

Committee	Date
Audit & Risk Management Committee	13 July 2021
Subject Deep Dive on Climate Action risk CR30	Public
Report of The Town Clerk & Chief Executive	
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Summary

Climate Action is a key corporate risk due to the high-profile nature of the strategy. Failing to achieve our climate action strategy could have knock on effects. These include damaging our credibility in key markets, reducing our ability to champion sustainable growth globally and reducing performance of our financial and property portfolios.

The key risk is failure to achieve our Climate Action targets of 2027 (Scope 1&2) and 2040 (Scope 3). Not meeting our 2027 target is primarily a reputational impact whereas not meeting our 2040 target could result in a financial impact. This is due to the potential for stranded assets in our investment portfolios. To mitigate these risks, a suite of actions has been developed and implemented. A third impact to the organisation is the loss or damage of assets in the Square Mile due to extreme weather. This is mitigated through our current resilience workstreams and associated strategies.

It is worth noting that several externalities may also have an impact on our ability to achieve our strategy targets. In particular, the rate of decarbonisation of the UK electricity grid is a key element of our carbon emission modelling. Our original models used the Treasury Green Book rates. These rates were subsequently updated due to the actual rate of decarbonisation being much slower than predicted. We remodelled our carbon emissions based on the updated rates and can still meet our target, albeit with a smaller margin of error. If these rates continue to fluctuate, they may have a more immediate impact on achieving our 2027 target. Careful attention is being paid to this externality and plans are being considered on managing the potential impact.

Overall, the risks presented to the organisation on Climate Action are being well managed. There is a strong programme risk governance structure with appropriate senior officer and member oversight. The programme launched into phase 2 of CR30 in April 2021. As a result, we lack sufficient information to predict trends in this risk at this early stage.

Recommendations

The Audit & Risk Management Committee is recommended to:

- i. Note the report
- ii. Endorse the revised Climate Action corporate risk CR30

Main Report

Background

1. In January 2020 the City Corporation set out on a fast-paced, cross-corporation journey to develop an ambitious [Climate Action Strategy](#). The resulting Climate Action Strategy was adopted at Court of Common Council on the 8th October 2020.
2. The Climate Action Strategy (CAS) marked the start of a new and transformative programme of action. It set out three interlinked primary objectives for the City Corporation and the Square Mile:
 - to support the achievement of net-zero emissions,
 - to build resilience, and
 - to champion sustainable growth.
3. The Climate Action Strategy also sets out 4 targets for the City Corporation and Square Mile:
 - i. Net zero by 2027 in the City Corporation’s operations
 - ii. Net zero by 2040 across the City Corporation’s full value chain
 - iii. Net zero by 2040 in the Square Mile
 - iv. Climate resilience in our buildings, public spaces, and infrastructure
4. The current programme is set over 6 years driving towards the 2027 target and making substantial impacts on the 2040 targets. The [year 1 programme plan](#) and budget were approved at P&R on the 8th April.

Current position

5. Phase 1 of CR30 – Climate Action, covered the development of the strategy and action plan. The target risk score of four has now been achieved so it has been rated GREEN. The flight path for the risk is shown at figure 1.

Fig. 1 – Corporate Risk Register summary for CR30 – Climate Action Phase 1

Risk reference	Creation Date	Title	Current Risk Score	Current risk score icon	Trend Icon	Risk flight path (last 12 assessments)
CR30	07-Oct-2019	Climate Action	4			

6. Phase 2 of CR30 – Deliver and Refine Action Plan started in April 2021. The action plan covers the first six years of the strategy, ending March 2027. Phase 2 risk actions have been drafted as co-terminus with this. The flight path for the risk is shown in figure 2. The risk is currently rated as AMBER with a target risk score of 4.

Fig. 2 – Corporate Risk Register summary for CR30 – Climate Action Phase 2

Risk reference	Creation Date	Title	Current Risk Score	Current risk score icon	Trend Icon	Risk flight path (last 12 assessments)
CR30	07-Oct-2019	Climate Action	12			

Key risks

7. The key risk to the organisation as outlined in CR30 is not being able to meet our 2027 and 2040 targets.
8. Failure to meet our 2027 target is primarily a reputational impact to the organisation due to our public strategy. Our 2027 target gives us ample opportunity to meet the regulatory targets of net zero by 2050. We have a full suite of mitigations in place to manage this risk.
9. Failure to reach our 2040 targets for our value chain could result in stranded assets in our financial investment portfolio. Careful planning and monitoring of our financial investments and markets will allow us to respond accordingly and mitigate this risk.
10. Finally, the loss or damage of assets in the Square Mile due to extreme weather remains a risk. This is being mitigated through our workstreams on climate resilience, alongside the Riverside Strategy.

Risk triggers

10. Organisational risks can be mitigated by careful planning and risk management. However, climate action also contains some externalities which require careful consideration and monitoring. These externalities may require us to adapt and flex our approach in changing circumstances.
11. Organisational level risk triggers include:
 - a. Delays leading to an impact on our target net zero date
 - b. Interventions not resulting in the modelled carbon reductions or removals
 - c. Significant changes to the required budgets for implementing appropriate interventions
 - d. Failing to appropriately assess carbon impact and reduction opportunities for projects and decisions (outside of the climate action programme)
 - e. Stakeholders and businesses in the Square Mile are not engaged with the strategy and do not take action
12. Externalities that also contribute to risk include:

- a. The pace of decarbonisation of the UK electricity grid – our modelling is dependent on the grid decarbonising at a sufficient rate to achieve our net zero target
- b. The pace of adoption of Paris alignment or warming metrics in the financial market – our modelling for our 2040 value chain target requires a sufficient pace of adoption to reduce our emissions in our financial investment portfolio
- c. The pace of innovation and availability of low carbon and sustainable goods – achieving our longer-term targets will rely on the availability of products at appropriate costs, which reduce carbon emissions

Risk mitigations

13. Organisational climate associated risks are mitigated through careful risk management across the City Corporation using CR30 as a framework. Externalities are carefully monitored by the programme team and key project leads. This allows us to ensure that adaptations to programme design can be achieved quickly.

14. Actions to demonstrate risk mitigations to date include:

- a. Clear and measurable project plans for each of the 13 workstreams under Climate Action agreed at Service Committees and Policy and Resources
- b. Regular reporting on progress of project plans at both officer level and quarterly to relevant committees – including the identification of risks and issues
- c. Fully funded project plans with clear financial control and budget management to ensure best value for money
- d. Programme approach to management to ensure that dependencies are considered, and opportunities maximised
- e. Comprehensive stakeholder engagement plan covering 40 key audiences
- f. Performance dashboard (completion in August) to ensure that interventions are achieving modelled carbon reductions and removals – providing an opportunity for early course correction
- g. A prioritised review of the potential carbon impact of all current projects in gateways 1-4 (outside of the climate action programme)
- h. Orientation sessions for Members and key officers focusing on embedding climate considerations into decision-making processes and increasing climate related literacy across the organisation
- i. Remodelling carbon reduction targets based on changes to assumptions on UK electricity grid decarbonisation rates
- j. Regular horizon scanning across a complex range of externalities at both the programme and project level to capture changes to regulations or project dependencies

15. To date, CR30 has focused on organisational level risks and their mitigations. For this report, CR30 has been updated to include three key externalities.

Direction of travel

16. The direction of travel of CR30 is assessed through a variety of programme management techniques. Central to this is the use of a performance dashboard. The dashboard allows the Climate Action team to assess progress against the stated targets, ensuring early course correction as needed.
17. As the strategy implementation phase started in April 2021, there is little information on the trend of the risk at this early stage.

Assurance / Governance

18. Climate Action has good oversight and strong risk management procedures embedded in the programme design. A robust programme management structure with clear change control and risk reporting has been developed. All 13 projects in the programme have individual risk registers feeding into a programme risk register. This programme risk register informs CR30.
19. Governance of risk includes a project board structure reporting into a Chief Officer led programme board. The Climate Action Senior Responsible Officer (SRO) is updated on a bi-weekly basis on risks and mitigations as they arise.
20. Members are also updated on key risks through a quarterly programme update schedule. Additionally, three lead members appointed by P&R have regular discussions on risks with the programme team on a more informal basis.

Corporate and strategic implications

21. Strategic implications: The CAS supports delivery against the following outcomes in the Corporate Plan, 2018-23:
 - Outcome 1: People are safe and feel safe
 - Outcome 5: Businesses are trusted and socially and environmentally responsible
 - Outcome 7: We are a global hub for innovation in financial and professional services, commerce, and culture
 - Outcome 10: We inspire enterprise, excellence, creativity, and collaboration
 - Outcome 11: We have clean air, land and water and a thriving and sustainable natural environment
 - Outcome 12: Our spaces are secure, resilient, and well-maintained.
22. The strategy builds upon existing strategies and policies, including: The Responsible Business Strategy 2018-23, the Responsible Investment Policy, the City Procurement Strategy 2020-24, the Local Plan 2015, the draft City Plan 2036, the Transport Strategy 2018-43, the Air Quality Strategy 2015-20, the Climate Mitigation Strategy, the Carbon Descent Plan, the Transition to a Zero Emission Fleet Policy, the Renewable Electricity Policy & Sourcing Strategy and related campaigns, such as Plastic Free City. It is aligned to ongoing reviews of our financial and property investment portfolio.

23. Resource Implications – There are no additional resource implications arising from this report.
24. Risk Implications – To manage risk effectively in the programme, all projects have a risk register, and the overall risks are controlled through a corporation level risk CR30 – Climate Action Strategy.
25. Equalities Implications – A Test of Relevance was undertaken on the Climate Action Strategy and several positive impacts were identified for people in at least one of the following five protected groups - age, disability, race, pregnancy/maternity, and gender. No negative impacts were identified. Potential equalities impacts will be investigated and assessed on an ongoing basis.
26. No new legal, security, climate implications arise from the recommendations in this report.

Conclusion

27. The climate action risks are being well managed with strong governance and mechanisms for early course correction. Of primary concern is the ability to meet our 2027 and 2040 targets as detailed in the strategy. A suite of mitigations is in place to reduce the likelihood. However, it is worth noting that some externalities may have an impact on our ability to achieve the targets. We are monitoring these closely and have updated the CR30 risk register accordingly.

Appendix

1. Draft Revised Corporate Risk Register Entry for CR30 - Climate Action

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