



## **LOCAL PENSION BOARD**

**28 SEPTEMBER 2022**

<b>REPORT TITLE:</b>	<b>CONSULTATION ON GOVERNANCE AND REPORTING OF CLIMATE CHANGE RISKS IN THE LOCAL GOVERNMENT PENSION SCHEME</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>

### **REPORT SUMMARY**

This report informs Board Members of a consultation by the Department for Levelling Up, Housing & Communities (DLUHC) seeking views on proposals to require Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

### **RECOMMENDATION/S**

That the Local Pension Board be recommended to consider and note the report.

## SUPPORTING INFORMATION

### 1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 A failure to provide the Board with information on legislative changes and the Fund's activities could hinder the Board in the discharge of its duties.

### 2.0 OTHER OPTIONS CONSIDERED

- 2.1 The option not to respond to the consultation was considered but was dismissed in view of the materiality of the subject matter and the intended requirements on LGPS funds.

### 3.0 BACKGROUND INFORMATION

- 3.1 Board Members will be aware that addressing the systemic challenges of climate risk has been at the forefront of the Fund's responsible investment work. A report on the reporting of climate risk was brought to Pensions Committee in June 2021 and informed Members of the Fund's arrangements in relation to Taskforce on Climate-related Financial Disclosure (TCFD) requirements. At the time, the requirements were not mandatory for LGPS funds but the government had indicated its intention to require funds publish information relating to the effects of climate change in due course.
- 3.2 The full consultation document is attached at appendix 1. The consultation will last for 12 weeks from 1 September 2022 to 24 November 2022. The proposed requirements follow the current requirements for private pension schemes quite closely, although are slightly simplified and apply to LGPS funds of all sizes (rather than the phased approach for private pension schemes). The requirements will therefore apply to all LGPS funds from 2023/24 regardless of fund size. The regulations are expected to be in force by April 2023, with the deadline for the first report being 1 December 2024.

The key points of the consultation are summarised below.

- 3.3 As set out in the consultation, addressing climate change is one of the major challenges faced in the UK and globally. The UK government is a world leader in commitments to transition to a low carbon economy and in 2019 set the target of achieving net-zero greenhouse gas emissions by 2050.
- 3.4 The international Taskforce on Climate-related Financial Disclosures (TCFD) published a set of recommendations in 2017 with the aims of improving assessment, management, and disclosure of climate-related financial risks. In November 2020, the government announced the UK's intention to make TCFD-aligned disclosures mandatory in the UK across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. The joint [Government Regulators Taskforce's Interim Report, and accompanying roadmap](#), published alongside the announcement, sets out an indicative pathway to achieving that ambition.

### 3.5 Summary of Proposals

Area	Proposal
Overall	Each LGPS administering authority (AA) must complete the actions listed below and summarise their work in an annual Climate Risk Report.
Scope and Timing	The proposed regulations will apply to all LGPS AAs. The first reporting year will be the financial year 2023/24, and the regulations are expected to be in force by April 2023. The first reports will be required by December 2024.
Governance	AAs will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. They must also maintain a process or processes by which they can satisfy themselves that officers and advisors are assessing and managing climate-related risks and opportunities
Strategy	AAs will be expected to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.
Scenario Analysis	AAs will be required to carry out two sets of scenario analysis. This must involve an assessment of their investment and funding strategies. One scenario must be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario will be at the choice of the AA. Scenario analysis must be conducted at least once in each valuation period.
Risk Management	AAs will be expected to establish and maintain a process to identify and manage climate-related risks and opportunities related to their assets. They will have to integrate this process into their overall risk management process.
Metrics	<p>AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below.</p> <p>Metric 1 will be an absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions.</p> <p>Metric 2 will be an emissions intensity metric. We propose that all AAs should report the Carbon Footprint of their assets as far as they are able to. Selecting an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI) will be permitted, but AAs will be asked to explain their reasoning for doing so in their Climate Risk Report.</p> <p>Metric 3 will be the Data Quality metric. Under the Data Quality metric, AAs will report the proportion the value of its assets for which its</p>

	<p>total reported emissions were Verified*, Reported**, Estimated or Unavailable.</p> <p>Metric 4 will be the Paris Alignment Metric. Under the Paris Alignment Metric, AAs will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner.</p> <p>Metrics must be measured and disclosed annually.</p>
Targets	<p>AAs will be expected to set a target in relation to one metric, chosen by the AA. The target will not be binding. Progress against the target must be assessed once a year, and the target revised if appropriate. The chosen metric may be one of the four mandatory metrics listed above, or any other climate related metric recommended by the TCFD.</p>
Disclosure	<p>AAs will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the AA's annual report. The deadline for publishing the Climate Risk Report will be 1 December, as for the AA's Annual Report, with the first Climate Risk Report due in December 2024. We propose that scheme members must be informed that the Climate Risk Report is available in an appropriate way.</p>
Scheme Climate Report	<p>We propose that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual AA's Climate Risk Report (or a note that none has been published) and aggregate figures for the four mandatory metrics. We also propose that a list of the targets which have been adopted by AAs. We are open to views as to whether any other information should be included in the Scheme Climate Report.</p>
Proper advice	<p>We propose to require that each AA take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.</p>

3.6 The Department for Work and Pensions (DWP) has already introduced requirements on climate risk management and reporting for private pension schemes, in regulations which came into force on 1 October 2021. The proposals set out in this consultation are broadly similar to the requirements for private pension schemes, and encompass the same four areas of governance, strategy, risk management and metrics and targets. However, a key difference is that the proposed requirements will apply to all LGPS AAs from 2023/24 regardless of fund size. Another key difference is the proposed requirement to report data quality as a mandatory metric. This aims to help the LGPS use its scale and market power to drive improvements in the quality of emissions data, which will be a critical factor in raising the quality of climate risk management.

### 3.7 Summary of consultation questions

Question 1: Do you agree with our proposed requirements in relation to governance?

Question 2: Do you agree with our proposed requirements in relation to strategy?

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

Question 4: Do you agree with our proposed requirements in relation to risk management?

Question 5: Do you agree with our proposed requirements in relation to metrics?

Question 6: Do you agree with our proposed requirements in relation to targets?

Question 7: Do you agree with our approach to reporting?

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

Question 10: Do you agree with our proposed approach to guidance?

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

3.8 This is an area where best practice is still evolving and it is important to keep abreast of developments. Officers will assess the proposed requirements, in particular around metrics and targets, and discuss with our Pool partners the scope for joint working. This will be reported to a future Pensions Committee.

#### **4.0 FINANCIAL IMPLICATIONS**

4.1 The consultation includes a requirement for administering authorities to take proper advice (from appropriately qualified individuals). There is also a cost for obtaining and calculating the data required for climate risk reporting. The Fund has been working with its pooling partners to minimise duplication and mitigate costs as far as possible. Even without the requirement for TCFD reporting, the Fund considers much of the data requirements necessary from an investment risk management perspective.

#### **5.0 LEGAL IMPLICATIONS**

5.1 Following the consultation, high level statutory guidance will be issued relating to the governance requirements and the Climate Risk report.

#### **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

6.1 The reporting requirements will place additional demands on the Fund in relation to the oversight and management of Governance, Strategy, Risk Management, Metrics & Targets at a fund and pool level. These will be assessed and, where quantifiable, included in the subsequent report to Pensions Committee.

## **7.0 RELEVANT RISKS**

7.1 A failure to provide the Local Pension Board with information on legislative changes and the Fund's activities could hinder the Board in fulfilling its statutory duties. The assessment, management and reporting on climate-related risks is an essential part of the Fund's governance of risk and it is important that appropriate guidance is issued.

## **8.0 ENGAGEMENT/CONSULTATION**

8.1 The Fund is consulting with its pool partner funds.

## **9.0 EQUALITY IMPLICATIONS**

9.1 There are no equality implications arising from this report. DLUHC have made an initial assessment under the duty and do not believe there would be impacts on protected groups from the proposals in this consultation, as they do not affect member contributions or benefits.

## **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

10.1 As set out in the report. The NLGPS has a Responsible Investment policy which explicitly addresses environment and climate implications as financially material to the long-term performance of investments.

## **11.0 COMMUNITY WEALTH IMPLICATIONS**

11.1 There are none arising from this report.

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## **APPENDICES**

Appendix <https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks>

## BACKGROUND PAPERS

<https://www.fsb-tcf.d.org/publications/>

## SUBJECT HISTORY (last 3 years)

<b>Council Meeting</b>	<b>Date</b>
<b>Local Pension Board</b>	<b>31.03.21</b>