasury Corporation (QTC)

QTC obtains a limited assurance from DNV in support of its annual Green Bond Framework report. The scope of the assurance is verifying QTC Climate Bonds Initiative (CBI) Certified Green Bonds meet the CBI Standard, as DNV is a registered CBI assurance provider. QTC has also recently sourced a Second Party Opinion (SPO) from DNV in respect of its Green Bond Framework.

### NSW Treasury Corporation (TCorp)

TCorp has sourced annual reasonable assurance from EY since inception of its Sustainability Bond Framework. In 2020, it also sourced an SPO from Sustainalytics that was subsequently updated in 2022.

## 5. The Financial Implications of Doing Nothing.

### Current Trends in the Sustainable Finance Market

There has been exponential growth in global sustainable bond issuance, particularly in recent years (Figure 1). Similar growth has occurred in Australia, driven by State Governments ramping up issuance (Figure 2). Other States have also recently developed in-depth whole of State ESG information packs to provide investors with a broader understanding of their policies and initiatives.

Figure 1: Annual sustainable debt issuance, 2013-2021

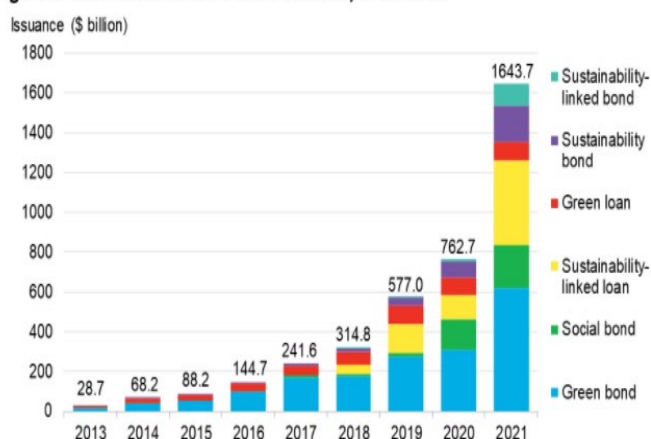
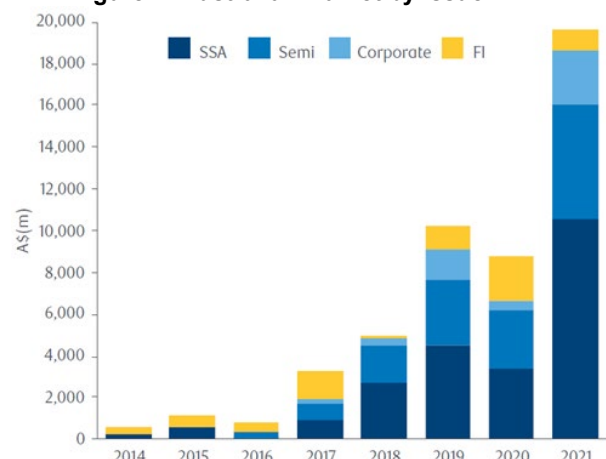


Figure 2: Australian Market by Issuer



Source: Bloomberg, RBC Capital Markets.

There has also been an increased focus on sovereign and sub-sovereign ESG profiling by investors, and a significant emerging trend of 'net zero' investment portfolios. Further, investment managers are citing that government bonds have the highest embedded carbon footprints at present and therefore pose an increasing risk for meeting portfolio commitments.<sup>1</sup> Consequently, rating agencies are responding by providing standalone ESG ratings for sovereign and sub-sovereign issuers to assist investors.

In this regard, in its credit opinion issued on 17 July 2023, Moody's Investors Service assigned Western Australia a neutral to low Credit Impact Score (i.e. the influence of ESG factors on the State's rating is non-material). This reflects its assessment that the State has a 'moderate exposure to environmental risk, mitigated by very strong governance and a robust government balance sheet that mitigates the State's susceptibility to these risks'. It assesses Western Australia's social attributes as neutral and notes that the strong institutional framework for State Governments in Australia, high level of support from the Commonwealth Government and higher average income levels (relative to national averages), mitigate exposure to ESG risks.

The growth in GSS issuance has been driven by the view that activity in sustainable finance markets is seen as an enabler/signal for a corporation or government's concerted efforts towards progressing social or environment objectives aligned with the Paris agreement and UN SDGs. For governments, it signals a connection between funding and overall policy commitments towards achieving these ESG outcomes. The demand for GSS issuance also far outweighs supply which can provide pricing benefits to help offset the greater issuance costs.

Efforts to progress ESG outcomes in line with global community and investor expectations, such as committing to the Paris Agreement objective of net zero emissions by 2050 and the objectives of the United Nations SDGs, are necessary to ensure both companies' and government's ability to raise capital (i.e. issue bonds) into the future, as progress against these objectives is a key investor requirement.

Ensuring investors understand the Western Australian Government's commitments to ESG outcomes to support strong investor engagement and participation in our funding programs has been a key motivation behind WATC working with the State Government to develop the ESG disclosures in [Supporting Continuous Improvement in ESG Outcomes for Western Australia](#) and the Sustainability Bond Framework.

Department of Treasury  
Western Australian Treasury Corporation  
August 2023

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<sup>1</sup> Modelling by Commonwealth Treasury indicates that if Australia did not adopt a net zero target it would face a 'cost of inaction' on capital of 100-300bps due to reduced investor demand. Such risks will also likely apply moving forward if jurisdictions fail to commit to interim targets or do not make credible progress towards achieving such targets.