

Report for: Pension Board

Date of Meeting:	6 October 2022
Subject:	Taskforce on Climate-related Financial Disclosures - Consultation
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	Not applicable
Enclosures:	None

Section 1 – Summary and Recommendations

This report summarises the recently issued Government Consultation paper on Governance and Reporting of Climate Change Risks.

Recommendations:

The Board is requested to note the report.

Section 2 – Report

1. In recent years there has been a growth in concern about how the Local Government Pension Scheme's (LGPS) investments are made in the context of the potential impacts of climate change. This has been reflected in an increased emphasis being placed LGPS Funds and their investment managers on Environmental, Social and Governance (ESG) issues.
2. On 1 September 2022 the Department for Levelling Up, Housing and Communities (DLUHC) published a consultation paper seeks views on proposals to require 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). The consultation closes on 24 November 2022.

3. The approach builds upon the existing requirements contained in the LGPS (Management and Investment of Funds) regulations 2016, which include requirements to state in the Investment Strategy Statement the Fund's approach to ESG matters.
4. The consultation sets out the proposed requirements for the LGPS. In summary, each administering authority will have to consider and report against four key areas
 - Governance – the organisation's governance around climate related risks and opportunities
 - Strategy – the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning
 - Risk Management - The processes used by the organisation to identify, assess and manage climate-related risks
 - Metrics and Targets - The metrics and targets used to assess and manage relevant climate-related risks and opportunities
5. The key requirements are
 - Establish and maintain a governance approach for oversight of climate risks and opportunities
 - Assess the impact of climate risks and opportunities on Funding and Investment strategies
 - Carry out scenario analysis reflecting different temperature pathway alignments (one of which must be "Paris aligned")
 - Establish and maintain processes for identifying and managing climate risks and opportunities
 - Report on a minimum of four prescribed climate metrics which need to be measured and disclosed annually
 - Set a (non-binding) target in relation to one metric, chosen by the authority
 - As part of ongoing disclosure requirements, publish an annual climate risk report. The Scheme Advisory Board will also prepare an annual report linking to individual funds' reports and aggregating figures for prescribed metrics
 - Other requirements including taking proper advice and having the required knowledge and skills.
6. Metrics – currently, four are proposed –
 - Total carbon emissions – see paragraph 7 below
 - Carbon footprint metric (this is intended to be a "carbon intensity" measure – reflecting that larger funds will inevitably have larger total emissions)
 - Data quality – a statement indicating the proportion of the Fund's assets for which data which is verified, reported, estimated or unavailable.
 - A Paris alignment metric - the percentage of the fund's assets for which a public "Paris aligned" commitment has been made, i.e. net zero by 2050

7. Measurement is likely to be a particular challenge – as there are 3 types of emissions
- Scope 1 emissions are all direct emissions from the activities of an organisation or activities under its control. These emissions include fuel combustion on site such as gas boilers.
 - Scope 2 emissions are indirect emissions from electricity purchased and used by the organisation. Emissions are created during the production of the energy which is eventually used by the organisation.
 - Scope 3 emissions are all other indirect emissions from activities of the organisation, occurring from sources that they do not directly control. These are sometimes the greatest share of a carbon footprint, covering emissions associated with business travel, procurement, production of inputs, use of outputs, waste, and water.
- Inevitably, it is much more difficult to measure scope 3 emissions accurately, and reporting on scope 3 emissions is less well developed.
8. To ensure consistency of reporting across the LGPS, it is likely that there will be mandatory guidance issued – and that the Scheme Advisory Board will develop a standard template for Funds’ use, which will also facilitate scheme level reporting.

Legal Implications

9. There are no direct legal implications arising from this report.
10. The terms of reference for the Board include the Board’s role as set out in the following paragraphs.
11. The role of the Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013, is to assist the Administering Authority (London Borough of Harrow) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including:
- securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the LGPS;
 - securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
 - such other matters the LGPS regulations may specify.
12. The Administering Authority retains ultimate responsibility for the administration and governance of the scheme. The role of the Board is to support the Administering Authority to fulfil that responsibility.
13. In its role, The Board will have oversight of the administration of the fund including:
- a. The effectiveness of the decision making process
 - b. The direction of the Fund and its overall objectives
 - c. The level of transparency in the conduct of the Fund’s activities

- d. The administration of benefits and contributions
- 14. The Board will provide the Scheme Manager with such information as it requires to ensure that any Member of the Board or person to be appointed to the Board does not have a conflict of interest.
- 15. The Board will ensure it effectively and efficiently complies with the Code of Practice on the Governance and Administration of Public Service Pension Schemes issued by the Pensions Regulator. It will help to ensure that the Fund is managed in the same way.
- 16. The Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively.

Financial Implications

- 17. There is a cost of engaging Aquila Heywood to assist in the collection of employer data in readiness to implement fully the McCloud Judgement when the new Regulations become available. The work to deliver the triennial valuation will result in additional fees payable to the Fund's actuary, Hymans Robertson. These costs are being / will be met from the Pension Fund.

Risk Management Implications

- 18. The Pension Fund's Risk Register is reviewed regularly by both the Pension Fund Committee and by the Board. The next review will be considered elsewhere on the agenda for this meeting.
- 19. There are no specific risk management implications arising from this report.

Equalities implications / Public Sector Equality Duty

- 20. Was an Equality Impact Assessment carried out? No
- 21. There are no direct equalities implications arising from this report, although as the Committee is aware, the McCloud Judgement arose from a Equalities Claim against another public sector pension scheme.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert

Signed by the Chief Financial Officer

Date: 27/09/2022

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 22/09/2022

Chief Officer: Dawn Calvert
Signed on behalf of the Chief Executive
Date: 27/09/2022

Mandatory Checks

Ward Councillors notified: Not Applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager
Email: Jeremy.randall@harrow.gov.uk
Telephone 020 8736 6552

Background Papers: None