



## **PENSIONS COMMITTEE**

**14 DECEMBER 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 Members of Merseyside Pension Fund's (MPF) response to 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 Pensions Committee be recommended to consider the report and note the response to the consultation.

## **SUPPORTING INFORMATION**

### **1.0 REASON/S FOR RECOMMENDATION/S**

- 1.1 The consultation was issued on 1 September which only provided time for a briefing report to be prepared for September's Committee. As an important area of policy, it is important that Pensions Committee is informed of the Fund's final response.

### **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 implications of the anticipated requirements on LGPS funds.

### **3.0 BACKGROUND INFORMATION**

- 3.1 Members were informed of the consultation at September's Committee and it was recommended that responses should be prepared in respect of the Northern LGPS Investment Pool (NLGPS) and for the Fund. Since that time, officers of the Fund have been working with their pooling colleagues to agree a response on behalf of NLGPS. That response refers to responses from the Local Authority Pension Fund Forum (LAPFF) and National LGPS Scheme Advisory Board (SAB) which are attached at appendix 1. Having discussed the joint response with the Chair, it was felt unnecessary for a separate response to be prepared on behalf of MPF. The Pool's response is attached at appendix 2.
- 3.2 In the interests of brevity, the response makes reference to consultation responses from LAPFF and SAB and is generally supportive of the proposals. Of particular note is our view that further delay at this point would be unhelpful and should be cautioned against, for reasons already outlined in the LAPFF and SAB consultation responses that NLGPS is endorsing. The LAPFF response includes the observation that the consultation document is vague about the scope and timeline for DLUHC to produce detailed and technical statutory guidance to support LGPS in applying the future regulation.
- 3.3 This is an area where best practice is still evolving. The TCFD framework is itself a work in progress and, while DLUHC's proposals are based on a current version of it, the wider discussion of its constituent parts is dynamic. The body of opinion on key elements, such as selection and appropriate use of climate scenarios or use of Paris-alignment metrics, is not where it was even a year ago. The LGPS is also better placed to use its combined resources, through bodies like SAB and other collaborative networks, to take forward an approach that can include all the England & Wales funds that is not just catching up to the disclosure standard set for the rest of UK pensions, but can make an additional contribution to UK climate goals.

### **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 this Committee.

## **7.0 RELEVANT RISKS**

7.1 A failure to provide Pensions Committee with information on legislative changes and the Fund's activities could hinder the Committee 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 1 & 2 Responses from LAPFF and SAB.  
Appendix 3. NLGPS joint response.

## **BACKGROUND PAPERS**

<https://www.fsb-tcfd.org/publications/>

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Pensions Committee</b>	<b>15.09.22</b> <b>22.06.21</b>