

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

INVESTMENT COMMITTEE – 26 JULY 2022

REPORT BY THE TRI-BOROUGH DIRECTOR OF TREASURY AND PENSIONS

CLIMATE ACTION PLAN

The purpose of this report is to review the Pension Fund's responsibility to align itself with Council's Climate Emergency Action Plan for 2022/2027, which was approved by full Council.

FOR INFORMATION

1. RECOMMENDATION

1.1 The Investment Committee is asked to:

- Consider the contents of this report and the Council's objectives in the Climate Emergency Action Plan.

2. BACKGROUND

2.1 The Council declared a Climate Emergency on 30 September 2019.

2.2 The Council aims to:

- Achieve net zero carbon emissions by 2030, and
- Achieve carbon neutrality within the borough by 2040.

2.3 The RBKC Climate Emergency Action Plan 2022/2027, shown as Appendix 1, details the Council's commitment to review all the Council's direct investments to check they are compatible with the 2030 net zero carbon target, which includes its Pension Fund.

3. CARBON EMISSIONS

3.1 Carbon emissions can be split into the following three types:

- Scope 1: all direct greenhouse gas emissions from sources owned or controlled by the entity.
- Scope 2: indirect greenhouse gas emissions from consumption of purchased electricity, heat, or steam.
- Scope 3: other indirect emissions that occur from sources not owned or controlled by the entity, including extraction and production of purchased

materials, transportation of purchased fuels, and use of sold products and services.

- 3.2 Scopes 1 and 2 emissions are disclosed relatively widely but Scope 3 less so, with the disclosure methodology varying between companies and industries.
- 3.3 Largely, the main source of information on carbon emissions is through publicly available information such as annual reports, financial reports, corporate social responsibility and environmental reports, and company websites.

4. LEGAL SERVICES VIEW ON THE PENSION FUND INCLUSION

- 4.1 The Council approved the Climate Emergency Action Plan on 16 March 2022. The Investment Committee has asked Legal Services whether this plan has applicability to the Council's Pension Fund investment assets.
- 4.2 Legal Services' view is that the Climate Emergency Action Plan is Council policy and it applies to the Pension Fund.
- 4.3 One of the six priority delivery areas in the Climate Emergency Action Plan is "Leading by Example". On page 27 under Priority Actions and Leading by Example, it specifically mentions "investments and pensions." On page 31, also under the Leading by Example priority area, it further states, "The Council is committed to move from business-as-usual and embed climate change in all decision making, planning policies and sustainable procurement". It then specifically refers to: "Review all Council's direct investments and own pension scheme to check if they are compatible with the 2030 net zero carbon target."
- 4.4 The Key Decision Report in its Executive Summary repeats that the Climate Emergency Action Plan has been developed "as a key internal strategic document to support with embedding climate change across all Council's operations and decision making". Paragraph 3.3 of the same report again stressed that, "The Council is committed to lead by example by reducing emissions from Council operations and buildings, embed the reduction of carbon emissions in all relevant decision-making and operations (where the Council has direct influence)."
- 4.5 The policy therefore applies to pension fund investments and is a policy to which the Investment Committee should have regard in preparing its Investment Strategy unless there are good reasons to depart from it. The Council has delegated the functions and duties of the RBKC LGPS scheme manager and administering authority to the Investment Committee. While the Investment Committee members are not subject to trust law and are not trustees, the Committee does have duties under the statutory framework which, at a practical level are similar to those of trustees.
- 4.6 The decision therefore on how to best invest the pension fund in the interests of the members and the contributing employers to whom the administering authority owes a fiduciary duty, is for the Investment Committee.

4.7 The core purpose of the LGPS is to provide pensions for its members but administering authorities may take non-financial considerations into account providing that doing so would not involve significant risk of financial detriment to the scheme and where they would have good reason to believe that scheme members would support their decision.

5. INVESTMENT STRATEGY STATEMENT (ISS)

5.1 The RBKC Pension Fund ISS notes that ESG will be considered in investment decisions. RBKC ensures that fund managers have their own ESG policy and provide regular updates as well as TCFD reporting.

5.2 It should also be noted that the Pension Fund is a member of LAPFF which is one method used to exert an influence on investee companies. The Fund believes that active ownership can help ensure positive change.

FOR INFORMATION

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LIST OF APPENDICES:

Appendix 1: RBKC AA Climate Emergency 2022/2027