

# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 12

## PENSION FUND COMMITTEE REPORT

21 OCTOBER 2022

DIRECTOR OF FINANCE – HELEN SEECHURN

### Consultation on Managing and Reporting Climate-Related Risks

#### 1. PURPOSE OF THE REPORT

- 1.1 To provide Members of the Pension Fund Committee (the Committee) with details of an ongoing consultation exercise on managing and reporting climate-related risks in the Local Government Pension Scheme (LGPS), and to ask Members to agree that a consultation response can be provided as set out in the recommendations

#### 2. RECOMMENDATIONS

- 2.1 That Members note this report.
- 2.2 That Members agree that the Head of Pension Governance and Investments, in consultation with the Chair and Vice Chair, provides a response to the consultation by the 24 November 2022.

#### 3. FINANCIAL IMPLICATIONS

- 3.1 There are no specific financial implications in respect of the information contained in this report.

#### 4. GOVERNMENT CONSULTATION ON MANAGING AND REPORTING ON CLIMATE-RELATED RISKS IN THE LGPS

- 4.1 On 1 September 2022 the Government issued a long-anticipated consultation document on managing and reporting climate-related risks in the LGPS. The proposals in the consultation are mainly aimed at administering authorities ('AAs') of LGPS Funds and are summarise in the consultation document as follows:

Area	Proposal
Overall	Each LGPS AA must complete the actions listed below and summarise their work in an annual Climate Risk Report.

Area	Proposal
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	<p>AAs 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, AAs 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 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.</p> <p>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.</p> <p>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.</p> <p>Metrics must be measured and disclosed annually.</p>

Area	Proposal
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.

4.2 The full consultation document is attached at Appendix A and can also be found at the following link: <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#scope-of-the-consultation> . Points to note:

- The proposed requirements are similar to those that already apply to trustees of larger private sector pension schemes – those with ‘relevant assets’ of £5 billion or more have been in scope of similar requirements since 1 October 2021 and those with assets of £1 billion or more since 1 October 2022. There is no proposed phasing in introducing these requirement to the LGPS, they will come in force from the year starting 1 April 2023 with the first report due to be published by 1 December 2024.
- The consultation makes explicit reference to not wanting to encourage schemes to divest from energy companies, but instead to encourage a (more gradual) transition to cleaner energy:

“The UK Energy Security Strategy was published in April 2022 and emphasises the importance of investment in energy by the private sector to improve energy security and support the transition to clean energy. The LGPS has an important role to play as a major investor with a commitment to stewardship and engagement. These proposals

seek to support that approach to addressing high carbon emissions and discourage any pursuit of lower emissions through withdrawing investment from energy companies.”

This pragmatic approach is unlikely to placate pressure groups.

- There is acknowledgement in the document that data quality will be an issue, and administering authorities will be required to report on their assessment of the quality of the data available to them. The methods for analysing the data are also less than perfect, and the document acknowledges this, for example stating: “We would expect AAs to aim to do the best scenario analysis that they can, and to aim to improve their scenario analysis over time”
- The document considers the increasingly important role the LGPS pool companies will play in providing data and analysis in relation to climate risks and recommends close working between funds and pools to ensure consistency:

“Pool operators are required to report on climate risks in relation to pooled assets by the Financial Conduct Authority. If AAs’ strategies significantly differ it will be resource intensive for their pool to produce analysis for them. We expect to see this issue reduce in importance over time as more assets transition into the pools. ...AAs could also minimise this issue by aligning their strategies and targets within their pool and ensuring as shareholders that the pool’s strategy also aligns with that of the partner AAs. This would enable AAs to commission their pool to conduct analyses for both pooled and non-pooled assets on a consistent basis with the pool’s own reporting.”

- Administering authorities will be required to take “proper” advice on the issues set out in the consultation. No clear definition is given of this, but it appears further guidance will be provided in due course:

“The scheme manager will need to appoint properly qualified advisers, fully consider their advice, and take appropriate action in order to address these risks. The committee’s officers and advisers and the pool, where appropriate, will need to provide advice which is accessible for non-specialists and adequately addresses climate risks to the fund, bringing in additional expertise where needed. We propose to provide statutory guidance to assist AAs”

## **5. NEXT STEPS**

- 5.1 The consultation period ends on 24 November 2022. If Members agree the recommendation, the Head of Pensions Governance and Investments will provide a response to the consultation taking into account views and information from Border to Coast and the other Partner Funds, where available.
- 5.2 Further information on the final regulations and guidance will be provided to the Committee as it becomes available.

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