



Report to Pension Fund Committee

Date:	24 th November 2022
Title:	Response to LGPS Governance and Reporting of Climate Risk Consultation
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Recommendations:	The Committee APPROVES the response to the consultation on LGPS Governance and Reporting of Climate Risk, attached as Appendix 1 to the report.

1. Executive summary

- 1.1 On 1st September 2022, the Department for Levelling Up, Housing and Communities (DLUHC) launched its consultation regarding governance and reporting of climate change risks. The consultation seeks 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). A response is attached as Appendix 1 to this report, the Committee is asked to approve the response to the consultation.

2. Content of report

- 2.1 On 1st September 2022, the Department for Levelling Up, Housing and Communities (DLUHC) launched its consultation regarding governance and reporting of climate change risks. The consultation seeks 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). The consultation closes at 11:45pm on 24th November 2022.
- 2.2 The consultation seeks views on policy proposals to require administering authorities of the LGPS to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate risks and opportunities. The full consultation can be found at:

<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>

- 2.3 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 intention to make TCFD-aligned disclosures mandatory in the United Kingdom across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. 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. Implementation is staged for private pension schemes. Private schemes with £5 billion or more in assets were immediately in scope, with those with £1 billion or more to follow in October 2022. Schemes with less than £1 billion in assets are not currently covered.
- 2.4 The proposals in the 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 administering authorities from 2023/24 regardless of fund size. The deadline for publishing the Climate Risk Report will be 1 December, as for the administering authority’s Annual Report, with the first Climate Risk Report due in December 2024. It is proposed that LGPS administering authorities would calculate the ‘carbon footprint’ of their assets and assess how the value of each fund’s assets or liabilities would be affected by different temperature rise scenarios, including the ambition to limit the global average temperature rise to below 2°C set out in the Paris Agreement. It is proposed that administering authorities should report on this annually, and that these reports will be summarised in an LGPS-wide report, including the overall carbon emissions of the scheme.
- 2.5 The key proposals are summarised below.

Area	Proposal
Overall	Each LGPS administering authority 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 administering authorities. 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	Administering authorities 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	Administering authorities 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	Administering authorities 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°C temperature rise above pre-industrial levels) and one scenario will be at the choice of the administering authority. Scenario analysis must be conducted at least once in each valuation period.
Risk Management	Administering authorities 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>Administering authorities 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, Administering authorities 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 administering authorities 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 administering authorities 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, administering authorities will report the proportion the value of its assets for which its total reported emissions were Verified*, Reported**, Estimated or Unavailable.</p> <p>Metric 4 will be the Paris Alignment Metric. Under the Paris Alignment Metric, administering authorities will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner.</p>

		Metrics must be measured and disclosed annually.
Targets		Administering authorities will be expected to set a target in relation to one metric, chosen by the administering authority. 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.
Disclosure		Administering authorities will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the administering authority's annual report. The deadline for publishing the Climate Risk Report will be 1 December, as for the administering authority'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.
Scheme Report	Climate	We propose that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual administering authority'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 administering authorities. We are open to views as to whether any other information should be included in the Scheme Climate Report.
Proper advice		We propose to require that each administering authority take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.

*This refers to reported emissions calculated in line with the GHG Protocol and verified by a third-party.

**This refers to reported emissions calculated in line with the GHG Protocol without verification by a third-party.

3. Other options considered

3.1 Not applicable.

4. Legal and financial implications

4.1 The proposed regulations will apply to all LGPS administering authorities. 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.