

Item No. 12.	Classification: Open	Date: 12 September 2023	Meeting Name: Cabinet
Report title:		Response to Environment and Community Engagement Scrutiny Review: Financing Southwark's Green Transition	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor James McAsh, Climate Emergency, Clean Air and Streets	
Deputy Cabinet Member:		Councillor Emily Hickson, Climate Finance	

FOREWORD – COUNCILLOR EMILY HICKSON, DEPUTY CABINET MEMBER FOR CLIMATE FINANCE

Green finance globally is steadily rising. According to the Climate Policy Institute public and private climate finance almost doubled between 2011 and 2020. However, the scale of the challenge remains vast. Reaching global climate objectives will require climate investment to increase at least 7x by 2030, as well as the alignment of all other financial flows (such as government subsidies) with Paris Agreement objectives.

The gap between availability of green finance and the scale of the challenge is true in Southwark too. We estimate financing the borough's climate emergency strategy and action plan will require around £3.92bn in capital expenditure. To meet this, Southwark will require considerable government investment, but will also need to be creative in leveraging finance to flow to not just the council, but the borough's institutions, residents and businesses to help them decarbonise.

This report highlights many of those opportunities to 'get creative' (and here I declare an interest in its conclusions, having sat on the Environment and Community Engagement Scrutiny Commission in 2022/23, and thus an author of this report). Firstly, it urges the council to partner and learn - from other councils, organisations like the Green Finance Institute and our business improvement districts. I'm pleased that the council has much of this outreach and learning underway, diligently assessing the opportunity to launch community bonds and high-quality local offsetting schemes.

Secondly, it commends and urges even greater ambition from our Southwark Pension Fund. Our fund is one of only three in the country to have set a 2030 Net-Zero target. Its progress on meeting that target has been considerable, with the weighted carbon intensity of the LBS pension fund reduced by 59% in the five years to 31 March 2022. However, the fund still faces significant challenges in being able to reduce its remaining carbon-exposure as options become scarcer, and in being able to accurately assess its portfolio's scope 3 emissions due to porosity in the data.

Thirdly this report points to a need for serious leadership to meet the scale of the challenge. My appointment as Deputy Cabinet member for Green Finance, working with the Cabinet member for the Climate Emergency, was a great leap forward. Yet green finance must be a whole-of-council agenda. Green finance will not sit in a vacuum in the next decade. Spending to reduce emissions will also be spending to improve resident's lives and meet our other council priorities – whether it be by improving school buildings or investing in our green spaces to reap the co-benefits for health and livelihoods. Finding the right financial products to help us achieve these multiple priorities is our greatest challenge.

I commend this report to Cabinet, and look forward to working together to further its recommendations.

RECOMMENDATION

Recommendation for the Cabinet

1. To agree the response to recommendations 1-13 as set out in the report and ask officers to undertake the work necessary to deliver these.

Recommendation for the Leader of the Council

2. To agree the response to recommendation 14.

BACKGROUND INFORMATION

3. The Environment and Community Engagement Scrutiny Commission conducted an inquiry into green finance. The commission reported to Cabinet in June 2023 with fourteen recommendations. Having considered the recommendations, the council's response is set out in this report.

KEY ISSUES FOR CONSIDERATION

4. The council has declared a climate emergency and committed to doing all it can to make the borough carbon neutral by 2030. In responding to the emergency, we have carried out work to better estimate the cost of meeting this commitment, which in 2021 was £3.92bn. As our strategy sets out, the council does not have the resources for this and so requires considerable government investment, and also needs to consider other sources of income into the council and the borough to enable Southwark to decarbonise.
5. The council warmly welcomes the work of the commission. Climate finance is incredibly important, as it is clear that government will not provide the funding required for the country to reduce its dependence on fossil fuels and build a more suitable carbon neutral future. We must therefore look at other ways of funding the transition.
6. The council welcomes the breadth of issues that the commission has considered. Some areas such as the introduction of bonds are already

under active consideration as set out in the response below.

7. There are a number of points raised in the report that reference the Pension Fund, with an inference that the Fund should be contributing to the financing of Southwark's green transition. All investment decisions made by the Pensions Advisory Panel (PAP) and where relevant officers, are made within the broader risk management framework of the Southwark Pension Fund (SPF). This determines the Strategic Asset Allocation of the Fund which, in turn, is set to ensure that investment returns (combined with net contributions received into the Fund) are sufficient to pay pensions over the long-term.
8. As at March 2023, the SPF had a carbon footprint 60% lower than September 2017 – this has been achieved by managers being given clear mandates to enable the SPF to reduce the carbon footprint.
9. Since March 2023 the following changes to the SPF have been made:
 - i) Active global equity portfolio (total value c£260m or 13% of the total assets held by the fund): amendments to the manager's objectives that reduced the portfolio's emissions by 20%, with an expectation of further improvements to the emissions profile over time as the holdings in the portfolio have high net zero credentials, i.e. the manager is investing in companies with credible transition plans to reduce emissions and align with a credible emission reduction pathway.
 - ii) A multi-asset credit manager has been appointed for a £100m mandate which will invest in line with a Paris aligned benchmark and is expected to have a 7% year-on-year decarbonisation pathway. To do this, the manager will assess companies on their current and future impact on climate change, including the commitment to investing in the transition.
10. The SPF will continue to assess all opportunities to work collaboratively with third parties, including the London CIV. This will align to the government's expectations on the future direction of LGPS pooling (including investing to progress the levelling up agenda).

RESPONSE TO RECOMMENDATIONS

Recommendation 1

Explore partnering with the Green Finance Institute to bring forward the following programmes:

- i) Integrated Retrofit Finance: Incorporating attractive private financial options into retrofit programmes in the community.*

ii) Green Mortgage Campaign: Collaborating with local and national mortgage lenders, brokers and influencers. GFI's campaign aims to increase awareness and engagement across the market.

iii) Local Climate Bonds (LCBs): A debt instrument issued by Local Authorities to raise capital to fund their net-zero and low-carbon projects.

iv) Green Rental Agreements (GRAs): Innovative form of rental agreement to address the 'split incentive' between landlords and tenants to collaborate on environmental issues/improvements in privately rented homes.

v) Property Linked Finance (PLF): A new, innovative financial instrument that enables homeowners to receive financing to support 100% of the upfront costs for a retrofit project.

Response to Recommendation 1

11. We welcome the work of GFI and will consider their expertise across a range of areas. We have already met with them, for example, to discuss Green Climate Bonds in Southwark. We are very open to partnering with GFI and others where work they are doing aligns with the climate action plan and the council's climate priorities.
12. While we are open to exploring opportunities, we do need to consider where to best allocate time and resource and where the involvement of Southwark or a council can have the greatest impact. In some of the examples here, while we would not oppose the work, we would be concerned about focusing resource on it, which would mean moving that same resource from another area of the council's climate work where we could have greater impact.
13. We are considering the idea of a local climate bond (see recommendation 2 below). If we do launch a bond in Southwark we would also make the GFI local bond pledge. With the other areas outlined, we are not considering partnering at this time. We expect to make an announcement on this later this year.
14. Some of these, such as Property Linked Finance are at a very early stage, where GFI are looking for banking partners. We do not consider it is a council priority to invest resources in supporting GFI and banking partners to develop this financial instrument, but if they are successful it is something we could consider promoting to support residents.
15. Similarly with the Green Mortgage Campaign we need to consider where to best allocate its lobbying and campaigning resources. While we do not disagree with the development of better green mortgage products, we do not think that we should divert campaign resources to this area as there are other campaigns where we consider our involvement can lead to a greater impact.

Recommendation 2

Launch a Municipal Climate Bond to generate investment in projects that will help the Council to achieve its net zero target. The Commission recommends that the Council explores the most appropriate projects to be financed by a Municipal Climate Bond, recognising that these will need to have tangible environmental and community benefits.

Response to Recommendation 2

16. The Council has already met with GFI on this issue. The introduction of a green climate bond is an idea that we are actively considering. The council has a commitment in the council delivery plan to “launch Southwark Green Finance, to create new ways for local people and businesses to invest in making our borough net zero”. The Leader appointed a new Deputy Cabinet Member for Green Finance in May and she is considering Bonds, alongside other options to meet this commitment. While a final decision has not been made whether this will be a bond, we expect proposals to be published later this year.

Recommendation 3

Build on the research by Leeds University (see its report Financing for Society), and partner with 3ci or similar organisations, to build a green projects pipeline. This will identify potential environmental projects that address the Climate Emergency, both within the Council’s own operations and with partners, which can be delivered utilising the most appropriate sources of funding, including from investment institutions, PWLB, Municipal Climate Bonds, issuing of community shares, donations/crowdfunding and others.

Response to Recommendation 3

17. The council is already working with 3Ci through London Councils. We have suggested projects for the national green projects pipeline and will continue to do so. We will also consider developing a forward-looking overview which addresses our potential climate and environmental projects and their possible future sources of green finance.

Recommendation 4

The council employ a project director with a commercial background in social enterprise or similar, to bring forward a green project pipeline, with the expectation that this role would pay for itself.

It is recommended that this role includes the responsibility of collaborating with the Greater London Authority to bring forward a project pipeline at the city level. This person could work to ensure select Southwark projects are prioritised within this pipeline, whilst also building a Southwark-level pipeline in accordance with appropriate measurement/ performance metrics

Response to Recommendation 4

18. Staffing is a matter for the Head of the Paid Service. Officers keep staffing under review, including whether we have the right skill set to deliver the council's climate ambitions. We are asking officers to note this recommendation in relation to any future discussions about the skills mix required in the climate team and wider council. As noted in recommendation 3, the council is already contributing to a green project pipeline. Within the council we will continue to develop projects to ensure a pipeline of deliverable climate change projects.

Recommendation 5

Develop a Green Finance Framework, which would serve as a voluntary governance standard, setting out how Southwark Council would manage its green financial instruments and projects in the future, and outline how they would be classified as 'green'. These frameworks are essential as they assure investors that funds raised would only be used to help deliver eligible green projects as outlined within the framework. A third-party could monitor the use of funds and provide third-party certification that funds are being used to finance projects with genuine environmental benefits as laid out in the framework, to build and maintain investor confidence.

Response to Recommendation 5

19. We note the recommendation. Officers are exploring this. We note that Westminster City Council have recently published their Green Finance Framework and officers in Southwark are in contact with them about how this has worked in practice to see if this is something which we should develop in Southwark.

Recommendation 6

Investigate, in collaboration with other boroughs, whether the price per tonne of CO2 equivalent set in the Council's current carbon offset policy is at the correct level. The Commission recommends that the level set is reassessed on an annual basis.

Response to Recommendation 6

20. We agree that we need to review the price per tonne of CO2 in the council's current offset policy. Officers are currently reviewing this as part of the climate emergency review of the Southwark Plan.

Recommendation 7

Partner with the London Bridge Business Improvement District (BID) to support its carbon offset initiative, as well as other suitable community partners, including the remaining BIDS located in Southwark, as appropriate.

Response to Recommendation 7

21. We note the recommendation. Officers have already started work on how a carbon offset initiative could work for Southwark. This includes officers speaking with colleagues in local BIDs which have already taken place. While there are many challenges to developing a successful local offset scheme, we do think this is an area that is worth exploring and will continue to do this with the hope of bringing forward a viable scheme which could include local partners. Scoping is taking place and officers will bring a paper to the Deputy Cabinet Member this year to explore options.

Recommendation 8

Join and/or learn from successful coalitions and initiatives that can maximise the impact that Pension Funds can have on decarbonising the real economy, as well as their own portfolios.

Response to Recommendation 8

22. We are proud that Southwark is leading the way in decarbonising its pension fund.
23. LBS PF has been a member of the Local Authority Pension Fund Forum (LAPFF) since 2006. The LAPFF promotes the highest standards of corporate governance to protect the long-term value of local authority pension funds. Some £350bn of LGPS fund assets are under the advice of the LAPFF, which is a member of Climate Action 100.
24. Day to day management of the Pension Fund's assets is delegated to fund managers. These managers are members of multiple coalitions/initiatives. Examples:
 - Climate Action 100: Blackrock, Comgest, Invesco, LGIM, (London CIV), M&G, Newton, Nuveen, Robeco – collectively, these managers cover 100% of all listed assets held by the Pension Fund and c 90% of all assets.
 - SBTi: this is a partnership organisation that encourages investee companies to set Science Based targets in line with their Net Zero commitments. Fund managers often reference the SBTi when evaluating a company's underlying value ahead of investing.
25. Officers regularly attend conferences and seminars which address broader ESG matters together with a specific focus on the decarbonisation of portfolios.
26. The London LGPS funds meet on a monthly basis to discuss areas of best practice and practical steps that can be made to progress the wider ESG agenda, including a Just Transition to Net Zero.

27. The LBSPF is one of only three LGPS funds with a 2030 Net Zero target. To the best of our knowledge, no corporate Defined Benefit schemes have such a challenging target in place.

Recommendation 9

Southwark Pension Fund makes use of Carbon Tracker's research on S curves and the risk of stranded assets for incumbent fossil fuel-based companies, as demand peaks and alternative low-carbon products come to market, with a view to making the most of these investment opportunities in growing green industries.

Response to Recommendation 9

28. As mentioned in the response to recommendation 8, the day-to-day management of portfolios is delegated to fund managers who use a variety of tools to assess the long-term viability of underlying investments in their portfolios, including an assessment of sector, country and macro risks. At a company level this will include the potential for company assets to become stranded, which is a detractor of long-term value.
29. LBS PF has been actively investing in the energy transition and growing green industries since 2019, when commitments were made to renewable infrastructure funds run by Temporis Capital and Glenmont Partners. As an example, the Temporis Operational Renewable Energy Strategy (TORES) invests in windfarms across the UK.

Recommendation 10

Southwark Pension Fund's existing plans to move Equity (active and passive) to low carbon funds also take account of a) global markets that are high carbon b) risks and opportunities that exist in fossil fuel dependent industries as they shift to renewables.

Response to Recommendation 10

30. As in recommendation nine, the day to day management of portfolios is delegated to fund managers who use a variety of tools to assess the long-term viability of underlying investments in their portfolios, including an assessment of sector, country and macro risks. At a company level this will include the potential for company assets to become stranded, which is a detractor of long-term value.
31. Within the listed asset allocation (i.e. equities and fixed income), the majority of managers have performance benchmarks that either reference Net Zero, carbon reduction or the energy transition. To fail to take into account the risks to global markets that are high carbon would mean that managers risk failing to meet their performance objectives. In addition, managers also reference company specific risks when constructing a portfolio.

32. For example, the global equity mandate that has been managed by Newton since 2007 moved to the following objective in April 2023: “The Manager will seek to outperform the FTSE ALL World Index (net of fees) over rolling 5-year periods through investing only in companies assessed by the Manager as having credible transition plans to reduce emissions and align with a “below 2°C” or “net zero 2050” emission reduction pathway.”
33. In line with the Fund’s Zero Carbon investment strategy, any new managers that are appointed (either directly or via the London CIV) must result in an improvement in the Fund’s carbon footprint. In March 2023, the Pensions Advisory Panel agreed to invest in the Robeco Climate Global Credits fund, an active global credit strategy which is focused on delivering attractive, above benchmark, returns with a lower carbon intensity and investing in line with a Paris aligned benchmark.
34. In addition, private market funds that are added to the Fund’s ESG priority allocation are predominantly related to opportunities in the energy transition. For example, Temporis Renewable Energy Fund.

Recommendation 11

Southwark Pension Fund explores and reports back on the potential to incorporate Scope 3 emissions into its definition of net zero carbon exposure recognising that this is particularly crucial for sectors where the majority of emissions are Scope 3 (downstream) such as the automotive and chemicals sectors.

Response to Recommendation 11

35. Officers of the Fund are in constant dialogue with their third party carbon data provider, investment consultant and fund managers about the potential to incorporate Scope 3 emissions within targets and mandates. A review of the data provider is currently taking place and we are discussing the potential to incorporate Scope 3 emissions in our carbon footprint calculations. We are, however, mindful of the global data challenges in sourcing this information on a consistent basis but will ensure that we can incorporate the data as and when it becomes available.

Recommendation 12

Southwark Pension Fund explores collaborating with other London local authorities on the divestment journey to bring forward a London CIV sustainable green infrastructure fund to increase community wealth building and make the most of London and UK investment opportunities, such as District Heating Networks, renewable energy generation and retrofit.

Response to Recommendation 12

36. Any investment decisions made by SPF consider the offerings of the

London CIV, provided that the offerings enable SPF to meet the dual objectives of meeting the central Strategic Asset Allocation of the Fund and its Net Zero 2030 objective.

37. The Pension Fund will continue to evaluate all opportunities to invest via LCIV: this will include the opportunities to access investment products that invest in London/the UK. This is in line with government expectations, as articulated in the LGPS pooling consultation that was issued on 11 July 2023: that LGPS Funds will publish a plan on how they will invest up to 5% of assets in projects that support “levelling up” across the UK. Investing via LCIV may also help overcome the potential conflicts of interest associated with investing within the Fund geographic area, which is also referenced in the pooling consultation.
38. However, it should be noted that there are no barriers to the Fund’s investment managers investing within London and the UK, assuming that there is an investment case to do so.
39. Amongst the current suite of products available on LCIV we are aware of a renewable infrastructure fund but at the time that the LCIV was raising capital for this, SPF was fully invested in the ESG priority allocation to sustainable infrastructure.
40. As mentioned in the response to recommendation eight, The London LGPS funds meet on a monthly basis to discuss various issues of concern. Representatives of LCIV attend these meetings to update on future product launches and to receive feedback from the underlying funds on how the products are designed to meet their collective objectives.

Recommendation 13

Celebrate and publicise the success of Southwark Pension Fund divestment and decarbonisation to date, and ensure the message is one of a commitment to take a collaborative approach to divest from high carbon assets and invest in the growth of a cleaner, greener, and more socially equitable economy, in line with our declaration of a Climate Emergency and commitment to a Just Transition.

Response to Recommendation 13

41. The Pension Advisory Panel receives a quarterly report on the progress to implement the Zero Carbon strategy and a carbon footprint update. Both of these papers are in the public domain.
42. In recognition of the significant progress made in implementing the zero carbon investment strategy, officers made a submission to the LAPP Investment Awards (Sustainable Investment Strategy – Climate).
43. The entry covered:

- how LBS pension fund formally recognised climate related risks and opportunities in 2017 and subsequently set an ambitious and challenging target of Net Zero by 2030.
 - that LBS pension fund has reduced the carbon footprint of the portfolio by investing in new opportunities thus increasing diversification while achieving strong returns.
 - that the Weighted Carbon Intensity of the LBS pension fund reduced by 59% in the five years to 31 March 2022, and during this time it achieved an investment return of 5.8% p.a., ahead of the local authority average of 5.6%.
44. The Southwark Pension Fund has been shortlisted for this award together with Avon Pension Fund, Newham Pension Fund and Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC). The winner will be announced in September.

Recommendation 14

In consideration of the pivotal role that Green Finance will play in achieving our aims within the Climate Emergency Action Plan, the Leader of the Council should ensure that this area is given due prominence in allocations of Cabinet level capacity and responsibility.

Response to Recommendation 14

45. Southwark Council has a cabinet member with responsibility for tackling the climate emergency. This is not the case in many other councils. In addition, in May, the Leader appointed the borough's first Deputy Cabinet Member for Green Finance. This was in recognition of the importance of green finance within the climate change portfolio and means additional cabinet level engagement and leadership on this issue.

Policy framework implications

46. The council's response to the climate emergency is set out in the council climate strategy and action plan. This is updated annually and the actions reviewed. As set out in this report, some of these recommendations include action which is currently being undertaken as part of the climate strategy.

Community, equalities (including socio-economic) and health impacts

Community impact statement

47. The council recognises the need to continue to work with our local community on climate change, ensuring our work is developed in partnership with local residents, businesses and other stakeholders. The update to the climate strategy which was agreed by Cabinet in July 2023 strengthen our community engagement. As detailed in this report, some of the recommendations include greater collaboration with our community. Any proposals that are taken

forward will fully consider the wider impact on our community.

Equalities (including socio-economic) impact statement

48. While everyone is affected by climate change, the extent of that impact is not equal. Climate change has the biggest impact on those who are poorer or have underlying health conditions. Black, Asian and Minority Ethnic residents are disproportionately affected, and social justice must be at the centre of our approach. The council's climate action plan includes a full equalities impact assessment to ensure that our work considers equality. Any proposals taken forward will include further equalities impact assessment and will need to align with the principles set out in the climate strategy – particularly to support a just transition.

Health impact statement

49. There are no direct health implications from this report. However, as with equalities, people with poorer health are more adversely affected by climate change. Action towards climate change can promote improvements in health, for example by reducing pollution, mitigating against extreme temperatures, and encouraging active travel.

Climate change implications

50. This report directly addresses climate change and sets out the council's response to the scrutiny commission's recommendations. This will strengthen our climate change response and improve the work that the council does to tackle the climate emergency.

Resource implications

51. The work outlined in this report is being carried out within existing resources.

Legal implications

52. There are no legal implications from this report.

Financial implications

53. Some of the proposals in this report could lead to an increase in resources available for the council to support its work of tackling the climate emergency.

Consultation

54. There is no planned consultation associated with this report. However, any proposals that are developed will be subject to appropriate consultation.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Assistant Chief Executive – Governance and Assurance

55. Not required

Strategic Director of Finance (FIN23/24)

56. The Strategic Director of Finance welcomes the Environment and Community Engagement Scrutiny Commission report that highlights the success of the Southwark Pension Fund divestment and decarbonisation to date. It is also noted in the responses to the recommendations that the Fund faces significant challenges in being able to reduce its remaining carbon-exposure as options become scarcer and accurate data is increasingly difficult to obtain.
57. The Strategic Director of Finance notes the gap between the council's commitment to make the borough carbon neutral by 2030 and the estimated cost of meeting this commitment of £3.92bn.
58. The Strategic Director of Finance agrees with the responses to the recommendations that seek to explore external funding sources to meet this commitment, together with keeping council staffing requirements under review

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Report of the Environment and Community Engagement Scrutiny Commission - Financing Southwark's Green Transition Scrutiny Review Report	Constitutional Team Southwark Council 160 Tooley Street SE1 2QH	Constitutional.team @southwark.gov.uk
Link (please copy and paste into browser): https://moderngov.southwark.gov.uk/documents/s114681/Appendix%20A%20Climate%20Finance%20%20Financing%20Southwarks%20Green%20Transition%20scrutiny%20review.pdf		

APPENDICES

No.	Title
None	

AUDIT TRAIL

Cabinet Member	Councillor James McAsh, Climate Emergency, Clean Air and Streets	
Deputy Cabinet Member	Councillor Emily Hickson, Deputy Cabinet Member for Green Finance	
Lead Officer	Chris Page, Climate Change and Sustainability Director	
Report Author	Chris Page, Climate Change and Sustainability Director	
Version	Final	
Dated	31 August 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	Yes	No
Strategic Director of Finance	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		31 August 2023