

PENSION BOARD
26 FEBRUARY 2021**CONSULTATION ON REGULATIONS ENTITLED: “TAKING ACTION ON CLIMATE RISK: IMPROVING GOVERNANCE AND REPORTING BY OCCUPATIONAL PENSION SCHEMES”**

Recommendation

1. The Chief Financial Officer recommends that the Consultation on regulations entitled: “Taking action on climate risk: improving governance and reporting by occupational pension schemes” be noted.

Background and update

2. A policy consultation response and Consultation on regulations entitled **Taking action on climate risk: improving governance and reporting by occupational pension schemes** was launched on the 27 January 2021 and runs until 10 March 2021. The scope of the regulations do not include the LGPS however regulations are expected from MHCLG to substantially mirror the requirements set out in this document and are likely to come in around 2023.
3. The UK government published draft climate risk reporting and governance rules for pension funds that are in line with the main thrust of proposals outlined last year but incorporate some changes in response to feedback.
4. Its consultation on the proposed rules comes after the Chancellor in November announced plans to roll out mandatory climate reporting requirements across the UK economy by 2025, with a significant proportion in place by 2023. The DWP had by then already proposed mandatory action by pension funds.
5. Guy Opperman, minister for pensions and financial inclusion, said: “Trustees can be sure that the UK-regulated organisations on which they depend not only for data and information but also day-to-day management of climate change risk will be subject to the same obligations and requirements.”
6. On 26 August 2020, the DWP published a consultation on pension schemes’ governance and reporting on climate change. Initially, the proposed changes will be targeted at larger schemes, which will need to comply from October 2021. The proposals would require schemes to assess and manage climate risks and opportunities, and to publish a climate change report annually (in line with recommendations by the Taskforce on Climate-related Financial Disclosures (“TCFD”).

TCFD recommendations

7. In 2017, the TCFD published 11 recommendations for all organisations, aimed at identifying, assessing, managing and disclosing climate-related financial risks and opportunities. In March 2020, the Pensions Climate Risk Industry Group launched a consultation on guidance on applying the TCFD recommendations to a pension scheme.

8. The DWP proposed that regulations require trustees to satisfy the 11 recommendations of the TCFD, and to report on how they have done so. Statutory guidance would support schemes in achieving this, and trustees would need to explain any divergence from that guidance in their reporting.

9. The proposed requirements for satisfying the 11 TCFD recommendations are split between four areas:

- a) **Governance:** establish and maintain, on an ongoing basis, oversight of climate-related risks and opportunities, and processes by which trustees satisfy themselves that persons managing the scheme are assessing and managing those risks and opportunities.
- b) **Strategy:** identify, on an ongoing basis, climate-related risks and opportunities that will have an effect on the investment and, in the case of DB schemes, funding strategy, over the short, medium and long term, and assess the impact of those risks and opportunities. Schemes would be required to use scenario analysis at least annually to assess the scheme's resilience to climate-related risks.
- c) **Risk management:** adopt and maintain, on an ongoing basis, processes for identifying, assessing and managing climate-related risks, and integrating climate-related risks into the trustees' overall risk management.
- d) **Metrics and targets:**
 - i. select at least one appropriate greenhouse gas emissions-based metric and at least one other non-emissions-based metric, calculating them quarterly to assess scheme assets against climate-related risks and opportunities (and keep the metric selections under review).
 - ii. at least annually, set at least one target for one of the metrics calculated above and measure against the target(s) at least quarterly.

10. The outcomes of the ESG Audit workshops and working group are reported elsewhere on this agenda.

Contact Points

Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer), there are no background papers relating to the subject matter of this report.