Finance Services
Civic Centre, Stockwell Close, Bromley, BR1 3UH

Telephone: (020) 8464 3333
Direct Line: (020) 8313 3176
Email: dan.parsons@bromley.gov.uk
Internet: www.bromley.gov.uk

Summary of consultation questions

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

[The proposal is that in administering the fund, authorities should have ongoing oversight of climate related risks and opportunities and ensure that those undertaking this work and the professional advisors assisting them are acting effectively.]

The basis of the requirement is funds should undertake good governance of climate related investment matters in the same way that they should do all other investment decisions and actions. We therefore agree with the substance of the requirements. However, additional work will be required to assess the risks and opportunities and as this is not a developed field this will require significant resources to evaluate the data available.

While we are not asking for additional regulation, some clarity on issues such as accreditation or membership of relevant professional bodies which give assurance that advisors have the knowledge and skills to advise in this new area would be welcome.

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

[The proposal is that funds identify and assess, on an ongoing basis the short, medium and long term impact of climate risks and opportunities on the fund. Statutory guidance will be provided to assist in identification of risks and opportunities and impact assessment.]

We agree that this assessment should occur. However, this is likely to involve additional costs as the assessment will need specialist knowledge which funds will not have in house.

We have concerns that any guidance should not be overly prescriptive as different funds will have different investment objectives related to their funding level and different time horizons depending on their maturity.

Finance Services
Civic Centre, Stockwell Close, Bromley, BR1 3UH

Telephone: (020) 8464 3333
Direct Line: (020) 8313 3176
Email: dan.parsons@bromley.gov.uk
Internet: www.bromley.gov.uk

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

[The proposal is that 2 sets of scenario analysis should be undertaken at least once per valuation period. One should be Paris aligned and one of the fund's own choice. Statutory guidance will be given, including how to deal with missing or poor-quality data and other barriers to effective analysis.]

We agree that any scenario analysis should be undertaken as part of the valuation cycle to allow the use of this data in the post-valuation review of the Investment Strategy Statement. However, this will increase the costs of valuation as this analysis will need to be undertaken by experts which means the use of consultants.

We do not agree that the Paris aligned scenario should be analysed. LGPS funds should need to include the UK government target which is currently net zero by 2050. The guidance should reference the current UK government target to prevent the need for new guidance if this target is changed.

The requirement should be for funds to analyse the UK government target and their own target scenario only if this is different.

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

[The proposal is that funds integrate the identification and management of climate related risks and opportunities in their existing risk management process. Statutory guidance will be provided.]

We agree with these proposals. Any guidance should allow funds to merge climate risk management into existing processes where these are demonstrated to be effective and fit for purpose. Climate risk is one of many risks faces by LGPS funds and funds should be allowed to consider this risk and the prioritisation of resources to address it.

Finance Services
Civic Centre, Stockwell Close, Bromley, BR1 3UH

Telephone: (020) 8464 3333
Direct Line: (020) 8313 3176
Email: dan.parsons@bromley.gov.uk
Internet: www.bromley.gov.uk

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

[The proposal specifies 4 different metrics for funds to measure and report on annually.]

Overall, the proposal asks funds to undertake a great deal of work to produce metrics. This includes time spent estimating data as well as collating existing data. We do not agree that estimation is useful and it is outside the core work of the Administration Authority and would therefore require additional resources and expertise to achieve valid estimates. The focus should be on pushing fund managers to produce standardised, verifiable data in all asset classes and in all scopes. There is a known lack of data on Scope 3 in particular, due to issues with calculation. Scope 3 is a very wide area requiring detailed knowledge of the company to estimate, and this is therefore best done by the company itself or those deciding to invest in it, which is the fund manager. Data is constantly improving and it is therefore a better use of staff time to engage with managers to improve their data than to incur additional costs in attempting to fill the reporting gaps.

We propose that the only metrics required should be:

- Emissions metric to allow measurement of the UK government target (see response to Question 3)
- Metric required to measure the fund's target (if different from the UK government target)
- Data quality metric – modified from the proposal to include a list of fund managers who have not provided complete, verifiable data for scope 1, 2 and 3.

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

[The proposal is to set a target against 1 metric which may be one of the 4 we are required to calculate or any other TCFD accepted metric. Progress should be assessed annually and the target revised as needed.]

We agree that a target should be set, and it should relate to a measurable metric which will drive real world change. We agree that progress should be measured regularly.

We do not agree that annual measurement is appropriate as progress is likely to come through step change and not in a straight line so annual measurement and reporting would not give a fair indication of progress and lead to unhelpful discussions.

Having undertaken scenario analysis recently, we are aware that much of the scientific data required is most readily available from subscription services, which would add to the costs of

THE LONDON BOROUGH

Finance Services
Civic Centre, Stockwell Close, Bromley, BR1 3UH

Telephone: (020) 8464 3333
Direct Line: (020) 8313 3176
Email: dan.parsons@bromley.gov.uk
Internet: www.bromley.gov.uk

administering the fund. Once obtained, work would be required to collate the data relevant to the fund's investments and present this in reports. This is a costly and time intensive process and should only be required where a minimum amount of verified data is available as reporting without sufficient data could give misleading results.

We propose that funds should set milestone targets (aligned to the triennial valuation) within the longer-term objective and that these should be measured at valuation.

We propose that it is recommended that the fund's long-term target should match the UK government target, and that funds should be required to justify an alternative target if they set one.

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

[The proposal is to publish and annual Climate Risk report, aligned to (or part of if preferred) the Annual Report process. The contents of the report would be prescribed.]

While we agree that climate risk is a key risk, we do not agree that it's more important than all other risks, particularly cyber risk which is at least equally important. We feel that risk reporting should cover all major risks to ensure that areas like cyber security, which has resulted in significant real losses in recent years, continue to receive sufficient attention. Pension Funds are required to produce audited accounts and with the recognised pressures already existing in this area this is not the right time to be increasing statutory reporting requirements. There is the potential for any climate or enhanced risk reporting to be subject to audit in its own right, or to be used by auditors in verifying going concern assumptions for the fund and potentially lead to work ensuring the triennial valuation and IAS19 reporting assumptions include these risks. This will not assist in addressing delays in final accounts publication and external audit sign off.

We suggest that the required content of the Annual Report should include a section on Risk, to include where readers can find detailed risk reports and any specific risks reported on to Pensions Committee or Local Pensions Board during the year.

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

[The proposal is that the SAB should amalgamate all funds reports and publish an annual Scheme Climate Risk Report, with links to each fund's report.]

Finance Services
Civic Centre, Stockwell Close, Bromley, BR1 3UH

Telephone: (020) 8464 3333
Direct Line: (020) 8313 3176
Email: dan.parsons@bromley.gov.uk
Internet: www.bromley.gov.uk

We do not agree, based on our answer to Question 7. A requirement for wider, key risk reporting with a whole scheme report by SAB would give a more rounded view of the risks faced by the scheme.

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

We have very considerable concerns around Pooling generally, and the effect this can have on any part of LGPS. This is as a result of our (unique) commissioned independent reviews. Our concerns extend to TCFD where there is clear evidence of Political interference, that some Pools feel is part of their brief. This can be a considerable disadvantage to the central rationale of lower fund fees and improved investment performance. TCFD does not address these rationale and Pools should therefore concentrate on their core goals and not expend precious resources on other initiatives, unless there is clear evidence that they can save on fees and improve investment returns.

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

[The proposal is for the reporting requirements to be set in regulations and for the metrics to be reported on to be set in statutory guidance, to facilitate future changes to metrics as this new area of measurement matures and potentially better metrics become available. A template report will also be provided.]

We agree in principal that guidance and a template should be issued to ensure minimum requirements are met and that reporting is in a consistent format as well as on a consistent basis to allow a consolidated scheme report to be produced by SAB.

The template should be flexible enough to allow funds to report in a manner best suited to the needs of their local stakeholders.

Guidance should make it clear whether requirements are mandatory, best practice or general recommendations.

The guidance and first template should be published as early as possible to give officers sufficient time to produce or reformat the information required and avoid abortive work as officers try to prepare for the new requirements.

Finance Services
Civic Centre, Stockwell Close, Bromley, BR1 3UH

Telephone: (020) 8464 3333
Direct Line: (020) 8313 3176
Email: dan.parsons@bromley.gov.uk
Internet: www.bromley.gov.uk

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

[The proposal is that, in line with existing knowledge and skills requirements, those involved in decision making on climate related matters should be able to demonstrate they have the skills and knowledge to do so. This would involve decision makers having sufficient knowledge to understand the decision and information they are considering, while taking more expert advice to supplement this where required.]

We agree that those making decisions should be required to have the necessary skills and knowledge to do this effectively.

However, this proposal is unenforceable and not in line with current legislation. Decision makers for the Fund (Committee Members) are not statutorily required to undertake training unlike Local Pension Board Members. This should be rectified to enable the proposals to be delivered.

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?

No, we do not see how these proposals could have a detrimental impact on any particular protected group.