

APPENDIX 1

CONSULTATION ON TCFD – DRAFT RESPONSE FROM LONDON BOROUGH OF HARROW PENSION FUND

Please note that the text in italics is the Government’s proposal to assist the Committee in understanding the proposed response.

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

The Government’s proposal is to place new duties on AAs to:

- establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities*
- establish and maintain processes by which they can, on an ongoing basis, satisfy themselves that those who undertake climate-related governance activities, advisors, and those who assist the AA (including officers and advisors) with respect to climate related governance are doing so effectively.*

Response

Yes, we agree that the primary responsibility for putting in place appropriate arrangements rests with the LGPS Administering Authority (AA), and that Advisers and Investment Pools will each have a role in supporting the AA and its officers in the oversight of climate related risks and opportunities.

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

The Government’s proposal is to place new duties on AAs to:

- identify, on an ongoing basis, climate-related risks and opportunities that will impact the investment and funding strategy of the AA, over the short, medium and long term.*
- assess, on an ongoing basis, the impact of the identified risks and opportunities on the AA’s investment and funding strategy.*

Response

The proposed requirements make sense in principle, but will present practical challenges for AA’s, including:

1. Capacity – developing and managing the additional resources required to monitor the climate-related risks and opportunities which will impact their investment and funding strategies on an ongoing basis

2. Costs – the additional resources (either internal, or from external advisors) needed to achieve these requirements will come at a cost, as detailed and bespoke analysis (taking into consideration the materiality of the climate-related risks, the liquidity and time horizon of the assets, and the cashflow and liabilities of the fund) can be very costly.
3. Expertise – the absence of specialist knowledge on climate-risks may make it difficult for some AA's to appreciate fully the impacts on funding and investment strategy and use it to inform decision making.
4. Complexity – AA's that rely on individual Investment Managers to provide data will have challenges aggregating different data providers and methodologies.

Some investment pools have developed significant capabilities in relation to climate risks and responsible investment, and hence are likely to have sufficient scale and ability to play a key role in supporting AA's in this work.

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

The Government propose to place a new duty on AAs to:

- *assess their assets, liabilities, investment strategy and funding strategy against climate risks and opportunities in at least two climate scenarios. This assessment must include at least one scenario based on a global temperature rise of 2°C or lower on pre-industrial levels. This assessment must occur at least once every valuation cycle. In interim years, AAs must consider whether any changes in the fund have been substantial enough to require scenario analysis to be repeated.*

Response

We do not agree with the suggested requirements in relation to scenario analysis, because the gaps in historic data sets and low coverage, mean that in practice the majority of quantitative scenario analysis modelling techniques do not yield actionable insights which are accessible to non-specialists and hence help to inform our Pension Fund Committee's investment and funding decisions. If that is the case the requirements will simply be an expensive reporting exercise for AAs.

One option possible approach could be to place a requirements initially on investment pools (in their capacity as asset managers) and encourage AAs to work with their pools (and investment managers for non-pooled assets) to understand how specific investment strategies are exposed to transition and physical risks under a range of different climate scenarios and timeframes.

This approach would allow DLUHC to revisit proposals in relation to scenario analysis once AA's have been able to develop further expertise on climate risks and have established processes to work with investment pools and advisors.

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

The proposed requirements are for AAs to:

- *Establish and maintain processes for the purpose of enabling them to identify and assess climate-related risks.*
- *Establish and maintain processes for the purpose of enabling them to effectively manage climate-related risks.*
- *Ensure, on an ongoing basis, climate-related risk management processes are integrated into their overall risk management.*

Response

We agree in principle with the proposed requirements.

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

1. *The Government proposes to require AAs to calculate and report the following metrics:*
 - *Metric 1 (absolute emissions metric) - Total Carbon Emissions, which includes the Scope 1, 2 and 3 emissions reported separately, as well as the sum of the three.*
 - *Metric 2 (emissions intensity metric) - Carbon Footprint. This is Carbon Emissions divided by the total assets of the fund to which the data relates. It should be calculated separately for Scope 1, Scope 2 and Scope 3 emissions.*
 - *Metric 3 (data quality metric) – the percentage of assets for which Scope 1, 2 and 3 emissions are verified, reported, estimated or unavailable, in line with the GHG Protocol.*
 - *Metric 4 (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.*
2. *It also proposes to recommend in statutory guidance that AAs consider whether they wish to calculate any other climate related metrics recommended by the TCFD in order to inform assessment of climate risks.*

Response

We agree in broad terms with the proposed metrics. From a practical point of view, the challenge is currently the quality and consistency of available data particularly of “Scope 3” emissions.

With that in mind, we support the initial requirement being solely to report at whole fund level.

However, it is possible that in the longer term, reporting at a more detailed level would provide additional information to help AAs in making strategic asset allocation decisions with a clearer picture of where climate risk exposures exist.

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

1. *The proposed requirements for AAs are:*
 - *AAs must set a target for their fund in relation to one of the metrics which they have selected. The target may be in relation to one of the mandatory metrics (absolute emissions, emissions intensity, data quality or Paris alignment), or any other climate-related metric endorsed by the TCFD which the AA chooses.*
 - *AAs must annually measure, as far as they are able, the performance of their fund against the target they have set and taking into account that performance, determine whether the target should be retained or replaced.*
2. *There is no expectation that AAs should set targets which require them to divest or invest in a given way, and the targets are not legally binding.*

Response

We agree with the proposed requirements, as at this point, data is insufficiently robust to justify a requirement to set targets which might then be used to be used to drive investment / divestment decisions.

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

The proposal is that the Climate Risk Report must include the following information:

1. *Governance*
 - *Describe the AA's oversight of climate-related risks and opportunities*
 - *Describe the role of any person other than the scheme manager who undertakes relevant governance activities and the process by which the committee satisfy themselves that this is being done*
 - *Describe the role of any person who (other than a legal advisor) advises the scheme manager on relevant governance activities and the process by which the committee satisfies itself that adequate steps are being taken*
2. *Strategy*
 - *Describe the climate-related risks and opportunities which the scheme manager has identified*
 - *Describe the scheme manager's definition of short term, medium term and long term*

3. Scenario Analysis

- Describe the most recent scenarios the scheme manager has analysed
- Describe the impact of the climate-related risks and opportunities on the AA's investment and funding strategies
- Describe the potential impacts on the AA's assets and liabilities which the AA has identified in the most recent scenarios and the reason for any data which is missing from the analysis
- Describe the resilience of the AA's investment and funding strategies in the most recent scenarios the AAs have analysed

4. Risk management

- Describe the processes which the AA has established for identifying and assessing climate-related risks to their fund
- Describe the processes which the AA has established for managing climate-related risks to the AA
- Describe how these processes are integrated into the AA's overall risk management

5. Metrics

- Report the metrics which the AA has calculated (or an explanation as to why these were not possible to calculate) Report the metrics which the AA has calculated (or an explanation as to why these were not possible to calculate)

6. Targets

- Report the target which the AAs have set and the performance of the AA against that target.

Response

We agree with the proposed requirements.

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

The proposal is that in addition to the Climate Risk Reports published by each AA, the Government is proposing an annual Scheme Climate Risk Report to provide an overview of the LGPS and climate risks, produced by the Scheme Advisory Board (SAB). Such an overview would be useful for scheme members and other stakeholders. It would also enable the LGPS to demonstrate progress and impact, and showcase good practice.

They therefore propose as a minimum that the Scheme Climate Risk Report would include links to each AA's Climate Risk Report and the four aggregated metrics for the whole LGPS.

Response

It is unclear how aggregating information from LGPS Funds which have set different targets will provide any meaningful information or benefit to scheme members and other stakeholders.

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

Response

Given that a significant proportion of the scheme's assets are either pooled or part of a transition plan under which they will be pooled by 2025, it seems sensible for pool operators to work to collect and provide this information to AAs for pooled assets. As more assets are pooled / fewer remain "off pool" it may be simpler for pools to collate the bulk of the data and disaggregate to individual fund level for the AA to report.

However, at this point there remain a significant amount and range of assets held "off pool", and therefore it would not be appropriate to impose specific duties on pools to deliver reporting requirements for off pool assets at this point.

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

- 1. DLUHC intends to provide high level statutory guidance to accompany changes to regulations. This will include guidance relating to the governance activities required of AAs and the Climate Risk Report. We have also asked the SAB to produce more detailed operational guidance.*
- 2. The SAB will also be asked to produce a standard template which AAs will be required to follow in producing their Climate Risk Report. This will help AAs to comply with the requirements and help to ensure that the Scheme Climate Risk Report is as comprehensive and consistent as possible.*

Response

It is helpful for Regulations to be accompanied by appropriate guidance to support the integration of climate related disclosures into decision-making, and for the SAB to be involved in standardising the reports.

However, it is important to recognise that reporting should not be an end in itself, but an aid to the development of effective climate risk management in the LGPS.

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

The proposal is that there will be no legal requirement on individuals' knowledge and skills. However there will be a requirement to take appropriate high quality advice from appropriately qualified people.

Response

We agree with the approach, which is consistent with the requirements of the existing Regulations.

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?

Response No comments.