Responsible Investment Advisory Group

MEETING OF 15th MARCH 2023

Item 6 Paper D

Standardisation of Climate Risk Reporting

Background

1. DLUHC made a number of proposals in its September 2022 consultation on Governance and Reporting of Climate Change Risks. They included requiring funds to report:
   a. Total scope 1, 2 and 3 greenhouse gas emissions;
   b. One emissions intensity metric, such as Weighted Average Carbon Intensity (WACI);
   c. A data quality metric where the proportion of the value of its assets for which its total reported emissions were Verified, Reported, Estimated or Unavailable;
   d. A Paris Alignment Metric. Under the Paris Alignment Metric, administering authorities will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner;
   e. Two sets of temperature change scenario analysis and the impact on their funding and investment strategies.

2. The consultation asked for views on how prescriptive the Department should be, and whether it would help to mandate a level of consistency in the way that data was to be compiled. The RIAG recommended, on balance, that it would lean more towards retaining flexibility in target setting, use of metrics and scenario analysis.

3. The Board undertook a survey of funds (circulated with these papers) which showed that a substantial number of funds have indicated that they do not yet have allocated resources, expertise and/or do not have access to the data required to produce a climate risk report. Almost 50% of funds have indicated that they intend to rely wholly on external analysts with only one fund indicating that they plan to produce the report entirely in house. Funds indicate they will rely heavily on the pools and managers providing them with the data for these reports.

4. While not wishing to limit any fund's choice as to how to approach its reporting obligations, the Board has received some representations that suggest that some funds would welcome some steer as to appropriate methodologies to adopt. RIAG has previously recognised that there are potential benefits in greater consistency in reporting approach (economies of scale and the ability to make meaningful comparisons) and suggested that pools might have a role in offering funds an expert partner in selecting its approach, especially in areas such as scenario analysis where some expertise was needed. Greater standardisation would also greatly facilitate the production of a scheme annual climate risk report.

   RIAG is invited to consider whether the Board might recommend/endorse one or a limited number of methodologies for accounting for carbon emissions.

Possible focus of discussion

5. RIAG is asked to consider whether recommendations or guidance from the Board might be helpful around:

- metrics related to specific asset classes;

Local Government Association, 18 Smith Square, Westminster, London SW1P 3HZ
E SABSecretariat@local.gov.uk **W** www.local.gov.uk

- approaches to calculation of Scope 3 emissions, to facilitate amalgamation and noting that Scope 3 estimates are particularly heavily reliant on modelling assumptions and multipliers;
- how the Paris alignment metric and the proportion of the LGPS assets for which there is a net zero commitment in line with the Paris goals should be reported.
- framing and definition of net zero targets, even if target dates were variable
- climate scenario analysis is also likely to be a costly exercise for individual funds, RIAG is asked to consider whether there are current official scenarios or methodologies (eg from the NGFS) which it would want to endorse in some way;
- Also, are there alternative scenario models which a group of funds might want to explore and support. Eg those which are endeavoring to better address real world messiness, such as uneven technological shifts, geopolitical uncertainty and resource-driven conflict.

6. Alternatively, would it be helpful if the Board were to convene a short summit inviting RIAG members and all the pools to work through what the “support offer” was to those funds that wanted to learn from others in the LGPS community whose thinking was more advanced?

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