

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

INVESTMENT COMMITTEE – 26 JULY 2022

JOINT REPORT BY THE GREEN CHAMPIONS NETWORK AND CLIMATE CHANGE TEAM

The purpose of this report is to set out the intentions of the Green Champions Network at RBKC and the Council's Climate Change team to support the Investment Committee to align its operations to meet the Council's commitment of net zero by 2030. This will require an investigation into how the Council can reinvest its pension funds in line with the net zero carbon target by 2030. The report highlights the suggested key activities to be considered by the Investment Committee alongside the timescales associated with this.

FOR INFORMATION**1 RECOMMENDATION**

1.1 The Investment Committee is asked to:

Consider the contents of this report in light of the Council's objectives in the Climate Emergency Action Plan (2022-2027) and commit to researching and exploring the potential to reinvest in alternative, cleaner and responsible investments with comparable returns within the next 12 months.

2 BACKGROUND

- 2.1 Investment in fossil fuels threatens our local communities by fuelling climate change, which is linked to extreme weather events. In the context of the Borough of Kensington and Chelsea, we can expect to see a range of local impacts that include more frequent flooding from torrential rain, excessive run-off and overflowing drains, plus hotter summers and droughts.
- 2.2 There is increasing concern amongst the public about climate change. Research on the behalf of the Conservative Environmental Network has found that consistently across age, region and voting behaviour, 69% of the public would view a failure to tackle climate change and pollution in a post-Covid economy as 'a sign that the government has the wrong priorities'.¹
- 2.3 The RBKC Climate Emergency Action Plan 2022-2027 outlines 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 the RBKC Pension Fund.
- 2.4 Several reports have shown that a fossil free portfolio can yield equivalent or even higher returns for investors. For example, a study by data provider Morningstar examining the long-term performance of a sample of 745 Europe-

¹ [Our Polling — Conservative Environment Network \(cen.uk.com\)](https://cen.uk.com)

based sustainable funds shows that the majority of strategies have done better than non-ESG funds over one, three, five and ten years². Similarly, research conducted in 2021 by two major financial management firms, BlackRock and Meketa, both concluded that that investment funds have experienced no negative financial impacts from divesting from fossil fuels³.

- 2.5 The Green Champions is an internal network comprising over 30 officers from different departments across the Council. They are passionate about environmental issues and are working collaboratively on initiatives aimed at greening our offices and workplace practices. Their aim is to ensure that the Council's net zero by 2030 agenda is embedded in all the decision-making processes and workstreams.
- 2.6 RBKC's Climate Emergency Action Plan 2022 – 2027 is shown in Appendix 1.

3 REPRESENTATIONS FROM THE GREEN CHAMPIONS

- 3.1 As the world transitions towards a low-carbon economy and fossil fuels become increasingly redundant, pension funds linked to the industry face a risk from stranded assets.
- 3.2 Market changes and future risk make reinvestment a financially sound decision. Renewable energy technology is getting cheaper with most solar and wind energy projects cheaper than fossil fuels⁴.
- 3.3 The UK, along with nearly 200 countries signed the Paris Agreement under the United Nations Framework Convention on Climate Change. This legally binding international treaty sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2.0°C and to pursue efforts to limit the temperature increase to 1.5°C relative to pre-industrial times. Action by governments to limit carbon emissions in line with this target will leave fossil fuel reserves unburnable⁵.
- 3.4 Mark Carney, the former Governor of the Bank of England has cautioned that fossil fuel companies face potentially huge losses arising from action on climate change, making the oil, gas and coal industries a risk to investors.
- 3.5 Continuing along the current trajectory may pose a dangerous long term financial risk to investors. Continued investment in fossil fuels pose material financial risks to portfolios, and funds have fiduciary duties to consider the benefits of decarbonising as part of their investment strategies. Pension funds also have a legal obligation to treat members “fairly as between them”⁶. This means taking seriously the longer-term interest of younger members who may well be affected more by the climate emergency.

² [Majority of ESG funds outperform wider market over 10 years | Financial Times \(ft.com\)](#)

³ [IEEFA: Major investment advisors BlackRock and Meketa provide a fiduciary path through the energy transition | IEEFA](#)

⁴ [Building New Renewables Is Cheaper Than Burning Fossil Fuels - Bloomberg](#)

⁵ [Unextractable fossil fuels in a 1.5 °C world | Nature](#)

⁶ [Pensions and Climate Change | UNISON National](#)

- 3.6 As of 2022, the Task Force on Climate Related Financial Disclosures (TCFD) will require private sector pension funds to report on financial risks of climate change within the pension fund portfolio. Although this does not currently cover the LGPS funds, the government has expressed opinion that LGPS will also have to meet these new requirements at some stage.
- 3.7 According to the Law Commission of England and Wales, the primary aims of an investment strategy is to “secure the best realistic return over the long term, given the need to control for risks”. The legal emphasis here is clear: investing in companies with no long-term plan, is not consistent with the funds’ legal duties. There is significant evidence highlighting that fossil fuels are of high risk and low long-term value, hence why it is important to review the Council’s investment strategy.
- 3.8 Leading UK barrister and pensions expert, Keith Bryant QC, has confirmed that, where climate risks carry material financial implications for fund performance, pension fund trustees must take those risks into account in investment decisions. Therefore, a failure to consider such risks would be in breach of their legal duties⁷.

4 APPROACH OPTIONS

- **Option 1:** Continue business as usual. **This option is not recommended** as it does not align with the Council’s net zero carbon by 2030 target and the new Climate Emergency Action Plan (2022-2027).
- **Option 2:** Investigate options for transitioning towards low carbon investments over the next 12 months with a view to develop a plan that aligns with the commitments made in the Climate Emergency Action Plan (2022-2027). **This option is recommended.**

5 KEY ACTIVITIES AND ASSOCIATED TIMESCALES

- 5.1 If Option 2 above is agreed, the Green Champions are proposing to support the Investment Committee in the following activities:
- Undertake consultation with current and former employees of RBKC through surveys and workshops to gauge appetite for the greening of pensions within the next three to six months.
 - Working in partnership with the Tri-Borough Treasury and Pensions Team, develop a proposal for the pension fund’s future investment priorities, ensuring investments labelled as ESG are genuine alternatives and not simply greenwashing. A carbon mapping of the Fund’s equity and property investments, including metrics such as carbon intensity, carbon emissions, stranded assets, and energy transition should also be carried out by Kensington and Chelsea Council.

⁷ [Pension trustees could face legal challenge for ignoring climate risk – leading QC confirms | ClientEarth](#)

- Produce a Responsible Investment Statement for the Kensington and Chelsea Pension Fund which outlines the approach to investing responsibly. This includes the integration of environmental, social and governance (ESG) factors as part of the Pension Fund's investment strategy.
- Hold 'Lunch and Learn' activities which seek to provide employees information on the benefits and risks of the greening of pensions – within the next six months.
- Continue to undertake preliminary research on the financial consequences of shifting to greener investments, assessing the risk and return posed by such investments.
- Explore successes and failures of public and private sector attempts to reinvest in green initiatives within the next three months.

FOR INFORMATION

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LIST OF APPENDICES:

Appendix 1: RBKC Climate Emergency Action Plan 2022 – 2027