

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 16 DECEMBER 2022****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCE & COMMERCIAL****SUBJECT: DEPARTMENT OF LEVELLING UP, HOUSING & COMMUNITIES CONSULTATION ON GOVERNANCE AND REPORTING OF CLIMATE CHANGE RISK****SUMMARY OF ISSUE:**

To provide details of the Department for Levelling Up, Housing & Communities (DLUHC) consultation on Governance and Reporting of Climate Change Risk and the response from Surrey.

RECOMMENDATIONS

This report recommended that the Pension Fund Committee:

1. Notes the report and annexe.

REASONS FOR RECOMMENDATIONS:

The Pension Fund Committee will be made aware of all national initiatives with a consultation process with a response sent within stated deadlines, in accordance with the Fund's strategic governance objectives.

DETAILS:**Background**

1. In September 2022, the DLUHC sought 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).
2. The 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 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. The joint Government Regulators Taskforce's Interim Report, and accompanying roadmap, published alongside the announcement, sets out an indicative pathway to achieving that ambition.
3. LGPS funds are already required to consider factors that are financially material to the performance of their investments, including environmental, social, and corporate governance considerations. They also must have a policy stating how such considerations will be considered in setting their

investment strategy. The aim of the proposals in this consultation document is to build on that position by ensuring that the financial risks and opportunities arising specifically from climate change are properly understood and effectively managed by LGPS funds, and that they report transparently on their approach in line with broader UK policy.

4. The government's view is that the requirements for the LGPS should set as high a standard as for private schemes. They have therefore made the requirements for private schemes the starting point for their proposals but have aimed to take account of the unique features of the LGPS including its local administration and democratic accountability through the LGPS funds.
5. 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 will be 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.

Summary of proposals

6. The new requirements are summarised below:

Area	Proposal
Overall	Each LGPS Fund 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 Funds. 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	LGPS Funds 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	LGPS Funds 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 LGPS Funds 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 LGPS Funds 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.

LGPS Funds 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. The Government propose that all LGPS Funds 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 LGPS Funds 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 LGPS Funds 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. The Government propose that scheme members must be informed that the Climate Risk Report is available in an appropriate way.

Scheme Climate Report The Government 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. The Government also propose that a list of the targets which have been adopted by AAs. The Government are open to views as to whether any other information should be included in the Scheme Climate Report.

Proper advice The Government propose to require that each LGPS Funds take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.

Surrey's response (see annexe)

7. The Fund has long recognised the imperative to address climate change as a systemic and long-term investment concern for our stakeholders. It poses material financial risks across all asset classes with the potential for loss of shareholder value.
8. Achieving a just transition to a net zero economy cannot be achieved by companies or investors alone. It also requires government action to raise standards across the piece. With the provision of a clearly identified legislative framework on carbon reductions, companies and investors will be able to make the necessary decisions and financial commitments to provide the short and long-term solutions to decarbonisation of the economy that are needed.
9. The Fund therefore is a strong supporter of the introduction of mandatory carbon emissions and risk reporting. The Fund supports the recommendations of the Financial Stability Board's TCFD report and considers all market participants should be encouraged to aim for the fullest relevant implementation. The Fund itself has produced a TCFD based report on a voluntary basis in each of our Annual Reports from 2020, to help our stakeholders understand how climate is integral to investment decisions and reporting.
10. The Fund agrees that all funds should report against TCFD. However, we recommend that proposed guidance includes specific sections for smaller funds, especially with regard to metrics and scenario analysis.
11. There also seems to be misalignment between government objectives and regulation regarding scenario analysis. Clearly it would be unfair and inconsistent to have different obligations for LGPS funds than to issuers or occupational pension funds regulated by the DWP. It would, however, appear sensible to have alignment with government policy regarding scenarios. Achieving net zero by 2050, as enshrined in the UK Climate Act, implies a 1.5 degree rise rather than 2 degrees and therefore requirements should focus on this figure. As such, the Fund would encourage government, its departments and its agencies, to adopt 1.5 degrees as the required benchmark for all issuers, asset managers and asset owners. Not doing so creates financial and investment risks associated with government policy pushing for 1.5 degree reduction but disclosures judged against a 2 degrees standard.
12. Finally, while the Fund supports TCFD reporting, an area of concern is the oversight of the social implications of the transition within the TCFD framework. Failing to consider the impact of the transition on workers, communities, supply chains and consumers carries financial risks. These include opposition to climate action which will slow the pace of the transition (economy-wide and for individual companies). There are also specific issues around skills, employment standards and human rights, which create legal

and operational risks as well as reputational ones and we believe the consultation underlined the need to take forward the recommendations of the Good Governance Project led by the Scheme Advisory Board.

13. Alongside the risks there is considerable opportunities to improve social outcomes which can help support economic and financial stability. The Fund recommends that issues around the just transition are included within the government's approach to TCFD regulation.

14. Surrey's full response is shown as annexe 1.

CONSULTATION:

15. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

16. Risk related issues have been considered and are included within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

17. Financial and value for money implications will be considered as part of the Government response to the consultation.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

18. The Director of Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

19. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

20. The approval of the various options will not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

21. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

22. The following next steps are planned:

- a) Provide the Pension Fund Committee with details of the results of the consultation.

Contact Officer:

Neil Mason, Assistant Director, LGPS Senior Officer

Sources/background papers:

1. The DLUHC consultation on Governance and Reporting of Climate Change Risk [Local Government Pension Scheme \(England and Wales\): Governance and reporting of climate change risks - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks)

Annexes:

1. Surrey County Council response to the DLUHC consultation on Governance and Reporting of Climate Change Risk.

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