



Purpose: For Decision

Committee Report

Committee	PENSION FUND COMMITTEE
Date	23 NOVEMBER 2022
Title	DLUHC CONSULTATION: LGPS (ENGLAND AND WALES) GOVERNANCE AND REPORTING OF CLIMATE CHANGE RISKS
Report of	PENSION FUND MANAGER

EXECUTIVE SUMMARY

1. On 1 September 2022, the Department for Levelling Up, Housing and Communities (DLUHC) issued the expected consultation on responding to climate change risks, linking to the Taskforce for Climate Related Financial Disclosure (TCFD) requirements for private sector schemes.
2. This report contains the consultation document and the first thoughts of a potential response to the consultation from the Isle of Wight Council Pension Fund.
3. The consultation period closes on 24 November 2022. It is expected that the new regulations will come into force from 1 April 2023. It is expected that the first reporting will be required for the financial year ended 31 March 2024, with reports to be published by 1 December 2024.
4. Members should note that this consultation does not cover the investment strategy of the fund and does not seek to restrict or direct towards any specific asset classes or business sectors.

RECOMMENDATION

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| <ol style="list-style-type: none">5. That the committee considers and agrees the proposed responses to the consultation questions raised by DLUHC.6. That the committee approves the fund's responses for submission before the close of the consultation.7. That the committee agrees to reconvene the ESG/RI working group to consider specifically the development of the fund's TCFD-compliant reporting processes. |
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BACKGROUND

8. Appendix 1 to this report contains the consultation document which was issued by DLUHC on 1 September 2022.
9. Appendix 2 contains the draft response to the 12 consultation questions, prepared by the Pension Fund Manager, and considered by the pension board at its meeting on 26 October 2022.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

Responding to climate change and enhancing the biosphere

10. The [Council's Climate and Environment Strategy](#) does not specifically cover financial investments, and has no direct impact in contributing to the consultation on the governance and reporting of climate risks in the pension fund.
11. The pension fund will need to determine its own strategy in respect of climate change risks within its investment portfolio, which will take into consideration the content of the council's strategy, but will, by necessity, be separate from it.
12. The consultation document and the draft response were shared with the council's Climate Change Delivery Manager in late September 2022 for information and consideration. No response has been received.

Corporate Aims

13. Other than as described above, there is nothing contained in this report which directly contributes to the priorities contained in the [Corporate Plan 2021 - 2025](#).

Pension Fund Strategic Aims

14. The primary objective of the fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, in accordance with the Local Government Pension Scheme (LGPS) regulations and statutory provisions. The committee aims to operate the fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing.
15. In 2018-29, the fund has agreed the following responsible investment beliefs, which contribute to the proposed response to the consultation.
 - (a) The Pension Fund is a long-term investor and the investments should be able to generate sustainable returns to pay pensions for scheme members. Environmental, Social and Governance ("ESG") issues can have a material impact on the long-term performance of its investments.
 - (b) The Committee should focus on meeting its financial obligations to pay benefits to members. Financial considerations carry the same weight as non-financial considerations.

- (c) Long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Committee.
 - (d) Responsible ownership of companies benefits long term asset owners. Companies with a clear responsible investment policy are expected to outperform companies without a responsible investment policy, over the longer term.
 - (e) Once pooled the Fund will work closely with ACCESS on stewardship and engagement issues including ESG issues and voting rights.
16. As part of the activity required to ensure compliance with the amended regulations arising from this consultation, the above beliefs will need to be revisited and updated where relevant.

CONSULTATION

17. Prior to the pension board meeting on 26 October 2022, the draft response was shared with the scheme member representative on the pension committee and one of the scheme member representatives from the board for initial review and comment.
18. Their comments included the following:
- (a) There is an enormous amount of work to get through.
 - (b) We should be looking to share services of other LGPS funds.
 - (c) Consider if we can adopt a statement from another fund (after consideration, review and any amendments); if not – then pick it apart and use it as a guide for creating a new one.
 - (d) We don't need to do this in isolation; we could move ahead with establishing local principles and policies with the help of what other funds have done.
 - (e) Concern that we could be building a whole industry here of setting objectives and targets, detailed measurement and reporting, interpreting and debating, disclosing and dealing with more and more questions.
 - (f) It basically comes down the question – 'so what?'
 - (g) Consideration should be given to "adapting" existing plans, policies and documentation from other funds who have demonstrated good progress in this area. May be easier to comment on something already written than to start from scratch.
19. At the board meeting itself, board members were asked to provide additional feedback to the Pension Fund Manager before papers were published for this committee meeting. Other than the independent chair, no board members provided comment. His comments have been incorporated into the proposed response at appendix 2.
20. The consultation document and the draft response were shared with the council's Climate Change Delivery Manager in late September 2022 for information and consideration. No response has been received.
21. Following a very brief discussion with the Director of Finance, a further point was added to the response about the increased burden on compliance for smaller funds.

Compliance will result in increased administrative costs, which will ultimately be passed on to employers through increased contribution rates.

LOCAL PENSION BOARD VIEW

22. The Local Pension Board considered the consultation document, the draft response and extracts from the Pension Regulator's single code of practice in relation to climate risks at its meeting on 26 October 2022.
23. Comments were made around the role of investment managers in providing information and metrics, and the role of the fund's ESG/RI working group in progressing compliance.

FINANCIAL / BUDGET IMPLICATIONS

24. There is no cost in preparing and submitting a response to the consultation.
25. Compliance with the subsequent regulations will incur additional costs for the fund, which will probably include the use of consultants to support the development of a climate risk management policy, obtain data on the fund's investments, carry out scenario analysis, and support the preparation of the fund's climate risk report. This list is not prescriptive, nor is it exhaustive.
26. At this early stage it is impossible to state what support will be required, or how much it will cost. As the regulations are introduced and the requirements are clarified, further information about cost will be provided.

LEGAL IMPLICATIONS

27. The Isle of Wight Council is the administering authority for the Isle of Wight Council Pension Fund. An administering authority is defined in the Local Government Pension Scheme Regulations 2013 as "a [local authority] required to maintain a pension fund under the local government pension scheme regulations".
28. The Pension Fund Committee is a committee under section 101 of the Local Government Act 1972, with delegated authority to discharge the council's statutory duties in respect of the LGPS.
29. Once the new regulations are issued, the fund will be required to comply with them, or face potential sanctions and reputational damage.

EQUALITY AND DIVERSITY

30. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

31. There are no implications for any of the protected characteristics arising from items covered in the report.

OPTIONS

32. It is essential that decision makers make informed choices. This section must clearly set out in sufficient detail all feasible alternatives.

RISK MANAGEMENT

33. The pension fund has identified a red-rated risk in respect of environmental, social and governance factors (ESG), including climate change.
34. Responding to this consultation and complying with the new regulations will contribute to the mitigation of this risk.

APPENDICES ATTACHED

35. Appendix 1: Consultation document – Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks.
36. Appendix 2: draft response.

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