



City of Westminster

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>21 October 2021</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Task Force on Climate Related Financial Disclosures (TCFD) Regulations</b>
<b>Wards Affected:</b>	<b>None</b>
<b>Policy Context:</b>	<b>Effective control over Council Activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b>  <b><a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a></b> <b>020 7641 4136</b>

## 1 EXECUTIVE SUMMARY

- 1.1 On 11 February 2021 the Pensions Schemes Act 2021 received Royal Assent. The act covers climate risk governance and reporting for the private sector scheme and is expected to have a direct impact on the LGPS.
- 1.2 The proposed new measures will ensure that trustees are legally required to assess and report on the financial risks of climate change within their portfolios, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations.

## 2 RECOMMENDATIONS

- 2.1 The Pension Fund Committee is requested to:
  - note the Deloitte paper, attached at Appendix 1, on the introduction of climate change governance disclosures for UK pension schemes, as aligned with the TCFD recommendations.

### **3 BACKGROUND**

- 3.1 The Department for Work and Pensions (DWP) has announced a phased introduction of the planned new mandatory measures that ensure trustees are legally required to assess and report on the financial risks of climate change within their investment portfolios.
- 3.2 Documentation received to date sends a clear signal to UK pensions trustees that government decisions and measures to combat climate change will have a direct impact on pension schemes.
- 3.3 Large Schemes (£5bn+) have now been required to report since 1 October 2021 and schemes with assets of more than £1bn will need to comply from 1 October 2022. The initial roll out will allow the government to identify best practice, assess progress and extend refined measures to smaller schemes by 2023.
- 3.4 Although not yet compulsory for public sector pension schemes, it is anticipated these regulations will be extended to the public sector and therefore the LGPS by 2023. The Westminster Fund will need to work with Deloitte on the anticipated reporting requirements well in advance of this deadline.
- 3.4 The Financial Stability Board's Task Force on Climate Related Financial Disclosures is a global, private, independent body formed in December 2015. The Board has advised a number of TCFD recommendations in relation to climate change, which can be split into four thematic areas.
- 3.5 The following tables summarises each area of the TCFD recommendations and the main actions for adoption:

**Recommendation:** Establish and maintain oversight of relevant climate risks and opportunities for your scheme.

**Trustee Actions:**

Define clear roles/responsibilities for management of climate-related risks/opportunities.

Formulise governance policies, including roles and responsibilities in relation to climate change.

Improve training and knowledge in relation to climate change.

**2.Strategy**

**Recommendation:** Identify climate risks and opportunities which will affect the scheme's investment strategy and consider the resilience of the strategy.

**Trustee Actions:**

Identify related risks and opportunities and define clear goals over the short, medium and long term.

Conduct scenario testing for the scheme's assets and liabilities e.g., how a temperature rise of 1.5C to 2.0C will affect the Fund.

**3.Risk Management**

**Recommendation:** Establish and maintain processes to identify, assess and manage relevant climate risks and opportunities.

**Trustee Actions:**

Create a risk register of climate-related risks and maintain assessments over the short to long-term horizons.

Incorporate these risks into the wider integrated risk management process.

#### **4. Metrics and Targets**

**Recommendation:** Select and monitor a minimum of three climate metrics (Absolute Emissions Metric, Emissions Intensity Metric and trustees to select a third) for the scheme's investment portfolio, setting targets to measure performance against annually.

#### **Trustee Actions:**

Establish the quality of data available to identify an appropriate third climate metric for the scheme.

Select at least one appropriate target and measure performance against and review annually.

## **4 KEY CHALLENGES**

- 4.1 It is anticipated that the introduction of TCFD reporting will be onerous and there will be a number of key challenges to bear in mind. The metrics selected should be suitable and relevant to the scheme and reliable for use in the decision making process.
- 4.2 It should also be acknowledged that there is a lack of data available in relation to greenhouse gas emissions from certain underlying companies, which may cause inconsistencies and gaps in knowledge.
- 4.3 The FCA has set out a roadmap to assist companies, asset managers and pension funds towards mandatory TCFD disclosures. Trustees will be required in the meantime to report and monitor metrics with the data currently available.
- 4.4 Estimates should be used to fill any data gaps and qualitative analysis performed where quantitative data is not available.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

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**BACKGROUND PAPERS:** None

#### **APPENDIX:**

Appendix 1 – Deloitte Paper: Climate Change Governance and Reporting Regulations