

Responsible Investment Advisory Group (RIAG)

MEETING – 15 NOVEMBER 2023

Item 6 Paper B

Report from Cross Pool Responsible Investment (RI) Group

Background

1. The Department for Levelling Up, Housing and Communities (DLUHC) made a number of proposals in its September 2022 consultation on climate risk reporting. It was anticipated that these new obligations would apply from 1 April 2023, but the Minister wrote to the Board on 15 June 2023 to confirm that the regulations would not be implemented in financial year 2023/24. The Secretariat are now working on the assumption that the next likely implementation date that we should prepare for is 1 April 2024 – while recognising both that this may not happen, and that funds not well advanced in preparation are unlikely to consider that sufficient notice even if that were confirmed by the Minister now.
2. As reported at previous meetings, the Secretariat have established a cross-pool group to look at issues of shared interest around these proposed new duties. That includes where it would be helpful to have a common understanding of any new legal requirements and to provide advice to Local Government Pension Scheme (LGPS) funds on what actions need to be taken. The working group is looking to build on best practice from those funds which are voluntarily producing climate risk reports and those pools which are producing TCFD reports.
3. The working group has met twice to identify what is and isn't achievable with current levels of uncertainty and resource. The Group felt that its most helpful purpose would be to help prepare funds and manage expectations as to what is achievable.
4. The Group therefore proposed the development of guidance and materials (for the benefit of all LGPS funds) on how to approach the new requirements, when they come. This would be a pragmatic and not “gold-plated” approach and would indicate what reports need to cover and what their content could look like. The outputs are likely to take the form of training and some suggested resources.
5. An outline project plan that the Secretariat has drawn up for this work is at Annex A, for comment and feedback from the RIAG.

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Annex A – Project Plan for Supporting Climate Risk Reporting

November 2023

Purpose

To provide funds with information on how to get ready for climate risk reporting when it becomes a statutory obligation. To help funds decide whether they want to start voluntary reporting before the statutory duty is introduced (and indeed whether or not the statutory duty is introduced). To share current good practice between funds that are undertaking voluntary reporting.

Content to be covered

Governance - what might you need to change from current arrangements. How do you assess not just investment risk and opportunities, but also the impact of climate change on liabilities and on covenant. Risk should consider physical as well as financial consequences of climate change. These should be understood on short-, medium- and long-term bases.

Areas to address include:

- creating a policy document to set out your approach
- assessing current levels of knowledge and skills, then addressing any gaps
- establishing accountabilities and roles, setting appropriate role descriptions and providing training for in-house staff
- amending contracts to include provision of consistent or at least comparable information
- making connections with other policies and governance arrangements (e.g. stewardship policy, consideration of Sustainable Development Goals (SDGs), Environment, Social and Governance (ESG) statements etc)
- strategy for communications with members, scheme employers and the public

Advisers – identifying what new skills/knowledge you need and how to assess who can provide this. How does this overlap with other advisers you may use, and what actuaries should be doing.

Data – understanding the different methodologies for Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions. Demonstrating that your chosen methodologies are based on recognised guidance, are consistent with policy and your assessment of climate risk.

How can you interpret the climate related information that you receive from investment managers and pools. How can you assess the quality of the information that you are being provided with, and how can you combine data from different sources (and possibly of varying quality).

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Understanding how to set quantifiable targets to reduce emissions (in relative or absolute terms), and how to link these to real world impact and support for transition.

Scenarios – what is scenario analysis and what are its limitations. How far into the science do you need to get? How is uncertainty recognised and communicated? Support in understanding the role of both narrative and numbers (reference work with University of Exeter).

The scenario analysis, when done, should include a brief description of the external and internal data sources used, the time horizon over which the assessment was conducted and insight into the methodology.

Priority areas for provision of advice

In terms of prioritising effort, we were thinking to look at the above issues in this order:

- Advice on governance (by Jan/Feb 24)
- Working with advisers (by Mar/Apr 24)
- Interpreting data and setting targets (Apr/May 24)
- Scenario analysis (May/Jun 24)

Who will contribute to this project

Scheme Advisory Board (SAB) to co-ordinate input from the below:

- Main content to come from cross-pool RI contacts, given their experience as investment managers (and for those FCA regulated their own reporting duties)
- Further input from those funds who are undertaking voluntary reporting
- Actuarial firms to be invited to participate
- Same with advisers with known expertise

Contributions will need to be “pro bono” but will be credited and commercial participants will be able to use the products to flag related paid-for content that they offer.

Outputs

- Series of LGPS Live webinars, possibly flag some other paid for content which will be available from pools and advisers
- Four sets of FAQs on the subjects of: establishing the necessary governance arrangements, choosing and working with advisers, interpreting climate data and understanding scenario analysis
- Some written case studies
- Templates, white label reports (outline structure, insert text and numbers here and here)

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