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SAFA

Sustainability Report

2021-22

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1. Introduction

1.1 Role of SAFA

SAFA is a statutory authority constituted as the Under Treasurer under the *Government Financing Authority Act, 1982* (“SAFA Act”). SAFA is subject to the control and direction of the Treasurer of South Australia who in turn, is responsible to the Parliament of South Australia for the proper administration of the SAFA Act.

SAFA functions as the central financing authority, commercial adviser, captive insurer and manager of the passenger and light commercial vehicle fleet operations for the Government of South Australia. It plays an integral role in the overall management of the State’s finances and risks, harnessing economies of scale and relevant expertise to provide a range of treasury, insurance, commercial advisory and fleet services to public sector clients.

Treasury services provided by SAFA include debt financing of the State and its instrumentalities; asset and liability management services; cash and liquidity management services; treasury administration support services; and financial risk management advisory and reporting services to South Australian public sector entities. SAFA transacts in the domestic and international financial markets managing the State’s funding and investment flows, and transacting derivative products for risk management purposes.

As the captive insurer for the State of South Australia, SAFA purchases insurance cover from the domestic and international insurance markets to provide whole-of-government catastrophe reinsurance and insurance cover for South Australian public sector entities.

SAFA acts as a commercial advisor to government, and plays an integral role in administering financial assistance provided by the government from various industry assistance funds, including managing contracts on behalf of the Treasurer and other government agencies. This activity is recorded in the financial statements of the portfolio responsible minister. SAFA also manages the Government’s passenger and light commercial vehicle fleet operations, and is responsible for corporate governance, transaction management and support services for the electricity entities and for the administration and management of the Motor Accident Commission, the SA Venture Capital Fund and State Owned Generators Leasing Co Pty Ltd.

SAFA was established in 1983 and is located in Adelaide, South Australia, with all of its business activities being conducted out of Adelaide.

1.2 Climate Emergency Declaration

On 31 May 2022, the South Australian Government declared a climate emergency in the State of South Australia and committed to take real and tangible action to tackle climate change (Climate Emergency Declaration). SAFA considers that climate risk represents both a source of specific risk and also an overarching risk that can act as a driver of other types of risk. Consistent with the Climate Emergency Declaration, the consideration of climate-related risk is being embedded into SAFA’s

existing risk management framework to ensure that any impact on its treasury, insurance, fleet and commercial operations functions from climate change is monitored and managed appropriately.

SAFA accepts the Intergovernmental Panel on Climate Change’s evidence that climate change is the result of unsustainable energy and land use, lifestyles and patterns of consumption and production, and recognises its obligation to act to address climate change. This is the first sustainability report from SAFA, and it has been prepared with the recommendations of the *Task Force on Climate-related Financial Disclosures*¹ (TCFD) in mind.

SAFA recognizes that reporting on sustainability is essential to building confidence and creating value for its investors, clients and stakeholders. The principles of the TCFD framework have been adopted in order to understand and manage the impact of climate-related risks and opportunities, and take account of the impact of climate change and the transition to a low carbon economy within SAFA’s operations.

As a South Australian government entity, SAFA is not subject to many of the regulations that apply to commercial entities operating in financial and insurance services in the private sector, however SAFA chooses to adopt practices consistent with its commercial peers where practical. This Sustainability Report has been prepared on a voluntary basis.

The following diagram summarises the TCFD Framework as it applies to SAFA:



An immediate priority for SAFA has been to establish the governance arrangements for oversight of climate-related risks and opportunities within its operations with an inter-disciplinary Sustainability Committee being formed in 2021-22 to steer the process of embedding climate-related risk considerations throughout key business decisions.

SAFA’s adoption of the TCFD framework will mature gradually over the course of the next few years.

SAFA’s Sustainability Committee is working to an indicative roadmap to adopt TCFD recommendations, which gives initial priority to completing the following tasks:

- preparing a framework that outlines SAFA’s commitments on managing climate change;
- updating key policies to provide for oversight and accountability for climate risk; and

¹ <https://www.fsb-tcfd.org/>

- undertaking a qualitative first-pass analysis of business operations to identify material climate-related physical and transition risks and opportunities.

The remainder of the report discusses SAFA's progress to date, and its planned approach over the next few years.

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2. Governance

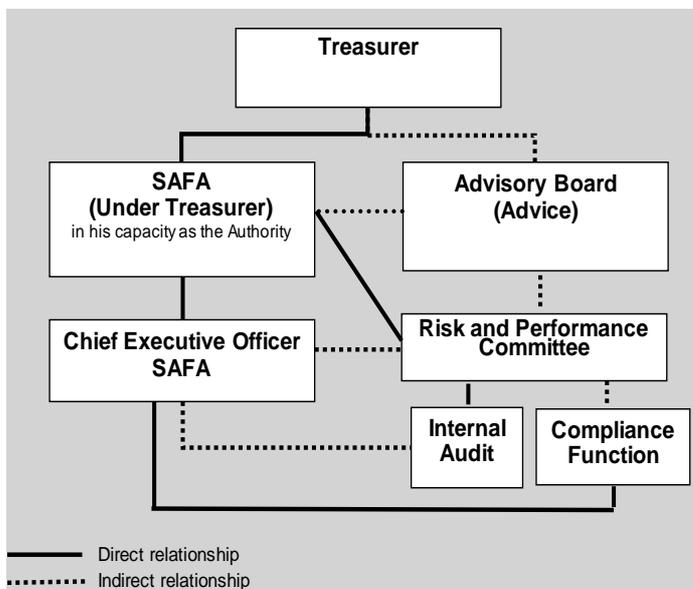
2.1 SAFA's Governance Structure

SAFA has been constituted as a corporation sole, namely of the Under Treasurer. Under the SAFA Act, SAFA is subject to the control and direction of the Treasurer of South Australia, who in turn is responsible to the Parliament of South Australia for the proper administration of the SAFA Act.

The Under Treasurer has authority and is responsible for SAFA's operations with executive management of SAFA being vested in SAFA's Chief Executive Officer.

SAFA's Advisory Board was established under SAFA's Act and provides advice to the Treasurer and Under Treasurer on issues pertaining to SAFA's operations. The Board is not a decision making authority. SAFA's Risk and Performance Committee provides independent assurance to the Under Treasurer on SAFA's financial and performance reporting responsibilities, risk management, and internal control systems.

SAFA's governance hierarchy is illustrated in the following diagram:



Whilst SAFA is incorporated as a legal entity under Australian law, it operates as part of the administrative unit that is the Department of Treasury and Finance within the South Australian public sector². SAFA is staffed by employees of the Department of Treasury and Finance assigned to SAFA pursuant to Section 20 of the SAFA Act. In addition to the SAFA Act, SAFA is also bound by legislation commonly pertaining to the South Australian public sector such as the *Public Finance and Audit Act, 1987 (SA)*, the *Public Sector Act, 2009 (SA)*, and *Public Sector (Honesty and Accountability) Act, 1995 (SA)*.

² <https://www.treasury.sa.gov.au/>

SAFA's activities form an integral part of South Australia's public sector financial management. Funds raised by SAFA in the domestic and international capital markets are generally on-lent to the South Australian Government and semi-governmental authorities.

SAFA's annual report (including its financial statements) is tabled in the South Australian Parliament by the Treasurer of South Australia. SAFA's financial accounts are audited by the Auditor-General of the State of South Australia in accordance with applicable Australian Auditing Standards³.

South Australian public sector finances comprise the financial transactions of all South Australian Government departments, agencies and non-financial State semi-government bodies. Transfers between accounts and agencies within the South Australian public sector are eliminated in the budget and whole-of-government financial statements by consolidation to reflect the net transactions of the South Australian public sector with the rest of the economy. SAFA's activities are incorporated within the State's accounts as a Public Financial Corporation⁴.

2.2 Embedding Sustainability in SAFA's Governance Arrangements

Climate change represents a strategic and operational risk to SAFA's business. It also represents an opportunity for SAFA to realign its client offerings to grow in a low carbon economy. SAFA has responded by forming a cross-divisional Sustainability Committee to drive a culture of sustainability and action throughout its business activities and functions, commencing with its governance arrangements.

The following actions were undertaken during 2021-22, which are consistent with TCFD's recommendations to embed climate-risk considerations into governance arrangements:

1. The Under Treasurer and SAFA's Advisory Board expressly acknowledged that ESG is a strategic risk for SAFA's business, and endorsed a SAFA wide program to embed ESG, and particularly climate-related considerations, into SAFA's operations.
2. An executive led Sustainability Committee was established. The Committee's Terms of Reference include: responsibility for SAFA's ESG and climate-related risk commitments, policies, identification and assessment of risks and opportunities, monitoring of the ESG environment and strategic positioning, and reporting progress against nominated ESG targets.

In an operational sense, the management of sustainability and climate-related risk and opportunity within SAFA is summarised in the following Table:

³ <https://www.safa.sa.gov.au/about-safa/annual-reports>

⁴ <https://www.treasury.sa.gov.au/budget>

Under Treasurer (Presiding Member of SAFA Advisory Board) Considers recommendations from the Chief Executive Officer, and where appropriate, SAFA’s Risk and Performance Committee, on the management of sustainability and climate-related risks and opportunities within SAFA			
Policy Endorses ESG strategy, management framework and policies	Opportunities Endorses climate-related opportunities from management	Risk Management Endorses risk management approach and framework	Disclosure Endorses ESG related disclosures in SAFA’s Annual Report
Chief Executive Officer Considers advice and recommendations from SAFA’s Sustainability Committee, and where appropriate SAFA’s Risk and Performance Committee			
Sustainability Committee Multi-disciplinary committee comprised of SAFA’s officers from the following divisions: Director, Treasury Services (Executive Sponsor) Treasury Services Governance and Corporate Services Risk & Commercial Advisory Finance Insurance and Fleet			

The Sustainability Committee meets monthly or more frequently if required. The Committee has membership from across SAFA’s business lines and members also have relevant expertise in sustainability, treasury, risk, finance and corporate governance.

SAFA’s Sustainability Committee is responsible for identifying and recommending change in SAFA’s suite of governance documents, procedures and business process in order to embed climate-risk considerations. The Committee includes SAFA’s Director of Treasury Services as its Executive Sponsor, and is chaired by the Principal Advisor, Treasury Services. The Committee reports to SAFA’s Chief Executive Officer, and its formal recommendations are addressed to the Under Treasurer for approval through SAFA’s Chief Executive Officer, following consideration by its Advisory Board and Risk and Performance Committee where appropriate.

Work has commenced on embedding climate-related risk into SAFA’s key governance documents with a view to expressly describing the degree of oversight and management of climate-related risk at different authority levels, e.g. Treasurer, Under Treasurer, SAFA’s Chief Executive Officer and Risk and Performance Committee.

SAFA’s 2022-23 Business Plan includes initiatives in pursuit of SAFA’s ESG Strategy, which is occurring in two parts:

- Demonstrating the State’s ESG credentials, particularly as the State’s Central Borrowing Authority and captive insurer;
- Addressing ESG within SAFA’s own operations and adopting best practice climate-risk management as a financial organisation consistent with regulatory advice.

During 2021-22, SAFA prepared its [Climate Change Position Statement](#), which sets out SAFA's commitments and high-level actions in response to climate change. A copy of SAFA's Statement is attached. During 2022-23, SAFA will continue to update its operational policies and procedures to expressly provide for the consideration of sustainability risks and opportunities.

SAFA's credit rating largely reflects that of the State. As at September 2022, SAFA was rated:

- AA+/Negative/A-1+ by S&P Global
- Aa1/Stable/P-1 by Moody's Investors Services

In its credit opinion of the State of South Australia dated 17 August 2022, Moody's Investors Services noted SAFA's ESG Strategy, and assessed SAFA's (and the State's) ESG Credit Impact Score as neutral-to-low (CIS-2), comprised of:

- State exposure to environmental risks as being moderately negative (E-3 issuer profile score)
- State exposure to social risks as neutral-to-low (S-2 issuer profile score)
- South Australia's positive IPS governance (G-1 issuer profile score)

2.3 Management of Climate Change within the South Australian Public Sector

The South Australian Auditor-General addressed the management and reporting of climate change within the South Australian public sector in his Annual Report for the year ended 30 June 2021, specifically Part D: *Managing climate change in South Australia*⁵. The report sets out existing governance arrangements under the State's *Climate Change and Greenhouse Emissions Reduction Act 2007* (Climate Change Act). Notably, the Climate Change Act sets targets and measures to address climate change within South Australia, and it also set out the governance arrangements for the Minister for Environment and Water and the Premier's Climate Change Council.

The State of South Australia aims to reduce greenhouse gas emissions by more than 50% below 2005 levels by 2030 and achieve net zero emissions by 2050.

The South Australian Government has set five policy directions for a Climate Smart South Australia⁶:

1. unlock innovation and economic opportunity
2. reduce net emissions
3. build resilience and adapt
4. provide accessible information
5. government leading by example

The Department for Environment and Water (DEW) supports the Minister for Climate, Environment and Water and the Premier's Climate Change Council in administering the Climate Change Act. Under existing governance arrangements DEW leads the development and coordination of climate change mitigation and adaptation strategies for the public sector under the *South Australian*

⁵ <https://www.audit.sa.gov.au/publications/2021>

⁶ [Directions for a Climate Smart South Australia](#)

*Government Climate Change Action Plan 2021-2025*⁷ (Action Plan). The Action Plan supports the delivery of the South Australia Government's policy directions under seven focus areas with 68 government led actions.

SAFA makes significant contribution to several initiatives under the Action Plan, including:

- *Action 4.1: Implement South Australia's Electric Vehicle Action Plan*
- *Action 7.1: Ensure climate risks and opportunities are addressed across government policy and practice*
- *Action 7.3: Explore innovative financing and investment approaches for adaption and emissions reduction*
- *Action 7.4: Coordinate an across-agency government greenhouse gas emissions reduction program*

This report is largely concerned with addressing climate-change within SAFA's own operations.

⁷ [climate-change-action-plan-2021-2025](#).

3. Strategy

3.1 Assessment approach

SAFA has commenced the process of determining where climate-related risks and opportunities exist within its operations that will be material to achieving its business strategy. SAFA's climate-risk and opportunity assessment is expected to be an iterative process maturing over the next few years.

3.2 Physical Impacts of Climate Change

The physical impacts of climate change in South Australia are summarized in the following table:⁸

<p>Higher temperatures</p>  <p>Maximum, minimum and average temperatures will continue to rise with more frequent hot days and longer warm spells.</p>	<p>More dangerous fire weather</p>  <p>There will be more days of severe and extreme fire danger and longer fire seasons.</p>	<p>Drier with more time in drought</p>  <p>Autumn and spring rainfall has decreased by up to 20% in some agricultural areas. Further reductions and more time in drought is projected.</p>
<p>Warmer and more acidic oceans</p>  <p>Oceans are becoming warmer and more acidic, affecting marine life.</p>	<p>Rising sea levels</p>  <p>Sea level is rising with a projected increase of up to 0.8 m by 2100. This will increase coastal erosion and flooding.</p>	<p>More intense heavy rainfall events</p>  <p>Heavy rainfall events will increase in intensity, increasing the risk of flooding.</p>

Physical risks impacting SAFA's operations will therefore be a combination of acute risks e.g., extreme weather events, including flooding, drought and bushfire, and chronic risks e.g., sea level rise and acidic oceans, decline in average rainfall, and increasing average temperature.

Many of the assets owned by the government of South Australia have long life expectancy and may be exposed to both acute and chronic climate change risks. Additionally, increased frequency and severity of extreme weather events has the potential to increase government service interruptions. SAFA insures the government's insurable risks and purchases reinsurance from commercial markets to mitigate some of the financial impact of a large or catastrophic event.

As noted by South Australia's Auditor General, natural disasters create a dependency on government to support affected communities. Climate change is expected to result in more frequent and intense weather events. Climate change risks include the possible withdrawal of the insurance industry from some risk zones and increased pricing of insurance cover because of rising risk. There is a likelihood of exposure to increasing insurance premiums or for SAFA to be an insurer of last resort in the event climate risks are realised.

⁸ <https://www.environment.sa.gov.au/topics/climate-change/how-is-climate-change-affecting-sa>

SAFA's reinsurance premiums have increased 75% since 2019 and are anticipated to increase by a further 15% to 20% at the October 2022 renewal. SAFA is also carrying significantly higher exposures due to market imposed changes to the deductible on its property reinsurance and a reduction in the limit on its liability program, which is purchased primarily to cover liabilities arising from bushfire events. The increase in premiums and reduction in cover is not solely related to climate related exposures and reflects a general hardening of the entire insurance market more broadly. SAFA accepts that the hardening of the insurance market reflects the impact of several large natural catastrophe events on insurer profitability in recent years. These include events in the eastern states of Australia, as well as those impacting Europe, Asia Pacific, Northern and Southern America.

3.3 Transitional Risks of Climate Change

Transitional impacts are expected to arise through the adjustment to a low-carbon economy. SAFA could conceivably be impacted by the following types of transitional risks in the future:

- *Policy & Legal*, e.g., enhanced regulation and reporting/ disclosure obligations.
- *Technology*, e.g., changing technologies and cost to adopt/ deploy new products, practices and process.
- *Market*, e.g., changing customer behaviors and uncertain market/price signals.
- *Reputation*, e.g., brand damage from negative stakeholder/market perceptions of exposure to climate-related risk.

In transitioning to a low-carbon economy there will also be opportunities for SAFA to make further improvements in its use of resources and the adoption of low-emission energy products and services, such as optimising the energy performance of its office and reducing energy consumption, as well as converting its short-term hire fleet of vehicles to become low-emission and electric.

SAFA has started to engage its employees to raise their awareness of sustainability and climate-related risks through its internal newsletters, intranet, and presentations of developments in global capital markets, government policy response, and predictive regional climate modelling based on downscaled Intergovernmental Panel on Climate Change (IPCC) scenarios.

3.4 Becoming a Carbon Neutral Organisation

The State of South Australia has established goals to reduce greenhouse gas emissions by more than 50% below 2005 levels by 2030, and to achieve net zero emissions by 2050. Consistent with the intention to manage climate risk SAFA intends to understand its own carbon footprint and find ways to reduce it. In 2021-22 SAFA registered with the Australian Government's Climate Active Program and is in the process of calculating its operational carbon emissions under the requirements of that scheme⁹. SAFA is aiming to reduce its operational emissions with the aim of becoming carbon neutral by 2025.

SAFA carbon footprint is being calculated across Scope 1, 2 and 3 Greenhouse Gas (GHG) emissions. SAFA's main emission sources are from electricity, vehicle fleet usage and business travel, as well as emissions embodied in the goods and services SAFA consumes due to the carbon emitted in the production and distribution of consumables, IT equipment, telecommunications etc. SAFA intends to have its carbon footprint calculations independently validated. SAFA also intends to implement an emissions reduction plan.

⁹ <https://www.climateactive.org.au/>

A 'first-pass' risk assessment has been undertaken across SAFA's fleet, insurance and treasury activities using the reasonable judgement of SAFA's employees, with a focus on identifying material physical or transitional risks associated with climate change. This initial assessment has had regard for broadly accepted science based outcomes that are available through review of existing literature, with material impact assessed relative to SAFA's finances.

During 2021-22, SAFA undertook an initial scan of its value chain, including reviewing significant contracts and supplier arrangements¹⁰. Going forward SAFA will seek to enhance its approach to due-diligence and screening of its commercial counterparties, which, subject to broader state government policies and directions, may include outlining minimum requirements and controls for managing climate-related risks in its client relationships and transactions.

3.5 Key Business Lines – First-pass Risk Assessment

The table below is an extract from SAFA's 2021-22 Annual Report (Note 3), which shows operating result and net assets for each of its key business lines.

2022	Treasury \$m	Insurance \$m	Fleet \$m	Eliminations \$m	Total \$m
Income	91.8	35.9	69.4	(3.9)	193.2
Expenses	17.1	70.4	35.6	(3.9)	119.1
Profit before income tax equivalents	74.7	(34.5)	33.8	-	74.1
Income tax equivalent expense	6.0	(10.4)	10.1	-	5.7
Other Comprehensive Income	-	-	-	-	-
Comprehensive result	68.7	(24.1)	23.7	-	68.4
Business Line assets	40,060.5	792.6	215.8	(301.0)	40,767.9
Business Line liabilities	(39,865.8)	(643.5)	(160.3)	301.0	(40,368.6)
Net Assets	194.7	149.1	55.5	-	399.3

The extent and type of climate-related risks that SAFA's business is exposed to will likely differ across its key business lines of treasury, insurance and fleet operations. Appropriate risk responses are also expected to differ. Below is a discussion of key risks from SAFA's initial risk assessment.

3.3.1 Treasury Operations

SAFA's statutory functions, as detailed in the SAFA Act, include "to develop and implement borrowing and investment programmes for the benefit of semi-government authorities."¹¹ The debt issued by SAFA benefits from a guarantee from the Treasurer of the State of South Australia.

SAFA issues bonds and commercial paper into global debt capital markets to fund the State's net debt. SAFA's Indicative Funding Program identified total debt outstanding to be circa \$33.5 billion,

¹⁰ Note that all public authorities subject to the *Public Finance and Audit Act, 1987* are also subject to policies requiring the disclosure of significant government contracts on the intranet <https://www.tenders.sa.gov.au/>

¹¹ [SAFA Act](#)

growing to \$43.3 billion across the State Budget forward estimates period (2025-26)¹². SAFA's credit rating largely reflects that of the State, and the State's exposure to climate risks and opportunities may have both a positive and negative impact on SAFA's future borrowing program.

Stakeholders in global capital markets, including credit rating agencies and investors are integrating climate risk into their assessment of debt instruments, including sovereign bonds. Increasingly, stakeholders are also screening the ESG credentials of debt issuers, including sovereign issuers like SAFA, over and above ESG screening of their debt instruments. SAFA expects these practices to escalate in the face of increasing global regulation, and convergence to best-practice risk management and disclosure standards. These factors will continue to drive change in future borrowing conditions, which may ultimately impact SAFA's current unfettered ability to access deep and liquid capital markets to fund the State's net debt and activities.

Additionally, the physical impacts of catastrophic and extreme weather events may add to the fiscal requirements of the State through an increasing cost of emergency measures and disaster recovery assistance, and the rebuilding and repair of state assets. There is also expected to be cost reallocation in adapting and transitioning to a low-carbon economy, and policies and initiatives to mitigate and adapt to climate-change may lead to an additional debt burden and or a trade off in the financing choices made by the State.

SAFA has undertaken a desktop assessment of how climate-related risks are likely to impact its operations, noting that there will be impact to existing prudential risk categories, e.g., liquidity and credit risk. For example, credit risk may rise when the probability of default and likelihood of loss increases due to borrowers being negatively affected by the physical or transition risks associated with climate change. The overall impact on credit risk levels will be largely determined by the degree of concentration of credit portfolios.

Credit risk is monitored across all of SAFA's counterparties. Under SAFA's Credit Policy Framework exposure to individual counterparties is restricted by monetary limits and credit quality as determined by major credit ratings agencies. The majority of SAFA's credit exposure is to other Australian sovereign issuers and Australian domestic banks that are Authorised Deposit Taking institutions regulated by Australian Prudential Regulation Authority (APRA).

Australia's financial regulators consider that climate change poses challenges to the stability and resilience of the financial system, and APRA has included oversight of the financial risks of climate change as part of its broader supervisory activities. In 2021, APRA published *Prudential Practice Guide 'CPG 229 Climate Change Financial Risks'*¹³. APRA recently undertook a survey of medium-to-large APRA regulated entities across the banking, insurance and superannuation sectors which was designed to measure compliance with CPG 229. APRA noted a wide range in the maturity of preparedness by respondents, with most still developing an understanding of their exposure¹⁴. SAFA's credit risk management framework will continue to have regard to the advice and recommendations from Australian financial regulators.

Based on a desktop assessment, the types of climate-related risks that SAFA may be exposed to in future with regard to its treasury operations are described below, alongside the relevant time-horizon:

- Short-term (up to 2025)
- Medium-term (2025 – 2030)
- Longer-term (2030+)

¹² [SAFA FY2022-23 Indicative Funding Program](#)

¹³ [APRA CPG 229](#)

¹⁴ [APRA Climate Risk Survey](#)

Credit Risk	Time-horizon - S/M/L
Climate-related credit risk will arise in SAFA’s financial market counterparties, including sovereigns, due to exposure to GHG intensive borrowers with stranded assets, declining profitability and higher capital requirements, increasing the probability they will default in their ability to fully honor their obligations to SAFA, including the whole and timely payment of principal, interest, collateral and other receivables	
Key risk limit measures adopted	
<ul style="list-style-type: none"> - Onboarding and Know-Your-Customer (KYC) screening - Credit Policy Framework 	
Liquidity Risk	Time-horizon - S/M
Liquidity risk may arise due to a perception that SAFA’s funding instruments and assets are highly GHG exposed reducing their transferability in secondary markets resulting in challenges rolling over debt or raising capital.	
Key risk limit measures adopted	
<ul style="list-style-type: none"> - Transparent disclosure of SAFA’s funding arrangements and risk management practices - Adoption of recognised risk management and disclosure frameworks, standards and metrics. 	
Funding Risk	Time-horizon - M/L
SAFA’s access to markets in the future may deteriorate if there is a perception that it’s funding instruments and assets are highly GHG exposed resulting in challenges to rolling over debt or raising capital.	
Key risk limit measures adopted	
<ul style="list-style-type: none"> - Transparent disclosure of the extent that climate-related risk is embedded in SAFA’s borrowing program, and disclosure of effective risk management practices. - Adoption of recognised risk management and disclosure frameworks, standards and reporting metrics. 	
Operational/ Market Risk	Time-horizon - M/L
Climate-related transition risks could include changing market dynamics involving disruptions to supply chains and counterparty risk appetite, decreasing investor appetite for financial products that do not transparently address ESG, climate related litigation, changing regulation and reporting standards, and changing government policies to address ESG. These risks could negatively impact on SAFA’s operations, including its reputation, creditworthiness and future financial value.	
Key risk limit measures adopted	
<ul style="list-style-type: none"> - Management of climate-related risk through SAFA’s Enterprise Risk Management framework, including quarterly review and risk assessment. - Emerging risks are monitored through SAFA’s Sustainability Committee and on-going market surveillance and benchmarking. 	

During 2022-23 SAFA intends on enhancing its on-boarding, know-your-customer screening and credit risk assessment processes to include ESG in its credit risk assessment, particularly with respect to net-zero alignment and commitments.

3.3.2 Insurance Operations

Under the SAFA Act the insurance related functions of SAFA include acting as captive insurer of the Crown in right of South Australia to undertake and carry on the business of insurers, re-insurers and co-insurers of all or any risks of the Crown¹⁵. All South Australian state government agencies and statutory authorities are required to be insured via SAFA unless a specific exemption has been authorised from the Treasurer.

Insurance cover provided by SAFA includes property and business interruption, civil liability, medical malpractice, network security and privacy, and so forth. SAFA protects the Crown against the financial consequences of a catastrophic event or large loss via a commercial catastrophic reinsurance program. SAFA renews cover annually to ensure adaptation across the reinsurance landscape.

Under the *Building Work Contractors Act 1995 (SA)*, builders in South Australia are required to take out a building indemnity insurance (BII) policy on behalf of the homeowner. The absence of the availability of this cover in the private sector has seen SAFA underwriting BII through reinsurance agreements with insurers operating in the private sector since 2013.

SAFA recognises that the government's assets and operations are exposed to the impact of climate change. While investments in SAFA's insurance portfolio provide some diversity, by its nature operations and insured assets are geographically concentrated in and around Adelaide and as such are exposed to the risk of potentially material property catastrophes of the State, being earthquake, bushfires, storms, floods and cyber attack. SAFA's reinsurance program is purchased to provide protection in excess of a retention level, which differs for each class of insurance. The appropriateness of the retention level is reviewed annually.¹⁶

SAFA has witnessed a general hardening of the insurance market over the last few years. Demand surge arising from natural catastrophe events, supply chain disruption due to COVID-19, and inflationary pressures from the pandemic and the war in Ukraine are actors influencing the reinsurance market, resulting in increased costs for materials and parts and longer lag times for claims settlements which have increased claims costs. Insurers continue to be selective of the risks they are prepared to underwrite, which drives premium and deductible increases and places pressure on the breadth of policy coverage available. SAFA's reinsurance program broadly covers physical risks to assets, general, professional and medical malpractice liabilities for the activities of the public sector, terrorism and cyber risk. Premiums across all classes have increased significantly since 2019 (75%) for a variety of reasons, not limited to climate risk. SAFA is observing underwriters becoming more selective around natural perils, particularly bushfire liability. SAFA accepts that pricing pressure resulting from climate risk may mean it will be an insurer of last resort for some regions or sectors that are unable to adapt to climate risk.

In SAFA's role as captive insurer of the Crown, it is exposed to climate risk on both sides of the balance sheet. Its investments are vulnerable to climate risks on the asset side and its underwriting vulnerable to climate risks on the liability side. SAFA's insurance liabilities are backed with assets

¹⁵ [Government Financing Authority Act 1982](#)

¹⁶ Page 65, [Note 28 2020-21 SAFA Annual Report](#)

generated through premium revenue. These assets are invested to reflect the nature of the policy liabilities, and are comprised of operating cash, cash held on deposit, and units invested with Funds SA. The insurance portfolio is exposed to price risk arising from investments held with Funds SA. SAFA maintains policies outlining the strategies for investment of funds and these policies are reviewed every three years. Funds SA integrates Environmental, Social and Governance considerations into investment decisions and is a signatory to the UN-supported Principles for Responsible Investment¹⁷.

SAFA also embeds a strong risk management approach throughout its underwriting processes to ensure exposures to these risks are managed. SAFA considers the appropriateness of its financial modelling, pricing and premium development and investment strategies against climate risks impacts, and continues to assess the impact of both the physical risks and transition risks to its insurance operations.

Physical Risk - physical risks may be expected to impact both asset values and insurance liabilities from damage to property as a direct result of severe weather events, which may be exacerbated by the potential for business interruption claims. Demand surge (supply chain risk) and inflationary pressures as a result of sudden and increased demand for services and supplies relating to the repair and replacement of damaged buildings and infrastructure have also placed pressure on builders, increasing the risk of insolvency.

The State of South Australia owns more than 59,000+ assets including small pieces of infrastructure such as drains and fences through to larger facilities including hospitals and schools. The effect of climate change and the escalation of severe weather events may impact these assets. The Climate Council, Australia's leading climate change communications organisation, recently drew on hundreds of millions of data points to create a climate risk map which shows the insurability of risks for properties impacted by climate change at a suburb level. The five different climate change threats covered in the map are riverine flooding, coastal inundation, extreme wind, bushfires, and surface water flooding.

The map coincided with the launch of a new report, 'Uninsurable Nation', which takes a detailed look at the most at-risk electorates in Australia¹⁸. In South Australia it is estimated that 3.2% of properties will be uninsurable by 2030. A preliminary desktop analysis of the 59,000+ State owned assets insured by SAFA indicates that around 10% of these are located in high-risk areas, where annual damage costs may impact their insurability by 2030.

Extreme Weather Events - The 'Black Summer' bushfires burned across the south-east of Australia between November 2019 and February 2020 in some of the worst bushfire conditions on record. The CSIRO observed that 2019 was the driest year on record in South Australia and it was also the warmest, with the average mean temperature 1.52°C above average¹⁹. The impact of climate change

¹⁷ [Funds SA Responsible Investment](#)

¹⁸ [Climate Council Uninsurable Nation](#)

¹⁹ [The 2019-20 bushfires: a CSIRO explainer.](#)

has led to longer, more intense fire seasons within parts of Australia and elevated the risk of fire weather days as measured by the Forest Fire Danger Index²⁰.

As a result of the Black Summer bushfires SAFA settled material claims from several insured government agencies totalling circa \$50 million and was able to present a whole of government claim to its property reinsurers to recover circa \$30 million.

South Australia has not been subjected to the same frequency and severity of natural catastrophe events as experienced in other states more recently. For example, prior to Black Summer, the most recent extreme weather event to result in any significant number of claims to SAFA was the 2016 storms associated with an extreme low pressure system, which mainly impacted across the mid-north region of South Australia.

Resilience to the impacts of climate change and the associated heightened risk of extreme weather events requires an appropriate mix of prevention, preparedness, response and recovery. Australia has a national resilience based approach to disaster management, supported at the state level with South Australia's disaster resilience strategy, which aligns to the Sendai Framework for Disaster Risk Reduction.

Transition Risk - The necessary global decarbonisation required to limit global warming may lead to significant shifts in economic activity and asset valuation as market participants adapt and adhere to tighter regulatory policies and changed commercial conditions. This shift may result in short term vulnerabilities to the insurance sector depending on the speed and disruptive nature of transition. Affordable reinsurance provides SAFA with a mechanism for transferring risk by which costs of large losses, including those due to weather-related events, are distributed beyond South Australia. SAFA's ability to obtain sufficient reinsurance helps reduce the balance sheet claims exposures it carries, decreasing the potential for insured losses to be higher than its reinsurance cover.

Reinsurance premiums must be sufficient to make certain that adequate capital is available to withstand the impact of severe weather events. More frequent and intense weather-related events in combination with the requirement to meet evolving regulatory requirements such as enhanced disclosure and capital adequacy, may make insuring some risks unaffordable for customers or unfeasible for insurers. SAFA notes that reinsurers are turning their focus to the technical pricing of risk to ensure risks are adequately priced, based on the circumstances of the risk, the scope of cover required and assessment of the exposures.

It has been SAFA's practice to undertake catastrophe liability modelling every three years and supplement this with periodic hazard assessments. Looking forward, SAFA will continue incorporating climate risk considerations in its insurance coverage, underwriting processes, and investment strategies to further enhance its risk management. In the coming year SAFA intends to scale-up its quantitative analysis of climate-risk in its insurance business, and is currently investigating the different types of analytical models and forecasting tools available, particularly the capabilities of the new generation of catastrophe loss models, and climate scenario models.

3.3.3 Fleet Operations

The Government of South Australia's passenger and light commercial motor vehicle fleet of approximately 6,800 vehicles is owned and managed by SAFA. Most vehicles are leased to eligible public sector agencies, however SAFA itself operates a pool of around 70 vehicles that are available

²⁰ [The Forest Fire Danger Index](#).

to eligible across government clients on a short-term hire basis. The standard vehicle lease term is 36 months or 60,000 kilometres (whichever occurs first), and SAFA manages an on-going purchasing program to replace roughly one third of the fleet each year²¹.

Reducing vehicle tailpipe emissions in SAFA's motor vehicle fleet

The South Australian Government is a signatory to the COP26 declaration on accelerating the transition to 100% zero tailpipe emission vehicles. SAFA recognises that decarbonisation of the transport sector is crucial to mitigating global warming.

- For the 2021-22 financial year, the total tailpipe greenhouse gas emissions for the SAFA owned government vehicle fleet was 18,867 tonnes CO₂-e.
- For the 2021-22 financial year, the total greenhouse gas emissions for the short term hire vehicle fleet was 192 tonnes CO₂-e.

In 2016, SAFA introduced emissions benchmarking using tailpipe CO₂ grams/100km within respective Vendor Field Analytical and Characterisation Technologies System (VFACTS) segments to target the purchase of low-emission vehicles. As of August 2022, 56.9% of SAFA's fleet was low emission, with 29% of the fleet being hybrid petrol/electric. SAFA is continuing to actively reduce the use of petrol and diesel fuels in its vehicle fleet. SAFA also has stringent safety requirements to purchase vehicles that have 5 Star ANCAP ratings.

SAFA is a lead agency in delivery of the South Australian Government's *Electric Vehicle Action Plan*, which provides for the majority of new government vehicles to be either battery electric (BEV), plug-in hybrid electric (PHEV), or fuel cell (FCEV), subject to vehicle models being cost-effective and fit-for-purpose.

SAFA's fleet replacement policies means that affordable low emission and plug-in electric second-hand vehicles will become more widely available to the South Australian public.

The future for SAFA's motor vehicle fleet

South Australia has one of the cleanest energy grids in the world to charge motor vehicles from, and rapid acceleration in the uptake of plug-in electric vehicles is an important means of reducing emissions in the State.

The sale and production of low-emission vehicles has increased in recent years, a trend which SAFA expects to continue, particularly in response to global policies and new regulatory targets being introduced in major markets like the United States and the European Union that are designed to phase out the future production and supply of internal combustion engine (ICE) vehicles within the next decade or so.

It is expected that accelerated global demand for electric vehicles will put pressure on supply chains. In particular, constraints on raw materials (such as lithium, cobalt and nickel) used in construction may prove challenging for manufacturers as they scale up their respective production capacities.

²¹ Details of SAFA's fleet are available at: <https://www.safa.sa.gov.au/fleetsa/fleet-snapshot>

SAFA is cognisant that as demand for electric vehicles grows, the growth trajectory may be constrained by supply factors, at least in the near-term. To mitigate this risk, SAFA continuously evaluates new vehicles against its policies as they become available.

Vehicle charging infrastructure will also need to expand at sufficient pace to support the expected growth of the electric vehicle fleet. The Government of South Australia is addressing this by investing \$12.35 million into the construction of a state-wide electric vehicle charging network. The network will comprise over 530 chargers across 140 electric vehicle charging stations in over 50 rural, regional, and metropolitan service locations. The site locations are aligned with main roads and regional thoroughfares throughout South Australia, with regional towns hosting sites helping motorists to overcome range anxiety and encouraging visits within those regions. Construction is expected to commence in the latter part of 2022, with completion of the charging network expected to be finalised by early 2024.

SAFA will continue to be the lead agency in transitioning the government vehicle fleet to low emission and plug-in electric vehicles. SAFA is aiming to have an electrified passenger and SUV fleet by 2030.

Environmental, Social, and Governance in the value chain

In addition to reducing tailpipe emissions, SAFA recognises that decarbonising the full lifecycle of vehicles is necessary to achieve net-zero. Carbon neutrality means reducing CO₂ emissions throughout the entire life cycle of vehicles, starting from the sourcing of raw materials, through the manufacturing and distribution chain, to end-of-life disposal.

SAFA is monitoring how the market for the responsible reuse and repurposing of batteries develops, and particularly how its vehicle suppliers contribute to resolving this issue. SAFA expects the current low rates of recycling to improve with increasing regulations, and as the relative value of key minerals that can be recovered such as nickel, lithium and cobalt, improves with new recovery technologies and potential supply constraints.

SAFA is also cognisant of social issues in the value chain in both mineral extraction and manufacturing, e.g., cobalt production is highly concentrated in the Democratic Republic of the Congo, which holds around 50% of global reserves. SAFA expects these issues will be mitigated in future through appropriate regulatory oversight and improved corporate disclosures around raw material sourcing and tracing. It is also evident that a number of vehicle manufacturers are looking to reduce their exposure to cobalt in preference for other chemical composition batteries.

Physical risks to motor vehicle supply

A changing climate may impact SAFA's future ability to purchase vehicles. Production could be suspended due to manufacturing disruptions, or impediments in transport and logistics due to natural disasters and unstable and severe weather patterns. A changing climate may also cause damage to SAFA's motor vehicle fleet and associated infrastructure. Further analysis is warranted to fully understand the extent of exposure and potential magnitude of the financial risk.

Transition risk to motor vehicle supply

Cost, safety, energy density, charging rates, and disposal are critical factors that will impact the future growth trajectory of the global EV market. SAFA expects manufacturers will look to differentiate their electric vehicles primarily using alternate battery technologies to offer improved durability and performance. SAFA expects to see more electric vehicle models being launched in the next few years.

Moving toward a low-carbon economy could see increased production costs because of increasing environmental and social regulation, cost of inputs, and carbon pricing. The ability to effectively scale global electric vehicle production volumes in response to the increasing demand and phase out of ICE vehicles is uncertain. Whilst these factors may place upward pressure on pricing, the same factors will also impact the production and cost of ICE vehicles, and the cost of petrol and diesel fuels. In addition, other uncertainties such as war, geopolitical tensions, and inflation may have an impact on motor vehicle production.

Electric vehicles have fewer moving parts than their internal combustion counterparts. This is expected to result in cost savings within SAFA's fleet operations in the future as total fleet operating costs may be reduced through declining maintenance costs and lower demand for consumables. The financial impact on SAFA's fleet operations in transitioning to a low carbon economy are currently uncertain, and over the next 12-24 months SAFA will look to further understand sources of material climate-related risk and opportunities and their financial impact through a comprehensive risk assessment, analysis and financial modelling consistent with the recommendations of the TCFD. SAFA will continue to implement measures that contribute to reducing CO₂ throughout the entire vehicle life cycle.

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4. Risk Management

According to the Network for Greening the Financial System (NGFS)²², the impact of climate-change will be significant and material with distinctive characteristics that differ from other sources of risk, as summarised in the following table:

Far-reaching impact in breadth and magnitude	<ul style="list-style-type: none"> - Climate change will affect all households, businesses and governments, across all sectors and geographies; - The risks will likely be correlated and, potentially aggravated by tipping points, in a non-linear fashion; - The impacts could be much larger, and more widespread and diverse than those of other structural changes.
Foreseeable nature	<ul style="list-style-type: none"> - The exact outcomes, time horizon and future pathway are uncertain, however there is a high degree of certainty that some combination of increasing physical and transition risks will materialise in the future.
Irreversibility	<ul style="list-style-type: none"> - The impact of climate change is determined by the concentration of greenhouse gas (GHG) emissions in the atmosphere and there is currently no mature technology to reverse the process; - Above a certain threshold, scientists have shown with a high degree of confidence that climate change will have irreversible consequences on our planet, though uncertainty remains about the exact severity and time horizon.
Dependency on short-term actions	<ul style="list-style-type: none"> - The magnitude and nature of future impacts will be determined by actions taken today which thus need to follow a credible and forward-looking policy path; - This includes actions by governments, central banks and supervisors, financial market participants, firms and households.

In 2021-22, SAFA updated its Risk Appetite Statement to expressly recognise sustainability and particularly climate-related risk across its business.

Embedding sustainability and climate-related risk more comprehensively within SAFA’s Enterprise Risk Management (ERM) framework is a priority for the coming year.

SAFA’s existing risk management framework and processes are based on the COSO ERM Framework and comply with ISO31000. SAFA’s ERM Framework consists of an operational (branch) and strategic risk registers, which include some climate related risks. Risks are prioritised according to impact and likelihood. Likelihood is defined as “the possibility that a given event will occur” and impact as “the result or effect of a risk”.

SAFA understands that characteristics of climate-related risks may render them different from traditional risks and cause challenges for their assessment in this traditional approach as the risk can be:

- more unpredictable and manifest over a longer and often uncertain time frame.
- difficult to find historical precedence to estimate the risk impact.
- macro, multi-faceted and interconnected and can affect the business on many dimensions.

²² [NGFS](#)

- outside SAFA's control, and responding to a risk may rely on the actions of other parties or may require coordinated efforts.

SAFA currently uses root cause analysis to understand the drivers of the risk and intends to map climate-related risks to existing risk categories in line with the TCFD risk assessment guidance. SAFA intends prioritising risks based on:

- the urgency required in the management response,
- the types of action necessary,
- the level of investment required in the risk response.

For example, catastrophic and high risk responses may require action plans that consist of new investments in activities to reduce a risk, whereas medium and low risks may be accepted and monitored for significant change, consistent with SAFA's risk appetite.

5. Metrics and Targets

There is currently no formal reporting guidance for government entities with respect to sustainability and the management of climate-related risk. In November 2021, the International Financial Reporting Standards (IFRS) Foundation Trustees announced creation of the International Sustainability Standards Board (ISSB) to deliver global sustainability disclosure standards that will enable investors and others to make informed decisions about sustainability risks and opportunities of entities. ISSB has since released two sustainability disclosure standards as exposure drafts. The language and content of these standards suggests they are targeted predominantly for use by the private sector.

The Australian Accounting Standards Board (AASB) released a position paper in December 2021 stating its intention to develop reporting requirements for sustainability-related information consistent with the IFRS, for use within Australian jurisdictions. SAFA understands that the International Public Sector Accounting Standards Board (IPSASB) is also currently considering how the ISSB standards could be adopted for public finance. SAFA expects that its future reporting will largely be determined by how the global sustainability standards are adopted both within the Australian context and more specifically within the South Australian public sector.

A key focus of SAFA’s Sustainability Committee is to reduce SAFA’s operational carbon footprint and become carbon neutral as soon as possible. SAFA is currently working through the process of identifying its operational boundary and calculating its emissions inventory across all Scope 1 and 2 emissions and an extensive range of Scope 3 emissions.

5.1 TCFD – Implementation Roadmap

Below is an indicative ‘roadmap’ showing how SAFA intends to mature its approach to embed climate-risk considerations into its operations.

TCFD Recommendations – implementation Roadmap			
	2022-23	2023-24	2024-25
Governance			
update key policies & procedures	✓		
update board charters & terms of reference	✓		
conduct further education & awareness training	✓	✓	✓
Strategy			
engagement with investors and clients in support of net-zero	✓	✓	✓
product/ process innovation to support sustainability & net-zero	✓	✓	✓
undertake quantitative analysis of climate-risk in insurance	✓		
embed responsible investment principles in treasury	✓		
Risk Management			
evolve SAFA’s ERM risk assessment tools for climate risk	✓	✓	
prioritise climate-risk responses		✓	✓
Metrics & Targets			
Identify SAFA’s carbon footprint; scopes 1&2 & partial scope 3	✓		
Scopes 1,2 & 3 emissions reduction strategy		✓	✓

In order to increase the resilience of SAFA’s business to climate-related risk, SAFA intends to undertake further analysis in 2023-24 within key business areas, commencing with further quantitative

climate-risk analysis within its insurance portfolio, which will be informed by science-based measures, regulatory guidance and industry best-practice.

The South Australian Government has set goals to reduce South Australia's greenhouse gas emissions by more than 50% below 2005 levels by 2030, and to achieve net zero emissions by 2050.

South Australia is making good progress towards its greenhouse gas emissions reduction goals. In the 2019-20 financial year, South Australia emitted 25.4 million tonnes of carbon dioxide equivalent (MtCO₂-e). This represents a 31% reduction in greenhouse gas emissions from the 2004-05 financial year. Under South Australia's *Climate Change and Greenhouse Emissions Reduction Act 2007* the Minister for Climate, Environment and Water prepares regular reports detailing the State's emissions²³.

The South Australian Government's Electric Vehicle Plan contains actions to make electric vehicles the common choice for motorists by 2030, and the default choice by 2035.

As outlined herein, the Government's passenger and light commercial motor vehicle fleet is owned and managed by SAFA. SAFA is actively working to transition its fleet of 6,800 vehicles to EV's in support of the State's EV Plan and regularly reports its fleet profile²⁴. As at June 2022, 57% of SAFA's fleet were low emissions vehicles, and 28% were hybrid petrol/electric.

²³ [Climate Change Greenhouse Emissions Reduction Reports](#)

²⁴ [SAFA Fleet Snapshot](#)

Climate Change Position Statement

SAFA accepts the Intergovernmental Panel on Climate Change's evidence that climate change is the result of unsustainable energy and land use, lifestyles and patterns of consumption and production. As the Central Borrowing Authority for the State of South Australia, SAFA is committed to playing its part in limiting the impact of climate change in line with the goals of the Paris Agreement.

Our goal is to be net zero emissions by 2025

SAFA also commits to pursuing sustainable business practices consistent with the United Nations' Sustainable Development Goals (SDGs), and making its contribution to shaping a more sustainable future for the environment, society, and our people. As an organisation it seeks to contribute positively to the health and wellbeing of its employees, clients and stakeholders, and minimise harm to the environment.

SAFA commits to:

- Reducing our own greenhouse gas emissions
- Better understanding the impacts of climate change for SAFA, and conversely SAFA's impact on the environment and its stakeholders
- Being an exemplar by appropriately and prudently considering climate change in our business strategies, products, processes and in the advice we provide to government
- Building our capacity and resourcing across the business through training and skills development of our employees to support our journey toward net zero emissions
- Working collaboratively with our investors and business partners in order to decarbonise and enhance the resilience of the State and its assets
- Using our influence and engaging with our clients to assist them in adopting appropriate policies to support sustainable development within the South Australian public sector and the State
- Transparently reporting our performance against these commitments using international frameworks, including the Task Force on Climate-Related Financial Disclosures and the Sustainable Development Goals.

In support of our goal to be net zero emissions SAFA will:

1. Aim to be a carbon neutral organisation by FY 2024-25. We will assess whether offsets have a role to play to address residual emissions that cannot be addressed through direct measures.
2. Work to understand the magnitude of Scope 1, 2 & 3 GHG emissions in SAFA's value chain and the pathway to achieving an absolute reduction in these emissions.
3. Identify and act on opportunities to decarbonise, including through process and energy efficiency improvements, fuel & technology switching e.g., replacing fleet vehicles with low carbon vehicles and Electric Vehicles, waste management & recycling.

When it comes to sustainability and climate change, SAFA is cognisant of both identifying and managing the impact on its own resources, as well as the impact on the environment.

SAFA commits to phase in reporting in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) framework, commencing with an inaugural report in financial year 2021-22.