

**SURREY COUNTY COUNCIL****PENSION FUND COMMITTEE****DATE:** 11 DECEMBER 2020**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**SUBJECT:** DEPARTMENT FOR WORK AND PENSIONS – CONSULTATION ON TAKING ACTION ON CLIMATE RISK: IMPROVING GOVERNANCE AND REPORTING BY OCCUPATIONAL PENSION SCHEMES**Strategic objectives****Governance****SUMMARY OF ISSUE:**

To provide details of the Department for Work and Pension's (DWP) consultation on Taking Action on Climate Risk: Improving Governance and Reporting by Occupational Pension Schemes and the response from Surrey.

**RECOMMENDATIONS:**

To note the report and annexe.

**REASON 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.

**BACKGROUND:**

1. In August 2020, the DWP consultation sought views on policy proposals to require trustees of larger occupational pension scheme, authorised master trusts and authorised schemes providing collective money purchase benefits to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate risks and opportunities. It also invited responses on proposals to disclose these in line with the recommendations of the international industry-led Task Force on Climate-related Financial Disclosures (TCFD).
2. It is proposed that among the activities required would be calculating the 'carbon footprint' of pension schemes and assessing how the value of the schemes' assets or liabilities would be affected by different temperature rise scenarios, including the ambitions on limiting the global average temperature rise set out in the Paris Agreement. The disclosures would be required to be made publicly available, referenced from the schemes' Annual reports and

Accounts, and pension savers informed of the availability of the information via their annual benefit statement.

#### **DETAILS:**

3. The consultation outlines proposals to require trustees to meet climate governance requirements which underpin the 11 recommendations of the TCFD, and to report on how they have done so.
4. It is proposed to set out statutory guidance, which trustees must have regard to, which will set out steps to meet and report to TCFD requirements.
5. DWP further proposes that schemes be required to publish their TCFD report on their own website, or the website of the scheme's sponsor. As a key financial disclosure - TCFD reporting is referenced from the Annual Report.
6. It is proposed that members will be told via the annual benefit statement that the information has been published and where they can locate it.
7. DWP also proposes to require that trustees provide the Pensions Regulator (TPR) with the web address of where they have published their TCFD report via the annual scheme return form. We also propose to require that trustees provide a link to their SIP and (where applicable) implementation statement and published excerpts of the chair's statement in the annual scheme return form.
8. DWP further proposes that a mandatory penalty is appropriate for complete failure to publish any TCFD report.

#### **Surrey's response**

9. Surrey response (shown as Annexe 1) supports the stated purpose of the consultation to measure the carbon footprint of portfolios as well as potential risks with different temperature levels. It also welcomes the decision to keep members informed through their Annual Benefit Statements.
10. Surrey believes that trustees should be urged to take the lead in integrating Climate Risk into their portfolio, as opposed to waiting on policy changes. Surrey also supports this view. A Pension Fund Trustee's fiduciary duty requires them to take into account any significant factors, which can impact future financial returns. The consultation does well in highlighting that this goes beyond 'traditional' factors such as interest rate, exchange rate and inflation.
11. Although the decision to make TCFD mandatory amongst larger pension schemes is welcomed, the Government should actively encourage smaller schemes to also start making voluntary TCFD disclosures, for the benefit of their members, Trustees and wider public.

12. Surrey appreciates that providing TCFD disclosures should not in any way lead to increased pressure to divest, and this decision still lies ultimately with Pension Fund Trustees.

13. Surrey is also supportive of the methodology of portfolio warming as a means to measure likely temperature rise levels based on a scheme's current portfolio along with other methods to assess physical and transition risk. This would therefore allow Trustees to view how at risk their portfolios are in relation to carbon policy changes, at a sector and potentially geographic level.

#### **CONSULTATION:**

14. The Chairman of the Pension Fund Committee has been consulted on this report

#### **RISK MANAGEMENT AND IMPLICATIONS:**

15. Risk related issues have been discussed and are contained within the report.

#### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

16. Financial and value for money implications are discussed within the report.

#### **DIRECTOR OF CORPORATE FINANCE COMMENTARY**

17. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

#### **LEGAL IMPLICATIONS – MONITORING OFFICER**

18. There are no legal implications or legislative requirements.

#### **EQUALITIES AND DIVERSITY**

19. This does not require an equality analysis, as there is no major policy, project or function being created or changed.

#### **OTHER IMPLICATIONS**

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

#### **WHAT HAPPENS NEXT**

21. The following next steps are planned:

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

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**Contact Officer:** Mamon Zaman, Senior Pensions Finance Specialist

**Consulted:**  
Pension Fund Committee Chairman

**Annexes:**

1. Surrey County Council response to the DWP consultation on Taking Action on Climate Risk: Improving Governance and Reporting by Occupational Pension Schemes

**Sources/background papers:**

1. The DWP consultation on Taking Action on Climate Risk: Improving Governance and Reporting by Occupational Pension Schemes  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/911894/tcfd-taking-action-on-climate-risk.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/911894/tcfd-taking-action-on-climate-risk.pdf)
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