Title of Report	TCFD Consultation Response
For Consideration By	Pensions Committee
Meeting Date	22/11/2022
Classification	Public
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. **Introduction**

1.1. This report presents the Pensions Committee with a draft of the Fund's proposed response to Central Government's consultation on TCFD

2. **Recommendations**

2.1. The Pensions Committee is recommended to approve the draft response

3. **Related Decisions**

3.1. Pensions Committee 15 JUne 2022 - Carbon Risk Audit 2022 – Full Results & Presentation (TruCost)

4. **Comments of the Group Director of Finance and Corporate Resources.**

4.1. The Pensions Committee acts as Scheme Manager for the Pension Fund and is therefore responsible for the management of £1.8 billion worth of assets and for ensuring the effective and efficient running of the Pension Fund. The investment returns that the Fund is able to deliver have significant financial implications, not just for the Fund itself but also on the Fund's employers in terms of the level of contributions they are required to make to meet the Fund's pension promises, which are underwritten by statute.

4.2. The Fund recognises that investment in fossil fuels and the associated exposure to potential stranded assets scenarios pose material financial risks. These risks apply not only to the Fund's investment portfolio but also, when considered on a wider scale, to long term global economic growth.

4.3. In recognising the risks that climate change and stranded assets scenarios could pose to the Fund, the Committee needs to understand where these risks might apply and how they can best be mitigated within the investment management framework within which LGPS funds operate.

4.4. The introduction of mandatory TCFD reporting represents a material change to how climate-related risks are disclosed within the LGPS investment management. This report presents the Committee with a draft of the Fund's response to Central Government's consultation on the subject, helping to ensure that the Fund is actively engaged in shaping the Government's approach to disclosure within the LGPS.

4.5. There are no immediate financial implications arising from this report.

5. Comments of the Director of Legal, Democratic and Electoral Services

5.1. In 2014, the Law Commission produced guidance on the fiduciary duties of investment intermediaries, which indicated that investors should have regard to ESG factors where they are financially material. In its guidance to occupational schemes, the Pensions Regulator has given a clear indicator that it believes this to be the case for climate change.

5.2. This report helps to demonstrate that the Committee is actively engaged in shaping the Government's approach to disclosure of climate risks within the LGPS. Improved disclosure will assist the Fund in factoring climate risk into its investment strategy setting process as a material financial risk.

5.3. There are no immediate legal implications arising from this report.

6. Background to the report

6.1. In 2017, the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations established a set of 11 "clear, comparable, and consistent" disclosures through which an organisation might identify, manage and disclose its exposure to climate-related financial risks and opportunities. 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.

6.2. The Pensions Act 2021 introduced a raft of new climate reporting obligations based on TCFD for the private sector occupational schemes. The new requirements have been phased in, with larger schemes whose net assets are £5bn or more and master trusts reporting from October 2021, and schemes with £1bn or more of assets coming into scope from 1 October 2022.

6.3. These obligations are now being extended to the LGPS. Central Government released its consultation in September 2022, with responses due from schemes by 24th November 2022. The requirements being proposed are based on the requirements for private schemes but aim to take account of the unique features of the LGPS including its local administration and democratic accountability through administering authorities.

6.4. The proposals set out by Government are summarised in the table below: the full text of the 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.

Area	**Proposal**
Overall	Each LGPS 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	AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below. 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. 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. 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 total reported emissions were Verified*, Reported**, Estimated or Unavailable. 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. Metrics must be measured and disclosed annually.
Targets	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.
Disclosure	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.
Scheme Climate Report	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.
Proper Advice	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.

6.5. A response on behalf of the Hackney Fund is set out at Appendix 1. The response takes into account the Fund's key aims, including alignment with a 1.5 degree warming scenario, as well as the practicalities of reporting and the importance of improved data quality from investee companies.

Appendices

Appendix 1 - TCFD Consultation Response

Background documents

None

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