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Open consultation

# Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks

Published 1 September 2022

**Applies to England and Wales**

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# Scope of the consultation

## Topic of this consultation:

This consultation seeks views on proposals to require Local Government Pension Scheme (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).

## Scope of this consultation:

DLUHC is consulting on proposals for new requirements on LGPS administering authorities.

## Geographical scope:

This consultation applies to England and Wales.

## Impact assessment:

The proposed interventions affect the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

## Body responsible for the consultation:

Department for Levelling Up, Housing and Communities (DLUHC)

## Duration:

This consultation will last for 12 weeks from 1 September 2022 to 24 November 2022.

## Enquiries:

For any enquiries about the consultation please contact: [LGPensions@levellingup.gov.uk](mailto:LGPensions@levellingup.gov.uk)

## How to respond:

Please respond by completing an [online survey \(https://consult.levellingup.gov.uk/local-government-finance/lgps-england-and-wales-climate-risk/\)](https://consult.levellingup.gov.uk/local-government-finance/lgps-england-and-wales-climate-risk/).

Alternatively, please email your response to the consultation to [LGPensions@levellingup.gov.uk](mailto:LGPensions@levellingup.gov.uk).

Alternatively, please send postal responses to:

LGF Pensions Team  
Department for Levelling Up, Housing and Communities  
2nd Floor  
Fry Building  
2 Marsham Street  
London  
SW1P 4DF

When you reply it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name
- your position (if applicable)
- the name of organisation (if applicable)
- an email address

## 1. Introduction and summary of proposals

1. Addressing climate change is one of the major challenges we face in the UK and globally. The UK government is a world leader in commitments to transition to a low carbon economy and in 2019 set the target of achieving net-zero greenhouse gas emissions by 2050.

2. Investment in more sustainable projects and activities is essential in order to reduce climate change and to mitigate its impacts. Investors will also need to understand and manage the financial risks and opportunities arising from climate change in order to protect and grow their assets and cashflow.

3. To enable investors to make high-quality decisions and to encourage better pricing and capital allocation in markets, high quality disclosures will be needed regarding how their assets will affect and be affected by climate change.

4. The international Taskforce on Climate-related Financial Disclosures (TCFD) published a set of recommendations in 2017 with the aims of improving assessment, management, and disclosure of climate-related financial risks. In November 2020, the government announced the UK's intention to make TCFD-aligned disclosures mandatory in the UK across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. The joint [Government Regulators Taskforce's Interim Report, and accompanying roadmap](https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcf-d-taskforce-interim-report-and-roadmap) (<https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcf-d-taskforce-interim-report-and-roadmap>), published alongside the announcement, sets out an indicative pathway to achieving that ambition.

5. In July 2021, the government went further by announcing its new, economy-wide Sustainability Disclosure Requirements (SDR) regime. This regime will build on the UK's world-leading implementation of the TCFD recommendations and streamline UK sustainability reporting. SDR will be broader than financial risk, extending to environmental impact (including disclosures based on definitions contained in the UK Green Taxonomy), and over time, to factors beyond climate, including broader sustainability factors such as environmental and social considerations.

6. In October 2021, the government published details of the regime, along with an implementation pathway, in its publication [Greening Finance: A Roadmap to Sustainable Investing](https://www.gov.uk/government/publications/greening-finance-a-roadmap-to-sustainable-investing) (<https://www.gov.uk/government/publications/greening-finance-a-roadmap-to-sustainable-investing>). This announced the intention to set up an endorsement and adoption function in the UK for standards issued by the International Sustainability Standards Board (ISSB). Standards issued by the ISSB will not have any legal force in the UK until they have been endorsed and adopted to ensure that the Standards applied in the UK reflect UK circumstances. The government will consult on proposals for a framework to introduce reporting against IFRS Sustainability Disclosure Standards in the UK in due course. SDR for the LGPS is not covered in this consultation but we will work with the Scheme Advisory Board to develop proposals.

## Role of the LGPS

7. The LGPS is one of the largest pension schemes in the UK with 6.2 million members and a significant UK and global investor with £342 billion of assets in 2022. It is locally managed and funded by 86 administering authorities (AAs). The primary purpose of LGPS investments is to meet the scheme's long-term pension liabilities by balancing risk and return appropriately. However, the LGPS's scale and market power give it an opportunity to drive change through the investment chain through asset managers to investee companies.

8. AAs are already required to consider factors that are financially material to the performance of their investments, including environmental, social, and corporate governance considerations. They also must have a policy stating how such considerations will be considered in [setting their investment strategy](https://www.legislation.gov.uk/ukxi/2016/946/contents) (<https://www.legislation.gov.uk/ukxi/2016/946/contents>). The aim of the proposals in this consultation document is to build on that position by ensuring that the financial risks and opportunities arising specifically from climate change are properly understood and effectively managed by AAs, and that they report transparently on their approach in line with broader UK policy.

9. The government's view is that the requirements for the LGPS should set as high a standard as for private schemes. We have therefore made the [requirements for private schemes](https://www.gov.uk/government/consultations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes-response-and-consultation-on-regulations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes) ([https://www.gov.uk/government/consultations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes](https://www.gov.uk/government/consultations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes-response-and-consultation-on-regulations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes)) the starting point for our proposals but have aimed to take account of the unique features of the LGPS including its local administration and democratic accountability through the AAs.

10. The [UK Energy Security Strategy](https://www.gov.uk/government/publications/british-energy-security-strategy) (<https://www.gov.uk/government/publications/british-energy-security-strategy>) was published in April 2022 and emphasises the importance of investment in energy by the private sector to improve energy security and support the transition to clean energy. The LGPS has an important role to play as a major investor with a commitment to stewardship and engagement. These proposals seek to support that approach to addressing high carbon emissions and discourage any pursuit of lower emissions through withdrawing investment from energy companies.

## Summary of proposals

11. The new requirements on which we are consulting are discussed throughout this document. For ease, we have summarised the key proposals below.

Area	Proposal
Overall	Each LGPS AA must complete the actions listed below and summarise their work in an annual Climate Risk Report.
Scope and Timing	The proposed regulations will apply to all LGPS AAs. 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.
Governance	AAs will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. They 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.
Strategy	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.
Scenario Analysis	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.
Risk Management	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.

Area	Proposal
Metrics	<p>AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below.</p> <p>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.</p> <p>Metric 2 will be an emissions intensity metric. We propose that all 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 (WACI) will be permitted, but AAs will be asked to explain their reasoning for doing so in their Climate Risk Report.</p> <p>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.</p> <p>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.</p> <p>Metrics must be measured and disclosed annually.</p>
Targets	<p>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.</p>
Disclosure	<p>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. We propose that scheme members must be informed that the Climate Risk Report is available in an appropriate way.</p>
Scheme Climate Report	<p>We 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.</p>
Proper advice	<p>We 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.</p>



\*This refers to reported emissions calculated in line with the GHG Protocol and verified by a third-party.

\*\*This refers to reported emissions calculated in line with the GHG Protocol without verification by a third-party.

12. The remainder of this chapter sets out the background to the proposals. In chapter 2, the proposed actions to be undertaken by LGPS AAs are discussed, and chapter 3 sets out the disclosure requirements. Chapter 4 discusses other issues, including our proposal for a Scheme Climate Report and the role of the LGPS asset pools. A summary of the consultation questions is at the end of the document.

## **Background**

### **The TCFD recommendations**

13. The TCFD is a global, private sector led group assembled in December 2015 at the instigation of the Financial Stability Board (FSB), an international body that monitors and makes recommendations about the global financial system. Following extensive public consultation, they published their recommended disclosures in June 2017.

14. The recommendations were designed to be adoptable by all organisations, including those inside and outside the financial industry, from asset managers to asset owners, including banks, insurers and pension schemes.

15. The TCFD designed the set of recommendations as a flexible framework for these organisations. The framework is meant to produce decision-useful, forward-looking information on the financial impacts of climate change. It is also meant to accommodate continued rapid evolution in climate-related modelling, management, and reporting.

16. The final report included 11 recommendations. These are split into Governance, Strategy, Risk Management, and Metrics and Targets.

### **Core elements of recommended climate-related financial disclosures**



**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.

## Benefits of the TCFD recommendations for the LGPS

17. A TCFD-aligned approach to climate risks will offer the opportunity for LGPS AAs to build on the relatively high-level requirements of the [Local Government Pensions Scheme \(Management and Investment of Funds\) Regulations 2016](https://www.legislation.gov.uk/ukxi/2016/946/contents) (<https://www.legislation.gov.uk/ukxi/2016/946/contents>). It permits them to demonstrate how the consideration of climate change risks and opportunities are integrated into the AA's entire decision-making process.

18. Carrying out scenario analysis, reporting on appropriate metrics that include greenhouse gas emissions, and setting appropriate targets, would provide valuable inputs to inform an AA's investment strategy. It would also allow AAs to monitor and review progress and to make amendments to the investment strategy where necessary. Disclosing this information would provide greater transparency to members and taxpayers about how their money is being managed.

19. The flexible structure of the TCFD recommendations also allows AAs to continuously improve climate risk governance and reporting in the light of rapidly increasing data quality and completeness and emerging best practice.

20. Many aspects of the tools and data used for climate-related analysis are still in development, but AAs can take substantive action now to address climate risk and to report on it as part of their duties to scheme members, employers and the public. There are already enough data, analysis and tools to effect real change when AAs use the data to manage risks and opportunities.

### **Comparison with regime for private pension schemes**

21. The Department for Work and Pensions (DWP) has already introduced requirements on climate risk management and reporting for private pension schemes, in regulations which came into force on 1 October 2021. Implementation will be staged for private pension schemes. Private schemes with £5 billion or more in assets were immediately in scope, with those with £1 billion or more to follow in October 2022. Schemes with less than £1 billion in assets are not currently covered. The DWP has published [statutory guidance on the requirements \(https://www.gov.uk/government/publications/governance-and-reporting-of-climate-change-risk-guidance-for-trustees-of-occupational-schemes\)](https://www.gov.uk/government/publications/governance-and-reporting-of-climate-change-risk-guidance-for-trustees-of-occupational-schemes).

22. DWP's intention to implement the UK's new Sustainability Disclosure Requirements (SDR) regime for private pension scheme is outlined in [Greening Finance: A Roadmap to Sustainable Investing \(https://www.gov.uk/government/publications/greening-finance-a-roadmap-to-sustainable-investing\)](https://www.gov.uk/government/publications/greening-finance-a-roadmap-to-sustainable-investing). SDR requirements for the LGPS are not covered by this consultation.

23. The proposals set out in this consultation are broadly similar to the requirements for private pension schemes, and encompass the same four areas of governance, strategy, risk management and metrics and targets. However, a key difference is that our proposed requirements will apply to all LGPS AAs from 2023/24 regardless of fund size. Currently the assets held by LGPS funds range from around £0.5 billion to £25 billion with 65 funds holding less than £5 billion and 8 funds holding less than £1 billion.

24. We recognise that larger LGPS funds are likely to have more capacity to meet new requirements than smaller funds. However, our view is that it would not be right to stage implementation within a single pension scheme in which all funds face climate risks, are democratically accountable and subject to high external scrutiny. We also believe that the LGPS asset pools can play a key role in supporting implementation (see discussion in Chapter 4).

25. Another key difference is the proposed requirement to report data quality as a mandatory metric. This aims to help the LGPS use its scale and market power to drive improvements in the quality of emissions data, which will be a critical factor in raising the quality of climate risk management.

### **Other relevant regulated areas**

26. Pension schemes sit at the top of an investment chain, whereby the assets are usually invested in products via a financial intermediary, who may then invest directly in products such as equities. Therefore, schemes rely on high quality data being provided up the chain to produce meaningful climate related disclosures. In preparing these proposals we have been mindful of regulation in other areas which may impact the ability of LGPS AAs to carry out the requirements.

27. The Department for Business, Energy and Industrial Strategy (BEIS) has consulted on TCFD-aligned regulations for certain publicly quoted companies, large private companies, and Limited Liability Partnerships (LLPs). The requirements came into effect in April 2022<sup>[footnote 1]</sup>.

28. The Financial Conduct Authority (FCA) have introduced a [new listing rule and guidance \(https://www.handbook.fca.org.uk/instrument/2022/FCA\\_2022\\_6.pdf\)](https://www.handbook.fca.org.uk/instrument/2022/FCA_2022_6.pdf) which requires commercial companies with a UK premium listing to include a compliance statement in their annual financial report. This statement must indicate whether the company has made disclosures consistent with the recommendations of the TCFD or provide an explanation if it has not done so.

29. In addition, the FCA has introduced TCFD related rules and guidance at the portfolio and entity level for asset managers, life insurers, and FCA-regulated pension providers. This is particularly relevant to the LGPS as some of the LGPS asset pools will be subject to these requirements in their capacity as asset managers.

30. The Pensions Regulator (TPR) also has a role in this area. It has published [guidance intended to help trustees of private sector occupational pension schemes \(https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/climate-related-governance-and-reporting\)](https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/climate-related-governance-and-reporting). While TPR has no remit regarding the investments of LGPS funds, their advice and guidance may be useful for LGPS AAs wishing to adopt best practice. In addition, TPR has a role in overseeing the governance of LGPS AAs, which would include the governance requirements outlined here.

31. Our proposals are intended to facilitate consistency across the investment chain and take account of these consultations and requirements by other regulators.

32. Finally, we view these proposals as the first step on the journey to implementing in full the new UK Sustainability Disclosures Regime, [announced by the then Chancellor in July 2021 \(https://www.gov.uk/government/news/chancellor-sets-out-how-uk-financial-services-can-create-prosperity-at-home-and-project-values-abroad-in-first-mansion-house-speech\)](https://www.gov.uk/government/news/chancellor-sets-out-how-uk-financial-services-can-create-prosperity-at-home-and-project-values-abroad-in-first-mansion-house-speech).

## 2. Proposed requirements

33. The TCFD recommendations cover requirements in four areas: governance, strategy, risk management, and metrics and targets. In this chapter, we discuss how these recommendations can be implemented in the LGPS, taking account of its existing structure and framework. We also set out our proposed requirements for AAs. Proposals on disclosure in relation to each area are discussed in Chapter 3.

34. The proposed requirements relate only to the assets and liabilities in respect of the pension scheme and not to other AA activity. For example, emissions caused by travel to meetings, or office provision, would not need to be disclosed as they are not directly attributable to the assets of the LGPS.

### Governance

35. The TCFD recommendations on governance aim to place development of a robust climate governance framework at the centre of an organisation's operations. The framework itself is designed to be adoptable by all organisations and easily translatable into sector-

specific arrangements.

36. For LGPS AAs, however, we believe that the governance requirements in particular may require some adjustment in order to reflect the nature of their existing governance.

37. The role of the AA's scheme manager is broadly similar to that of the board, as described in the TCFD recommendations. The scheme manager of an LGPS AA usually takes the form of a pensions committee, and is assisted by the local pensions board. The scheme manager is accountable for funding strategy, investment strategy, asset allocation, and overall risk management. It will therefore be responsible for the assessment and management of climate risks and opportunities in relation to the investments. The LGPS asset pool in which the AA is a partner, in turn, is responsible for implementation of the investment strategy except in respect of non-pooled assets which remain with the fund.

38. Decisions on investment matters may therefore be taken by the scheme manager, informed by advice from external advisers and officers, or delegated to an officer or to the pool. All have important roles in effectively assessing and managing climate change risk and opportunities, and all will be central to the AA's efforts to fully embed climate risks into their governance processes.

39. The scheme manager will need to appoint properly qualified advisers, fully consider their advice, and take appropriate action in order to address these risks. The committee's officers and advisers and the pool, where appropriate, will need to provide advice which is accessible for non-specialists and adequately addresses climate risks to the fund, bringing in additional expertise where needed. We propose to provide statutory guidance to assist AAs. The role of the LGPS asset pools and knowledge and skills requirements are discussed further in Chapter 4.

40. However, we are not proposing to place any legal duties on individuals, whether officers or advisers, or on the pool. Our 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.

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

## Strategy

41. The TCFD's recommendations on strategy are intended to promote continuous assessment of the implications of climate change for an organisation's strategy.

42. For AAs, climate risks will be relevant to both their investment and funding strategies. AAs will need to consider what physical and transition risks and opportunities may affect both strategies and over what time periods. These may include a wide range of factors,

including carbon pricing, adoption of new technology or lower carbon alternatives, and extreme weather events.

43. AAs will also need to assess the impacts of the identified risks and opportunities over the same time periods on their strategies. They also need to consider what actions to take in response. The assessment will need to take account of the materiality of the risks, and the liquidity and time horizon of the assets, as well as the cashflow and liabilities of the fund. It will be for the AA to determine the appropriate time periods and to take a view on materiality of risks taking account of these factors.

44. We propose to provide statutory guidance to assist AAs to identify risks and opportunities, and to assess the impacts, including consideration of factors to be taken into account.

45. Our 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.

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

## Scenario analysis

46. The TCFD recommends that organisations undertake scenario analysis in order to improve the quality of strategies. It recommends that organisations consider credible, distinctive, and relevant scenarios for the future path of climate change and that they test the assessment of impacts and the proposed actions against these scenarios.

47. Scenario analysis is particularly relevant to AAs seeking to assess the medium- and long-term impacts of climate change on their assets, liabilities and strategies. These longer-term potential impacts, as well as sudden events such as climate tipping points, may not be captured by traditional risk management, particularly where there are high levels of uncertainty. Scenario analysis can also help to create and maintain strategies which take full account of climate risks and opportunities.

48. We recognise that at present the use of climate scenarios is still new and that current assumptions and methodologies vary. Data quality and availability may also be a problem particularly for some asset classes. Nevertheless, we expect the development of expertise, methodologies, and data to accelerate rapidly in the next few years and hope to see greater consensus in the future.

49. We therefore propose that regulations would require AAs to conduct scenario analysis as far as they are able to. This analysis may be qualitative or quantitative, but we would expect AAs to carry out quantitative analysis where possible and to expand the assets covered by quantitative analysis as quickly as possible.

50. We also propose to provide statutory guidance on scenario analysis to assist AAs, including guidance on dealing with missing or poor-quality data and other barriers. We would expect AAs to aim to do the best scenario analysis that they can, and to aim to

improve their scenario analysis over time.

51. The TCFD also recommends that organisations consider a range of climate scenarios, including a scenario based on global temperatures increasing by 2°C or lower over pre-industrial levels. The 2° or lower scenario is important because this level of temperature rise is believed to limit catastrophic physical risks such as flooding and droughts, but there may still be significant short term transition risks due to changes to policy, technology and markets. Scenarios based on higher temperature rises may see more impacts from physical risks both in the short and long term, with lower transition risks.

52. We therefore believe that AAs must consider two or more climate-related scenarios, at least one of which must be a scenario of 2°C or lower temperature rise. AAs will need to assess their assets and liabilities, and their investment and funding strategies against these scenarios.

53. Investment and funding decisions are made triennially in accordance with the valuation cycle. As scenario analysis should feed into these decisions, we recommend that it is incorporated into the valuation cycle and carried out at least every three years. In the interim years, AAs should consider whether a new scenario analysis should be carried out to reflect any changes in the fund. In a normal year, where there have been only minor changes in the scheme, we would not expect AAs to repeat scenario analysis given it is a substantial piece of work.

54. We 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.

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

## **Risk management**

55. The TCFD's recommendations aim to ensure that risk management in relation to climate risks is rigorous, comprehensive, and fully integrated into wider risk management.

56. In line with the TCFD recommendations, we propose that regulations require that AAs identify and assess their fund's exposure to climate-related risks and take action to manage the risks identified. This will include consideration of both physical and transition risks and the materiality of those risks, as well as proximity and likelihood.

57. This means having effective processes for identifying climate-related risks and opportunities, and assessing their likely impact on assets, liabilities, investment and funding strategies. We propose that guidance will support AAs in ensuring they have the most appropriate processes in place and that they consider the full range of relevant factors and types of risk and opportunity.

58. AAs will already have risk management processes in place to manage investment risks. We therefore propose to require AAs to integrate these climate-related processes in their existing risk management processes. AAs may also wish to identify, assess and take action on climate-related opportunities, and integrate the consideration of these opportunities in their risk management. We propose to provide statutory guidance to assist AAs.

59. Our 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.

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

## Metrics

60. The TCFD recommends that organisations select and disclose metrics to assess and monitor climate risks and opportunities over time. This section discusses the various metrics under consideration.

61. We propose to require AAs to measure and disclose four metrics: Total Carbon Emissions, Carbon Footprint, Data Quality and a Paris Alignment Metric. Total Carbon Emissions and Carbon Footprint both use emissions which can be divided into Scope 1, 2 and 3. The metrics relate to assets held by the AA in respect of paying benefits, not to other activity carried out by the AA such as travel.

### Scope 1, Scope 2 and Scope 3 emissions

62. 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.

63. 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.

64. 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.

65. Scope 1 and Scope 2 emissions are much more widely available and reliable statistics, which are highly desirable features in understanding an asset's carbon exposure. Scope 3 emissions are less widely reported, and when they are reported, they are often calculated on an approximate basis.



66. For many assets, Scope 3 will be by far the largest single category of emissions, and therefore excluding Scope 3 would significantly underreport total emissions. Excluding Scope 3 emissions will also favour some industries such as online retailers which have low Scope 1 and 2 but high Scope 3 emissions.

67. Therefore, in including Scope 3 emissions in reporting there is a trade-off. Reporting a figure which includes Scope 3 emissions is subject to more inaccuracy than Scopes 1 and 2. However, we propose to require reporting on all three types of emission as this gives the fullest picture of carbon exposure.

### **Absolute emissions metric: Total carbon emissions**

68. Absolute emissions metrics measure the overall carbon emissions attributable to the fund's invested assets. A figure for total carbon emissions enables the AA to set a baseline for climate action and to understand the scale of the climate impact of its investments. Without a clear baseline, AAs cannot assess the impact of different scenarios.

69. We propose to require AAs to obtain, as far as they are able to Scope 1, Scope 2 and Scope 3 GHG emissions for the fund's assets – that is, the pension scheme's financed emissions. These are the emissions referred to as category 15 (investment emissions) in the [Greenhouse Gas \(GHG\) Protocol Technical guidance \(https://ghgprotocol.org/scope-3-technical-calculation-guidance\)](https://ghgprotocol.org/scope-3-technical-calculation-guidance). This measure is referred to as Total Carbon Emissions.

70. We propose that Scope 1, Scope 2 and Scope 3 emissions should be recorded separately and that the sum of the three should also be reported. Therefore, four figures should be reported to comply with the Total Carbon Emissions Metric.

71. There are different methodologies for attributing carbon emissions to investments. We propose to clarify the appropriate methodology in supporting guidance.

72. We propose that Total Carbon Emissions is calculated and reported annually via the Climate Risk Report (see Chapter 3).

73. The Total Carbon Emissions should be reported at the level of the whole of the fund. That is, it should be the total of the carbon emissions of all of the investments it holds. If the AA wishes, they may wish to consider the Total Carbon Emissions for each of its investments separately as well, as doing so may give the AA a clearer picture of where its carbon exposures lie. However, investment level reporting is not required in the annual Climate Risk Report.

### **Emissions intensity metric: Carbon footprint**

74. Absolute emissions are a useful baseline to assess the fund's overall carbon exposure. However, they are hard to compare across assets and across funds, because larger investments naturally will have larger emissions.

75. We therefore propose that an Emissions Intensity Metric is calculated in addition. This should be calculated by dividing the Total Carbon Emissions by the total assets held by the fund for which data was available or estimated. This calculation we refer to as Carbon Footprint.

76. Carbon Footprint is easier to interpret as it does not depend on the size of the investment. A disadvantage of this metric however is that an increase in market capitalisation or revenue, all else being equal, will result in a decrease in the AA's emissions

per £ million invested.

77. As explained above, using Scope 1 and 2 emissions only produces a more reliable but less complete picture of carbon exposure. We propose that Carbon Footprint is reported for Scope 1, Scope 2 and Scope 3 emissions, in each case calculated as Scope X Emissions divided by Assets for which Scope X emissions were available or estimated.

78. We propose that Carbon Footprint is calculated and reported annually via the Climate Risk Report (see Chapter 3).

79. We propose that only the top-level figure at the whole fund level is required to be produced and reported by AAs.

80. We propose that funds should report Carbon Footprint, however if they cannot do so they should report another similar metric such as Weighted Average Carbon Intensity. In these cases, the administering authority should explain why they have done this.

### **Data quality and the data quality metric**

81. The lack of available data is a commonly reported pitfall when schemes seek to calculate the TCFD's emissions metrics. Few, if any, AAs will be able to obtain full underlying data to allow the calculation of metrics across their whole fund at present.

82. Where gaps in data do exist, it should be regarded as preferable to use modelling or estimation to fill them, rather than to leave them unaddressed or reporting as null. Beginning with estimated or proxy data can help identify carbon-intensive areas within investments. This also serves as a benchmark for asset-specific data points as and when they become available. AAs may choose to calculate metrics and set targets only for assets for which reliable data can be found. AAs may also request that service providers analyse their funds using market average techniques and assumption-based modelling.

83. We regard the inevitable gaps in data as being an important part of the challenge AAs face. We believe that the level of certainty in the data should be understood by those making decisions and should also be visible externally.

84. We also believe that the LGPS can play its part in increasing data availability and quality through increasing transparency on data quality and by adopting metrics consistent across the LGPS and private pension schemes. We therefore propose that regulations require that AAs obtain data on data quality as far as they are able and calculate a data quality metric. We also propose that guidance should set out how AAs should assess and disclose the quality and availability of data.

85. We propose that AAs should state the percentage of the value of their assets for which emissions have been Verified, Reported, Estimated or are Unavailable.

86. "Verified" and "Reported" are defined as data produced using the methodology for reporting and verifying carbon emissions given in the GHG protocol. Data can be verified by an independent third party, not necessarily an audit firm. "Estimated" includes data which has been estimated, for example using industry averages or modelling based on assumptions.

87. Where an asset has associated emissions data but the data quality as defined above cannot be confirmed, then it should be classed as estimated. "Unavailable" means that emissions data was unavailable, not that confirmation of the data quality was unavailable.

88. The data quality metric should be reported for Scope 1, Scope 2 and Scope 3 emissions separately.

89. The data quality metric on its own does not replace proper scrutiny of data. Examples of this include data which is “reported” but may not have been reported recently and it may not be completely clear whether emissions relate to a whole company or a subsection of it. “Unknown” data may be known to the company but not submitted to investors. AAs are encouraged to ask questions of their fund managers to be effective stewards of their data. Third party firms may be used to investigate and summarise issues such as these into an overall narrative to be included in the Climate Risk Report.

90. We propose that only the top-level figure for each Scope of emissions is required to be produced and reported by AAs in the Climate Risk Report.

### **Paris alignment metric**

91. The TCFD’s guidance recommends that financial institutions should describe the extent to which their activities are aligned with a well-below 2°C scenario (i.e. with the goals of the Paris agreement), which is consistent with net zero carbon emissions by 2050. 92. We propose to introduce a requirement that the LGPS AAs should report a Paris Alignment Metric in line with the TCFD’s recommendation.

93. Paris Alignment Metrics look at the future trajectory of emissions, whereas Total Carbon Emissions and Carbon Footprint only measure emissions which have already taken place. Forward-looking metrics such as Paris Alignment are more useful for active decision making than historic ones. They will be key to investors robustly assessing and reporting their portfolios’ alignment with their own climate goals and may help address exposure to transition risk. They are also useful for plotting trends over time.

94. There are multiple ways to report Paris Alignment Metrics, which are explored in the Portfolio Alignment Team’s [Measuring portfolio alignment: Technical Considerations](https://www.tcfhub.org/wp-content/uploads/2021/10/PAT_Measuring_Portfolio_Alignment_Technical_Considerations.pdf) ([https://www.tcfhub.org/wp-content/uploads/2021/10/PAT\\_Measuring\\_Portfolio\\_Alignment\\_Technical\\_Considerations.pdf](https://www.tcfhub.org/wp-content/uploads/2021/10/PAT_Measuring_Portfolio_Alignment_Technical_Considerations.pdf)), which was commissioned by the TCFD. This states that financial institutions should use whichever portfolio alignment tool best suits their institutional context and capabilities, and describes three main types of portfolio alignment metrics, as follows:

- binary target measurements: This tool measures the alignment of a portfolio with a given climate outcome based on the percentage of investments in that portfolio that either have declared net zero/Paris-alignment targets or are already net zero/Paris-aligned.
- benchmark divergence models: These tools assess portfolio alignment by comparing the forecast emissions performance of investments or counterparties in the portfolio against benchmarks.
- implied temperature rise (ITR) models: these tools translate an assessment of alignment with a benchmark into a measure of the consequences of that alignment in the form of a temperature score.

95. These metrics are ambitious and if calculated reliably can create an extremely useful picture of a fund’s climate risks. ITR in particular links a portfolio to a specific climate outcome in a way which is scientific, incentivises action and is comprehensible to the lay audience.

96. The main problem with Paris Alignment Metrics is data, as in most cases only limited or approximate data is available. At best this means only a partial view is possible, and at worst it can create a false picture of the true exposure of a fund by over- or underestimating the metric.

97. However we believe that an imperfect metric will still be useful. Calculating ITR will be useful for funds to understand their carbon trajectories. Moreover, the more funds choose to calculate the ITR the faster the data will improve.

98. The LGPS has a responsibility to its members, employers and the public, and the Government considers it important that publicly accessible data is accurate and as useful as possible. In addition, it is useful for funds to report consistently with each other and for the results to be possible to aggregate into an overall scheme view for the LGPS.

99. We regard the Binary Target Measure to be the most appropriate for the LGPS at this point having taken these factors into account. It is simple to understand while still providing useful insights, and less subject to the data issues which exist for the other metrics. As data improves, the Government may change its approach to reflect this, and we encourage the LGPS and the sector to take a lead in promoting the most useful metrics.

100. Therefore, we propose that all AAs should report the percentage of their total assets with declared net zero or Paris-aligned targets. This is the Binary Target Measurement described above.

101. We also encourage AAs to calculate other Paris Alignment Metrics which they consider to be useful in managing their climate risks. We note that it is not only the commitment to net zero but also the pathway towards net zero which dictates Paris-alignment. For instance, a company may have made a net zero commitment, but still be making insufficient emissions reductions in the short term. For this reason, AAs should consider whether collecting and reporting an additional Paris Alignment Metric would be useful.

102. We propose that only the top-level figure at the whole fund level is required to be produced and reported by AAs.

## **Other metrics**

103. We have proposed requirements for four metrics. However, we do not intend to limit the range of additional and more ambitious metrics AAs may select. The Government encourages AAs to calculate other metrics which are endorsed by the TCFD, such as Climate Value at Risk (VAR)<sup>[\[footnote 2\]](#)</sup>.

## **Guidance and regulation**

104. We propose that the requirement to publish metrics is set out in regulations, but that the metrics themselves are defined in statutory guidance. This has the advantage that as metrics become more available and accurate over time, changes may be made to update the metrics without amending regulations.

## **Summary of metrics proposals**

105. We propose 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.

106. We also propose 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.

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

## Targets

107. The TCFD recommends that organisations set targets based on the metrics they select, including a target date, baseline and performance indicators, in order to focus efforts on managing climate risk.

108. The metrics proposed support AAs to assess the current climate risks and opportunities to their assets. Targets will assist AAs to take the next step to set their strategy for managing climate risks and opportunities to the fund and to measure their progress, as well as increasing accountability.

109. We therefore propose that regulations require at least one target to be set either for one of the mandatory metrics listed above or another TCFD-endorsed metric. This additional metric may be one of the more ambitious climate-related metrics, such as Climate VAR or Implied Temperature Rise, but must be limited to metrics endorsed by the TCFD or any of the mandatory metrics.

110. We also propose that AAs should be required to measure and report performance against their targets annually, as far as they are able, as for the requirement on obtaining data. This recognises that measuring and disclosing performance is dependent on data provided by others in the investment chain, in the same way as the requirement to obtain data for metrics. In order to ensure that targets are used and kept up to date, AAs will also be required to consider annually whether to continue with the target or replace it. We propose to provide statutory guidance to assist AAs.

111. Our 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.

112. 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.

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

### **As far as able**

113. We propose that AAs must carry out scenario analysis, obtain data, calculate, and use metrics and measure performance against AA-set targets 'as far as they are able'. This means that AAs are expected to take all reasonable and proportionate steps given costs and time constraints. However, we recognise that there will inevitably be some gaps in the work produced, and while we would expect AAs to do as much as they can we recognise that some elements are outside of their control. Therefore, where authorities are not able to comply with these proposals, they must include in their report both the areas and reasons where they are not able to comply in full.

114. The requirement for AAs to comply as far as they are able will enable them to produce metrics for only part of the portfolio or using estimation or incomplete data sets. This will still be decision-useful information for AAs. The urgency of climate change means that the AAs cannot wait until they have perfect data before they start putting it to use.

### **Ongoing and annual duties**

115. We distinguish between ongoing and discrete duties. For duties which are regular discrete events such as reporting, we have proposed specific time intervals for AAs to follow. Ongoing duties on the other hand are those which do not take place as a distinct event but a continuous requirement. For example, AAs should always be managing the risks of the fund, and so we would think of risk management as an ongoing requirement. In practice, we recognise that these requirements will be considered at regular intervals as well, but the requirement itself would be ongoing.

116. All duties are ongoing, except requirements to conduct scenario analysis, calculate metrics, and set and review performance against targets.

117. Scenario analysis must be carried out in the reporting year 2023/24 and at least every three years thereafter. In the intervening years, AAs should review whether circumstances have changed enough to refresh their analysis. This decision should take account of availability of data, or a significant change in investment or funding strategy. AAs should explain in their Climate Risk Report whether they have carried out a new analysis, and if not give a short explanation as to why.

118. Underlying data for metrics and targets must be obtained, the metrics calculated, and performance against targets measured, at least annually.

## **3. Reporting on climate risks**

119. High quality reporting on climate risks is central to the TCFD's recommendations. The aim is to enable stakeholders to understand as fully as possible their climate exposures and the AA's approach to addressing those risks, in the short, medium and long term.

Transparency will also enable users of the reports to measure and monitor current performance against targets and the planned trajectory and to assess the implications for future performance.

120. To achieve these aims in the LGPS, reporting will need to be clear, comprehensive and consistent, as well as timely, verifiable and comparable across the sector, in line with the TCFD's principles for effective disclosure<sup>[footnote 3]</sup>. This chapter sets out our proposals ensuring that reporting both at AA and at scheme level meets these standards, and delivers proper accountability to members, locally and across the scheme.

## **Annual climate risk report**

121. We propose that each AA publishes a Climate Risk Report every year, at the same time as the AA's annual report is published – i.e. 1 December for the reporting year which ended the previous 31 March. Once published, the Climate Risk Report must be easily and freely accessible online and members must be informed of where to find it. In addition, links to each AA's Climate Risk Report will be included in the Scheme Climate Report and may be shown on the Scheme Advisory Board's (SAB) website. The Climate Risk Report may be a constituent part of the AA's Annual Report, or a standalone report.

122. This means that the first report for the year 2023/24 must be available by 1 December 2024.

123. The Climate Risk Report should be accessible to two distinct types of user: specialist and non-specialist. The Climate Risk Report will contain detailed and useful data, and we hope that the metrics, targets and scenario analysis in particular will be important resources for specialist audiences. This role of the Climate Risk Report may require it to be technical in content, and dense with information.

124. In addition, various non-specialist stakeholders including scheme members, members of the public and other parties will also need to be considered. The Climate Risk Report should include enough information to be understood by the lay reader.

125. The AA will have to decide on how best to approach these dual requirements. One approach is to split the Climate Risk Report into two sections: a body and a short executive summary. The executive summary would be written to explain the AA's approach and high-level findings to the lay reader. This allows the body of the Climate Risk Report to be technical as is useful to specialist audiences. We regard this as a very effective way to address this balance, although other approaches would also be valid.

126. We would like to stress that the narrative provided in the Climate Risk Report will be as valuable as the data for most audiences. Metrics by themselves are difficult to interpret for the lay reader.

127. For example, differences in an AA's investment allocation, such as its strategic allocations between the main asset types will affect its carbon emissions. Moreover, a high carbon exposure or poor alignment with the Paris climate goals may be managed by effective stewardship and engagement from the AA. AAs should ensure that messages such as these are presented in a way to help the lay reader interpret the report and understand the fund's strategy towards managing the risks from climate change.

128. It is important that the report must be easily accessible to scheme members, on the AA's website and via an internet search. We propose that AAs must at least inform members of the Climate Risk Report and how to find it when they issue their annual benefit

statements. This does not necessarily mean including wording in the annual benefit statement itself.

129. Climate Risk Reports should be produced in line with the [Local government transparency code 2015](https://www.gov.uk/government/publications/local-government-transparency-code-2015/local-government-transparency-code-2015) (<https://www.gov.uk/government/publications/local-government-transparency-code-2015/local-government-transparency-code-2015>).

130. We propose that the Climate Risk Report must include the following information:

Area	Disclosure Requirement
Governance	<p>Describe the AA's oversight of climate-related risks and opportunities</p> <p>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</p> <p>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</p>
Strategy	<p>Describe the climate-related risks and opportunities which the scheme manager has identified</p> <p>Describe the scheme manager's definition of short term, medium term and long term</p>
Scenario Analysis	<p>Describe the most recent scenarios the scheme manager has analysed</p> <p>Describe the impact of the climate-related risks and opportunities on the AA's investment and funding strategies</p> <p>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</p> <p>Describe the resilience of the AA's investment and funding strategies in the most recent scenarios the AAs have analysed</p>
Risk Management	<p>Describe the processes which the AA has established for identifying and assessing climate-related risks to their fund</p> <p>Describe the processes which the AA has established for managing climate-related risks to the AA</p> <p>Describe how these processes are integrated into the AA's overall risk management</p>
Metrics	<p>Report the metrics which the AA has calculated (or an explanation as to why these were not possible to calculate)</p>



Area	Disclosure Requirement
Targets	Report the target which the AAs have set and the performance of the AA against that target.

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

## Scheme climate risk report

131. In addition to the Climate Risk Reports published by each AA, we are 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.

132. We 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.

133. In relation to metrics, we propose that Total Carbon Emissions and Carbon Footprint should be calculated and reported at an aggregate level. This would involve a simple sum of Total Carbon Emissions for Aggregate Total Carbon Emissions. In order to calculate Aggregate Carbon Footprint, this would be calculated as Aggregate Total Carbon Emissions divided by the overall size of the LGPS investment portfolio for which total emissions are at least estimated. This would be done separately for Scope 1, Scope 2 and Scope 3 emissions.

134. When reporting the data quality metric, each AA must report the proportion of its assets for which overall emissions data is: Verified, Reported, Estimated or Unavailable. One reason that we have proposed this metric is that it can be aggregated across AAs. As risk management is a key objective of TCFD reporting, we believe that visibility of data quality, which is essential to the understanding of risk, will be a useful way to measure progress. Therefore, we propose to show overall data quality in the Scheme Climate Report, whereby the LGPS's entire assets will be divided into verified, reported, estimated and unknown.

135. We propose that the SAB reports on an aggregate Paris Alignment Metric based on AA level reports. This would show the proportion of the value of the whole LGPS's assets for which there is a net zero commitment in line with the Paris goals.

136. In the above paragraphs we have outlined our minimum proposals for the Scheme Climate Risk Report. In addition, we are inviting views about whether emissions, data quality and Paris-alignment metrics for each AA should be shown in the Scheme Climate Risk Report.

137. Emissions and data quality metrics will already be available in the Climate Risk Reports published by each AA and it will be possible to make comparisons between AAs. AAs may be concerned about being compared unfairly, and may fear that this may lead to pressure to reduce emissions through divestment. There is no expectation from Government that AAs should reduce emissions via divestment.

138. We recognise that transparency is an important feature of the LGPS's approach to managing climate risks. It is important for all those to whom the Scheme is accountable have easy access to climate-related information.

139. We do not propose to include any aggregate data on the scenario analysis requirement. This is because scenario analysis may be very difficult to aggregate in a meaningful way.

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

## 4. Other issues

140. This chapter deals with a number of other issues relevant to the implementation of the TCFD recommendations in the LGPS.

### The role of the LGPS asset pools

141. Since 2015, 8 LGPS pools have been set up with the aim of securing the benefits of scale including more professional management, reduced investment costs, increased net returns, improved resilience, and access to a wider range of assets, including infrastructure. Many of the pools have developed significant capabilities in relation to climate risks and responsible investment more broadly.

142. As of March 2021 around 80% of the Scheme's assets are either pooled, in a transition plan to be pooled, or have some oversight by their pool, although the proportion varies widely across AAs and across pools. For pooled assets, we expect that the pools will be able to provide data, calculate metrics and carry out scenario analysis on these assets where that data is available. There are differing views on the extent to which pools will be able to deliver these services for assets that are not held by the pool, especially where there are already contracts with data providers in place. Some pools will already be able to provide advice on data, metrics and scenario analysis and other relevant issues or will wish to develop or jointly commission such advice.

143. In this landscape there is potential for a multiplicity of different analyses and reports to be required on the same LGPS assets. Pool operators are required to report on climate risks in relation to pooled assets by the Financial Conduct Authority. If AAs' strategies significantly differ it will be resource intensive for their pool to produce analysis for them.

144. We expect to see this issue reduce in importance over time as more assets transition into the pools. AAs which have transferred close to 100% of their assets excluding cash to their pools would be able to use the analyses conducted by their pool for their own purposes. AAs could also minimise this issue by aligning their strategies and targets within their pool and ensuring as shareholders that the pool's strategy also aligns with that of the partner AAs. This would enable AAs to commission their pool to conduct analyses for both pooled and non-pooled assets on a consistent basis with the pool's own reporting. Both completing transition and aligning strategies would also have significant wider benefits for costs and performance through delivering greater scale.

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

## Guidance and reporting template for administering authorities

145. 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.

146. 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.

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

## Knowledge, skills and advice

147. It is important that individuals making decisions in response to climate-risk management processes have the adequate skills and information to make choices. While we will not be imposing any legal requirement on an individual's knowledge and skills, we wish to promote best practice in our approach. It is important to note that scheme managers are not expected to be technical experts in climate science or climate finance. However, a base knowledge regarding climate risks will be necessary in order to, for example, interpret the results of scenario analysis.

148. Firstly, we propose to require that AAs must take proper advice regarding assessing and managing climate risks. This should help the scheme manager, who may not be a technical expert to take proper account of climate risks in setting their investment strategy and asset allocation.

149. AAs will need to satisfy themselves that the advice is high quality and provided by appropriately qualified people. We welcome views as to how this may be practically ensured. We welcome responses on whether and how pools could jointly procure expert advice for their partner funds.

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

## Consideration of impact on protected groups

150. Section 149 of the Equality Act 2010 requires Government to have due regard to the potential impact of new decisions, policies or policy changes on particular groups with protected characteristics and to avoid disproportionate negative impacts (the public sector equality duty).

151. We have made an initial assessment under the duty and do not believe there would be impacts on protected groups from the proposals in this consultation, as they do not affect member contributions or benefits. We have considered whether the reporting requirements could give rise to negative impacts on certain groups with protected characteristics and

believe they would not. However, administering authorities and the Scheme Advisory Board are also subject to the public sector equality duty and we would expect them to take steps to ensure compliance with the duty, including that their reports under these proposals are available in accessible formats.

**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?**

## Summary of consultation questions

This section contains a summary of the questions contained above, for ease.

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

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

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

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

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

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

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

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

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

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

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

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?

## About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 and UK data protection legislation. In certain circumstances this may therefore include personal data when required by law.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the information access regimes and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Levelling Up, Housing and Communities will at all times process your personal data in accordance with UK data protection legislation and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included below.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the [complaints procedure \(https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities/about/complaints-procedure\)](https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities/about/complaints-procedure).

## Personal data

The following is to explain your rights and give you the information you are entitled to under UK data protection legislation.

Note that this section only refers to personal data (your name, contact details and any other information that relates to you or another identified or identifiable individual personally) not the content otherwise of your response to the consultation.

### 1. The identity of the data controller and contact details of our Data Protection Officer

The Department for Levelling Up, Housing and Communities (DLUHC) is the data controller. The Data Protection Officer can be contacted at [dataprotection@levellingup.gov.uk](mailto:dataprotection@levellingup.gov.uk) or by writing to the following address:

Data Protection Officer  
Department for Levelling Up, Housing and Communities  
Fry Building  
2 Marsham Street  
London  
SW1P 4DF

### 2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

We will collect your IP address if you complete a consultation online. We may use this to ensure that each person only completes a survey once. We will not use this data for any other purpose.

### **Sensitive types of personal data**

Please do not share special category personal data or criminal offence data if we have not asked for this unless absolutely necessary for the purposes of your consultation response. By 'special category personal data', we mean information about a living individual's:

- race
- ethnic origin
- political opinions
- religious or philosophical beliefs
- trade union membership
- genetics
- biometrics
- health (including disability-related information)
- sex life; or
- sexual orientation.

By 'criminal offence data', we mean information relating to a living individual's criminal convictions or offences or related security measures.

## **3. Our legal basis for processing your personal data**

The collection of your personal data is lawful under article 6(1)(e) of the UK General Data Protection Regulation as it is necessary for the performance by DLUHC of a task in the public interest/in the exercise of official authority vested in the data controller. Section 8(d) of the Data Protection Act 2018 states that this will include processing of personal data that is necessary for the exercise of a function of the Crown, a Minister of the Crown or a government department i.e. in this case a consultation.

Where necessary for the purposes of this consultation, our lawful basis for the processing of any special category personal data or 'criminal offence' data (terms explained under 'Sensitive Types of Data') which you submit in response to this consultation is as follows. The relevant lawful basis for the processing of special category personal data is Article 9(2)(g) UK GDPR ('substantial public interest'), and Schedule 1 paragraph 6 of the Data Protection Act 2018 ('statutory etc and government purposes'). The relevant lawful basis in relation to personal data relating to criminal convictions and offences data is likewise provided by Schedule 1 paragraph 6 of the Data Protection Act 2018.

## **4. With whom we will be sharing your personal data**

We will not be sharing your data with any organisation outside of the Department for Levelling Up, Communities and Housing.

## **5. For how long we will keep your personal data, or criteria used to determine the retention period**

Your personal data will be held for two years from the closure of the consultation.

## **6. Your rights, e.g. access, rectification, restriction, objection**

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

- a. to see what data we have about you
- b. to ask us to stop using your data, but keep it on record
- c. to ask to have your data corrected if it is incorrect or incomplete
- d. to object to our use of your personal data in certain circumstances
- e. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/> (<https://ico.org.uk/>), or telephone 0303 123 1113.

Please contact us at the following address if you wish to exercise the rights listed above, except the right to lodge a complaint with the ICO: [dataprotection@levellingup.gov.uk](mailto:dataprotection@levellingup.gov.uk) or

Knowledge and Information Access Team  
Department for Levelling Up, Housing and Communities  
Fry Building  
2 Marsham Street  
London  
SW1P 4DF

## **7. Your personal data will not be sent overseas**

## **8. Your personal data will not be used for any automated decision making**

## **9. Your personal data will be stored in a secure government IT system**

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1. [The Companies \(Strategic Report\) \(Climate-related Financial Disclosure\) Regulations 2022](https://www.legislation.gov.uk/ukxi/2022/31/contents/made) (<https://www.legislation.gov.uk/ukxi/2022/31/contents/made>); [The Limited Liability Partnerships \(Accounts and Audit\) \(Application of Companies Act 2006\) Regulations 2008](https://www.legislation.gov.uk/ukxi/2008/1911/contents) (<https://www.legislation.gov.uk/ukxi/2008/1911/contents>).

2. Value at Risk measures a funds exposure to a worst-case scenario.

3. TCFD's principles for effective disclosure: 1. Disclosure should represent relevant information; 2. Disclosure should be specific and complete; 3. Disclosure should be clear, balanced and understandable; 4. Disclosure should be consistent over time; 5. Disclosure should be comparable among companies within a sector industry or portfolio; 6. Disclosure should be reliable, verifiable and objective; and 7. Disclosure should be provided on a timely basis.

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