Item No. 13.	Classification: Open	Date: 17 July 2023	Meeting Name: Pensions Advisory Panel
Report title:		Update on Taskforce on Climate-related Financial Disclosures	
From:		Senior Finance Manager - Treasury and Pensions	

RECOMMENDATION

1. The pensions advisory panel is asked to note the update provided in this report on the requirements of the Taskforce on Climate-related Financial Disclosures (TCFD) and how the fund is preparing for this.

TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

BACKGROUND

2. Published in 2017, the Taskforce on Climate-related Financial Disclosure’s (TCFD) recommendations establish a set of 11 clear, comparable and consistent disclosures for companies about the risks and opportunities presented by climate change.

3. From 1 October 2021 the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 introduced new requirements relating to reporting in line with the TCFD recommendations, to improve both the quality of governance and the level of action of pension fund trustees in identifying, assessing and managing climate risk.

4. Following on from the implementation of TCFD reporting for private sector schemes, regulatory initiatives are underway to mandate Local Government Pension Scheme (LGPS) administering authorities to assess, manage and report climate-related risks in line with the recommendations of the TCFD.

5. The outcome of the public consultation on such climate-related reporting by the Department for Levelling Up, Housing and Communities (DLUHC) ending 24 November 2022 is still pending, but it is likely that such reporting requirements would apply to all LGPS administering authorities for the financial year 2024-2025. The deadline for the first report would be 1 December 2025.

6. While the exact reporting requirements are not clear, they will mostly be in line with TCFD recommendations. DLUHC will also release statutory guidance to help LGPS meet the reporting requirements. Anecdotally, a number of LGPS Funds have, or are expected to, produce TCFD reporting ahead of the statutory guidance being released.

7. In light of this, we have outlined below an overview of the requirements of TCFD and what we at Southwark are proactively working on to meet such reporting requirements.

TCFD RECOMMENDATIONS

8. The regulations require disclosures across the following four pillars:

Governance Requirements

9. Disclose the Fund's governance around climate-related risks and opportunities.

10. Disclosure requirements include outlining the PAP and Local Pension Board's role in the oversight process and officers' role in assessing and managing the material climate-related risks and opportunities.

Strategy Requirements

11. Disclose the actual and potential impacts of climate-related risks and opportunities on the Fund's businesses, strategy, and financial planning where such information is material in the short, medium and long term.

12. Assets, liabilities, investment strategy and funding needs to be evaluated against climate risks and opportunities in at least two climate scenarios, including a "Paris-aligned" 1.5 degrees (or lower).

13. For pension funds, the scenario analysis will be required to be carried out at least once every valuation cycle (three years) and the findings will be used to evaluate investment and funding decisions.

Risk Management Requirements

14. Disclose how the Fund identifies, assesses, and manages climate-related risks. The climate-related risks must be integrated into the overall risk management on an ongoing basis.

15. Climate-related risks to be considered into the analyses include both physical – resulting from climatic events - and transitional – resulting from policy action taken to move away from fossil fuels - risks, their relative importance to the organisation when the risk would happen and the likelihood of the risk occurring.

Metrics and Targets Requirements

16. Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

17. Funds will have to consider metrics in line with its strategy and risk management processes. Some of the key metrics include total (absolute) carbon emissions and carbon footprint intensity. These should be reported at the whole fund level, providing separate values for scope 1, 2 and 3 emissions.

18. A key difference to private sector reporting requirements is that the LGPS is likely to also have to report on data quality.

19. Another requirement is for the LGPS to choose a metric (absolute emissions, emission intensity, data quality or Paris-alignment) and set a target in relation to it. Progress against this target must then be annually assessed.

20. Below is a snapshot of the core elements of the TCFD recommendations:

Figure 2

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization 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

REPORTING ON CLIMATE-RELATED RISKS

21. A Climate Risk Report must be published annually alongside the annual report and be made freely available to encourage transparency.

22. Guidance on governance and the Climate Risk Report will be supplied to accompany changes in regulation by DLUHC. The Scheme Advisory Board (SAB) has been asked to produce detailed operational guidance and a standard template for the Climate Risk Report.

MEASURES ALREADY TAKEN BY SOUTHWARK

23. London Borough of Southwark (LBS) pension fund already fulfils a number of required metrics and can provide reports on scope 1 and scope 2 carbon emissions, emission intensity and data quality of the fund. The LBS pension fund already has an investment strategy in place - to achieve net zero carbon exposure by 2030 - that sets out the short, medium, and long term goals for meeting this target.

24. There is data available to the pension fund that would help to provide information on data quality. The current measurement provider records whether carbon data is reported, estimated or without data, which can easily be translated into the percentage of the value of assets to which they correspond.

25. We have hired an interim ESG manager to help us with the formal documentation on governance, strategy and risk management requirements. The interim ESG manager will also be working on preparing the initial TCFD report for financial year 2022-23. This is ahead of the expected implementation date for the LGPS.

26. We will be working with Aon, our investment advisor, on some of the more technical analysis required as part of TCFD – specifically, the scenario analysis and quantifying the financial impact of climate change on our portfolio across the scenarios considered as part of our analysis. Additionally, we will also continue engagement with external fund managers and industry associations to understand best practices in preparing TCFD to make it a more efficient process for us internally in the first year and going forward.

Community, Equalities (including socio-economic) and Health Impacts

Community Impact Statement

27. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

28. There are no immediate implications arising.

Health Impact Statement

29. There are no immediate implications arising.

Climate Change Implications

30. There are no immediate implications arising.

Resource Implications

31. There are no immediate implications arising.

Legal Implications

32. There are no immediate implications arising

Consultation

33. There are no immediate implications arising.

Financial Implications

34. There are no immediate implications arising.

AUDIT TRAIL

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<tr><th>Version</th><td colspan="2">Final</td></tr>
<tr><th>Dated</th><td colspan="2">7 July 2023</td></tr>
<tr><th>Key Decision?</th><td colspan="2">No</td></tr>
<tr><th colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</th></tr>
<tr><th>Officer Title</th><th>Comments Sought</th><th>Comments Included</th></tr>
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<tr><td colspan="2">Date final report sent to Constitutional Team</td><td>7 July 2023</td></tr>
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