

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 11**

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**CLIMATE CHANGE INITIATIVES AND NET ZERO TARGET**

**Reason for this Report**

1. This report has been prepared for the Committee to provide an update on climate change reporting initiatives and to consider the setting of a “Net Zero” target for the Fund.

**Background**

2. The Council, as Administering Authority of the Fund, has a fiduciary duty to manage the assets of the Fund responsibly on behalf of its beneficiaries and other stakeholders. LGPS Funds are required to set out how Environmental, Social and Governance (ESG) considerations are taken into account in preparing their Investment Strategy Statements. They may incorporate non-financial factors into the investment process provided that doing so would not involve significant risk of financial detriment and would be supported by the majority of fund members.
3. Previous meetings of the Pension Committee have been updated on recent developments targeting a reduction in the Fund’s Carbon Footprint. In particular the joint meeting of the Pension Committee and Local Pension Board held on 11 January 2022 received an update on Climate Change and Environmental, Social and Governance (ESG) initiatives. This report highlighted a number of initiatives including:
  - The significant investment, c20% of the Fund value, into the BlackRock Passive Low Carbon Equity fund.
  - Enhanced engagement with Companies and Investment Managers in particular through the appointment of Robeco as the WPP Voting and Engagement Advisor but also highlighting the engagement activity through the Fund’s membership of Local Authority Pension Fund Forum (LAPFF)
  - Forthcoming Fund investments into the WPP’s Sustainable Equity sub-Fund and (open ended) Infrastructure sub-fund.
4. The agenda for today’s meeting includes a revised Investment Strategy Statement (ISS) where the updated document reflects the continuing development of the Fund’s investment strategy to incorporate on-going concerns on ESG issues including climate change risks.

**Issues**

5. In response to the increasing concerns about rising greenhouse gas (GHG) emissions and the goal, outlined in the “Paris Accord” to limit global warming to 1.5°C compared to pre-industrial temperatures by 2050 a number of organisations have set “Net Zero” targets. This includes Cardiff Council, the Administering Authority, whose “One Planet Strategy” sets out the Council’s plan to be a carbon neutral local authority by 2030.
6. With regard to the other seven Welsh LGPS Funds three of the Funds have currently set Net Zero targets with their target years as follows:
  - Swansea 2037 target
  - Clwyd 2045 target
  - Gwynedd 2050 target

7. Information on reporting ESG issues and in particular Carbon related scores is improving across the portfolio but data availability is not complete with variations geographically and between asset classes. For example, the December meeting of the WPP JGC received a Responsible Investment and Climate Risk Report for a number of the WPP sub-funds. Weighted Average Carbon Intensity (WACI) is a metric widely used to measure a portfolio carbon intensity by expressing tons of CO<sub>2</sub> emitted per \$ million of revenue and the following results were reported at that meeting.

Sub-Fund	Fund WACI	Benchmark WACI	Data Availability
UK Opportunities Equity Fund	95.1	124.4	94%
MAC Fund	409.9	390.3	21%
Emerging Markets Equity Fund	262.0	263.6	91%

8. The Department for Levelling-Up, Housing and Communities (DLUHC) consultation on the application of the Taskforce for Climate-related Financial Disclosures (TCFD) to LGPS funds closed in Autumn 2022 and the outcome from that consultation has yet to be published. Based on the obligations imposed on large Corporate Pension Schemes it is apparent that the analysis and reporting of climate related information will become much more significant for this Fund. This will include conducting scenario analysis to assess the impact of climate-related risks and opportunities using at least two scenarios, one of the scenarios will be a 2 degree or lower temperature rise scenario. This scenario analysis must take place at least once every valuation cycle. The Fund Actuary, Aon, has included scenario analysis as part of the March 2022 valuation exercise which is to be completed before 31 March 2023. As the Fund is starting for a relatively low baseline in terms of climate-related data it has asked Aon for this valuation to include analysis for the following 5 Scenarios :
  - Scenario 1: Orderly transition, the Paris aligned scenario 2 degrees or lower
  - Scenario 2: Disorderly transition with delayed and limited action with insufficient consideration given to long term policies to manage global warming.
  - Scenario 3: No transition with no new climate policies being implemented
  - Scenario 4: smooth transition with rapid advancement of technology and government action to allow upside benefits of climate change to be considered.
  - Scenario 5: Abrupt transition with action delayed for 5 years with more frequent extreme weather events.
9. Setting a Net Zero target will be a resource intensive activity for the Fund, all three of the Welsh Funds listed in paragraph 6 have engaged external advisors to assist in the setting

of their net zero targets. The expectation is that additional specialist external resources will need to be engaged by the Fund to facilitate the setting of a Net Zero target as well as the future additional climate related obligations that will fall onto the Fund. For the setting of a Net Zero target activity will be required in the following areas:

- The choice of metrics that the Fund will use to measure its progress against its chosen Net Zero target.
- The aggregation of the baseline data to identify the current carbon intensity of the Fund
- The chosen target and the implication for the Fund if it attempted to achieve the target say 5 or 10 years earlier.
- The “roadmap” to reaching Net Zero and the identification of interim targets that will measure the Fund’s progress on this journey.
- The “roadmap” would require periodic review with appropriate adjustments to maintain progress on the journey to the target.

10. It is suggested that the next stage of the potential Net Zero journey should be that officers undertake further research, including external support where appropriate, to identify the resource implications and potential timescales involved and report back to future Pension Committee meeting(s). It is anticipated that the specialist external resources referred to in the previous paragraph will be procured from the LGPS Procurement Framework.

## **Legal Implications**

11. The body of the report has been prepared to update the Committee on recent developments related to climate change reporting initiatives and to consider the setting of a “Net Zero” target for the Fund.
12. The decision maker will need to be satisfied that the proposed net zero investment accords with the Fund’s approved investment strategy and any relevant guidance issued. It is understood that relevant professional advice will be undertaken in relation to the appropriateness of proposed investments and the decision maker should have due regard to all material considerations prior to proceeding with any decision affecting the Fund and/or any adopting any policies that may affect the Fund.
13. To the extent that any proposed additional specialist external resources will need to be engaged involves the procurement of services then the Council must comply with its Contract Standing Orders and Procurement Rules and procurement legislation.
14. The report refers to a public consultation exercise having been undertaken on the application of the Taskforce for Climate-related Financial Disclosures (TCFD) to LGPS funds. It should be noted that any consultation responses must be conscientiously taken into account when finalising the relevant decision as a consultation exercise gives rise to the legitimate expectation that due regard will be given to the outcome of the consultation in determining the way forward.
15. In considering this matter the decision maker should have regard to the general legal advice set out below.

### General Legal Advice

Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the

procedural requirements imposed by the Council e.g. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 (“the Act”) places a ‘well-being duty’ on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2022-25.

The well-being duty also requires the Council to act in accordance with ‘sustainable development principle’. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: <http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en>

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

## Financial Implications

16. All costs arising from the management of the Pension Fund's investments are charged to the Fund.

## **Recommendations**

17. That the Committee:
  1. Notes the Climate Change reporting initiatives that have taken place or will be in the near future.
  2. Agrees for officers to undertake further research to scope a journey to Net Zero for the Fund.
  3. Agrees that the Corporate Director Resources in accordance with the Council's Scheme of Delegations may determine all aspects of the procurement process for the appointment of appropriate specialist external advisors (including approving the evaluation criteria to be used, and authorising the award of the contracts) and all ancillary matters pertaining to the procurement and proposals above.

**CHRISTOPHER LEE**  
**CORPORATE DIRECTOR RESOURCES**