

# LB Hackney TCFD Consultation Response

## Question 1: Do you agree with our proposed requirements in relation to 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.]*

We agree with the substance of the proposal; however, clarity on how AAs should assess the capabilities of their advisors in relation to assessing and managing climate-related risks and opportunities would be welcome. We are not requesting additional regulation but would welcome guidance in this area.

## Question 2: Do you agree with our proposed requirements in relation to 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.]*

We agree in principle with the proposed requirements but note that this will place additional costs and resource requirements on AAs.

Properly assessing the impact of climate risk on investment strategy and using this to inform decision making requires a degree of specialist knowledge which, given the complex and rapidly developing nature of the subject matter, AAs are unlikely to have.

It is therefore likely that most AAs will require some degree of external input, which will place further strain on already stretched budgets. One approach to mitigating costs would be for AAs to use their asset pool as a source of both data and specialist knowledge; we have set out suggestions in relation to the use of asset pools in the response to Question 9.

## Question 3: Do you agree with our suggested requirements in relation to 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.]*

We agree that AAs should carry out a Paris-aligned scenario analysis and agree that at least once per valuation cycle is a suitable timeframe to conduct the analysis. However, we are concerned about the lack of clarity around what constitutes a Paris-aligned scenario.

The publication of the Intergovernmental Panel on Climate Change (IPCC) special report into the impacts of global warming of 1.5 °C in 2019, along with subsequent reports in 2021 and

2022, has established a consensus around the need to limit temperature rises to no more than 1.5 degrees. Modelling within the report suggests that to achieve this, global net anthropogenic CO2 emissions need to decline from 2010 levels by about 45% by 2030, and reach net zero around 2050 (2045-2055). The UK's government's Net Zero Strategy is consistent with this, and commits the UK to reaching net zero emissions by 2050.

We suggest that a clear steer from Government on the need for funds to report on a 1.5 degree scenario, in line with Government policy, could help encourage both asset managers and investee companies to develop the reporting capabilities needed to improve data quality in this area. Extending the requirement to occupational schemes would send an even clearer message, ensuring that investee companies, asset managers and asset owners are aligned in aiming to meet the key requirements of the Government's Net Zero Strategy.

We are also uncertain as to the merits of requiring an additional metric of each AAs own choosing. Where AAs wish to align their investment strategy with the Paris agreement, requiring an additional scenario serves only to increase the costs of the exercise. We would agree with the inclusion of an additional scenario as an optional disclosure.

We also note that current approaches to scenario analysis modelling are heavily reliant on complex and subjective calculations. As outlined in the response to Question 2, AAs are likely to need specialist external input in using the analysis to inform their decision making. This will once again put additional cost pressure on AAs.

We would again suggest that the Government considers whether asset pools could assist both in the production of standardised information and as a source of specialist knowledge.

#### **Question 4: Do you agree with our proposed requirements in relation to 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.]*

Yes, we agree with the proposed requirements.

#### **Question 5: Do you agree with our proposed requirements in relation to 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.]*

We agree in principle with the proposed requirements. However, it is clear from the consultation document that AAs should produce the metrics at the whole fund level. Whilst this would be useful as an indicator of overall progress, AAs wishing to use the information to inform their investment decision making will ideally require the metrics at the individual mandate level, to identify the areas of greatest risk.

Whilst such information is available from specialist suppliers, obtaining it does significantly increase costs to AAs. We would suggest that the Government considers how investment managers and in particular asset pools can be encouraged to provide information at the mandate level.

We also note that, at present, coverage of Scope 3 disclosures across investee companies is poor. An understanding of downstream emissions is key for AAs (and other asset owners) to properly understand how risk is concentrated within their portfolios. However, at present, investee companies are not well incentivised to produce this data. We would therefore suggest that Government considers whether a greater degree of compulsion to produce Scope 3 data might be appropriate for listed entities. Compelling asset owners to report this information without compelling investee companies to produce it puts pressure on asset owners without necessarily improving disclosure rates and the quality of information provided.

## **Question 6: Do you agree with our proposed requirements in relation to 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.]*

We agree that a target should be set, and it should relate to a measurable metric which will drive real world change. We agree that progress should be measured regularly.

We suggest that, depending on the target set, annual assessment may not always be the most appropriate approach. For example, AAs wishing to set targets linked to their scenario analysis may find it more appropriate to report triennially. We therefore suggest that consideration could be given to permitting AAs to assess progress against target at least once each valuation cycle.

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

*[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.]*

Yes, we agree with the proposed approach to reporting

## **Question 8: Do you agree with our proposals on the Scheme Climate Risk 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.]*

We agree with the proposal to link to each individual AA's Climate Risk Report and to list the target(s) adopted by each AA. We are unsure of the utility of aggregating figures for the mandatory metrics; information is unlikely to be sufficiently standardised at this early stage to be useful. The aggregation of potentially inaccurate data also raises the risk of potentially inaccurate comparisons between funds.

Aggregation also disregards the local decision-making structure underpinning reporting for the LGPS. Our understanding is that the metrics are intended to be used by AAs to inform their decision making; no such use exists for figures aggregated across the entire scheme and we are not aware of any useful comparator at that level.

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

As referenced in our responses to Questions 3 and 5, we believe that LGPS asset pools have a key role to play in supporting AAs to produce climate related disclosures. Whilst AAs remain ultimately responsible for their own investment decisions, including those regarding climate risks, pools could be a valuable source of specialist knowledge and also help reduce the pressures placed on AAs by preventing duplicate work.

One area where we feel pools could provide significant support is in the production of standardised climate metrics and scenario analysis data at the pooled mandate/sub-fund level for publicly listed assets held directly by pools.

We acknowledge that pools may find it challenging at present to provide climate reporting services for assets held off-pool and for private markets assets. However, the fact that pools may not be able to provide whole fund data at present for client funds should not deter them from making information available for directly held, listed assets.

Whilst the proposals set out in the consultation do not directly require it, information at the mandate level is vital for funds wishing to use climate risk reporting to support their investment decision making. At present, acquiring this information is time-consuming and costly; asset pools can add significant value by making this information easier to obtain, and

helping to set standards for other managers. We would suggest that the Government considers how best to support asset pools in providing this information.

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

*[DLUHC intends to provide high level statutory guidance to accompany changes to regulations. This will include guidance relating to the governance activities required of AAs and the Climate Risk Report. We have also asked the SAB to produce more detailed operational guidance.]*

*The SAB will also be asked to produce a standard template which AAs will be required to follow in producing their Climate Risk Report. This will help AAs to comply with the requirements, and help to ensure that the Scheme Climate Risk Report is as comprehensive and consistent as possible.]*

We agree that guidance and a template should be issued to ensure minimum requirements are met and that reporting is in a consistent format. The template should be flexible enough to allow funds to report in a manner best suited to the needs of their local stakeholders.

Guidance should make it clear whether requirements are mandatory, best practice or general recommendations.

The guidance and first template should be published as early as possible to give AAs sufficient time to compile the information required and publish it in the correct format.

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

*[It is important that individuals making decisions in response to climate-risk management processes have the adequate skills and information to make choices. While we will not be imposing any legal requirement on an individual's knowledge and skills, we wish to promote best practice in our approach. It is important to note that scheme managers are not expected to be technical experts in climate science or climate finance. However, a base knowledge regarding climate risks will be necessary in order to, for example, interpret the results of scenario analysis.]*

*Firstly, we propose to require that AAs must take proper advice regarding assessing and managing climate risks. This should help the scheme manager, who may not be a technical expert to take proper account of climate risks in setting their investment strategy and asset allocation.]*

*AAs will need to satisfy themselves that the advice is high quality and provided by appropriately qualified people. We welcome views as to how this may be practically ensured. We welcome responses on whether and how pools could jointly procure expert advice for their partner funds.]*

It is clear from the consultation document that AAs are likely to require some degree of specialist advice in preparing and interpreting the information required for TCFD reporting.

As set out in Q1, we feel that it is not currently clear how AAs should assess the capabilities of their advisors in relation to assessing and managing climate-related risks, and would welcome guidance in this area. In assessing our current advisor's capabilities, we considered their experience in advising on net zero and TCFD as part of a recent procurement process.

We feel that it would be helpful for pools to jointly procure expert advice for their partner funds, as this would help ensure that AAs have the required base level of knowledge to interpret and understand the limitations of scenario analysis and the required metrics.

**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?**

No, we do not believe that these proposals will negatively impact protected groups.