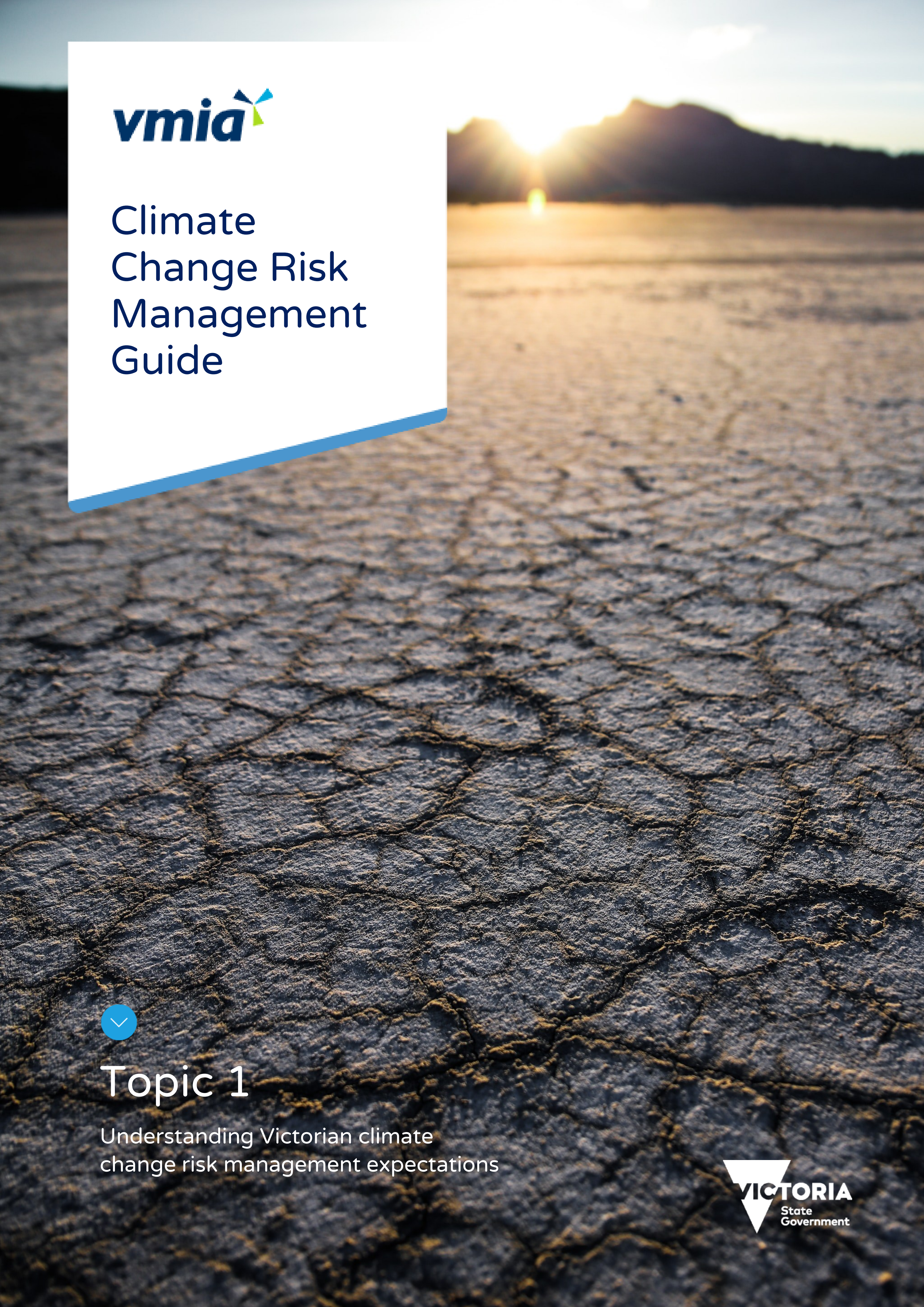

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Climate Change Risk Management Guide

Topic 1

Understanding Victorian climate change risk management expectations

VICTORIA State Government

Contents

This guide was developed and prepared by the Victorian Managed Insurance Authority and the Department of Energy, Environment and Climate Action.

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Victorian Managed Insurance Authority (VMIA) acknowledges the Traditional Custodians of the land on which we do business, and we pay our respects to Elders past, present, and emerging. We acknowledge the important contribution that Aboriginal and Torres Strait Islander peoples make in creating a thriving Victoria.

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Understanding Victorian climate change risk management expectations

Climate change requires urgent action and the State is expected to respond

Overview

There's an international call-to-action for organisations and communities to urgently address climate change. According to the World Economic Forum's Global Risks Report 2023, "Climate and environmental risks are the core focus of global risks perceptions over the next decade – and are the risks for which we are seen to be the least prepared." United Nations 2015 – Adoption of the Paris Agreement – Article 7, which the Federal Government endorsed, established the global goal of "enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change".

Considering climate change in your risk planning might seem overwhelming, but the core ideas are quite simple. We've highlighted the minimum requirements for managing climate change risks for Victorian Government organisations. If you'd like more guidance, check the source materials below, or initiate a conversation with the relevant regulator, peak body or other sources of expertise.

In this guide

- Do I need to consider climate change?
- What does this mean for risk professionals?
- What does this mean for managers and executives?
- What does this mean for board members?
- Considering climate change risk means thinking longer-term.
- Consider climate change risks – even if the risks to your organisation seem low.
- Next steps.

Do I need to consider climate change?

Yes. There are several Acts that require your organisation to consider climate change in your risk management and strategic planning.

Here are the three key requirements covering most Victorian public sector agencies and the main expectations:

- The Climate Change Act 2017 requires agencies to consider climate change in government decision-making (s.20) and risk management is a guiding principle.
- The Victorian Government Risk Management Framework (VGRMF) requires your agency to consider its material risks in planning and decision-making. It also requires your agency to contribute to identification and management of state significant risks, which includes climate change. (The Standing Directions under the Financial Management Act 1994 require agencies to apply the VGRMF).
- The Public Administration Act 2004 requires boards of public entities to advise responsible Ministers and Secretaries of major risks. It also requires directors of public entities (i.e. Board members) to act with a "reasonable degree of care, diligence and skill" (s.79(1)(e)). A failure to consider climate change risks could breach this duty.

Other legal obligations also apply. For example, law relating to employee occupational health and safety implies a duty to consider climate change risks if they present a hazard to workers (such as extreme heat). Other government policies might also require you to look at climate change risks.

Examples include Victoria's whole-of-government climate change policies and programs at the Department of Energy, Environment and Climate Action's climate change webpage and strategies for specific government portfolios like Department of Health's climate change strategy and Water Cycle Adaptation Action Plan. It's important to monitor and respond to changes in legislation, regulations and standards that may impact your organisation.

What does this mean for risk professionals?

Your role is to ensure your organisation applies its risk management framework to climate change risks relevant to your organisation. While you don't own the risks, that being the accountability of managers and executives, you'll support them to follow your organisation's risk management procedures and guide them to consider the impact of **physical** and **transition climate change risks**. This also extends to the possibility of liability to third parties for inaction or negligence. You'll also record and collate the impact of these risks and report it to your Board and Audit Committee.

What does this mean for managers and executives?

Your role as a manager or executive is to lead and be accountable for managing the climate change risks that impact your organisation's planned activities and functions.

You'll do this by following your organisation's risk management procedures to manage the impact of physical and transitional risks. You'll also report this work to your leaders and/or board.

Here are some examples of when you'd consider climate change risks:

- creating plans for your organisation or business unit
- applying your risk management procedures to your planned activities and functions
- making longer term decisions, for example, investments in new buildings and infrastructure.

Note: To find out more about how to manage climate change risks, refer to the topic, Using risk management to help you address climate change.

What does this mean for board members?

As a board member, you're responsible for making decisions in the best interests of the organisation. You can ensure that the impact of climate change is considered by asking questions that prompt discussion about climate change risk such as:

- What are the major climate change risks facing our organisation?
- How do physical and transition risks affect us, including liability to others?
- What key controls and treatment plans do we have that can deal with these risks?
- Does our planning process support the longer time horizon presented by climate change associated risks?
- What independent assurance can I get that climate change risks are being appropriately managed?

Information about the Victorian Government's approach to climate-related risks and opportunities in Victoria. The disclosure can be found here: https://www.dtf.vic.gov.au/funds-programs-and-policies/victorian-government-climate-related-risk-disclosure-statement.

Considering climate change risk means thinking longer-term

Your work might require you to extend the time horizon you're using to plan for risks. Some climate change risks can be overlooked because of the slower rate of change that may be beyond your organisation's normal planning horizon, like temperature and sea level rises. However in recent years, we've experienced increasingly frequent extreme weather and bushfire events that give us a sense of the impacts we need to plan for.

You can start by categorising your risks in terms of different time periods, for example:

- short-term (may occur within 2–5 years)
- medium-term (may occur between 5–20 years)
- long-term (beyond 20 years).

Tip: Medium and long-term planning may benefit from using scenario analysis.

Consider climate change, even if the risks to your organisation seem low

After considering climate change risk, your organisation may then decide that there aren't any significant exposures to be managed. It's important to keep a record of this decision to show you've been through a due process if there's a formal review of your compliance with applicable laws. A good example is the minutes of your Audit and Risk Committee meeting. As new information becomes available or you're making significant decisions, review this position and determine if you need to update your risk register.

Next steps

Review your risk register and risk reports for evidence you've considered climate change. If you're in the initial stages, refer to the other topics listed on VMIA's webpage – Using risk management to help you address climate change to help you ensure climate change is covered. If you're a Board member, review this guide on Director's duties written for you.