

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 23 November 2022

Subject: DLUHC's Consultation "Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks"

Cabinet Member: Cllr Leaver

Executive Director: Fay Hammond

Purpose of Report

1. This report provides an update on DLUHC's Consultation "Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks". One of the functions of the Committee is to meet the Council's duties in respect of the efficient management of the pension fund.
2. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

Proposal(s)

3. Pension Policy and Investment Committee are recommended:
 - i) to note the contents of this report.
 - ii) to note the response from London CIV attached as Appendix 1, and LAPFF as Appendix 2; and
 - iii) to note, consider and comment on Enfield Pension Fund response attached as Appendix 3.

Reason for Proposal(s)

4. For effective and efficient management of the Fund.
5. There is a requirement for the Committee to be kept up to date with current issues and legislative developments to support and effect the effective discharging of their role.
6. **Relevance to the Council's Corporate Plan**
7. Good homes in well-connected neighbourhoods.
8. Build our Economy to create a thriving place.

9. Sustain Strong and healthy Communities.

Background

Task Force on Climate-Related Financial Disclosures (TCFD)

10. The long-awaited consultation on climate risk disclosures in the Local Government Pension Scheme (LGPS) finally dropped on 1 September. Department for Levelling Up Housing and Communities (DLUHC) is consulting on proposals for new requirements on LGPS administering authorities. The consultation is for 12 weeks to 24 November 2022.
11. This consultation 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).
12. Under the proposals, from 2024 all funds in England and Wales will need to prepare an annual Climate Risk report following Task Force on Climate-Related Financial Disclosures (TCFD) principles.
13. The new requirements on which they are consulting are discussed throughout this document.
<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>
14. For ease, the key proposals are summarised below.

Summary of proposals

15. Each LGPS Administering Authorities (AA) must complete the actions listed below and summarise their work in an annual Climate Risk Report.
16. The proposed regulations will apply to all LGPS Administering Authorities. 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.
17. AAs will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. AAs 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.
18. 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.
19. 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.

20. 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.
21. AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below.
 - i) **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.
 - ii) **Metric 2** - will be an emissions intensity metric. Whereby all AAs would 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.
 - iii) **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.
 - iv) **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.
 - v) Metrics must be measured and disclosed annually.
22. 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.
23. 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. DLUCH propose that scheme members must be informed that the Climate Risk Report is available in an appropriate way.
24. DLUCH 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.

25. DLUCH 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.
26. Members are asked to note the London CIV and LAPFF responses, attached as Appendix 1 & 2 respectively and also the Enfield Pension Fund response attached as Appendix 3 to this report and share their views for inclusion in the consultation response before 5pm of 23 November 2022.
27. Under the proposals, beginning in 2024 all funds in England and Wales will need to prepare an annual Climate Risk report following Task Force on Climate-Related Financial Disclosures (TCFD) principles.

Safeguarding Implications

28. None.

Public Health Implications

29. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the borough.

Equalities Impact of the Proposal

30. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

31. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

32. It is important to keep abreast on current issues to facilitate the rigorous and robust management of the Pension Fund for a better, quicker and more effective decision-making process which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.
33. The monitoring arrangement for the Pension Fund and the work of the Pension Board should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

34. Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Enfield Pension Fund.

Financial Implications

35. It is important to keep abreast on current issues to facilitate the rigorous and robust management of the Pension Fund for a better, quicker and more effective decision-making process which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund. No immediate financial consequences as this report provides an update on several general developments affecting the Local Government Pensions Scheme.

Legal Implications

36. This report provides an update on consultation/general development affecting the Local Government Pensions Scheme. One of the functions of the Pensions Board is to meet the Council's duties in respect of the efficient management of the pension fund. And so it is appropriate, having regard to these matters, for the Committee to receive information about general developments affecting the Local Government Pensions Scheme. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

Workforce Implications

37. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

38. None

Other Implications

39. None

Options Considered

40. No alternative options considered.

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Date of report 11th November 2022

Appendices

- i) Appendix 1 - London CIV response to DLUHC Consultation
- ii) Appendix 2 – LAPFF response to DLUHC Consultation

iii) Appendix 3 – Draft Enfield Pension Fund response to DLUHC Consultation

Background Papers

<https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks>