

Climate Risk Management:

The role of the Local Authority Finance
Function and the need to change

13th February 2010

Role of the Finance Function

- Advising on corporate risks
 - Identify future risks and liabilities, likelihood and magnitude
 - Develop systematic risk management strategy and put in place appropriate risk management procedures
- Sound Financial Management to support corporate priorities
- Ensure there is an effective Internal Audit function
- Deliver an effective and Responsive Financial Service

***Cont...* Role of the Finance Function**

Contributing to cross-authority issues and to the development of the authority by:

- Assisting the authority to adopt a 'joined up' approach to service delivery within the authority and helping to identify how to realise those opportunities in a managed way;
- Advising on the authority's approach to procurement by evaluating the financial implications of options to 'make, buy or share' services;
- Adopting an integrated approach with partners to ensure the best use of public money and collaborative working.

Need to change

emergency [ih-mur-juhn-see]

noun

1.1.

a serious, unexpected, and often dangerous situation requiring immediate action.

***Cont...* Need to change**

“the move towards a more sustainable public sector is going to require a fundamental shift in the sector’s priorities.....

Officers, councillors and local communities will need to view all activity in their area through the primary lens of the climate crisis”

Rob Whiteman, CIPFA CEO

Barriers to change

- Culture & the Role of the Finance Function
- Conflicting Priorities
- Funding and Resources
- Role of advisers



What you can expect to see changed

Tackling Organisational Risks

- Climate Emergency Declaration (CED).
- Audit Plan.
- Medium Term Financial Strategy.
- Capital Strategy.

Better Procurement

- Carbon reductions into contracts?

Carbon Friendly Investment Strategy

- Carbon Reducing / Green investments.

Better Business Cases?

Keep it simple - case for investment is the Climate Emergency Declaration.

- £1m in solar = removes 470 tonnes of carbon.
- Security and risk management.
- Environmental benefits.
- Other non financial benefits.
- Diversification benefits & yield.

Governance and Training

- Lead the culture change.
- Public/Member expectations.
- Accountability and Transparency.
- Celebrate success.
- Embed carbon accounting across the Council.

Bank of England declaration on the changing role of finance industry



The screenshot shows a BBC News article from December 30, 2019. The article is titled "Bank of England chief Mark Carney issues climate change warning" and is written by Roger Harrabin, a BBC environment analyst. The article features a photograph of Mark Carney, the then-governor of the Bank of England, speaking. The article text (transcribed in the adjacent block) discusses his warning that the financial sector must stop investing in fossil fuels faster to avoid irreversible global warming. It also mentions his role as the United Nations special envoy for climate action and finance.

The outgoing Bank of England governor has warned that the financial sector must stop investing in fossil fuels faster in order to avoid irreversible global warming

Mark Carney said the financial sector had begun to curb investment in fossil fuels – but far too slowly.

He said leading pension fund analysis "is that if you add up the policies of all of companies out there, they are consistent with warming of 3.7-3.8C".

Mr Carney added that the rise of almost 4C was "far above the 1.5 degrees that the people say they want and governments are demanding".

Scientists say the risks associated with an increase of 4C include a nine metre rise in sea levels - affecting up to 760 million people – searing heatwaves and droughts, and serious food supply problems.

Mr Carney, who will next year start **his new role as United Nations special envoy for climate action and finance**, continued: "The concern is whether we will spend another decade doing worthy things but not enough... and we will blow through the 1.5C mark very quickly. As a consequence, the climate will stabilise at the much higher level."

The finance industry needs to respond to the clamour on climate change.

ESG (Environmental Social & Governance) are a set of standards for a company's operations that socially conscious investors use to screen potential investments. The criteria are an increasingly popular way for investors to evaluate companies in, **but** these may not be the standards to ensure 'green' investment.

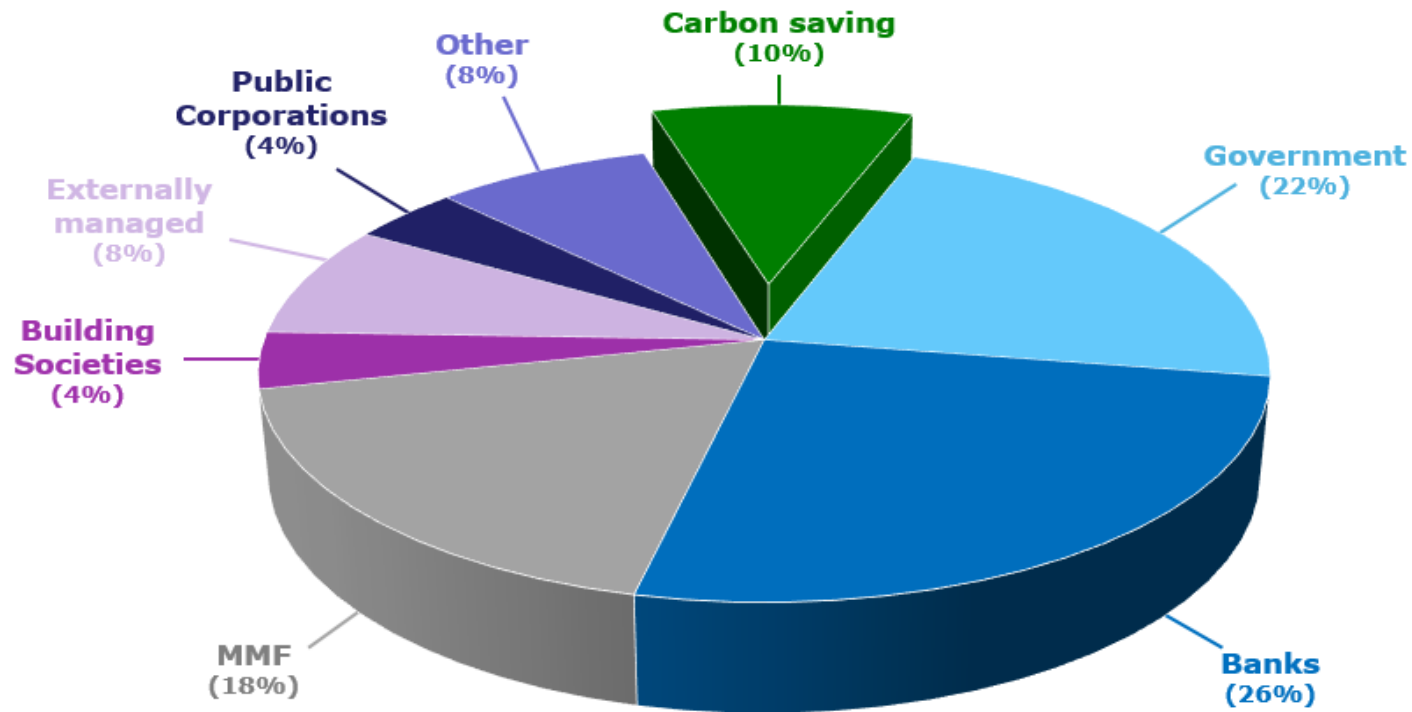
e.g. The **FTSE4Good** Index - a series of ethical investment stock market indices

London Stock Exchange, has included **Rosneft Oil Company** in the international FTSE4Good Emerging Index". Rosneft has been awarded the highest mark in the Governance category that comprises corporate governance, risk management, and corruption control.

Rosneft has achieved exceptional Governance, but are you really looking to invest in Oil companies?

...be very clear what you want!

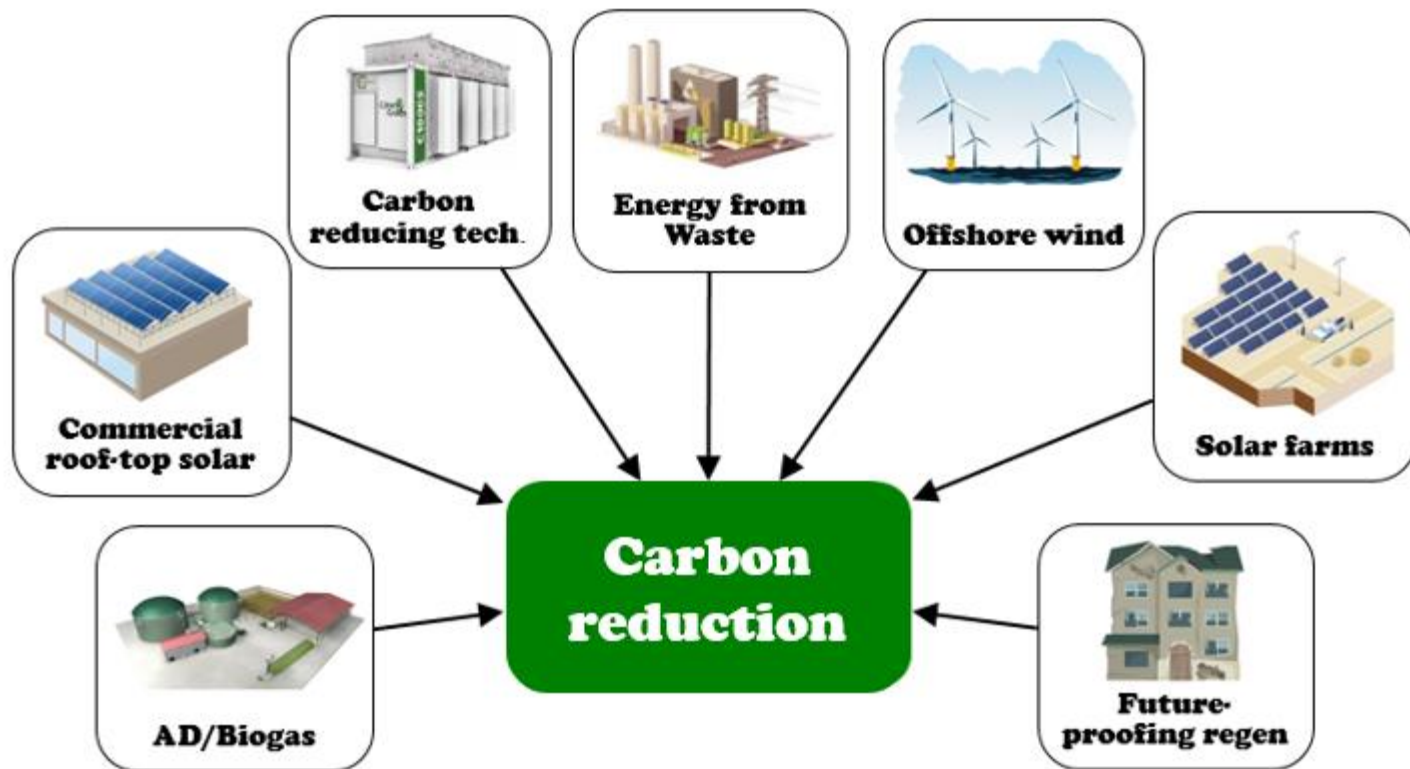
Local Authority Treasury Funds (circa. £40bn)



Ready structures to suit your risk appetite

- Fixed income bonds. Asset backed. Exchange listed.
- Direct ownership of green assets.
- Local Authority co-ownership in green infrastructure.
- Pooled funds.
- Understand the risks.

UK Local Authority investments



Environmental gains from green biased investments.

AD/Biogas – 3x more efficient than burning coal. Reduces carbon emissions from landfill.

Solar Farms – Replaces fossil fuel energy production.

Roof Top Solar – Direct feed clean energy.

Carbon reducing Tech – Integrated fuel reducing technology, providing financial and environmental savings.

Energy from waste – Fossil fuel and landfill replacement.

Offshore wind – Major green energy generator.

Regeneration – Improving the energy efficiency of homes and future proofing for energy saving.

What impact can your money have on Carbon reduction?

For solar power...

- £1m will buy 1MW of capacity (with costs continually reducing).
- 1MW of capacity will provide an output of 1.2m KWh per annum.

The National Grid's most efficient fossil fuel Combined Cycle Gas Turbines (CCGT) emit 392g CO₂/KWh.

- Using the 1.2m KWh of solar power to replace the CCGT output saves $1.2\text{m} \times 392\text{g} = 470.4$ tonnes of CO₂ per annum.

Therefore **£1m** invested can save approx. **470 tonnes of CO₂ p.a.**

Apply this saving to 10% of LA investments (circa. £4bn) and there is a potential saving of 1.88 million tonnes of CO₂. As an average car emits 2.6 tonnes of CO₂ p.a., 10% of LA cash invested in solar is...

...the equivalent of taking nearly $\frac{3}{4}$ million cars off the road!

Non -Financial Benefits

“Joining the dots” on Policy Priorities

- Reducing type 2 diabetes to pre-1960 levels
- Reducing mortality and morbidity due to respiratory illnesses
- Reducing winter time hospital admissions of the vulnerable in society



Source: **CFO Stockport MBC - Dec 2019**

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