

# LONDON BOROUGH OF HAMMERSMITH & FULHAM

**Report to:** Pension Fund Committee

**Date:** 15 November 2022

**Subject:** Task Force for Climate-Related Financial Disclosures Consultation

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**Responsible Director:** Phil Triggs, Tri-Borough Director of Treasury and Pensions

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## SUMMARY

The Department for Levelling Up, Housing and Communities (DLUHC) has issued a consultation on how local government pension funds (LGPS) in England and Wales should assess and manage climate risks and opportunities, proposing to disclose information in line with the Taskforce on Climate Related Financial Disclosures (TCFD). The 12-week consultation will end on 24 November 2022.

## RECOMMENDATIONS

1. The Committee is recommended to note the report.

**Wards Affected:** None

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Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council tax payer.

## Financial Impact

None

## Legal Implications

None

## DETAILED ANALYSIS

### Background

1. The government intends to make TCFD-aligned disclosures mandatory in the UK across the economy by 2025. Under the proposals, funds will have to report on this annually, with the reports also summarised in an LGPS-wide report, including the overall carbon emissions of the scheme. The first reporting year will be the financial year 2023/24, with the regulations expected to be in force by April 2023. The first reports will be required by December 2024.
2. DLUHC proposes that administering authorities (AAs) should calculate and assess the carbon footprint of their assets and liabilities and how this would be affected by different temperature rise scenarios. The consultation says its “scale and market power give it an opportunity to drive change through the investment chain through asset managers to investee companies.”
3. Funds will be required to carry out two sets of scenario analysis:
  - Paris-aligned analysis, meaning it assumes a 1.5 to 2 degrees temperature rise above pre-industrial levels.
  - Scenario will be the choice of the administering authority, with progress against it assessed annually, with the target revised “if appropriate”. Scenario analysis must be conducted at least once in each valuation period.
4. The consultation proposes four metrics that pension funds will be expected to measure and disclose annually. It lists them as:
  - An absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions.
  - An emissions intensity metric. 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 will be permitted, but AAs will be asked to explain reasoning for doing so in their climate risk report.
  - 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.
  - 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.
5. It is expected that pension funds will report climate related financial disclosures in their mainstream annual reports.
6. It is anticipated that the introduction of TCFD reporting will be an onerous task and there will be several key challenges to face.

7. The proposed action for the Pension Fund is as follows:

- Await the LGPS consultation and resultant Scheme Advisory Board (SAB) guidance.
- Review the guidance and set out a roadmap for compliance.
- Build the new requirements into the Pension Fund Business Plan.
- Review the Investment Strategy and consider whether is likely to meet the future requirements on climate change and sustainability.

## **Appendices**

Appendix 1: TCFD Consultation