

## **DEPARTMENT FOR LEVELLING-UP, HOUSING AND COMMUNITIES: CONSULTATION ON GOVERNANCE AND REPORTING OF CLIMATE RELATED RISKS**

Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Committee be asked to approve the response to the consultation on governance and reporting of climate change risks attached at Appendix 1 to the report.

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### **1. Introduction**

- 1.1 In early September the Department for Levelling-Up, Housing and Communities issued a consultation on governance and reporting of climate change risks within the Local Government Pension Scheme. This consultation has been anticipated for some time, although it had been expected that it would be combined with a number of other issues which have yet to be consulted on.
- 1.2 The consultation is based on the recommendations of the Taskforce for Climate-related Financial Disclosures or TCFD. The TCFD was created in 2015 by the Basel-based Financial Stability Board (FSB) whose role, since its establishment in 2009 after the global financial crisis, is to promote international financial stability. The TCFD's focus is reporting on the impact an organisation has on the global climate. It seeks to make firms' climate-related disclosures more consistent and therefore more comparable.
- 1.3 The consultation sets out proposals that will require LGPS Administering Authorities to publish climate-related disclosures broadly in line with TCFD. The full consultation document 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. Summary of Proposals**

- 2.1 The new requirements on which DLUHC are consulting are summarised in the following table.

| 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 the 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 degree 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</p> |

| Area                  | Proposal                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                       | <p>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 of 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> <p>Metrics must be measured and disclosed annually.</p> |
| Targets               | <p>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.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Disclosure            | <p>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, the same 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.</p>                                                                                                                                                                                                                                                                                                                                                            |
| Scheme Climate Report | <p>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 should be included. We are open to views as to whether any other information should be included in the Scheme Climate Report.</p>                                                                                                                                                                                                                                                                                                                                                |

| <b>Area</b>   | <b>Proposal</b>                                                                                                                                                                                        |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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. |

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- 2.3 The Devon Fund already does a lot of work on the areas covered by the consultation and has included reporting on the Fund's carbon footprint in the Annual Report over the last two years. The new regulations will require the Fund to build on the work already being done, providing additional detail. The Brunel Pension Partnership has been at the forefront of how the investment industry responds to climate change, so we should be well placed to meet the requirements of the new proposed regulations and guidance.

### **3. Proposed Response to the Consultation**

- 3.1 Officers have drafted a response to the consultation, which is attached as Appendix 1 to this report. Broadly speaking, the response welcomes the proposals, with more detailed comments on the specific questions.
- 3.2 The Committee are asked to approve the consultation response. Should amendments be required as a result of comments from the Committee, it is proposed that approval of the final response be delegated to the Director of Finance and Public Value in consultation with the Chair.

Angie Sinclair  
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972:

List of Background Papers: Nil

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xx October 2022

Dear Sir/Madam,

**Re: Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks**

Thank you for the opportunity to comment on the proposed regulations on governance and reporting of climate risks within the LGPS. The Devon County Council Pension Fund supports action to address climate-related risks and welcomes the proposals being brought forward.

Our more detailed and specific comments are outlined below:

**Question 1: Do you agree with our proposed requirements in relation to governance?**

The Investment and Pension Fund Committee already takes an active role in monitoring how the Devon Fund manages climate-related risks. The carbon footprint (Weighted Average Carbon Intensity) of the Fund's investments has been measured and reported to the Committee on an annual basis since 2019, and targets have been set for reductions in emissions and investment in renewable energy infrastructure. As part of the Committee's review of the investment strategy in early 2022 it tasked Mercer to undertake a scenario analysis of how different degrees of global warming would impact on the Fund's investments.

The Committee therefore welcomes the responsibility to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities, and to monitor those who are undertaking climate-related governance activities on behalf of the Fund. We note that this should include maintaining oversight of the activities undertaken by the pool (in our case, the Brunel Pension Partnership) on behalf of the Fund.

**Question 2: Do you agree with our proposed requirements in relation to strategy?**

The Investment Strategy and the Funding Strategy are the two most important of the policies that must be maintained by the Pension Fund. The Devon Fund's Investment Strategy Statement already includes policies on how we address and manage climate-related risks within the strategy. For the first time, the 2022 Triennial Valuation will include actuarial assumptions related to climate risk, and this will be factored into the Funding Strategy Statement.

We therefore support the proposed requirements in relation to strategy.

**Question 3: Do you agree with our suggested requirements in relation to scenario analysis?**

We support the proposals related to scenario analysis. We agree that as investment and funding decisions are made triennially in accordance with the valuation cycle, scenario analysis should feed into these decisions, and should therefore be incorporated into the valuation cycle and carried out at least every three years.

We would note, in relation to the proposal to carry out a scenario analysis in 2023/24, that that would fall mid-way between triennial valuations, and may not therefore be the best point of time to undertake the scenario analysis.

**Question 4: Do you agree with our proposed requirements in relation to risk management?**

Climate risk is already included within the Devon Pension Fund risk register, which is monitored quarterly by the Devon Pension Board and reported to the Investment and Pension Fund Committee at least annually.

We therefore support the proposed requirements in relation to risk management.

**Question 5: Do you agree with our proposed requirements in relation to metrics?**

Metrics are important to ensure that climate-related risk is managed effectively. The Devon Fund therefore supports the requirement for metrics to be published.

In relation to the specific metrics proposed, we believe that Weighted Average Carbon Intensity (WACI) is the most effective measure of the Fund's carbon footprint. We would support a requirement that WACI be specified as a required metric and should be used as a measure of the carbon footprint of Fund investments.

**Question 6: Do you agree with our proposed requirements in relation to targets?**

We support the requirement to set targets. The Devon Fund has committed to achieve net zero by 2050 or sooner, and has also committed to a 50-75% reduction in WACI by 2030 from a base position in March 2019.

Targets are essential to ensure that progress is being made in managing the impact of climate change and managing the Fund's risk exposure. Therefore, we support the requirement to set targets.

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

The Devon Fund already includes a section within the Annual Report on climate change and climate risk. The proposed report would be more detailed than currently provided, but we think it is important to ensure that the report is not too technical and is understandable by fund members. We think there is a delicate balance to be struck and would support there being a degree of flexibility around achieving this.

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

We support the provision of aggregated scheme data. As per our response to question 5, we would support the use of WACI as a key measure of carbon footprint. This should be easy to aggregate on a scheme basis using a weighted average of each individual Fund's WACI based on the value of their assets covered.

However, in compiling a scheme report, DLUHC will need to ensure that the definitions and methodologies used are consistent. This is especially true when it comes to asset classes where reporting and regulatory requirements are less developed, for example private markets. Changes in strategic asset allocation may give rise to confusing messages, where apparent shifts in carbon footprint or Paris alignment data are the result of different reporting methodologies rather than a real improvement or decline.

It may be helpful for DLUHC to consider compiling data for those asset classes where the reporting and regulatory requirements are well established in advance of a full analysis across asset classes.

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

We would see our pool company, the Brunel Pension Partnership, as a key partner in delivering on the provision of the required metrics. The data that we have published in our Annual Report over the last 3 years has been provided by Brunel, and they also provided a service in providing metrics on non-pooled listed equity assets, up to the point when our listed assets were fully transitioned.

We believe it is up to each individual fund to set its own strategy and processed for the management and monitoring of climate related risks, and for the pool companies to deliver their clients' strategies. This will clearly require a high level of partnership and co-operation, and we believe that Brunel's policies and aspirations in this area are fully aligned with those of the Devon Fund.

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

We agree that a template would be useful, and that common metrics are required, but we would suggest that some degree of flexibility is required for individual Funds to report on their activities in a way that is meaningful for their fund members.

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

We agree that pension committees need to have appropriate knowledge and skills in relation to climate change and climate risk. This would be best addressed alongside the general requirements for knowledge and skills covering all the aspects of pension fund and investment management.

There is already considerable expertise and knowledge in relation to climate risk across administering authorities and the pool companies, and we would expect this to be utilised by pension committees in setting and reviewing strategy. The requirement for administering authorities to take proper advice should recognise this. Where required, either the pool company or the administering authority can seek external advice and is likely to need external support in the provision of the required metrics and scenario analysis. We would urge that regulations should not be too prescriptive on how administering authorities ensure that proper advice is provided.

DLUHC will also need to consider the skills and knowledge of its own people, those being asked to compile and interpret the data for the overall scheme report and what external advice may be required.

**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?**

We support the principle that reports should be provided in accessible formats.

Yours Sincerely

Angie Sinclair  
Director of Finance and Public Value