

The Power of Collaboration & Responsible Spending to Tackle Climate Change

CCLA
GOOD INVESTMENT



CCN Dialogues

COUNTY COUNCILS NETWORK

Investment in the current challenging context & the evolution of responsible investing and spending to tackle climate change

About CCN Partners

Partnering with the County Councils Network (CCN) offers private, public, community and third sector stakeholders' unique networking opportunities to work with council leaders and chief executives from county councils and county unitaries in England. It also gives those interested the opportunity to promote your organisations objectives, a brand or service, to deliver better community outcomes, drive industry practice forward and get your voice heard among decision makers. Our dialogues publications are a series of think pieces supported by the partners of CCN. This think piece report is sponsored by CCLA.

For more information on CCN Partners visit

www.countycouncilsnetwork.org.uk/about/ccn-partners

ABOUT CCLA

CCLA has 50 years' experience managing the investments of local authorities, helping essential public sector organisations adapt to the varied financing challenges they face.

Part of our duty to our 700 local authority clients is to aim to deliver strong long-term returns based on thorough environmental, social and governance (ESG) goals; we believe that failure to act on these considerations will not only impact our daily lives but also create market instability and poor long-term investor outcomes.



We are pleased to be working with CCN to home in what is doubtless one of the greatest challenges of our time, climate change. As investors, we have led initiatives to help companies address climate change for many years now, and while we welcome the current buzz around corporate sustainability, we are concerned that the world is still not moving fast enough.

We are working to accelerate climate action through engagements with our investee companies and we are also pushing policymakers for regulation which actively protects our planet. Simultaneously we are assessing companies' progress in the green energy transition while avoiding those that do the most harm.

Through our funds, we are owned by our clients and believe we have a fiduciary, as well as a moral duty to drive change for good. So, we seek significant positive impact through both our investment choices and our interaction with companies, aiming to safeguard our communities and our future. CCLA has over £13.8 billion of assets under management, and our funds benefit from the robust governance paramount to the third sector.

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INTRODUCTION

County and unitary councils are involved in every aspect of public life. The collective spending power is significant and makes a difference to the lives of millions across the country. Income from investments also makes an important contribution, including the local government response to the pandemic and tackling climate change.

Councils have been at the forefront of highlighting the climate challenge for many years and now that the world is listening, it can continue to push boundaries and drive solutions forward. Public policy has enabled communities to better understand the local impact and ensure that changes provide benefits for all aspects of public life.

The way we think about responsible investment, climate change and how we can harness the collective power of our resources to influence and drive systemic change will play an important part in developing our conversation on this important topic.

In October 2021, CCLA and CCN convened a round table discussion with local authority finance and treasury management experts to debate ***investment in the current challenging context and the evolution of responsible investing and spending to tackle climate change***. The roundtable considered three questions in exploring this topic;

- 1** *How has the pandemic changed thinking towards investments?*
- 2** *How does your organisation approach 'responsible investment' and is your thinking evolving or changing?*
- 3** *How should your organisation take account of climate change in its investment portfolio*

This CCN Dialogues report explores six themes arising from the roundtable discussion.

THEME 1 – DRIVERS & INFLUENCERS

The roundtable started by discussing how the pandemic has not been the driver but an influencer in shaping some the work local authorities are continuing to undertake to manage vital services and public spending. The pandemic has allowed for reprioritisation, review, re-thinking, and re-shaping of the work we do and has helped the public sector to look further beyond its own boundaries to see what more we can do to enhance the quality of life for those in our communities.

With the ultra-low interest rates alongside the current environment, this challenging backdrop has allowed for some review of strategies and policy. This has included looking carefully at utilisation of resources including diversification of assets and investments.

It is important to note that the trends were already there for shifting the way local authorities are thinking about the challenges that lay ahead but the pandemic has accelerated these. The pandemic has advanced the conversations and given rise to swifter action to tackle the climate challenge. The increased focus on environmental and social issues is now forming an even larger part of governance and decision making at a local level.

The future is about more than just responsible investment, it is about local authorities using their spending power responsibly.

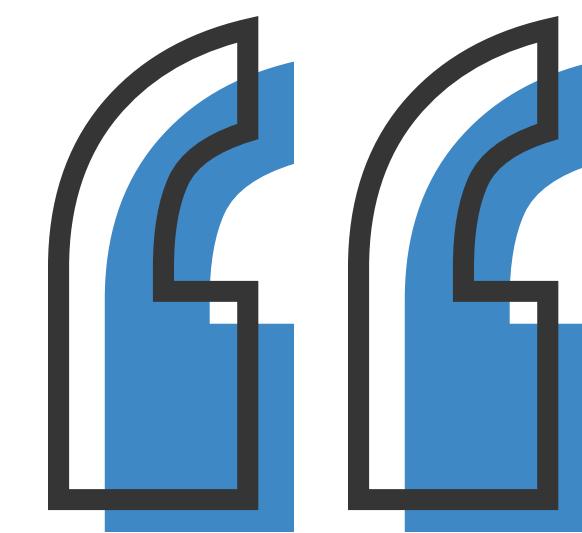
THEME 2 – BEING RESPONSIBLE

The roundtable discussed how, slowly but surely, we are changing the way we look at what local authorities invest, spend and what factors should be considered when making decisions about council expenditure and projects. All investments, spending and capital programmes are starting to look deeper at how they meet the green agenda, contribute to climate change and deliver positive social value.

There is still further understanding required about how local authorities 'define' environmental, social and governance (ESG) goals and how they can develop policy which demonstrates how councils are meeting the climate challenge and developing their approach to responsible spending.

There is an increasing drive to incorporate 'responsible/ESG approaches' into the decision-making process. The considerations and thinking around this are developing, it is great that this enhanced discussion is becoming mainstream.

The focus on this issue is coming from many different places, members, officers, and the public. The level of scrutiny and desire for information about this topic is a challenge the public sector is rising to it. ESG was previously a 'fringe' idea but is now mainstream.



All investments, spending & capital programmes are starting to look deeper at how they meet the green agenda...



THEME 3 – INNOVATION & CHANGE

The roundtable identified three ways Local government finance is working in new and innovative ways to support the push for progress on climate change.

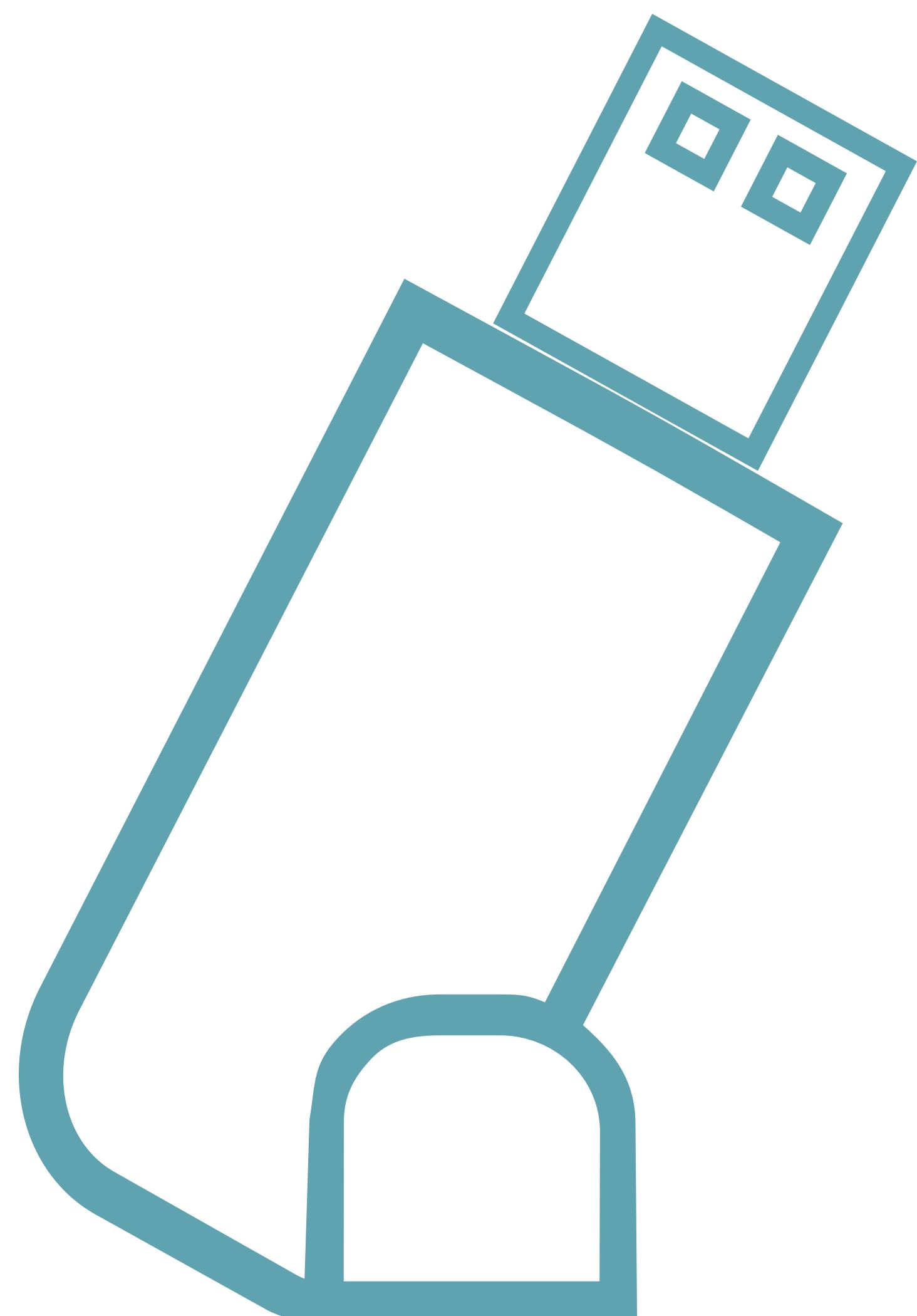


CCN member councils are:

- 1** Undertaking regular analysis of climate impact of investments in pension funds, treasury, and capital investments in addition to the impact of social value on spending.
- 2** Reviewing the deployment of resources to demonstrate their commitment to building thriving local economies.
- 3** Delivering strategic programmes to deliver decarbonisation. Including ‘pump priming’ some initiatives to recognise that additional investment is needed to support the levelling up of our neighbourhoods across the country. This supports the challenges of rurality, geography, deprivation, demographics and more that local authorities are grappling with on a daily basis. This goes hand in hand with the role of Local authorities intervening in areas of the market to support wider economic benefit.

THEME 4 – EMBRACING DATA & USING INFORMATION

The roundtable attendees highlighted that councils must bear in mind that there is a risk of misinterpretation. There is a real need to understand the data and information which is being produced but more importantly understand how this is applied in decision making and what impact it can have. The differing methodology and approaches are beginning to converge, and although there is no industry standard or measure as yet, this is coming.



Increasing the amount of education and communication in relation to this topic will allow for diversification of thinking, new approaches and new developments in relation to the way councils incorporate a sustainable approach to the vital work supporting their local economies.



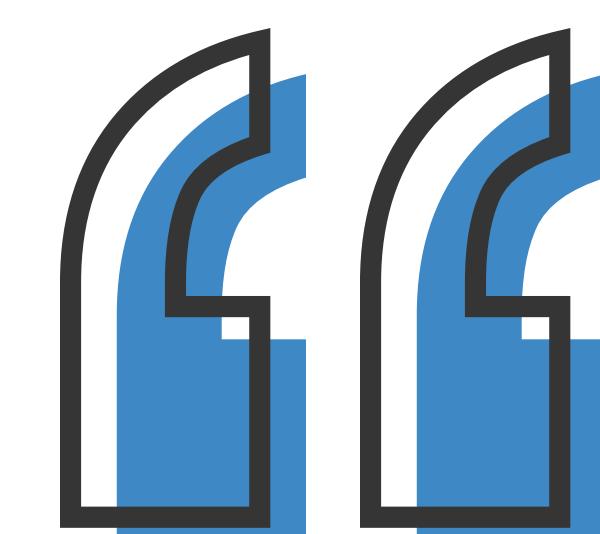
THEME 5 – ENGAGEMENT VS DIVESTMENT

The debate surrounding engagement vs disinvestment is one which is not easy, there are many commentators from different backgrounds, political stances and areas which have varying views about what the right approach is. However, the roundtable debated how the objectives and desired outcomes of the many voices are very similar and this can help to influence and shape behaviour of others to achieve a better future.

In isolation or on a solo basis it can be difficult for an organisation to be heard and to fully engage on significant issues. But when there is size and scale brought together, the ability to engage is much higher.

Zero tolerance can also be a difficult concept, as far as fossil fuels are concerned, it might be virtually impossible to be removed from any association with them as many local economies are still reliant on them. So, if you have zero tolerance and have divested or chosen not to invest, can it mean that you lose some of your ability to use your voice and be heard?

There are many organisations who are looking at their own approaches to this and it is interesting that there are an increasing number of policies which include statements that they won't immediately divest - engagement will be a first port of call.



The debate surrounding engagement vs disinvestment is one which is not easy.....

THEME 6 – STEWARDSHIP

To continue to deliver for their communities and generations into the future, requires councils to drive real and positive change. Leaving academic detail aside, two things are now clear, the first is that global warming goes up in about proportion to the amount of CO₂ we emit as humanity mainly through burning fossils fuels (not only, but mainly), and that limiting the increase in temperature to 1.5 degrees above preindustrial levels might be enough to avoid the worst environmental consequences.

There is some way to go, in burning only the proven fossil fuel reserves, those that we know exist and can be extracted, this would be enough to warm the planet by about 4 degrees. Osaka, Alexandria, Rio, Shanghai, Miami, and many others will all be underwater at 4 degrees of global warming within this century.¹

So why is this important for local government? It is important because left unmitigated climate change in one way or another could have a negative effect on every asset in every part of the world. If we are to continue to generate positive social benefit for our clients and communities' generations into the future, councils have a responsibility to do everything they can to tackle it. Simple divestment or ignorance is not enough. It is important that local authorities are at the forefront and are a key part of the solution. Being engaged with companies, stakeholders and communities will bring people together for a common goal.

As the recent CCN report *Rising to the Climate Challenge*,² showed, county and unitary authorities are in a powerful position as stewards of public assets to tackle climate change. Many have declared climate emergencies and are developing strategies to drive this change. Local Authorities account for only a small proportion of direct emissions, however, their influence can extend way beyond – with the CCN report showing that local government can influence 84% of all carbon emissions.

[1] Climate Action Tracker, December 2020

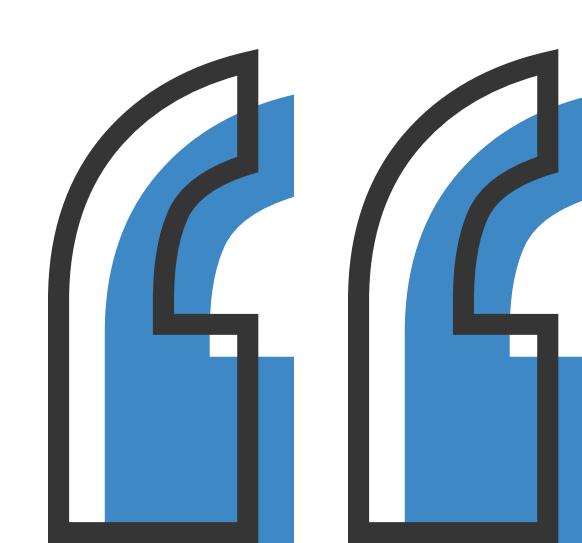
[2] Rising to the Climate Challenge, September

2021 <http://www.countycouncilsnetwork.org.uk/download/3795/>

Through significant roles as investors, planning, transport, waste authorities and being a major purchaser and commissioner of goods and services, local authorities can influence how resources are directed to support changing behaviours, change programmes and transformation across our economies. In particular, Local authorities can continue to develop ***social value in spending***.

Investment managers can support authorities through harnessing the collective power of investment markets. Uniting on significant issues to drive systemic change. Building coalitions of stakeholders to make change happen. CCLA has led initiatives to help companies address climate change for many years now, and while CCLA welcome the current buzz around corporate sustainability, CCLA are concerned that the world is still not moving fast enough.

CCLA are working with councils to accelerate climate action through engagements with investee companies and are also pushing policymakers for regulation which actively protects our planet. CCLA's responsible investment approach is not, however, confined to climate change. Within the investment management industry, CCLA are forerunners in helping companies tackle the scourge of modern slavery. Moreover, CCLA are also building tools to help companies take better care of the mental wellbeing of their staff.



***CCLA are working
with councils to
accelerate climate
action through
engagements with
investee companies
and are also pushing
policymakers for
regulation which
actively protects our
planet....***

Together we can extend our influence far beyond our own limitations. Climate Action 100 plus is now very significant and was inspired by an initiative borne from CCLA, a movement called Aiming for A which started in 2012.

This was the first-time collaborative investor engagement was done and the initiative led to the co-filing of a resolution at BP and Shell. This initiative then joined with the Institutional Investors Group on climate change which then together became Climate Action 100 which is now having a big impact.

Together local authorities have a huge impact on the lives of every person living in the UK. Every person experiences local government in some way. CCN member councils are able to play a key role in enhancing this experience and levelling up our communities.

The ability for local authorities to unite, collaborate, use their collective spending power to influence and drive change should not be underestimated.

With enormous thanks to those who contributed to the roundtable:

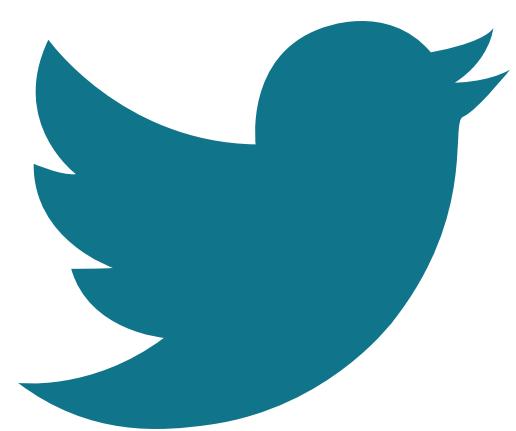
- Glen Bicknell, Senior Accountant, Nottinghamshire County Council
- Paul Blacker, Director of Finance, Gloucestershire County Council
- Tim Chapple, Treasury Manager, Oxfordshire County Council
- Bhulesh Kachra, Senior Finance Analyst, Leicestershire County Council
- Stephanie Mitchener, Director of Finance, Essex County Council
- John Raine, Head of Technical Finance, North Yorkshire County Council

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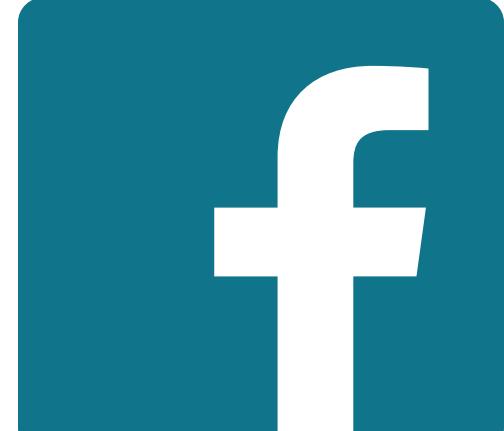
COUNTY COUNCILS NETWORK

Founded in 1997, the County Councils Network is a network of 23 county councils and 13 unitary authorities that serve county areas. The network is a cross party organisation, expressing the views of member councils to the Local Government Association and to the government.

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Find out more about CCN advocacy and research on climate change, and download our report ***Rising to the Climate Challenge: The Role of Counties in Delivering Net-Zero*** by visiting:

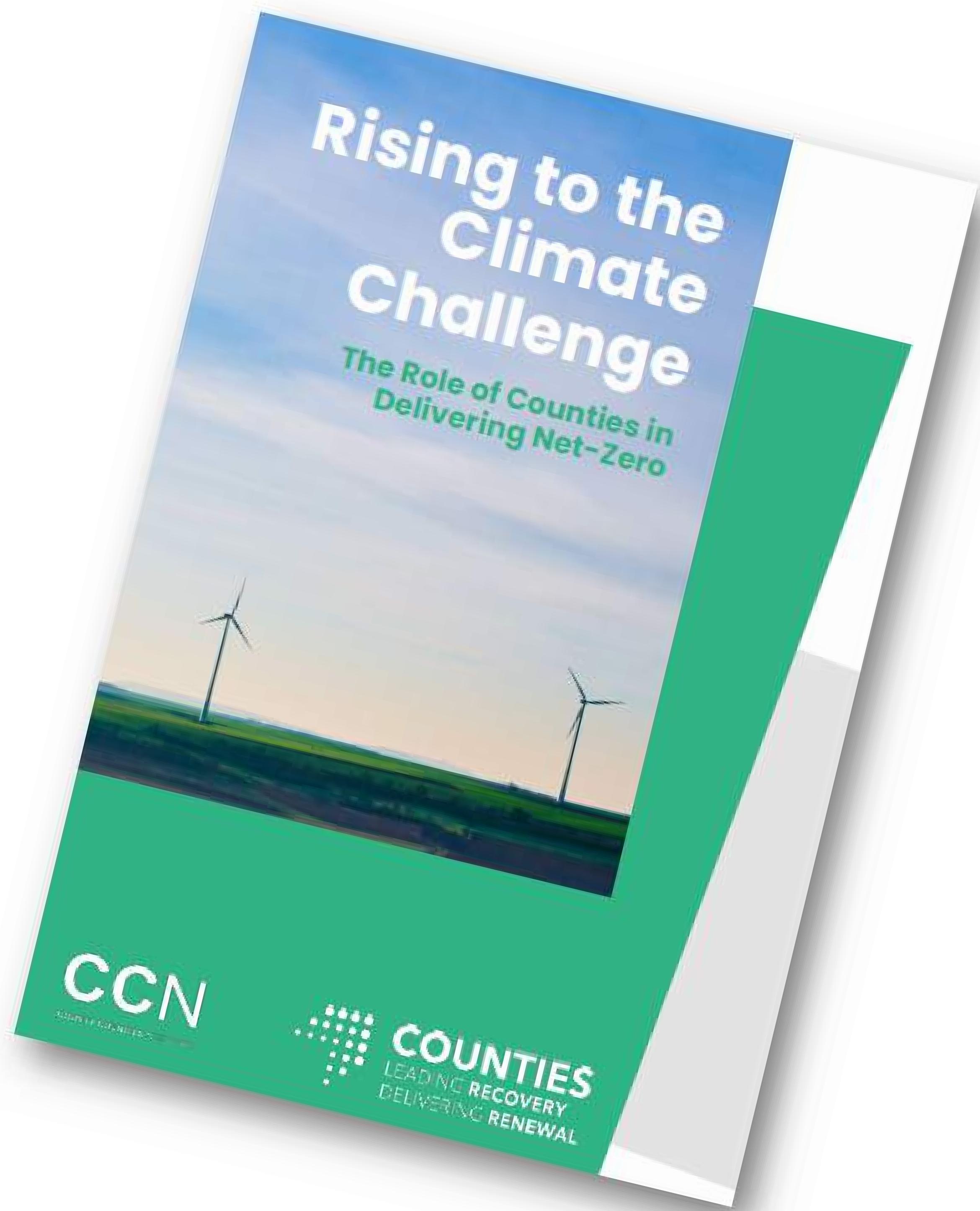
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