

Coastal Councils  
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# Mechanisms to finance climate change adaptation in Australia

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**Know more. Do more.**

# New costs for local government

Adaptation to climate change is a new area of expenditure for local governments

Planning, administration, communications, operations, maintenance and repair schedules, increasing cost of infrastructure provision and new capital works.

Adaptation of local government operations is an additional cost

Adaptation of coastal communities is a public good which implies a role for government



# Revenue sources are constrained

Increasing roles and responsibilities for local governments

Viewed as a local problem at other levels of government

Limits on revenue sources imposed by legislation



# Adaptation Finance

## What is adaptation finance?

Finance applied to initiatives (projects, plans, strategies, etc.) that help society adapt to climate change

Financing or funding?

These terms are often used interchangeably, but they are not exactly the same

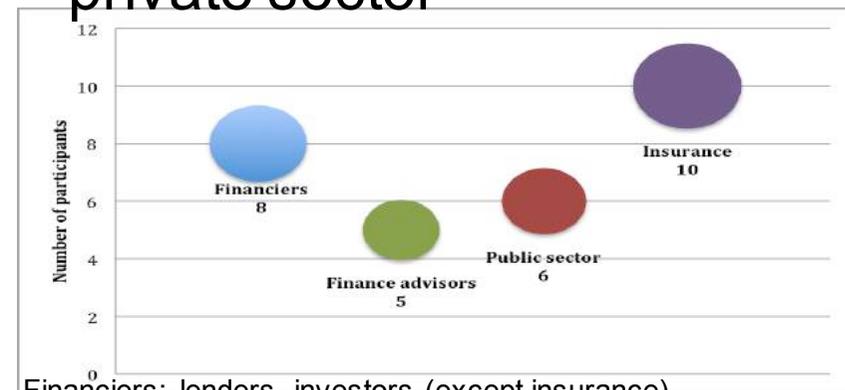
Funding: money provided on the basis of agreement, usually without charge (e.g. grant)

Financing: money provided on the basis of an agreement with expectation to repay, often with interest

## The study

Semi-structured interviews (n=25)

Focused on understanding the current state of adaptation finance in Australia and future prospects, particularly the involvement of the private sector

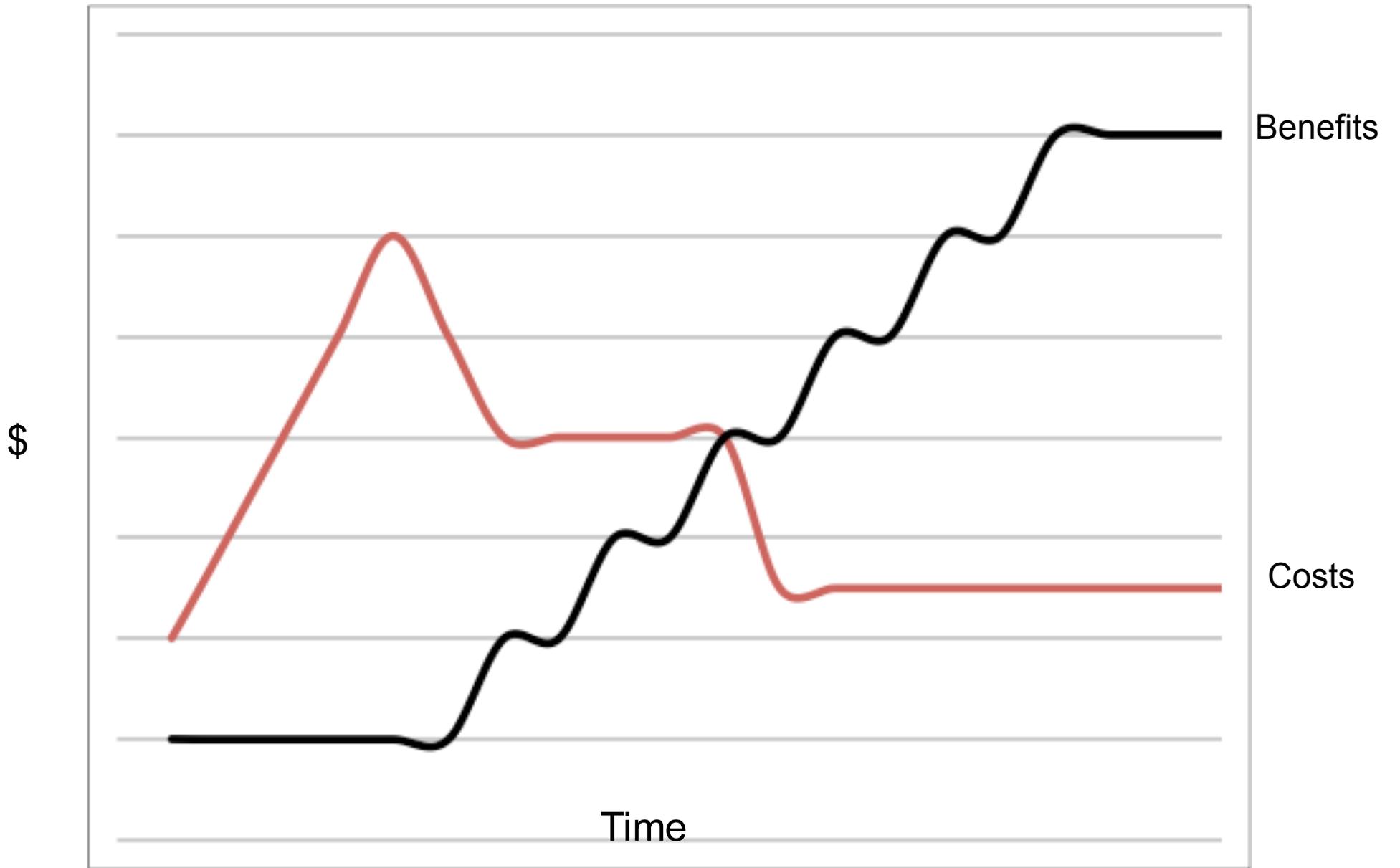


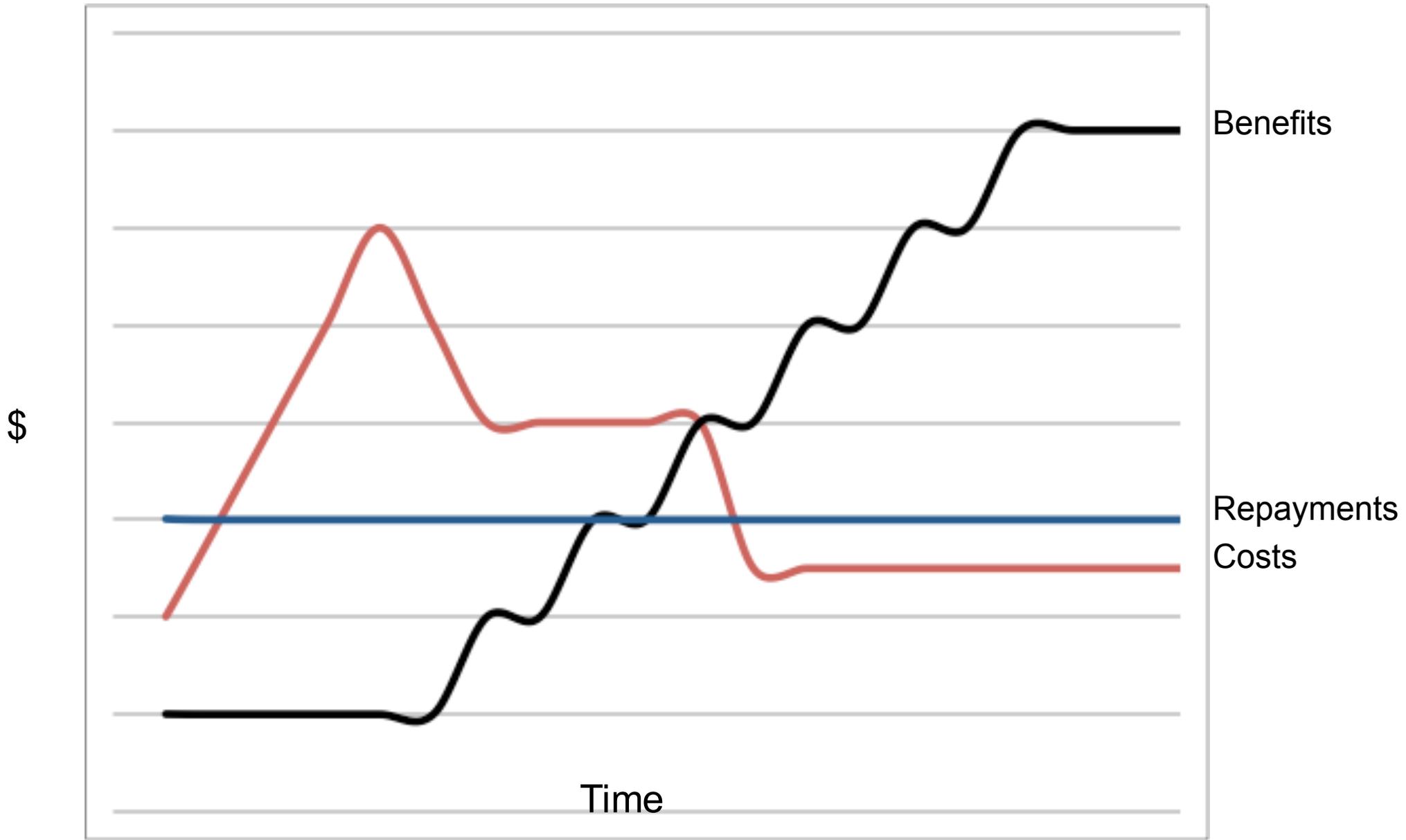
Financiers: lenders, investors (except insurance)

Finance advisors: climate change specialist who support finance decision-makers

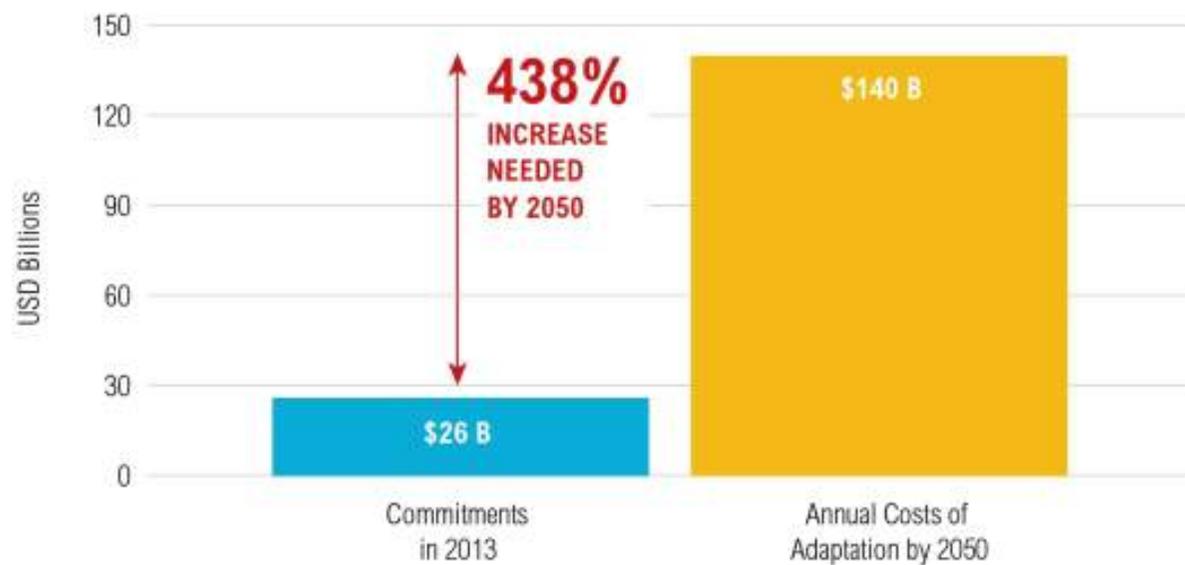
Public sector: local, state and federal government

Insurance: insurers, reinsurers





### Gap Between Estimated Adaptation Needs and Available Public Finance (2013-2050, Low Estimate)



# View from finance providers

Local governments have;

- Large asset base
- Stable revenue streams
- Low debt to asset ratios

Finance sector;

- Is seeking infrastructure exposure
- Views climate change through mitigation



# Insurance

**Adaptive Capacity** - enhance adaptive capacity through the financing it provides subsequent to an insured event;

**Incentives** - appropriately designed insurance products can create incentives to engage in adaptive behaviour,

**Policy** - in the extreme, threat of insurance withdrawal can compel risk reduction behaviour; and

**Investment** - as the world's third largest institutional investor (trailing only mutual and pension funds) the industry can strongly influence climate-related investment.



# Limiting factors

Outlook – annual contracts

Moral Hazard – expectation of public coverage

Lack of information – risk perception

Maladaptive – build it back



# Mechanisms

- Debt vs equity
- Project vs Balance Sheet
- Bonds



# Case Study – Tweed River Entrance Sand Bypass Project



Source; [tweedsandbypass.nsw.gov.au](http://tweedsandbypass.nsw.gov.au)

- Designed and built by McConnell Dowell with finance provided by the ANZ bank
- Operation and maintenance McConnell Dowell under a 24 year contract with the State of NSW and Queensland which concludes in 2025.
- At the conclusion of the 2011/12 financial year payments of \$AUD106.4million

# Appropriate use of financing

- used to create or establish a tangible asset such as capital infrastructure
- asset has a long lifespan
- benefits of the project are misaligned with the cost profile
- funding is available to meet the repayment obligations



# Key Points

- Climate change is increasing costs for local government
- Local government expenditure is constrained
- Finance providers are seeking exposure to infrastructure
- Adaptation projects involve a significant misalignment of costs and benefits
- Identifying beneficiaries and subsequent return on investment
- Debt aversion



# Recommendations

- Initiate development of adaptation performance metrics
- Encourage appropriate use of financing
- Reduce cultural and institutional restrictions to early engagement between supply and demand for financing
- Build financial literacy within planning, asset management, engineering and natural resource management functions
- Acknowledge an ongoing role for public funding

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# Thank You

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