



Sovereign Sustainability Reporting – NSW and Beyond

Why and how governments should disclose their Environmental, Social and Governance impact

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Acknowledgment of Country

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Angela has published her research in both peer reviewed and media outlets, and advised a range of government, international and financial institutions on citizen-centric sovereign fund design, and public wealth governance. She holds a M.Phil in Political Theory from University of Oxford, BA LLB from Sydney University (First Class Honours) and a Statement of Attainment from Western Sydney University in climate risk management.

About APPI

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Executive summary

The sustainability impact of government financial activities is of intensifying interest to financial market participants, regulators and communities. **Governments – as investors, issuers, regulators, procurers and owners – are under growing pressure to become more sustainable financial entities.** Legal and accounting standards are evolving to require disclosure of climate and other sustainability risks, as well as evidence of feasible action to support targets and commitments. At the same time, stakeholders such as investors, rating agencies and communities, increasingly expect a consistent whole-of-government (WoG) approach to Environmental, Social and Governance (ESG) risks and opportunities.



Governments – as investors, issuers, regulators, procurers and owners – are under growing pressure to become more sustainable financial entities.

Against this backdrop, **this report examines whether sovereigns should report and disclose on sustainability-related actions and if so, how.** Public sector sustainability reporting is in its infancy. Reporting is time-consuming and costly and if it seeks to serve too many masters, it can end up serving none. The sustainability sector is under increasing scrutiny with concerns about greenwashing, where ESG credentials can be exaggerated for marketing purposes. In this climate, the role of governments has come into focus – should they simply regulate the private sector and legislate to entrench a common set of reporting standards for the market, or should they also publicly report and disclose their own sustainability impacts? **This report argues that sovereigns should be producing a WoG sustainability report and making sustainability disclosures at the WoG level.** That is, governments should produce a singular, aggregated view of the sustainability impacts of their public sector and the jurisdiction over which it is sovereign. Given the growing demand for meaningful, reliable sustainability data from financial, political, industry and community stakeholders, **proactive public reporting on sustainability actions could help governments protect their sovereign credit ratings, borrowing capacity, public wealth returns and social license with communities.**

This WoG level reporting can supplement individual agency or department level sustainability reporting where it exists. At a minimum, this would include an integrated view of the sustainability impact of a government's own operations on the community it serves and may extend to include a state-wide view on certain topics. For instance, understanding a state's climate risk exposure will be a more meaningful indicator of a sovereign's exposure to physical and transition risk than a narrowly focussed analysis on public sector climate risk. A state-wide view would also recognise the interconnectedness of many sustainability issues. New

international standards have recognised that climate risk must include discussion of just transition and nature.

Yet, **little precedent exists for public sector entities on standardised best practice sustainability reporting and disclosure.** Of a multitude of frameworks available for sustainability reporting, very few deal exclusively with the public sector – although that is set to change. Of the existing standards, most cover the private sector. In Australia, there is currently no national approach to sustainability reporting for the private or public sector. This has led to a proliferation of approaches by individual Australian governments and industry bodies on a wide range of sustainability reporting topics.

Crucially, **2022 has witnessed rapid evolution in sustainability reporting and disclosure practice guidance.**¹ Bodies like the International Financial Reporting Standards (IFRS) Foundation's newly established International Standards Sustainability Board (ISSB) and the Taskforce on Climate-Related Financial Disclosures (TCFD) have moved to develop globally accepted standards for climate-related reporting and other sustainability topics. These initiatives are private sector-led and focussed. While they may offer some guidance to sovereigns, they are explicitly corporate-oriented in their focus, terminology and content.

“ *Proactive public reporting on sustainability actions could help governments protect their sovereign credit ratings, borrowing capacity, public wealth returns and social license with communities.*

The International Public Sector Accounting Standards Board (IPSASB) has also launched a consultation process on the development of global public sector specific sustainability reporting guidance and confirmed it will pilot the development of a dedicated sustainability reporting framework for the public sector. While a welcome development for sovereigns, many jurisdictions, including Australia, do not follow the existing IPSASB international public sector accounting standards. This will leave many governments, including state-level governments like NSW, without a customised and clear approach for how to meet the specific needs of their unique stakeholder universe.

This report addresses that gap by suggesting practical steps and proposing a draft template for the NSW Government – and other Australian governments – to commence sustainability reporting and disclosure. The report's recommendations are addressed to the NSW Government, although they are largely applicable to other Australian governments, and sovereigns abroad. Where necessary, Australia-wide recommendations are identified.

Part 1 of the report considers this preliminary question of why governments should report and disclose on sustainability. It examines the distinct drivers for public sectors to be transparent about their sustainability impact and how they are managing those risks and leveraging opportunities. Part 2 turns to the “how” question. **The report recommends the NSW Government initially target financial market stakeholders through their sustainability reports, with NSW Treasury coordinating the product on a WoG basis.** After a review of the state of public sector sustainability reporting, and emerging guidance at the international and domestic level, the report proposes a template for Australian governments looking to commence sustainability reporting. The proposed template recommends a double materiality approach, whereby the NSW Government reflects ESG impacts on its financial performance and service delivery, as well as accounts for its influence on sustainability matters.

Particular focus is given to the appropriate objective, scope, content and form of state-level reports, using Queensland and Western Australia’s inaugural sustainability and ESG reports as a case study. In 2021, Queensland and WA became the first Australian jurisdictions to release dedicated sustainability/ESG reports for financial market stakeholders, providing a basis for reflecting on appropriate ESG content and structure for sub-national government reporting. In December 2022, Queensland released a second *Queensland Sustainability Report* (QSR) which commenced alignment with international standards in the areas of governance, strategy, risk management, and metrics and targets. The QSR 2022 offers a helpful example of performance-based WoG reporting against an established baseline.

This report recommends that NSW and other Australian governments similarly commence whole-of-government sustainability reporting, with sequenced disclosures, building up maturity and data over time. In doing so, NSW should be ambitious by moving beyond the pure policy mapping seen in peer inaugural reports and aim to produce a baseline for ESG performance that embraces a double materiality approach against which outcomes can be tracked over time.

Key findings

1) Guidance for government² sustainability reporting must be customised to reflect the public sector's distinct roles and unique stakeholder universe

Governments act in financial markets, as investors, borrowers and rated entities, and achieve policy outcomes on behalf of their communities. In pursuing these ends, public sector entities have sustainability impacts through their own operations, by pursuing policy objectives, and as a regulator, standard-setter and market signaller. This broad range of roles distinguishes sovereigns from corporates and entails a larger universe of potential stakeholders. Financial market participants (investors and rating agencies) use different metrics and criteria to evaluate the ESG performance of a sovereign as opposed to private sector entities. Moreover, some frameworks for sustainability reporting focus on corporate concepts, such as “enterprise value”, that do not easily translate to a public sector context. Indeed, the breadth of sovereign accountability obligations beyond shareholders “will result in a different focus in the sustainability-related information users want from a public sector entity”.³ Accordingly, governments require a customised reporting and disclosure approach to meaningfully address sovereign sustainability risks and opportunities.

2) Australian governments should commence sustainability reporting and disclosure as soon as feasible, initially targeting financial market stakeholders, and build maturity gradually

International standards for sustainability reporting and disclosures are evolving rapidly, with multiple consultation processes underway, including for the public sector.⁴ In Australia, the Financial Reporting Council (FRC), the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) published a Position Statement in November 2021 announcing the AASB’s intention to develop a reporting requirements framework for sustainability-related matters in Australia and the AUASB’s intention to update relevant assurance standards simultaneously. The AASB and AUASB have indicated that Australia-specific sustainability guidance for the public sector will follow guidance for the private sector.⁵

Governments (national and state/territory) should not delay sustainability reporting while these processes resolve given the urgent stakeholder demand and potentially material consequences of failing to communicate action on ESG issues. Indeed, sovereigns should identify and communicate their ESG risks, opportunities and management approaches to help mitigate negative funding impacts, attract investment for pressing transition and social needs, and build capacity to support growing reporting, transparency and disclosure expectations.

Initial reporting content should align as much as practicable with emerging norms in the standard-setting processes of the ISSB, IPSASB and the AASB, with each jurisdiction prioritising content for inaugural reports in consultation with their key stakeholders. This will allow public sector entities to gradually build reporting and disclosure maturity, consistent with the ISSB's intention that IFRS Sustainability Disclosure Standards serve as "a minimum set of requirements upon which jurisdictions can build".⁶

Inaugural and early whole-of-government sustainability reports should target financial market stakeholders, with governments devising a comprehensive reporting strategy to meet the needs of the broader stakeholder universe over time. This reflects the multiple levels of reporting that entities can undertake to address materiality (financial, societal) issues relevant to distinct stakeholders (See Figure 2). This is also consistent with the "building block" approach recommended by the International Federation of Accountants (IFAC) which advocates for investor-focused reporting in the first stage and then multi-stakeholder reporting once more mature. In the public sector, this could entail using distinct reporting products (e.g., intergenerational reports, agency annual reports), and formats (e.g., web-based communications that can be updated more regularly than annual reports) as opposed to broadening the objective and scope of the dedicated WoG sustainability report given the breadth and complexity of the stakeholder universe. The risk with the latter approach is in seeking to serve many stakeholders with distinct needs and objectives, a singular report serves none.

3) Sovereigns should prepare and publish a whole-of-government sustainability report through their treasuries, in close coordination with financing authorities

Investors in sovereign debt and ratings agencies are increasingly focused on issuer-level performance on ESG risks and issues. Investors have shifted emphasis from assets to issuers, broadening assessment to the issuer's total profile. As sustainability lending and ESG methodologies in ratings agencies mature, governments are increasingly expected to articulate a coordinated WoG approach to ESG issues.

Much sustainability reporting and activity to date adopted a "climate first" approach, with the dominant interest from investors in the "E" dimension of ESG. This is now shifting as investors want to see credible track records across E, S and G. In addition, recent announcements by the ISSB emphasise the interconnected nature of sustainability matters; recognise that climate action is reliant on nature, biodiversity and a just transition; and identify priority projects for future sustainability standards covering (1) biodiversity, ecosystems and ecosystem services; (2) human capital; and (3) human rights.⁷

All of these issues are crucial to the public sector. Accordingly, sovereigns are less able to point to individual assets – such as green or sustainable bonds – to establish credibility with investors, or individual programs and spending commitments to tackle chronic issues like climate change and intergenerational poverty. Instead,

they need to demonstrate a coordinated program of action or overarching framework for managing ESG issues and their impacts on the balance sheet, economy, budget, communities and the environment.

In recognition of market participants' needs, sovereigns should develop a WoG sustainability report, rather than simply devolve to agency-level reporting. Treasuries are best placed to assume responsibility for such products given their typical responsibilities include:

- financial and non-financial reporting for the public sector
- central agency cross-sector coordination
- mandates and frameworks that govern jurisdictional financing authorities for the purposes of government borrowing and investment, and
- state-wide financial risks to sovereign balance sheets.

Treasury teams should closely collaborate with financing authorities, leveraging their capital market and investor knowledge to design and customise reporting products for their particular stakeholder audience.



Recommendations for NSW Government

1. NSW Government should not delay whole-of-government sustainability reporting and disclosure while international and domestic sustainability reporting guidance is finalised.
2. NSW Treasury should produce a whole-of-government sustainability report targeting financial market stakeholders, using the ISSB-aligned template at Annex A.
3. NSW Government should adopt a sequenced approach to sustainability reporting and disclosure, growing capability and stakeholder reach over time, while acknowledging the interconnected nature of sustainability matters.
4. NSW Government should show leadership in sustainability reporting by adopting a double-materiality approach.
5. NSW Government should release its sustainability report with the State of the Finances report, but separate to Budget and Half Year reporting, to minimise politicisation risk.

To support the impact of these NSW reforms, we recommend a **common approach** is rolled out nationally through updates to the Uniform Presentation Framework owned by the Council for Federal Financial Relations (CFFR).

The recommendations above are explored further in the “Conclusion and recommendations” section.

Key concepts in sustainability reporting and disclosure in the public sector context

This report uses three related but distinct concepts: Sustainability, ESG and Sustainable Finance. These terms are not specific to the public sector. The precise meaning of each is contested, as different countries and organisations use these terms inconsistently and there are few standard definitions. The ISSB is attempting to resolve this confusion, by issuing guidance in December 2022 which included a description of sustainability, adopted here with minor modification to make it more applicable to public sector entities. In this report, sustainability and ESG are used interchangeably, even though sustainability is a broader concept than ESG.

Sustainability

The ability for an organisation to sustainably maintain resources and relationships and manage its dependencies and impacts within its whole ecosystem over the short, medium and long term. Sustainability is a condition for an organisation to access over time the resources and relationships needed (such as financial, human, and natural), ensuring their proper preservation, development and regeneration, to achieve its goals.

ESG

ESG stands for environmental, social and governance factors. ESG analysis can be used to evaluate companies and issuers (sovereigns, sub-sovereigns, corporates) on how advanced they are with sustainability objectives. ESG factors had their origin in the investment industry and can be used to support sustainable investment activities. When applied to governments, they can mean the following:

- **Environmental** factors include the environmental footprint of a country/state, (e.g., contribution governments make to climate change through greenhouse gas emissions, decarbonisation), waste management, energy efficiency, biodiversity and natural capital.
- **Social** factors cover how governments interact with their employees and the communities they govern. This includes, but is not limited to worker rights, safety, diversity, education, labour relations, supply chain

standards, community relations, and human rights as well as supply chain resilience.

- **Governance** factors include the institutional stability and strength of the system of government, as well as the effectiveness of the public service in maintaining accountability and transparency.

Sustainable finance

There are narrow and broad definitions of sustainable finance. Given governments' mission to invest in public services and promote social and environmental outcomes, a broader definition is appropriate for public sector reporting. The Swiss Sustainable Finance organisation defines sustainable finance as: "Any form of financial activity integrating Environment, Social or Governance (ESG) considerations into a business or investment decision for the lasting benefit of customers, stakeholders and society at large."⁸

Sustainability reporting

Sustainability reporting is the act of communicating financial and non-financial information about ESG risks, opportunities and policies of an organisation, and the impact these policies have on both internal performance and wider society. For governments, this can mean reporting on the sustainability impacts and exposure of the government, through its direct operations, or the collective exposure of the economy and society over which a government holds sway. Sustainability reporting can include both sustainability-related financial disclosures and non-financial reporting of the reporting entity's impact on the sustainability of systems within which it operates (e.g., the planet, society, communities). These different levels of reporting are governed by different standards and sometimes target different formats for communication e.g., integrated reporting in the annual report or separately, in a dedicated sustainability report (see Figure 2).

Sustainability disclosure

Disclosure is a narrower concept that combines identification of a sustainability impact with public reporting of its financial impact.

Analysis

Part 1. Why governments should report on sustainability



In the great ESG stampede of the current decade, the role and significance of governments remains both overlooked and misunderstood.⁹

Tamar Hamlyn

Governments play multiple roles that impact sustainability outcomes. As policy makers and regulators, they have primary responsibility for the wellbeing and resilience of the communities, environment, and resources which they govern. As financial actors, sovereigns manage their own balance sheets and exposures. They need to operate in a financial world of credit ratings, investments and borrowing. As economic actors, they provide services and consume resources, which may leave a sustainability footprint. This is the case for governments in both an operational sense, as they conduct their activities through agencies and state-owned businesses; and in a broad sense, as they pursue policy missions in economies and societies aspiring towards sustainable development outcomes.

These varied roles mean the drivers for sovereigns to publicly report on sustainability impacts differ from corporate reporting. Identifying these unique drivers should inform the content and focus of government sustainability reporting. Part 1 considers those drivers from the perspective of government, as the reporting entity, and stakeholders, as potential users of reporting products.

Government stakeholders vary across jurisdictions, but generally, sovereigns have two broad categories of stakeholder on sustainability issues, both of which are considered below:

- Financial market stakeholders: investors, rating agencies; and
- Public domain stakeholders: citizens, parliament, government entities, senior government executives, business, and civil society

The Drivers

Accelerating risk of negative funding impacts

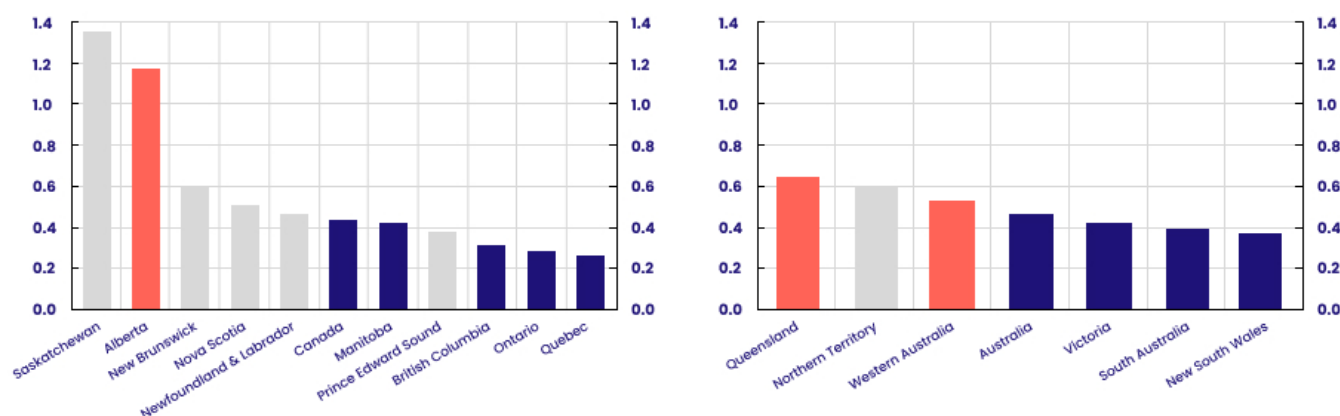
Governments are financial actors as well as entities that govern, administrate and provide public goods and services. To deliver these core functions, governments must borrow money in capital markets. In 2021, sovereign bonds made up almost 40 percent of the US\$100 trillion global bond markets.¹⁰ The growing demand by market participants, in particular investors and credit ratings agencies, for sovereigns to disclose and report more sustainability information has material consequences. Where

governments are deemed to be taking inadequate action on ESG issues, the potential consequences include reduced access to bond markets, possible increased costs of borrowing, potential lower rating agency scores and divestment action by investors. In other words, there is an increased risk of negative funding impacts related to the cost of and available market for the state's debt.

While the likelihood of these repercussions should not be overstated, Australian state governments have experienced these consequences firsthand. In 2019, Sweden's central bank, Riksbank, divested several Australian and Canadian sub-national governments from their sovereign bond portfolio because of perceived inadequate climate action by these jurisdictions. Then Riksbank Deputy Governor Martin Floden announced that as part of the Swedish central bank's new financial risk and investment policy, the bank would move to reject issuers with "a large climate footprint, when... choosing other assets than those best corresponding to [the Riksbank's] policy need".¹¹ This reflected a new (qualified) commitment to give more consideration to sustainability in the choice of FX assets on the bank's balance sheet: "Considering the requirements imposed by the Riksbank's remit, management shall take sustainability into account when selecting assets in the foreign exchange reserves."¹²

While this policy limits the Riksbank to rejecting issuers who are not core to fulfilling the bank's policy objective, Canada and Australia were called out for their lack of "good climate work", with divestment action taken at the sub-sovereign level. Queensland, Western Australia and Alberta bond holdings were divested given their higher greenhouse gas intensity compared to their respective countries as a whole (see Figure 1).¹³ This was the first time that greenhouse gas intensity of the bank's assets was a factor in the calculations together with rates of return and risk.

Figure 1. Greenhouse gas emissions, blue bars show the Riksbank's bond holdings and orange bars show bonds sold in 2019, in Canada and Australia respectively.



Note: Direct greenhouse gas emissions, excluding uptake and emission of greenhouse gases from land use, GHG (kt CO₂e)/GDP (USD million)

Source: Australian Bureau of Statistics, Bloomberg, Government of Australia, Government of Canada, UNFCC and Statistics Canada

Since this divestment action in 2019, the Riksbank has progressed its work on sustainability and commenced carbon footprinting the total foreign exchange reserves.¹⁴ This reflects a belief that taking the carbon footprint into account when analysing the composition of the portfolio could offer a better understanding of climate-related financial risks in the Riksbank's FX reserves. A full understanding of these risks would require other measures, including forward-looking measures to supplement the backward-looking data.

This case is instructive for NSW. As ESG investing becomes more mainstream for investors and credit rating agencies, the Riksbank divestment may signal potential for more divestment activity by official investors, especially on climate and environmental indicators. Research by the World Economic Forum (WEF) showed that of the three ESG dimensions, environmental risks are of increasing concern to investors,¹⁵ especially long-term investors like sovereign bond holders.¹⁶ A more general appetite among investors to integrate ESG factors into the construction of sovereign debt portfolios is also documented in the UN Principles for Responsible Investment's (UNPRI) 2020 practical guide to ESG integration in sovereign debt.¹⁷

Opportunity to own the risk narrative

The flipside of this emerging risk is an opportunity for sovereigns to own their risk narrative. As the World Bank observes:

*[Sustainability] reporting can enable sovereigns to articulate their approach to managing relevant risks and give them greater ownership of the risk narrative presented to investors. Currently, ESG data providers have a great deal of control over the climate risk information and narratives that investors use to assess sovereign risk.*¹⁸

This was a major driver for Queensland in publishing its first QSR. As outlined above, the Riksbank divestment of Queensland bonds hinged on a particular framing of the State's economic and financial profile – one which Queensland argued, over-emphasised its reliance on coal, particularly for export. Public reporting offered a chance to present an alternative narrative – a data-backed overview of the State's economy that highlighted Queensland's economic diversification.¹⁹

Equipping sovereigns with the ability to shape their own risk and opportunities narrative offers additional benefits. The process of preparing and reviewing information for reporting can encourage more systematic and transparent risk management in reporting entities. In a sense, a reporting framework becomes a covert action framework. The level of maturity that investors and ratings agencies increasingly demand may encourage sovereigns to identify, prioritise and invest public capital in ways that enhance resilience and tackle sustainability challenges to satisfy financial market stakeholders. This exercise could also help address asymmetries that exist in the ESG investment space. At present financial markets

have better access to information on climate risks than on actions that countries have taken to mitigate and manage these risks through investment in adaptation and resilience.²⁰ Sovereigns can also use ESG reporting to help attract investment. As investors increasingly look for investments that contribute to positive impact and align with the United Nation's Sustainability Development Goals (SDG) outcomes, sovereigns should not waste the chance to communicate plans that support these goals.

Such reporting must be backed by credible evidence to avoid the “reams of irrelevant puffery” that have defined Corporate Social Responsibility (CSR) and early sustainability reporting.²¹ Data-driven, performance-based reporting with financial impact disclosures can help minimise the risk that sustainability reporting descends into a marketing or branding exercise.²² This has become even more imperative given the intensified regulatory scrutiny on greenwashing globally and domestically. Greenwashing is the practice of misrepresenting the extent to which a product or a business practice, is environmentally friendly, sustainable or ethical. The Australian Prudential Regulation Authority (APRA),²³ Australian Securities and Investments Commission (ASIC)²⁴ and the Australian Competition and Consumer Commission (ACCC)²⁵ have all indicated a high priority focus on greenwashing,²⁶ with ASIC taking its first enforcement action on greenwashing against an ASX listed energy company, Tlou Energy Limited in October 2022.²⁷ The Albanese Government has also prioritised the issue, tasking the Commonwealth Treasury with developing a comprehensive sustainable finance strategy with measures to improve transparency, including the development of new standards or taxonomies for sustainable investment, further initiatives to reduce greenwashing and strengthen ESG labelling, and more ambitious participation in global forums to support climate and sustainable finance frameworks and investment.²⁸

These developments are raising expectations regarding the quality and rigour of sustainability reporting. A report by the UNPRI into ESG reporting trends in the investment sector identified a move from “tell me” to “show me” reporting in many jurisdictions, including Australia.²⁹ As part of this trend, investors should prepare to report not only on ESG policies, overarching ESG objectives and strategies and their implementation, but also on the results of the actions of sustainability outcomes or investments.

To responsibly own their risk narratives, Australian sovereigns will need to invest in their capability to identify, monitor and communicate these risks through recruiting sustainability experts and upskilling their own risk, accounting and audit professionals. The Australia Banking Association-led alliance of finance, accounting and investor groups have warned, “one consequence of the push for more standardised reporting of climate risk will be a likely shortage across the accounting and audit industry that will produce those assessments”.³⁰

NSW Government has recognised this need and built internal and cross-government capability in this space, by establishing a Sustainable Finance Unit within NSW Treasury to coordinate and steer a WoG approach to sustainable finance issues across NSW Government. This team supports the Assets and Liabilities Committee (ALCO) in NSW Treasury that monitors state-wide significant financial risks to the NSW balance sheet, including sustainability-related impacts on the State's assets and liabilities. This team works alongside the Office for Social Impact Investment (OSII) that helps deliver the NSW Government's leading Sustainability Bond Programme (SBP), run in partnership between NSW Treasury and the NSW Treasury Corporation. Indeed, the SBP programme offers a leading example of transparent reporting on impact which is externally assured and aligned with the SDGs (see Box 1).

This specialised risk function is complemented by the work of the recently expanded Long-Term Modelling Branch in Economic Strategy and Productivity, which provides advice on the long-term structural risks and opportunities facing the NSW budget and economy. This branch produced the first known public sector modelling of climate risk for an Australian sub-sovereign (see Box 1).

Investment in this capability is key to understanding state-wide risks with an expected material impact on long-term economic or fiscal outcomes. These are likely to include a range of ESG risks.

Discussions with these teams emphasised the importance of recognising the distinct role of government and different structures and governance for managing risk. Governments need to manage multiple levels of risk when delivering goods and services, including program risk; enterprise risk and whole-of-state risks. ESG risks have a financial and operational dimension, requiring a distributed model of risk governance across line and central agencies. Government is often an insurer of last resort for system-wide risks where market failures occur, such as natural hazard recovery efforts where insurance does not operate or where under insurance or no insurance occurs even where insurance does operate. It is therefore crucial that public sectors invest in their risk identification and analysis capability at the central agency level, and ideally within Treasuries which manage revenue and liability risk at the whole-of-state level. While that risk is held centrally, it is transmitted to agencies as a diminished revenue-raising ability that impacts agency budgets and therefore capability to deliver on enterprise-level objectives. For sovereigns that do wish to exert more control over their risk narrative, recognising the unique attributes of public sector risk management and investing in capability appropriately will be crucial to successful sustainability reporting.

Box 1: NSW Treasury leadership on sustainability reporting

The 2021–22 Intergenerational Report: Climate risk modelling at Whole-of-State level

As part of its Intergenerational Report (IGR) analysis, NSW Treasury sought to understand how climate change will affect the NSW economy and the NSW Government's fiscal position over the next 40 years. This included modelling the impact of plausible climate change scenarios on the structure of the NSW economy between 2021 and 2061.

The Fiscal Responsibility Act 2012 (NSW) requires the NSW Government to produce a report on long term fiscal pressures and a re-assess of the State's long-term "fiscal gap" every five years. The IGR undertakes this by providing an informed view of how the NSW economy and fiscal position could evolve over the next 40 years, assuming current policy settings remain unchanged. The IGR utilises the Treasury Intergenerational Report (TIGR) Model which is a demographic-economic model designed to project trends in population, the economy, expenses, revenue and capital expenditure over 40-years.

While the IGR initially focused on demographic change and population ageing, there is increasing recognition that the key long-term challenges facing jurisdictions are broader, with climate risks featuring prominently. Therefore the 2021 NSW IGR incorporated explicit modelling of physical and transitional climate risks, the first Australian state or territory to do so. Subsequently other jurisdictions, including the Commonwealth, have also indicated their intention to undertake similar quantitative assessments of climate risk.

NSW Sustainability Bond Programme

The NSW Government was the first Australian state to establish a Sustainability Bond Programme in 2018. There is \$8.8 billion on issue across four bonds (two Green and two Sustainability) as at 24 Oct 2022. In contrast to TCorp's regular bonds – which are provided to NSW Treasury and borrowing clients for general purpose expenditure – the proceeds of green, social and sustainability bonds are used to finance or refinance projects and assets that deliver transparent and positive environmental and social outcomes.

The SBP also supports Australia’s commitment to meeting the UN SDGs, and aligns with global sustainability principles, standards and guidelines. In FY22, NSW Government:

- issued a \$1.5 billion sustainability bond in support of clean transportation, affordable infrastructure and housing, sustainable water and wastewater management and improved access to essential services
- met investor demand in green and sustainability bonds by adding \$4.6 billion of assets to the SBP’s asset pool, including access to critical telecommunications services.

Public sector impact on sustainable development outcomes

A further crucial driver for action is the sheer reach of public sector influence on sustainability outcomes. This stems from the public sector’s multiple roles, all of which can affect the sustainability of communities, the environment and society. In both government’s own operations and financial activities, as well as its regulatory capacity, sovereigns have the potential for material impact over economic, social, environmental and governance outcomes.

In one of the most comprehensive reports to date on public sector sustainability reporting, the Chartered Institute of Public Finance and Accountancy (CIPFA) emphasised the significance and materiality of public sector activities in an economy.³¹

Public sector organisations are some of the largest contributors to most nations’ economies and, as such, can directly and indirectly affect those economies, the environment and society substantially.³²

The IPSASB reinforced this point, highlighting that, on average across OECD countries, government expenditure accounts for over 40 per cent of GDP, with the public sector employing 20 per cent of the global workforce.³³ When the extent of public sector operations within domestic economies is considered together with the regulatory reach of governments, the urgency and need for transparent public sector performance is undeniable. Far from lagging, the public sector should be leading, demonstrating accountability for impact. The CIPFA report noted “a strong view that it is simply not enough that the public sector only acts as a regulator” and that it should also provide leadership by reporting on its own activities.³⁴

NSW has long recognised this potential impact but has been slow to adopt a leading position. In its 2005 report, *Sustainability Reporting in the Public Sector*, the NSW

Public Accounts Committee found that “Government has a strong obligation towards sustainability as a landowner, building manager, vehicle operator and procurer of goods and services.”³⁵ Since 2014, NSW’s Government Resource Efficiency Policy (GREP, updated in 2019) has been the main guiding policy instrument for sustainability in NSW Government operations. The GREP aims to reduce the NSW Government’s operating costs and increase the efficiency of its resource use, requiring agencies to implement resource efficiency measures and to report progress against GREP in energy use, water use, waste management and air quality. Work has now begun on a more comprehensive approach to augment the GREP, focusing on bringing together additional government reporting requirements from more recent policies, including emissions, circular economy, climate change risk and adaptation aspects under the Net Zero Plan, Waste and Sustainable Materials Strategy and Climate Change Adaptation Strategy. This is expected to be further progressed in 2023. While this work acknowledges the increased ambition of the NSW Government across a range of environmental and climate-related policies,³⁶ the policy approach to this opportunity remains largely (and narrowly) focused on environmental sustainability.

Today, the NSW Government is the largest employer in the state, and a major purchaser of goods, services and construction, with over \$30 billion in annual procurement. The 2022–23 NSW Budget expressly acknowledges the need to “align... the State’s financial activities (e.g., investing, issuing bonds, procuring, and stewarding resources) with more sustainable outcomes through a variety of initiatives”.³⁷ Encouragingly, the Budget papers committed to the release of a Sustainable Finance Framework that “will ensure the NSW Government’s financial activities are aligned with its environmental and social priorities... and assist NSW to more effectively manage ESG-related risks and capture economic opportunities over the short and long term.”³⁸ When delivered, this can help move NSW Government beyond its commendable, but somewhat narrow policy focus on environmental sustainability.

Government leadership needed to drive sustainable finance transformation

The United Nations Environment Programme Finance Initiative’s (UNEP FI) identifies strong government leadership and the incorporation of sustainability in mandates, including financial ministries, central banks, financial regulators and standard setters as major enablers of a sustainable financial system.³⁹ The World Bank’s recent work directly links sustainability reporting to government leadership in this space, underscoring its central role in “driving capital to sustainable investments and away from environmental harmful ones”.⁴⁰ For investors, transparent government reporting could help meet their need for ESG disclosures in all asset classes, supporting capital allocation decisions that better align sustainable and financial outcomes. The potential is huge given sovereign bonds make up almost 40 per cent of the US\$100

trillion global bond market. For governments, systematic, comprehensive and regular sustainability reporting could help sovereigns better understand vulnerabilities, anticipate significant unbudgeted expenditures and identify opportunities for priority sustainability-aligned investments.

As noted above, the NSW Budget papers demonstrate awareness of this leadership potential, flagging a forthcoming Sustainable Finance Framework that will “establish the conditions and tools to support embedding these considerations across the finance sector and economy more broadly.”⁴¹ This moves beyond initial efforts to “diversify the State’s investor base and facilitate capital flows towards ESG objectives”,⁴² to a more foundational role for government in driving a sustainable finance transformation across the economy. While encouraging, these developments still trail jurisdictions like New Zealand, whose comprehensive sustainable finance strategy targets both private and public sector initiatives. This includes a government leadership recommendation that key entities, including Crown Financial Institutions, Government-backed funds and state-owned enterprises support the mainstreaming of sustainable finance in New Zealand by incorporating sustainability considerations into their respective mandates.⁴³



Part 2. How governments should report on sustainability

The urgency for better disclosure of sustainability information is well-recognised globally and in Australia.⁴⁴ Yet, there is little consensus on the best way for entities to disclose. There is the promise of more clarity in the next 12–24 months as the international standard setting process begins to produce guidance and reveal emerging norms in sustainability standards. For sovereigns, the wait may be longer as standard-setters and regulators prioritise frameworks for the for-profit sector before considering the public and not-for-profit sectors.

While these processes resolve, how should governments commence the task of sustainability reporting? This section of the report looks to two places for guidance:

- existing public sector sustainability reporting for precedent approaches
- emerging requirements in international and national sustainability reporting standards.

Public sector sustainability reporting

The global landscape of public sector sustainability reporting is characterised by two features:

- the immaturity of sovereign sustainability reporting
- rapid evolution in sustainability standard-setting and guidance

A 2021 global review by CIPFA found that sustainability reporting in the public sector is still in its infancy.⁴⁵ In a search of the GRI Sustainability Disclosures Database (now decommissioned), the authors found only 1.8 per cent of the 15,475 organisations declaring production of a sustainability report identified as a “public agency”, suggesting limited penetration in public sector organisations.⁴⁶

Few jurisdictions mandate sustainability reporting or disclosure for the public sector.⁴⁷ Despite this, there are some examples of government entities attempting the task. Table 1 below provides a snapshot of recent approaches to sustainability reporting adopted by city, state and national governments. A variety of approaches are in use with the main thematic focus on climate and environmental impacts. Governments have applied a mix of integrated and non-integrated approaches to reporting. Some jurisdictions are incorporating disclosures into their annual financial reporting (Canadian cities); others are practicing more general reporting (Finland, Queensland, Western Australia).

Queensland offers the clearest example of stand-alone, WoS sustainability reporting with the publication of two dedicated sustainability reports by Queensland Treasury. The inaugural 2021 QSR reported against seven ESG focus areas that aligned with the expectations of key investor and rating agency stakeholders. The 2022 Report changed structure, aligning with emerging guidance from the ISSB Exposure Drafts

that encourages TCFD alignment in reporting. Using TCFD categories of management, strategy, risk management and metrics and targets throughout, the QSR 2022 considers six priority ESG areas under those pillars. It identifies policy responses, outcomes and related targets and metrics for criteria, including an accountable minister. This reflects a significant maturing in both the presentational style and rigour of content communicated since the first QSR.

Queensland intends to publish a dedicated state-wide sustainability report summarising the sustainability impact of the State's public sector activities, rather than require the roughly 180 reporting entities across the Queensland public sector to provide individual sustainability disclosures.⁴⁸ The Queensland Government is currently investigating how best to allow specific agencies and departments to make sustainability disclosures where there are material impacts to report.

“

It was a strategic intention in developing a whole-of-state report that in the future, individual reporting entities could point to this state-wide report to frame and inform their material disclosures.⁴⁹

Lachlan Whitta,
Balance Sheet Manager, Queensland Treasury

Finland pursues a more ambitious approach, driven by a sense of government's responsibility for systematic change in fostering sustainable development.⁵⁰ Following a pilot project “Making Sustainability Visible” with the National Land Survey of Finland, the Office of the President of the Republic of Finland, the State Treasury and the Finnish Tax Administration, the State Treasury released updated guidance on sustainability reporting in 2021. This recommends all ministries, agencies and institutions produce an annual sustainability report summarising their actions and footprint, as well as analysing their role in the broader ecosystem of sustainability. The objective is to speak to a wide range of audiences from “citizens, companies, third sector operators and investors” to help all stakeholders better understand the shift towards a more sustainable society:⁵¹

In sustainability reporting, every agency should examine, through the performance of their own statutory duties, what societal and global impacts are caused by their activities. The perspective of a sustainability report on the impacts of the activities of a ministry or agency is thus different from the perspective of an annual report, which also reports on the results and societal impacts of the activities. In other words, the target group of a sustainability report is not automatically the same as that of an annual report.⁵²

The Finnish approach is horizontally thick, requiring all entities in the public sector to report on the sustainability impacts of their operations and their broader system impact. It offers a public sector version of double or dynamic materiality, requiring “inside out” reporting.

A third approach offers a middle ground between the Queensland model (a singular, whole-of-government ESG report) and Finnish model (all public sector entities undertaking dedicated sustainability reporting). This typically involves government entities being required to undertake some specialised reporting on a sustainability topic, most commonly dedicated environmental reporting, green accounting, or increasingly climate-related disclosures as part of annual financial reporting. These approaches are evident in a number of jurisdictions, including the UK and NSW.

The UK requires much of its public sector to undertake annual sustainability reporting that satisfies minimum requirements. The purpose of this reporting is to provide transparency on public sector performance on sustainability in government organisations year-on-year. All central government bodies that fall within the scope of the Greening Government Commitments are required to report on sustainability unless exempted (e.g., NHS and schools are not included). The minimum requirements are restricted to greenhouse gas emissions, waste minimisation and management, natural resource consumption, biodiversity action planning, sustainable procurement, climate change adaption, rural proofing and reporting environmental impacts from ICT and digital. The guidance recognises that there are many other aspects to sustainability that have not been given coverage in the minimum requirements. For organisations that are more mature, a range of other areas are identified for voluntary reporting in separate reports or on a department’s website. These relate to more comprehensive environmental, social and economic transitions issues:

[F]or example how delivery of the body’s strategy is supported by, and reliant on, actions taken to respond to economic, environmental and social factors. Through this analysis, the body may also describe how performance relating to social or other material environmental impacts is linked to financial outcomes.⁵³

NSW has a similar but more modest environmental sustainability reporting approach through the GREP policy, with requirements for government agencies to annually report on their energy use, water use, waste management and air quality. More ambition is being displayed through climate disclosures, with NSW committing to develop and publishing a number of TCFD-aligned climate-related disclosures that will lay the foundation for more comprehensive and holistic ESG reporting by the public sector. These include:⁵⁴

- A commitment to publish a TCFD-aligned, biennial climate change impacts, risks and adaptation statement which will set out the economic, financial and physical impacts, risks and opportunities of climate change on the State across various

climate scenarios by 2023. The statement will be prepared on a whole-of-government basis to address the impacts, risks and opportunities of climate change on the NSW Government and the State as a whole; and

- The release of three entity-specific pilot TCFD statements for the National Parks and Wildlife Service, Environment Protection Authority and Essential Energy in 2022.



Table 1: Types of sovereign sustainability reporting

Example	Jurisdiction	Practice	Type	First Year
Whole-of-government sustainability report	Queensland (Australia)	Published by Queensland Treasury to provide a consolidated view of the State's ESG risks and opportunities, policy responses and risk management. The 2021 QSR report targets financial market participants and contains seven ESG focus areas and 21 data sets developed in consultation with agencies and investor stakeholders. The 2022 QSR was developed to reflect emerging best practice reporting on sustainability both within Australia and internationally, including consideration of the ISSB standards. It covers six sustainability priorities that fall within the three ESG pillars and is TCFD-aligned in its reporting structure, covering management (governance), strategy, risk management, and metrics and targets for each priority. The 2022 report is outcomes-focused.	<ul style="list-style-type: none"> • General purpose • Non-integrated • Non-audited • ISSB-aligned since 2022 	2021
	Western Australia (Australia)	Published by Western Australia Treasury to highlight key policy commitments and actions in progress by the WA Government to achieve continuous improvement in social and environmental outcomes for Western Australia. The report covers 11 ESG policy areas and maps the WA Government's budget spending against the UN SDGs across these 11 ESG policy areas. The report underscores the importance of supporting Australia's pursuit of the objectives of the UN SDGs and WA Government's commitment to achieve the Paris Agreement objective of net zero emissions by 2050.	<ul style="list-style-type: none"> • General purpose • Non-integrated • Non-audited • SDG-aligned 	2021
Agency-level sustainability reporting	Finland	The State Treasury of Finland published its first guidelines on sustainability reporting for central government in November 2020, and updated guidance in September 2021. The State Treasury guidance recommends ministries, agencies and institutions publish an annual sustainability report on their actions, focusing on the impact of their activities regarding three to five of the UN's Sustainable Development Goals. The purpose of the reporting is to inform the public sector's	<ul style="list-style-type: none"> • General purpose • Non-integrated • Non-audited • SDG-aligned • Separate to Annual Reports 	2020

Example	Jurisdiction	Practice	Type	First Year
		stakeholder universe about the central government's sustainability work and promote awareness of how public institutions can support sustainable development.		
	UK	In the UK, HM Treasury has published annual Sustainability Reporting Guidance since 2015. All central government bodies that fall within the scope of the Greening Government Commitments report on sustainability in their annual reports and accounts (schools and the NHS fall outside the scope). ⁵⁵ The focus of this reporting is the UK Government's operations. The Guidance sets out minimum requirements for reporting on a range of environmental criteria.	<ul style="list-style-type: none"> • General purpose • Integrated into Annual Reports • Non-audited • Internal assurance encouraged 	2021
	NSW (Australia)	<p>The NSW GREP was announced in 2014 and updated in 2019.⁵⁶ The policy applies to NSW government agencies [or to all large agencies >100 FTEs in the General Government Sector]. It requires agencies to implement resource efficiency measures and to report annually on their progress against GREP to the Office of Energy and Climate Change (OECC) on an annual basis. The GREP includes measures, targets and minimum standards to drive efficiency in four key areas: energy use; water use; waste management and air quality. It has achieved environmental sustainability outcomes such as energy efficiencies and therefore reduced emissions and created a reporting framework for sustainability-related data from agencies.</p> <p>Local government, state-owned enterprises, public trading enterprises and public financial enterprises are strongly encouraged to adopt the policy.</p>	<ul style="list-style-type: none"> • General purpose • Non-integrated • Unaudited 	2014
	South Australia (Australia)	In 2015–16, the Department for Infrastructure and Transport included an Appendix on Sustainability in its Annual Report, providing the department the opportunity to report on progress towards sustainability practices in line with	<ul style="list-style-type: none"> • General purpose • Non-integrated • Unaudited 	2016

Example	Jurisdiction	Practice	Type	First Year
		various government initiatives. ⁵⁷ The report covered sustainability practices that reduce resource use and the impact on the environment, working to improving the quality of life, now and in the future. This approach is no longer in use.		
Integrated general reporting	Cologne (Germany)	The City of Cologne in Germany incorporates SDG information into a mandated annual report which all German cities are required to prepare, showing the outcome per business area.	<ul style="list-style-type: none"> • Integrated • General purpose 	2016
Integrated financial reporting	Canada	<p>In Canada, an increasing number of cities including Calgary, Edmonton, Montreal, Toronto and Vancouver are reporting against the TCFD recommendations annually. This is typically done as part of the city's annual financial reporting process.</p> <p>Since 2018, the City of Toronto has voluntarily disclosed climate-related sustainability information in its annual financial statements.⁵⁸ In the 2018 report, the city used a narrative-based model to describe the approach to climate risk, included as an unaudited note in the annual financial statements.⁵⁹ In the 2019 and 2020 annual financial statements, the city used the TCFD framework to make disclosures on governance, strategy, risk and metrics and targets. Similarly, Vancouver has also included TCFD-aligned climate risk disclosures since 2018 in its annual financial statements as an unaudited note at the end of its consolidated financial statements.⁶⁰</p>	<ul style="list-style-type: none"> • Integrated • TCFD-aligned since 2019 	2018

Example	Jurisdiction	Practice	Type	First Year
	Victoria (Australia)	In Victoria, under the Financial Reporting Directions (FRD) 24D, a department's Annual Report of Operations must disclose information relevant to understanding and reducing its office-based environmental impacts on energy use, waste production, paper use, water consumption, sustainable procurement etc. This can also include emissions reduction data e.g., Victorian Department of Environment, Land, Water and Planning.	<ul style="list-style-type: none"> • Integrated • Non-Financial 	
Wellbeing Budgets	New Zealand Wales; Scotland	There are instances of wellbeing being used as a framework for sustainability reporting. These encourage a broader assessment of matters that affect the current and future wellbeing of people. The New Zealand Treasury's Living Standards Framework is a key analytical and policy framework which supported the country's Wellbeing Budget. Scotland's wellbeing framework was updated in 2018 with 11 outcomes and 81 measures which map to the SDGs. ⁶¹		

The international guidance landscape



*It is currently an exciting time in the world of setting standards for sustainability reporting. It is also a complex and confusing one.*⁶²

Robbert Eccles and Kazbi Soonawalla

The proliferation of varied approaches by individual jurisdictions reflects an absence of an overarching, international framework on sustainability reporting, for private or public sector entities. With over 600 sustainability reporting requirements across more than 80 countries,⁶³ there is a growing demand for comparable, consistent information, managed under a unified framework.

Numerous standard-setting bodies have begun responding to this need by developing draft sustainability reporting guidance. Much of the activity is driven by government-backed organisations that maintain accounting frameworks and target the for-profit sector. Some of these organisations have consolidated to streamline standard-setting and develop comprehensive sustainability frameworks. The most significant of these merged entities is the ISSB.⁶⁴ The ISSB has consolidated the Value Reporting Foundation (VRF) – which was formed in a merger of the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC), and the Climate Disclosure Standards Board (CDSB). The European Financial Reporting Advisory Group (EFRAG) is working to establish the reporting standards for the European Union's Corporate Sustainability Reporting Directive (CSRD). The Global Reporting Initiative (GRI) had been supporting this work and recently announced a collaboration with the ISSB.⁶⁵

At the same time, a parallel standard-setting process is occurring through the IPSASB specifically for the public sector. There is currently no internationally recognised public sector reporting framework for sustainability. In December 2022, the IPSASB confirmed it would establish a Sustainability Taskforce to scope the development of specific public sector standards for general sustainability-related financial disclosures, climate disclosures and natural resources non-financial disclosures.⁶⁶

With all this standard-setting activity, leading authority on ESG integration and reporting Professor Robert Eccles has described this as an exciting, albeit complex and confusing time for sustainability standards. Eccles pinpoints 2020 as the year “the narrative for sustainability reporting changed” with the “broad recognition in the investment, business, accounting, regulatory, and sustainability reporting communities that the time has come for mandated standards on sustainability reporting, just as we have for financial reporting.”⁶⁷ It remains to be seen whether the

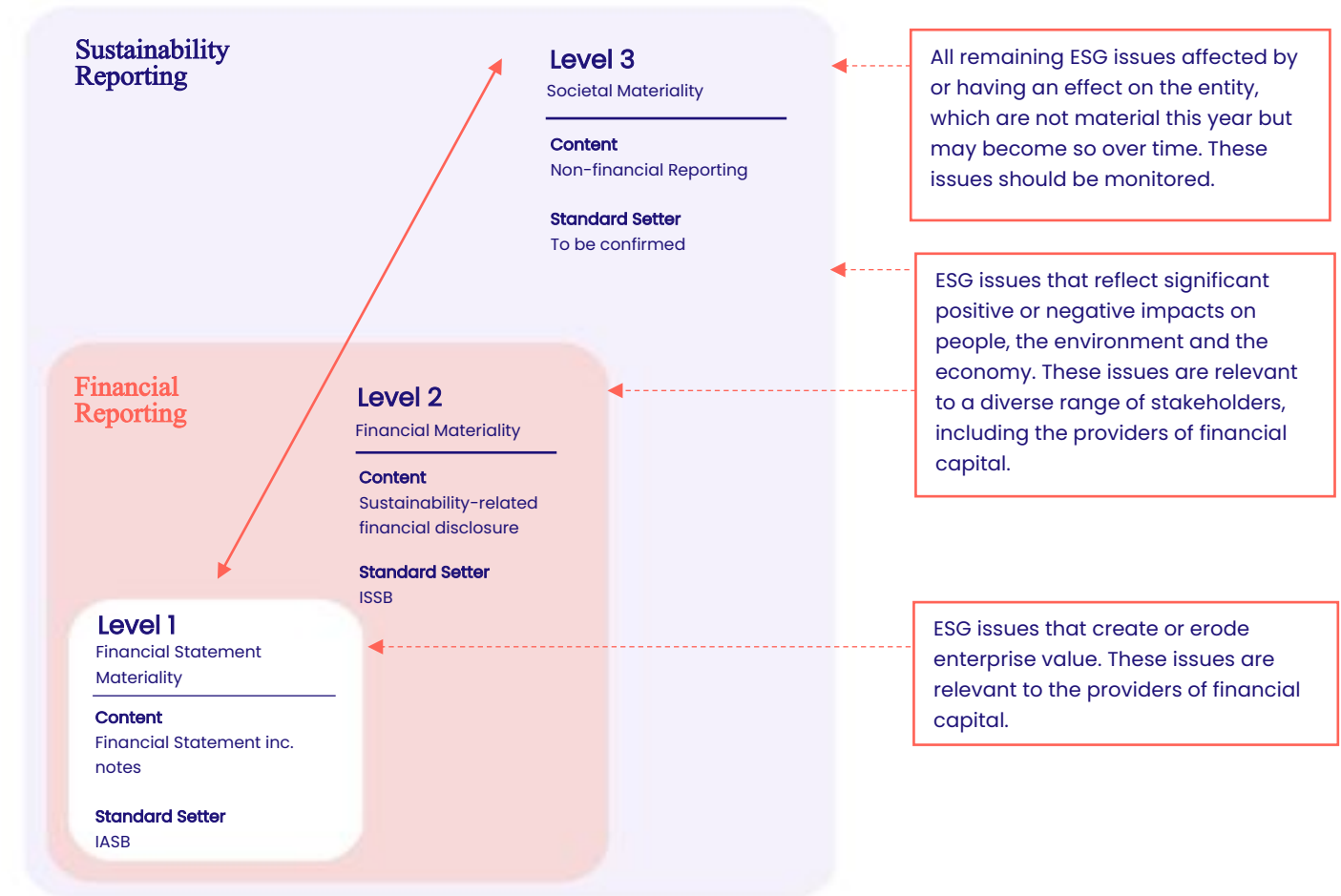
confusion of many NGOs working on standards for sustainability reporting will simply be replaced by further confusion generated by different government-backed organisations doing the same thing. That said, there are some clear emerging norms in the different processes which can inform how sovereigns could commence sustainability reporting while these processes resolve.

ISSB Exposure Drafts

The ISSB was established by the IFRS Foundation in 2021 at COP26 to develop a comprehensive global baseline of sustainability disclosures for capital markets. The move came in response to calls from primary users of general-purpose financial reporting for more consistent, complete, comparable and verifiable sustainability-related financial information to enable them to assess an entity's enterprise value.

The creation of a new standard-setting board marked a significant expansion of the IFRS Foundation's role and remit. As set out in Figure 2, the IFRS Foundation had previously "focused almost exclusively on providing financially material information at Level 1 only, with its management commentary being the primary (though minor) exception".⁶⁸ Financial statement reporting standards are mandated by the IFRS Foundation and supported by more than 140 countries worldwide, ensuring a high degree of comparability and consistency. Eccles and fellow Accounting Professor at the University of Oxford Richard Barker have described this as Level 1 reporting, which sits in a nested relationship to Level 2 reporting – general purpose financial reporting. The Level 2 category captures sustainability-related financial disclosures as it includes disclosures that go beyond the financial statements, but which are still relevant to an investor's financial evaluation of the reporting entity. That is, financially material. Level 2 is a subset of Level 3, because information reported for the benefit of investors is a subset of information reported for the benefit of society.⁶⁹

Figure 2. Levels of sustainability reporting, with standard setters and materiality



Source: This graphic has been derived from Barker and Eccles (2020)⁷⁰ and expanded with descriptions supplied by BWD to the author.

In March 2022, the ISSB published its first two exposure drafts on sustainability standards (Level 2 reporting). IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) sets out general sustainability-related disclosure requirements, while IFRS 2 Climate-related Disclosures (IFRS S2) specifies climate-related disclosure requirements building on the TCFD framework as the best-known climate risk reporting standard.

The original IFRS S1 set out the core content for a complete set of sustainability-related financial disclosures, establishing a comprehensive baseline of sustainability-related financial information. To comply, a reporting entity would disclose material information about all significant sustainability-related risks and opportunities to which it is exposed—the materiality judgement is made in the context of the sustainability-related information necessary for users of general-purpose financial reporting (investors) to assess enterprise value.

The emphasis of the standards is on sustainability- and climate-related financial information that is broader than the information reported in financial statements (Level 1), but still materially relevant to the financial evaluation of a reporting entity. For instance, IFRS S1 includes requirements to disclose information about a reporting entity's governance of sustainability-related risks and opportunities and its strategy for addressing them. The entity's reputation, performance and prospects are affected by the actions it takes. The proposals would require disclosure of information about an entity's impacts and dependencies on people, the planet and the economy when relevant to the assessment of the entity's enterprise value.

The ISSB sought feedback on the proposals in the second half of 2022, receiving over 1300 responses. An interim response to the feedback identified several topics for further deliberation, with the timeline for issuing new standards delayed to early 2023, instead of the original end-2022 ambition. Redeliberation topics include scalability, interoperability, key definitional terms (materiality, primary user, time horizons), and practical challenges for preparers.⁷¹ Two of the ISSB's updates to IFRS S1 have implications for public sector entities:

- Removal of "Enterprise Value" from the definition of materiality

The initial draft standards acknowledged their corporate sector orientation, noting the potentially limited application of the standards to the public sector on account of its terminology. That notwithstanding, IFRS S1 flagged the possibility of adapting the standards for use in the public sector.⁷²

In a joint submission on the ISSB standards to the AASB, the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC), an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues, noted that "enterprise value" as a concept is not relevant to public sector entities and that instead, a significant factor for public sector entities, particularly at Commonwealth and state/territory level, is achievement of government policy.⁷³ HoTARAC identified a range of other limitations, yet expressed a view "that this should not delay further work on either sustainability reporting or performance reporting in the AASB work program."⁷⁴ The removal of enterprise value from the draft standards is likely to be welcomed by public sector entities wishing to adopt IFRS S1 and S2 standards. While the draft standards still focus on the impact of sustainability issues on the entity, there is now more scope for public sector reporting entities to discuss their impact on traditional government activities such as regulation, legislation and policy positions on the broader environment and economy.

- Removal of the term "significant" in relation to sustainability-related risks and opportunities

This adjective was used to help preparers understand that the reporting focus should be on particular risks and opportunities that are decision-useful or would have a sufficient impact on an entity's business model and activities, and thus future performance and value. It also aims to provide practical comfort to preparers that they need not

undertake an exhaustive search of all sustainability-related risks and opportunities. Its removal will allow more scope for government entities to talk about a range of important sustainability impacts, and not just those deemed material in a financial or financial statement sense.

Updates were also announced to IFRS S2 on climate risk disclosures, the most significant of which include the ISSB's confirmation of the requirement to disclose Scope 3 emissions, undertake climate scenario analysis and a new requirement to disclose an entity's approach to scenario analysis.

The Australian Government has consistently signalled support for the draft ISSB arrangements⁷⁵ and has released a consultation paper on introducing mandated climate risk disclosures for large entities to ensure "consistent, credible, internationally-comparable disclosures".⁷⁶ The Government has also signalled an intent to tailor requirements for comparable Commonwealth public sector corporate entities and investment funds.⁷⁷ A consultation process launched in December 2022 and is open until 17 February 2023.

IPSASB

The IPSASB ran a parallel consultation process from May to September 2022, specifically focused on public sectors. This process sought to develop initial guidance focused on general disclosure requirements for sustainability-related information and climate-related disclosures, as well as test the potential for IPSASB to serve as the standard setter for global public sector specific sustainability guidance, drawing upon its experience, processes, and global relationships. The intent was to approach guidance development at an accelerated pace, with a goal of releasing initial guidance by the end of 2023.

The feedback indicated support for the IPSASB to be the standard-setter and to develop customised public sector guidance, and strongly encouraged collaboration between IPSASB and other international standard setters, particularly the ISSB and GRI. This is to ensure that new guidance can address "public sector needs while maximising consistency with sustainability frameworks globally".⁷⁸ In December 2022, the IPSASB confirmed it will develop public sector sustainability reporting guidance standards, and will establish a Sustainability Task Force to lead the scoping phase with a priority focus on:

- general requirements for disclosure of sustainability-related financial information,
- climate-related disclosures, and
- natural resources – non-financial disclosures (in parallel with the development of financial reporting guidance proposed in its Consultation Paper, *Natural Resources*).

The IPSASB's rationale in developing global public-sector-specific sustainability reporting guidance anticipates key areas of focus that government sustainability reporting will need to address:⁷⁹

- How and where governments spend money is an important factor in the successful delivery of the 17 United Nations SDGs. Public sector entities will have to adapt their policies and operational procedures to address ESG issues.
- The broad range of accountability obligations the public sector has to its stakeholders will require a different focus on the sustainability-related information users want from a public sector entity compared with a private sector entity.
- The challenges of applying private sector sustainability guidance to the public sector due to the different nature of some public sector activities. For example, the volume and significance of non-exchange transactions, the longevity of many public sector programs, the public sector's regulatory role in a jurisdiction, and the relationship between public sector financial reporting and statistical reporting.

Likewise, the IPSASB's initial consultation paper *Advancing Public Sector Sustainability Reporting* flags its likely approach to public sector reporting, which marks a clearer divergence from other standard setters. Figure 3 is an adapted version of the “building block” approach to sustainability reporting recommended by the IFAC, and captured in the IPSASB report, that is based on these two categories of stakeholder.⁸⁰ The IFAC approach encourages staged reporting products, targeting each stakeholder group in sequence. Immediate priority is given to investor-focused sustainability reporting, which focuses on “the impacts of ESG factors on an organisation's short-, medium- and long-term performance” – what is termed “outside-in” impacts. Multi-stakeholder focused sustainability reporting focuses on an entity's positive and negative contributions to sustainable development and its impacts on economy, environment, and people, or what IFAC calls the “inside-out” impacts.

Figure 3. IFAC Building Block Approach to Sustainability Reporting



Source: Kevin Dancey, "Professional Accountants Leading Reporting and Assurance on Sustainability", IFAC, 26 May 2021.

This distinction makes more sense for a corporate but starts to collapse when applied to governments. By definition, government's role is inextricably linked to promoting outside impacts through their core policy mission to foster resilience and robust economies and societies. Accordingly, while this report supports a phased approach to sustainability reporting, with governments initially targeting financial market stakeholders as a priority, the content of those reports would include both outside-in and inside-out impacts. That is, governments must report on the outcomes and impacts of their sustainability activities, not just the ESG risks their jurisdiction and balance sheets face. This approach will reinforce the move to double materiality reporting already evident in a range of frameworks including:

- The EU's Sustainable Finance Disclosure Regulation, adopted in 2019, requires investors to disclose not only risks to themselves, but also their adverse impacts on both the planet and society.
- EU Green Taxonomy and Guidelines on Reporting Climate-Related Information confirm double materiality as the basis for comprehensive non-financial information disclosure.
- The EU's Corporate Sustainability Reporting Directive (CSRD), on schedule for implementation in 2023, will also incorporate double materiality.

There is also now a range of guidance on reporting of sustainability-related matters for public sector entities that can inform how governments approach this issue (see Table 2). These documents underscore the importance of customised approaches for sovereigns, but do not offer a comprehensive template for sovereign sustainability reporting.

Table 2: Sustainability standards and disclosure guidance for public sector entities released in 2022

Author	Framework	Application
TCFD	Guidance Note on the TCFD Recommendations for City, State and Regional Governments, June 2022	Beginning in 2022, cities, state and local governments can disclose in alignment with the TCFD's recommendations through specific questionnaires
IPSASB	IPSASB Exposure Draft (ED) 83, Reporting Sustainability Program Information—RPGs 1 and 3: Additional Non-Authoritative Guidance, Nov 2022	Implementation guidance on the application of key concepts to reporting related to programs on green bonds, carbon taxes, tax expenditures, and other climate change-mitigating programs, Comment period closed 16 January 2023.
IPSASB	IPSASB Advancing Public Sector Sustainability Reporting Consultations Paper, May 2022	Consultation to evaluate the demand from stakeholders for public sector sustainability reporting guidance. Comment period closed 9 September 2022.
World Bank	Sovereign Climate and Nature Reporting: Proposal for a Risks and Opportunities Disclosure Framework, January 2022	Annex A provides a Draft Sovereign Climate and Nature Risk and Opportunities Framework

The domestic context: Australia and NSW

Reporting regulations for Australian public sector entities are relatively limited. Australia does not follow the International Public Sector Accounting Standards set by the IPSASB. Instead, public sector reporting is governed by a combination of federal government and jurisdictional requirements.

All Australian governments must comply with existing accounting standards set by the AASB. The AASB's mandate includes developing, issuing and maintaining accounting and external reporting standards and guidance that are principles-based, meet the

needs of external report users and are capable of being enforced. Sustainability-related financial reporting falls within the scope of external reporting.⁸¹

In November 2021, the FRC, AASB and the AUASB published a Position Statement on external reporting. This announced the AASB's intention to be responsible for developing a reporting requirements framework for sustainability-related matters in Australia and the AUSB's intention to update relevant assurance standards simultaneously.

The Commonwealth Government has mandated that the AASB must base its accounting standards on IFRS standards, which are largely private sector oriented. This permits more flexibility when moving beyond accounting standards to areas like sustainability guidance. In June 2022, the AASB advised that it does not intend to apply the IFRS standards to the not-for-profit public sector at this time. This approach has been welcomed by HoTARAC. In its submission to the AASB on ED321, HoTARAC emphasised the different objectives of the public sector when pursuing sustainability reporting, in particular the achievement of government policy, as opposed to maximising enterprise value which forms the core focus of the ISSB standards.⁸²

Outside this process, the Federal Treasurer Jim Chalmers MP has released a consultation paper on an approach to mandating climate risk disclosure standards for the largest listed companies and potentially extending this framework to key public sector entities. If legislated, this would be consistent with the World Bank's recommendation for sovereigns to develop "[a] customised approach suited to the specifics of sovereign reporting...[which] could build on the core elements and underlying principles of existing corporate-focused frameworks such as the TCFD".⁸³ Such an exercise still depends on the finalisation of detailed and technical negotiations over standards and translation of these for public sector application.

In addition to these national requirements, each jurisdiction has a legislative requirement that agencies and departments prepare an annual report. Certain jurisdictions, including the Commonwealth, South Australia, Victoria, and Western Australia, have templates or model reports to support agencies prepare annual reports. In addition to financial statements, non-financial information such as operations, governance and performance can be commonly seen in annual reports across the jurisdictions.⁸⁴ Implementation of sustainability reporting by any or all public sector entities is a government policy decision to be taken by each government jurisdiction. Policy decisions about sustainability reporting have been taken to different extents by individual jurisdictions. Where international practice over the last few decades has seen the emergence of environmental, sustainability and integrated reporting alongside reporting an entity's financial and non-financial operational performance, Australian jurisdictions have remained relatively non-prescriptive.

This is starting to shift in NSW with the transition to a new reporting regime under the Government Sector Finance Act 2018 (NSW) (GSF Act). This Act governs annual reporting requirements for agencies and comes into effect on 1 July 2023 for the purpose of

annual reporting requirements. This means that, from the 2022–23 reporting period onwards, agencies will be required to prepare annual reports under the GSF Act.

A June 2022 NSW Treasury Discussion Paper, *Annual Reporting Reform 2022*, foreshadows a more explicit move towards sustainability reporting for the NSW public sector. The paper recognises the evolution in global reporting frameworks for corporate and public sector entities, signalling an intention to go beyond traditional financial reporting to provide a fuller and more complete overview of financial and non-financial information for stakeholders. One of the paper's key findings is that the NSW reporting reform must "respond to expectations to enhance accountability in a range of key areas including, but not limited to, sustainability and climate related disclosure".⁸⁵ In response, one of the five guiding principles proposed to help agencies achieve excellence in annual reporting highlights sustainability as a key theme for which public sector agencies need to be accountable. An elevated commitment to sustainability reporting is further evident in the paper through the proposal of sustainability as one of eight standard content headings or chapters in future NSW public sector annual reports. Agencies would be expected to cover economic, social and environmental sustainability matters detailing how achieving agency objectives/outcomes affects those matters. The goal is to encourage NSW public sector entities to better account for their sustainability footprint.

While not a mandatory requirement, this represents a new effort to encourage NSW public sector agencies to report on sustainability-related matters and to adopt the TCFD framework. Whether it helps achieve this in practice will depend on how prescriptive the final guidance is and the extent to which reporting agencies comply with its recommendations. The discussion paper recommends agencies describe how their strategic objectives/outcomes and policies impact sustainability, include a sustainability narrative on improving or worsening performance, and identify targets for the following year and actions to improve performance. The structure proposed also allows agencies to accommodate "new and emerging areas of reporting such as TCFD and ISSB standards (if adopted in Australia)".⁸⁶

At the same time, the discussion paper contains additional principles to ensure agencies retain a high degree of flexibility regarding how extensively they report on these matters. Agencies are encouraged to consider whether sustainability impacts are material to their specific circumstances as well as what information they have from current systems to support sustainability reporting. A number of interviewees for this report flagged the risk that existing record-keeping systems in state and territory jurisdictions would not be able to adequately support data-gathering requirements for best practice sustainability reporting. Table 3 below sets out the proposed content requirements for sustainability reporting in future annual reports and indicates where such reporting has not previously occurred by NSW public sector agencies. Moreover, a capability uplift will be required to meet these new reporting and data-gathering demands as many agencies will not have had dedicated sustainability officers in reporting teams or other parts of their enterprises. This will be essential to ensuring compliance with other legislated reporting requirements. For instance, the Modern

Slavery Act 2018 (NSW) requires agencies to report steps taken to address any issue deemed significant by the Anti-Slavery Commissioner in that year of operation as well as steps taken to ensure procurement of goods and services by and for the agency were not products of modern slavery. Supplementary guidance and training should be provided by central agencies to ensure the transition to best practice integrated reporting is not frustrated by lack of capability to meet these new requirements.

Table 3: Recommended vs current practice for NSW agency-level sustainability reporting

Sustainability Theme	Proposed content (as set out in NSW Treasury Annual Reporting Reforms)	Are agencies currently reporting this content?
Economic	Key policy reforms/decisions made and/or implemented during the reporting period that have an impact on the economic sustainability of the state with information about how the impact is measured/evaluated	Partially – would require assistance from Treasury
Social	Workforce diversity	Yes
	Work, Health & Safety (WHS)	Yes
	Sustainable procurement	No
	Modern Slavery	No
	Indigenous engagement	No
Environmental	Energy use (use of electricity and transport fuel consumption)	Partially (GREP requires energy use reporting but not transport fuel consumption)
	Greenhouse gas emissions	Partially (under GREP, OECC uses agency reported stationary energy use (i.e., excluding fuel consumption) to calculate Scope 1 and 2 emissions, which are published on online GREP dashboards)
	Vehicles in fleet (hybrid, electric and other vehicles in agency fleet) and travel details (total km)	No
	Paper consumption	No
	Waste and recycling	Yes (GREP)
	Water consumption	Yes (GREP)
	Sustainable construction	No

Sustainability Theme	Proposed content (as set out in NSW Treasury Annual Reporting Reforms)	Are agencies currently reporting this content?
	TCFD Reporting	Partially – entity-level pilot

A final observation is that given the discussion paper’s focus on agency-level annual reporting, the role and desirability of WoG reporting products is not considered. While there are now commitments to state-wide climate-related disclosures as mentioned above, stakeholder demand goes beyond climate issues and is increasingly seeking an overarching view of a sovereign’s exposure to and action on a range of sustainability matters. Numerous interviewees confirmed that “investors are changing investment focus from asset-level to an issuer, looking to assess an issuer’s overall ESG profile”.⁸⁷



Conclusion and recommendations

Given the evolving state of international guidance and the transitional phase of NSW annual reporting best practice, should NSW embark on sustainability reporting while it awaits the conclusion of these consultation and guidance setting processes? If so, how should it do such reporting?

The research and discussions with experts confirm five clear themes:

- Stakeholder demand for these products is urgent and growing.
- Financial market stakeholders are increasingly seeking a whole-of-government overview of sovereign sustainability performance.
- The standard-setting process may be protracted, but there are emerging norms.
- There are potentially material implications for not signalling the importance of this issue through transparent, accountable reporting on sustainability performance.
- Emerging NSW best practice annual reporting requirements, as well as international accounting and reporting draft standards, are cohering around an expectation that reporting entities undertake sustainability disclosures on environmental as well as social and economic matters.

Accordingly, this report recommends that NSW commences sustainability reporting as soon as practicable at the WoG level and does not delay pending the finalisation of these processes. There is sufficient emerging consensus around certain norms to guide initial attempts, as well as precedent efforts at the state and territory level. Two jurisdictions have released WoG sustainability reports in the past year that provide a guide for NSW:

- Queensland released its second QSR in December 2022. This built on its inaugural QSR published in October 2021, following an initial ESG Outcomes Statement in February
- Western Australia released its first ESG Information pack in November 2021, with a mid-year update in the State Budget in May 2022.

To guide the approach in NSW, this final section sets out detailed recommendations for the NSW sustainability reporting, and considers the strengths and weaknesses of the Queensland and Western Australian reports. South Australia also produced a short Sustainability Development Statement in November 2021 with a supporting website,⁸⁸ which it describes as the beginning of the South Australian Financial Authority's (SAFA) journey toward adopting best practice management and disclosure of material climate-related risk and opportunities. The seven-page statement, *South Australia's Sustainable Development Commitments*,⁸⁹ is partially aligned to the UN SDG's and indicates that SAFA is developing an ESG framework that will govern its debt issuance programs to provide confidence to investors of their investment in a sustainable and responsible state.

Annex A offers a suggested template for sovereigns wishing to commence WoG sustainability reporting based on the report's insights.

Recommendations

The recommendations below are targeted at the NSW Government, although they are relevant to governments in other jurisdictions, in Australia and beyond.

1) NSW Governments should not delay whole-of-government sustainability reporting and disclosure while international and domestic sustainability reporting guidance is finalised

The international guidance landscape is going through rapid consolidation and evolution, both for corporate and public sector standards. Sovereigns, including the NSW Government, should continue to monitor and contribute to these processes but should not delay sustainability reporting and disclosing sustainability-related data for priority stakeholders, chiefly capital market stakeholders, while these processes resolve. Given the substantial capability uplift that comprehensive sustainability reporting and disclosure will entail in public sectors, it is prudent to commence this process as soon as feasible and scale up maturity over time.

2) NSW Treasury should produce a whole-of-government sustainability report targeting financial market stakeholders, using the ISSB-aligned template at Annex A

Governments should leverage the role of their Treasuries as central agencies to prepare and produce a consolidated view of the sustainability impact of their public sector on their communities and economies. This should build on existing reporting products. NSW already discloses data and policy objectives on sustainability themes in a non-consolidated manner through a range of reporting products. These include statutorily required products such as the Intergenerational Report, the State of Environment Report and the GREP Whole of Government Progress Report. Building on these specialised reports, NSW should produce a consolidated, comprehensive sustainability report, supported by sequenced disclosures, aligned with key recommendations of the ISSB Exposure Drafts on sustainability-related disclosures.

Similar to the early efforts by Queensland and Western Australia to provide a WoG view on ESG issues, a NSW equivalent report should bring data on priority ESG themes into one integrated product and offer a single source of truth. It should seek, however, to go beyond the policy mapping approach adopted by these peer jurisdictions and instead move towards an outcomes-based performance report, supported by sequenced priority disclosures. This would align with the NSW Government's move to outcomes-based budgeting, and help establish a baseline against which the State can track progress over time. The ISSB-aligned template in Annex A offers a guide for how to approach the presentation of data for governments seeking to meaningfully report performance across ESG themes.

3) NSW Government should adopt a sequenced approach to sustainability reporting and disclosure, growing capability and stakeholder reach over time, while acknowledging the interconnected nature of sustainability matters

Responding to the demand of investors and ratings agencies for a holistic approach to ESG disclosure must be balanced with what is feasible in the near-term. Developing a baseline report that profiles a government across all three ESG dimensions on priority sustainability matters is a substantial task. This is best supported by a staggered approach to disclosures, for instance a “climate first” disclosure approach, followed by nature-related disclosures, and then human capital and human rights disclosures. This balances the need for a phased approach as capability is established and scaled, while aligning with investor priorities, reflected in the top priority focus (to date) on climate disclosure by the ISSB and AASB. That said, the ISSB has now acknowledged the interconnection between climate and nature, as well as a just transition, making it increasingly untenable to discuss these issues in siloed terms. Moreover, in NSW, a newly appointed Anti-Slavery Commissioner is legislatively obliged to align with the federal approach to modern slavery, which aligns with the UN Guiding Principles on Business and Human Rights (UNGP). The UNGP framework increasingly underpins investor and market expectations on the social elements of ESG. Given the relevance of these issues to the public sector, governments should embrace the turn towards integrated and comprehensive sustainability reporting, building capability to disclose across a varied range of ESG issues.

In terms of intended audience, NSW should sequence its outreach to target stakeholders using the building block approach advocated by IFAC. This report recommends targeting financial market stakeholders as a priority for whole-of-government sustainability reporting. Efforts to reach a multi-stakeholder universe of citizens, community, industry and other actors should consider more dynamic vehicles such as portals (for instance, the NSW SEED Portal,⁹⁰ which includes annually updated tools like the NSW Net Zero Emissions Dashboard tracker⁹¹) or leveraging existing public reporting mechanisms such as agency-level annual reports. In its *Annual Reporting Reform 2022 Discussion Paper*, NSW Treasury has proposed that public sector agencies include “Sustainability” as a content heading in their annual reports and recommended applying the TCFD Frameworks for climate-related disclosures. Stretching the focus of one product too far risks failing to meet the varied political, economic, financial and democratic needs of different stakeholders.

4) NSW Government should show leadership in sustainability and disclosure by adopting a double-materiality approach

Materiality is a crucial concept in any reporting framework. Traditional corporate-focused approaches to materiality emphasise information that is “decision-useful for the reasonable investor”. Given governments are not merely financial actors, but at core, exist to solve problems and enhance welfare for people and planet, there is a prima facie case for governments to not just report on how ESG issues effect their creditworthiness or investment attractiveness, but to account publicly for their impact on environmental, social and economic outcomes. This is so even when the target of WoG sustainability reports are primarily financial market participants since

investors may consider both financial and sustainability materiality in investment decision-making (double materiality). At minimum, the standalone WoG sustainability report should adopt a double materiality lens, where the NSW Government describes the influence of ESG factors on its performance and financial position, as well as accounts for the impact of its activities on a range of ESG issues.

5) NSW Government should release its sustainability reports with the State of the Finances report, but separate to Budget and Half Year reporting, to minimise politicisation risk

To ensure sovereign sustainability reports avoid the fate of much corporate sustainability reporting which up until recently has focused on single materiality and been separated from financial impact, governments should ensure WoG reports coincide with the release of their main audited financial products. In NSW, this is the Report of State Finances (Total State Sector Accounts), typically released in October by the Treasurer for the previous financial year. This will allow investors, regulators and other market stakeholders to verify reporting outcomes in sustainability reports against the State's audited financial reports. It will also ensure a decoupling from Budget and Half Year products which will help protect sustainability reporting from politicisation risk. This is important given any politicisation of sustainability products by political actors would further exacerbate the greenwashing concerns plaguing much sustainability reporting.

***National recommendation:** To ensure consistent and comparable disclosures of sustainability-related financial information across Commonwealth, State and Territory jurisdictions, the CFFR should update the Uniform Presentation Framework⁹³ to recommend a common approach across all jurisdictions to the presentation of sustainability information in government reporting.*

Case-study: The Queensland vs Western Australian approach

Queensland

Queensland commenced its WoG sustainability reporting journey in 2021 with a two-step process:

1. Release of an ESG Statement, a high-level narrative document signalling Queensland's commitment to sustainability reporting and stakeholder demand for more disclosure
2. A stand-alone Sustainability Report detailing the State of Queensland's ESG commitments and outcomes that provided information on:
 - identified ESG focus areas
 - policies supporting management of the focus areas and relevant reporting data
 - public non-financial data for a broader range of relevant ESG factors.

Queensland Treasury in partnership with Treasury Corporation conducted extensive market research to identify relevant areas of interest to investors, rating agencies and other financial stakeholders. During this engagement, Queensland Government representatives were explicit with stakeholders that this was the beginning of a longer-term journey, and that the first iteration would lay the foundation for a more mature approach over time.

Stakeholders identified best practice corporate reporting, acknowledging the lack of precedent sustainability reporting for sovereigns. These initial engagements identified seven ESG focus areas for the State. The report content describes those priority ESG focus areas, and the actions the Queensland Government is taking to advance sustainable development of its communities and capture opportunities. In the absence of a mandatory sustainability reporting framework, the report was informed by the qualitative and quantitative ESG information requirements outlined in publicly available investment, reporting and rating agency frameworks, as well as emerging norms from international standard-setting processes. Datasets for ESG metrics were compiled by the Queensland Government Statistician's Office from independent sources to provide a degree of assurance.

The 2022 QSR matured this approach by aligning with the TCFD pillars, refining priority ESG themes to six issues and mapping policies to the next level of granularity in risk reporting. This report also used extensive independently verifiable data to support as metrics and

wove a narrative of accountability throughout the document. This evolved structure ensured the report is more explicitly framed as a risk management report. The retention of key themes is also critical as it shows an intention to measure progress against them in future reports, broken down into key risks and approaches associated with the sustainability standards.

Next Steps for Queensland

While the 2022 QSR represents substantial maturity since the first report, there are still areas for further improvement. A priority next step is to incorporate a materiality assessment of risks at the whole-of-state level.

Table 4 provides a snapshot comparison of the 2021 and 2022 QSR reports' strengths and weaknesses.

Table 4: Comparison of 2021 and 2022 Queensland Sustainability Reports

2021 QSR Strengths	2021 QSR Limitations	2022 QSR Strengths	2022 QSR Limitations
<ul style="list-style-type: none"> • 2022 report structure aligned with TCFD pillars [2021 report structure aligned with traditional ESG pillars] for ease of capital market consumption • Clarity on intended user e.g., financial market stakeholders • Credible sustainability narrative through targeted use of qualitative and quantitative data • Intentional broad framing to allow future reporting to pivot focus and content in line with emerging reporting standards • Satisfied minimum expectation of whole-of-state disclosure • Independently verifiable data sets in absence of assurance process • Decoupled from the Budget process 	<ul style="list-style-type: none"> • Report structure not fully aligned with draft ISSB standards e.g., ISSB standards encourage an explicit risk management structure which can include TCFD • Lack of consistent language through 2021 report confirmed by a Queensland Treasury 2021 gap analysis • Presentational approach reduced readability and impact assessment: key themes were separate from supporting data sets and metrics and policy response • Risk analysis lacking – themes did not include risk identification, assessment and management. 	<ul style="list-style-type: none"> • TCFD-aligned presentation consistent with ISSB draft guidance • Performance-based reporting indicating outcomes and reporting against baseline established in 2021 report • Greater acknowledgement of interconnectedness of sustainability risks and issues with overarching sustainability framing • Retained use of ESG priority areas with six thematic issues addressed within the three ESG pillars • Stronger risk management analysis • Clarity on intended user • Enhanced accountability with identification of responsible minister. • Extensive independent verifiable data sets 	<ul style="list-style-type: none"> • Distinction between whole of state (geographic region/economy) and the state government as a reporting entity. This should be clearer in future reports with both targets and the impact reported. • Financial modelling and scenario analysis to determine the effects of significant sustainability-related risks and the anticipated effects over the short, medium and long-term across the economy. • Explicit requirements around disclosure of emission reduction targets and use of carbon offsets. This is being progressed in conjunction with the establishment of a Queensland Government carbon policy to drive the emissions position of government departments and government statutory bodies. The complications we are having relate to the differences between the national greenhouse gas accounts and the recognition of offsets. • Scope 3 emission disclosure excluded.

Western Australia

Western Australia commenced its ESG reporting journey through development of an Information Pack targeted at investors in Western Australian Government debt with the objective to:

- clearly articulate the Western Australian Government's ESG credentials in language familiar to global investors;
- support a positive perception of the Western Australian Government's current ESG profile through improved understanding of policies and initiatives currently in place and future directions intended to support continuous improvement in ESG outcomes;
- maintain a positive attitude towards financing the WA Government through the ongoing debt issuance program and signal to the market an intention to develop an ESG labelled debt program (i.e., green or sustainability bonds) as a component of the State Government's priorities towards improving ESG outcomes, thereby providing a vehicle to finance Government funded initiatives that meet green and social bond principles.

In compiling the report, WA Treasury considered different frameworks, including GRI and SASB, but found SDGs the simplest to report against due to the high level of agency alignment and ease of interpretation by investors. At the same time, Moody's released their ESG impact scoring methodology. This helped inform the content together with other recognised ESG assessment frameworks.

Strengths

- Budget mapped onto SDGs
- ESG focus areas reflect a combination of ESG scoring criteria and ratings agency priorities
- Highly readable

Limitations

- No outcomes or performance reporting
- The layout is not as clear as Queensland
- Lacks data sets and metrics to evaluate outcomes of key areas
- Does not align easily to ISSB

Table 5 below provides a summary of the Queensland and Western Australia sustainability report approaches. The information on Queensland is based on its latest 2022 QSR report, unless indicated otherwise.

Table 5: Summary of Queensland and Western Australia WoG sustainability reporting approaches.

REPORT ATTRIBUTE	QUEENSLAND	WESTERN AUSTRALIA
Reporting Entity	Treasury	Treasury
Title	Sustainability Report Queensland's Sustainability Report 2022	ESG Information Pack Supporting Continuous Improvement in ESG Outcomes for Western Australia
Scope	Whole-of-government	Whole-of-government
Intended User	Financial Market Stakeholders e.g., Investors and ratings agencies	Debt investors
Length	82 pages	93 pages
Stated Purpose	This report sets out how the Queensland Government has established its priorities for managing sustainability risks and provides information on the key policies being implemented to develop a resilient and sustainable future. This includes the actions being taken to pursue new opportunities in the future global economy, including an overview of how the government is managing the transition to a low carbon future.	This information pack has been prepared primarily to inform investors in WA Government debt securities of key policy commitments, partnerships with industry and the community, and actions currently in progress that are addressing the key environmental and social challenges facing Western Australia today and into the future.
Form	Standard Treasury Government template report	Fully designed PDF report
Reporting Period	Backward and Forward-looking	Backward and Forward-looking
Frequency	Annual	Initial publication was a one-off with commitment to a smaller post budget update delivered in May 2022 and expected again around June 2023.

Timing	October-December – to coincide with Report on State Finances of the Queensland Government, decoupled from Budget products	Appropriate format and resourcing for ongoing comprehensive ESG/Sustainability Reporting is under review
Definition of Sustainability	Managing the state's environment, communities and financial resources for future generations	Improving social outcomes for Western Australians and environmental outcomes for the State
ESG Coverage	Six Focus Areas with ESG dimensions (seven in 2021 report)	11 areas within ESG dimensions
Risk Analysis	No	No
Performance Reporting	Partial	Yes
Financial Impacts	No	No
Data and Metrics	Yes <ul style="list-style-type: none"> Public non-financial data 43 ESG data sets (30 in 2021 report) Independently verified 	No
Financial Reporting	Yes	Yes
GRI-aligned	No	No
TCFD-Aligned	Yes	No
SDG-Aligned	No	Yes: Budget expenditure mapped to SDGs

Annex A. Draft sovereign sustainability reporting template

The structure of this template was designed to incorporate the following:

- Feedback on desirable features of existing state-based sustainability reporting by Queensland and Western Australia
- A double materiality approach which captures financially material issues to the government, as well as societally material issues that reflect significant positive or negative impacts on people, the environment and the economy
- Evolving norms and guidance on reporting standards for sustainability in Australia and internationally, chiefly:
 - the AASB’s support for the voluntary adoption of TCFD recommendations set out in their March 2022 position statement on Extended External Reporting (EER) released “to provide direction to ...stakeholders prior to developing and adopting a framework for EER”;⁹³
 - the ISSB support for TCFD alignment and updated guidance on the definition of sustainability;
 - developments in the NSW public sector reporting landscape that indicate sustainability reporting will be recommended as best practice at the cluster and agency level.

STEPS:

1. Identify priority focus areas for E, S and G in consultation with financial market stakeholders.
2. For each priority focus area, report against that focus area in the TCFD-aligned format below.
3. Develop and include a whole-of-state risks table.

Suggested Template for Reporting

Below is a suggested template for reporting on ESG focus areas identified according to the process recommended above, including consultation with priority financial market stakeholders. The number of ESG focus areas for each jurisdiction will vary given different rating agency and investor priorities. As a guide, governments should anticipate reporting against approximately 10 ESG focus areas, based on existing reports by Queensland (seven focus areas), WA (11 focus areas) and SA (nine focus areas). Longer term, to ensure comparability across jurisdictions, this Report recommends CFFR update the Uniform Presentation Framework identifying a baseline set of ESG focus areas that all jurisdictions should report against.

This proposed scope takes into account the TCFD framework, the ISSB’s draft international sustainability Standards Board’s, the World Bank’s proposed template for Sovereign Climate and Nature Risk and Opportunities Reporting Framework and feedback from reporting sub-national sovereigns. The structure also reflects the NSW commitment to Outcomes Budgeting by ensuring a clear link on ESG and sustainability action back to State-level outcomes.

Proposed template for Whole-of-Government Sustainability/ESG Reporting

ESG FOCUS AREA			
Category	Content	Policy Responses	Outcomes
Introduction	Describe the thematic area, setting out potential impacts of that risk on the State over short, medium and long-term horizons	<ul style="list-style-type: none"> Describe key policy initiatives pursued by the State, including roadmaps, action plans, strategies and legislated reforms Identify funding commitments through Budget Describe interjurisdictional or international collaborative efforts that support policy objectives. 	<ul style="list-style-type: none"> Describe the overall performance of the sovereign on this risk, identifying a Key Performance Indicator Where outcomes budgeting is used as a framework, cross-refer to cluster level outcomes Cross refer to relevant metrics
Governance	<ul style="list-style-type: none"> Describe the sovereign's governance systems around identifying the relevant ESG risks and opportunities Identify risk owners and accountable governance bodies Identify relevant legal authority under which accountable bodies/executives can take decisions 		
Strategy	<ul style="list-style-type: none"> Describe the sovereign's risks and opportunities related to the particular ESG issue over different time horizons Identify overarching frameworks and publicly released strategies Identify policy champions/ demonstrate supporting investment through budgets 		
Risk Management	<ul style="list-style-type: none"> Describe the processes used by the sovereign to identify, assess and manage the relevant ESG risk and opportunities Describe risk ownership for that risk/ opportunity within the public sector e.g. accountable ministers, bodies, executives and cross refer to governance discussion Where a Whole-of-State risks table has been completed, identify the residual risk rating on this issue List monitored responses to any relevant audit recommendations on this ESG risk 		
Metrics and Targets	<ul style="list-style-type: none"> Disclosure of key metrics, outcome indicators and targets used by the sovereign to assess ESG risks and opportunities Rationale for exclusion of certain standard metrics and targets on a particular issue Inclusion of independently verifiable datasets and metrics wherever possible Map against relevant international sustainability framework targets. E.g. TCFD, SDG 		
Next Steps	<ul style="list-style-type: none"> Flag priority short-term actions 		

Annex B. Experts consulted

During this project, the fellow consulted a range of senior executives from NSW Government agencies, as well as peer government officials, standard-setters and academic experts in sustainability. The author is grateful for the contributions of the following experts:

James Atkinson

Director, Fiscal Strategy, NSW Treasury

Stewart Brentnall

*Chief Investment Officer,
NSW Treasury Corporation*

Alexis Cheang

*Head of Investment Stewardship,
NSW Treasury Corporation*

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*Principal Accountant,
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List of Abbreviations

Abbreviation	Full Term
AASB	Australian Accounting Standards Board
ACCC	Australian Competition and Consumer Commission
ALCO	NSW Treasury's Asset and Liability Committee
APRA	Australian Prudential Regulation Authority
ASFI	Australian Sustainable Finance Initiative
ASIC	Australian Securities and Investment Commission
AUASB	Auditing and Assurance Standards Board
CDSB	Climate Disclosure Standards Board
CFFR	Council for Federal Financial Relations
CIPFA	Chartered Institute of Public Finance and Accountancy
COP26	2020 United Nations Climate Change Conference
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
DPIE	Department of Planning, Industry and Environment
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social and Governance
FRA 2012	Fiscal Responsibility Act 2012
FRC	Financial Reporting Council
GGs	General Government Sector
Government Entities	NSW Government Agencies and Businesses
GREP	Government Resource Efficiency Policy
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IGR	Intergenerational Report
IIRC	International Integrated Reporting Council

Abbreviation	Full Term
IPSASB	International Public Sector Accounting Board
ISSB	International Sustainability Standards Board
NSW	New South Wales
OECD	Organisation for Economic Co-operation and Development
QSR	Queensland Sustainability Report
PRI	Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
SBP	Sustainability Bond Program
SDG	[United Nations] Sustainable Development Goals
TCFD	Taskforce on Climate Related Financial Disclosures
TCorp	NSW Treasury Corporation
The Plan	Net Zero Plan Stage 1: 2020–2030
Treasury	NSW Treasury
UN	United Nations
UNEP FI	UN Environment Programme Finance Initiative
UNGP	UN Guiding Principles on Business and Human Rights
UN SDG	United Nations Sustainable Development Goals
UK	United Kingdom
VRF	Value Reporting Foundation
WoG	Whole-of-Government
WoS	Whole-of-State
XDI	Cross-Dependency Initiative

Endnotes

- ¹ Robert G. Eccles, “2020: The Year the Narrative Changed For Sustainability Reporting”, Forbes, 6 January 2021, <https://www.forbes.com/sites/bobeccles/2021/01/06/2020-the-year-the-narrative-changed-for-sustainability-reporting/?sh=76556249394b>
- ² The term “government” is used throughout interchangeably with “sovereign” or “public sector”. It is intended to cover both national and sub-national levels of government distinct from the approach of ratings agencies.
- ³ IPSASB, *Advancing Public Sector Sustainability Reporting*, Consultation Paper, May 2022, p. 10, <https://www.ifac.org/system/files/publications/files/IPSASB-Sustainability-Reporting-CP.pdf>
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