

Scheme Advisory Board

HYBRID MEETING – 10TH October 2022

Item 9 – Paper C

Climate Risk Reporting Consultation

Background

1. Since the last Board meeting on 6 June, DLUHC has launched a policy consultation that includes details of the requirements that will be placed on LGPS funds. The proposals require all LGPS administering authorities to put in place new governance and risk management arrangements, as well as setting and reporting against various metrics and targets on climate risk and opportunity. A summary of key points from the consultation is at Annex A.
2. The Department of Work and Pensions has already established a similar set of reporting requirements for private sector pension schemes and institutional investors (known as the TCFD regime). This is largely replicated in the consultation proposals for the LGPS.
3. The consultation does not include a set of draft regulations for scrutiny, but the Department does anticipate having these made by March 2023. That will require a shorter, technical consultation once the key policy issues have been resolved. The policy consultation closes on 24 November.

Proposed Handling Strategy for the Consultation

4. The Board will not meet again before the consultation closes, it is therefore suggested that the Board agrees that the Chair and Vice Chair will clear a response, mindful of any steers from the Board today. The Responsible Investment Advisory Group (RIAG) has already had a chance to discuss the consultation and will meet again on 9 November. It is therefore suggested that RIAG also be given a leading role in steering the drafting of the SAB response, bringing in expertise from other committees and groups as necessary.

Climate Change and the LGPS

5. Although the proposals for the LGPS mirror those for private sector schemes we can expect there to be much greater scrutiny and attention given to reports from administering authorities, once published from late 2024 onwards. There will no doubt be strong views held by members of pensions committees, members of the scheme (and their representatives) as well as many other stakeholder groups. As transparent and democratically accountable bodies, administering authorities will need to be mindful of the narrative they have around their data, as much as the data itself.
6. Targets set under these proposals would not be binding and DLUHC have said that they should not, of themselves, necessarily condition the pension

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committee's fiduciary obligations in relation to investment. RIAG expressed the view that they would welcome more guidance (from the Department or from Counsel via the Board) on the tension between these targets, plans to deliver them and the fiduciary duty.

A Scheme-Level Climate Report

7. Proposals in the consultation task the Board with delivering a scheme-level climate risk report. Under the Department's proposals, this must include 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. DLUHC are also proposing that the Scheme report should list all of the targets which have been adopted by administering authorities.
8. RIAG felt that the scheme-level report should focus more on a narrative for the scheme, and not attempt to over-analyse what was recognized as far from satisfactory data. RIAG agreed to form a working group to develop a template for LGPS funds reporting metrics to SAB.
9. The Department has suggested that SAB should lead on the development of a template to be used by funds to feed into the scheme-level report, and that the use of SAB's template could be mandatory. A working group has been established to draw up such a template, with the aim of making it "frictionless" with the data being reported into funds.

Practical Issues and Engagement

10. As with any new function or responsibility, funds will want to consider what additional level of resources they may need to fulfil the requirement. That is likely to be both in terms of extra volume of work and the need to bring in additional expertise in certain areas. RIAG considered the merits of jointly commissioning in some way the expert scientific input needed, e.g. on reasonable transition scenarios. The Secretariat is exploring options for delivery of this, including through pools.

Recommendations

- **That the Board agree the Chair and Vice Chair will clear the response to the consultation**
- **That Board members provide initial steers and responses**
- **That the Board supports the views already expressed by RIAG and entrusts to them more detailed work on the response**

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Annex A

Key Points from DLUHC Consultation Paper

1. Each administering authority (AA) will need to publish an annual Climate Risk Report
2. The first report will cover the financial year 2023/24 and must be published by December 2024, either as a stand-alone document or as part of the AA's annual report.
3. Scheme members must be informed that the Climate Risk Report is available in an appropriate way.
4. AAs will be expected to identify climate-related risks and opportunities and assess their impact on their funding and investment strategies.
5. AAs will be expected to establish and maintain a climate specific risk management process and integrate this into their overall approach to risk
6. AAs will be required to review their investment strategy against two scenarios. One scenario must be Paris-aligned and one scenario will be of their choice
7. AAs will be expected to set targets and report annually against the metrics below:
 - Absolute emissions metric Scope 1, 2 and 3 greenhouse gas (GHG) emissions
 - Emissions intensity metric
 - Data Quality
 - Paris Alignment Metric. In particular, the percentage of their assets for which there is a public net zero commitment by 2050 or sooner
8. The Scheme Advisory Board (SAB) must 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.
9. AAs need to ensure they have access to proper advice when making decisions relating to climate-related risks and opportunities.