

**DATE**

7 October 2020

**TAKING ACTION ON CLIMATE RISK: IMPROVING GOVERNANCE AND REPORTING BY OCCUPATIONAL PENSION SCHEMES**  
**A Response to the DWP's consultation by from Northern LGPS**

**BACKGROUND**

Northern LGPS is a partnership between the Greater Manchester (GMPF), Merseyside (MPF) and West Yorkshire (WYPF) Local Government Pension Scheme (LGPS) funds.

Northern LGPS is one of Britain's largest public investment funds, with combined assets under management of £46bn. Northern LGPS represents about a fifth of total LGPS assets, has approximately 880,000 members and over 1,100 contributing employers.

Northern LGPS's purpose is to ensure the assets of its funds perform effectively so that members receive a pension that enables them to enjoy their retirement in dignity.

**RESPONSE**

Northern LGPS would like to thank DWP for providing the opportunity to respond to the consultation. Although Greater Manchester (GMPF), Merseyside (MPF) and West Yorkshire (WYPF) Local Government Pension Scheme (LGPS) funds will not be covered by the reforms, changes made by DWP are often later folded into the LGPS. Furthermore, as large investors Northern LGPS wished to give its views about its role as responsible investors in tackling climate and protecting the interests of beneficiaries.

Northern LGPS policy is clear that climate change risk is financially material to long-term performance of investments and shareholder value. Pool members aim to integrate climate change considerations in the overall investment strategy, with the aim of minimising adverse financial impacts and maximising opportunities for long-term economic returns in all asset classes. The Northern LGPS's long-term goal is for 100% of assets to be compatible with the net zero-emissions ambition by c.2050 in line with the Paris agreement. This decarbonisation goal will be regularly evaluated in line with our objective of maintaining long-term financial performance.

In implementing our approach, Northern LGPS takes financially material climate change considerations into account as an integral part of its investment strategy and asset allocation, encourages the use of scenario analysis to provide estimations of relative

performances of asset classes and sectors under different scenarios, engages with companies on the issue, and reports on policy objectives and activities regularly. The Northern LGPS also gives consideration to supporting the objectives of a Just Transition to a low-carbon economy, and actively engages with the social aspects of responding to climate change.

As part of the importance placed on climate risk, two of our pool members have already voluntarily included the Task Force on Climate-Related Financial Disclosures reporting in their annual reports. Northern LGPS therefore supports the overarching objectives of the DWP's proposed changes for occupational pension schemes.

## **DETAILED RESPONSES**

### **1. Following schemes in scope**

The experience of Northern LGPS is that larger schemes can comply with TCFD and that the thresholds set out appear reasonable.

Schemes may wish to take different approaches to climate risk. However, having a consistent approach will help ensure that all funds are considering climate risk. This will be to the benefit of beneficiaries whose pensions and investments will be better safeguarded but also the wider market as the negative externalities of climate change are borne by all investors and portfolios.

### **2. Timeline for implementation**

The timeline set out would appear reasonable. Experience from members is that time is needed to meet the requirements of TCFD. However, the deadlines outlined in the consultation would enable schemes to have time to consider and introduce changes to be TCFD compliant. The deadlines would also help ensure that the risks of climate to individual schemes and the wider economy are being considered as soon as is feasible.

### **3. Widening the scope**

This approach is sensible given that the whole market is affected by climate change and raising standards across the piece will help ensure better financial and economic outcomes.

### **4. Trustee requirements**

Northern LGPS policy states that it will take "financially material climate change considerations into account as an integral part of its investment strategy and asset allocation." The proposals outlined in the consultation for trustees are therefore aligned with Northern LGPS's policy and therefore it agrees with this approach.

### **5. Identify and disclose climate change risks**

Northern LGPS policy is that financially material climate change risks are an integral part of investment decisions. Identifying and disclosing these risks (and opportunities) is aligned with Northern LGPS's approach. Therefore Northern LGPS is supportive of the proposal.

## 6. Resilience at 2°C or lower

Northern LGPS reviews a variety of research and analytical materials to encourage the use of scenario analysis to provide estimations of relative performances of asset classes and sectors under different scenarios which will be used where possible in asset allocation decisions. Northern LGPS therefore supports this recommendation.

However, having at least one scenario that is run at 2°C or lower appears higher than the government's approach and stated ambitions on climate emissions reductions. Following the Intergovernmental Panel on Climate Change special report, there has been growing consensus around 1.5 degrees because of the negative impacts would be reduced substantially. Furthermore, 1.5 degree is aligned with the government's legally binding commitment to net zero by 2050. The [IPPC](#) have stated that 'Limiting warming to 1.5°C implies reaching net zero CO2 emissions globally around 2050.' Therefore the transitional risks for asset owners might not be considered adequately if 2 degrees is used as regulatory risks are likely to ratchet up to meeting 1.5 degrees implied by our commitment to net zero by 2050.

Northern LGPS would therefore suggest that this proposal is amended to having at least one scenario at 1.5°C or lower.

## 11. Penalties

If the proposal is to be brought in on a compulsory basis Northern LGPS deem it necessary to have penalties to ensure compliance. As noted previously, Northern LGPS welcomes the compulsory nature of the proposal as it will help to raise standards across the board – protecting beneficiaries' pensions and savings, but also protecting the wider market from the negative economic consequences of climate change.

However, from an asset owners perspective it would be expected that this degree of compulsion is consistently applied across the market. It is therefore surprising that TCFD requirements for listed companies that are being [consulted on by the FCA](#) are only on a 'comply or explain' basis. This in effect makes it voluntary with companies only having to explain why they cannot meet requirements if they do not wish to comply. As many companies do not currently comply and as the survey of schemes in the consultation document attests, without compulsion take up will be mixed.

Without fuller take up by companies it is much harder for asset owners to understand the climate risks of their portfolios and help to meet the TCFD requirements as fully as is possible. Northern LGPS recommends that compulsion should not just be applied to

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asset owners but also listed/large companies and that greater regulatory alignment across government is sought.