

Croydon Council

REPORT TO:	Pension Committee 9 May 2019
AGENDA ITEM:	
SUBJECT:	Environmental Impact of the Croydon Pension Fund
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Resources
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: Achieving Environmental, Social and Governance (ESG) goals within the framework of fiduciary responsibility.	
FINANCIAL SUMMARY: This report considers the environmental impact of certain investments that are part of the Pension Fund. These are assessed outside of any consideration of returns generated. ESG considerations are important and reflected in the Council's Investment Strategy Statement.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

- 1.1 That the Committee note the appended discussion paper prepared by Mercer on the role of Environmental, Social and Corporate Governance factors in setting the Investment Strategy, in particular with regards to the Fund's carbon footprint.
- 1.2 That the Committee give consideration to the next steps set out in paragraph 3.8 below.

2. EXECUTIVE SUMMARY

- 2.1 This report sets out the current position in respect of the Pension Fund and ESG factors. It provides context by describing the portfolio's investment in green electricity. Introducing Mercer's note on decarbonising the portfolio the report suggests next steps to implement a revised investment strategy.

3 DETAIL

- 3.1 As the Administering Authority for the LGPS the London Borough of Croydon Pension Fund Pension Committee agreed a statement of Investment Principles at its meeting of 18 September 2018 (Minute A50/18).
- 3.2 This statement sets out the Committee's position with respect to ESG matters. The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.
- 3.3 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.
- 3.4 The Fund will only invest in investments with a strong environmental, social and governance policy that includes no tobacco investments. The Fund will disinvest from existing fossil fuel investments in a prudent and sensible way that reflects the fiduciary responsibility due to stakeholders. Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these issues. Examples of this approach include investing in renewable energy projects, screening out regional markets where there might be issues with modern slavery, and looking to explore opportunities to contribute to and invest in the Borough.
- 3.5 The Pension Fund investment portfolio comprises three groups of assets and cash: equities, fixed interest and alternates. It is this latter category that offers the best opportunities for the Fund to positively address these issues, in particular renewable energy. The Fund is invested in the following managed group of funds, which have renewables as components, to a greater or lesser extent:

Access Capital Partners
Equitix
Green Investment Bank
I Squared
Temporis

- 3.6 The Access fund focusses on a range of European Brownfield sites, including, for this analysis, solar and a 21.6 MW wind farm. The Green Investment Bank portfolio comprises 5 off-shore wind farms, totalling 1.45 GW. The Temporis Renewable Energy Fund comprises 6 on-shore wind farms, totalling 110.3 MW. I Squared invest in overseas renewables including hydro, wind and solar. Equitix funds include Combined Heat and Power schemes, solar and wind. Temporis and the GIB are both renewables-only funds based in the UK whereas the other funds invest in a range of opportunities that include renewables.
- 3.7 The following table provides some context; overall, clean energy generated by the
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renewable assets that Croydon is invested in represents 1,526,088 homes powered annually.

Table 1: Clean Energy Generated by Funds in which the Croydon Fund is Invested (Croydon share of Infrastructure Funds)

	Total Clean Energy Generated from Inception (Croydon Share) (MW)	Clean Energy generated per annum (Croydon Share) (MW)	Annual CO₂ Savings (Croydon Share) (Tonnes)	Number of homes powered annually from Croydon's share of fund.
Temporis	108,288.25	69,261	31,860	18,318
G I B	81,467	27,814	12,794	7,356
I Squared	40,269	22,353	10,282	5,912
Access	19,956	4,540	2,088	1,201
Total	249,980	123,967	57,025	32,787

Source: Department of Business, Energy and Industrial Strategy (BEIS). Annual average domestic household consumption is 3,781 kWh.

- 3.8 To inform this discussion Mercer, the Fund's investment advisors, drafted a note on Portfolio Decarbonisation Approaches. This note is attached as Appendix A to the report included in the closed agenda. The note considers adopting a climate change framework, setting metrics and monitoring targets. To help the Committee to define, measure and implement a portfolio that matches the criteria set out above Mercer suggests 4 next steps.

- Step 1. To undertake a fact-finding and information session on climate change and investment.
- Step 2. To undertake a fuller carbon footprint exercise.
- Step 3. To update the policy on climate change, incorporating targets and metrics.
- Step 4. To implement the policy.

- 3.9 To provide further context, included at Appendix B is the executive summary of a Mercer paper entitled 'Investing in a Time of Climate Change – the Sequel.'

4 FINANCIAL CONSIDERATIONS

- 4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

- 5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

- 6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that there are no direct legal implications arising from the recommendations within this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance and Deputy Monitoring Officer.

CONTACT OFFICER:

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BACKGROUND DOCUMENTS:

None.

Appendices: None