

Gwynedd Pension Fund (November 2022)

Consultation response: Governance and reporting of climate change risks

We are supportive of this consultation and the proposal to embed climate risk governance and reporting requirements into the Local Government Pension Scheme (LGPS), aligning the public sector with requirements already in place for private sector pension schemes. As long-term investors, the LGPS can play an important role in addressing climate change through its investments and stewardship.

Whilst the proposals make reference to expected statutory guidance for administering authorities (AAs), we believe that it may also be helpful to have additional guidance, statutory or otherwise, for LGPS Pools. Given the importance that such guidance will play, we hope that government will consult separately on this guidance prior to the proposals being finalised.

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

We believe the proposed requirements are sensible. The proposals refer to expertise being provided by the committee's officers, advisers and the Pool – it may be helpful for guidance to outline examples of what advice each of the officers and the Pool may be expected to provide.

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

We agree with the proposed requirements.

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

We agree with the proposed requirements on scenario analysis.

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

We agree with the proposed requirements on risk management, noting that the proposed approach again creates a framework for the consideration of risks which will be supplemented by statutory guidance.

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

Overall, we are broadly supportive of the proposed requirements. The categorisation of data as set out by the proposals is sensible, with a focus on quality rather than availability. Guidance needs to address the extent to which AAs should be expected to estimate missing or unavailable data.

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

We agree with the proposed requirements although believe these could be strengthened slightly. The guidance should make it clear that the most useful and appropriate targets are those where AAs are able to clearly influence outcomes against the target, rather than targets that could be expected to be achieved regardless of any action taken by the Authority.

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

The proposals suggest a single reporting approach which targets multiple audiences, making suggestions as to how this could be accommodated. Given the complex nature of climate risk and particularly the technical nature of many of the governance and reporting requirements, we believe

that adopting a standard form of this summary whilst allowing greater flexibility in how more technical details are communicated may support transparency across the LGPS.

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

We believe that aggregated data would be the most appropriate way of reporting across the LGPS. Although we do not believe it appropriate to include the data on individual AAs, we see this as an inevitable consequence of this reporting. If it is not done centrally then other bodies will undertake this exercise and publish the information, creating “league tables”. The use of such league tables without the context of the strategies adopted by individual Funds could be counterproductive, creating a risk of challenge to individual AAs, with resource being drawn into responding to more detailed requests for information. For instance, a Fund that adopts a more measured strategy to reducing carbon emissions may be making a greater contribution to real world change than a Fund whose focus is on reducing carbon emissions as quickly as possible, whereas both strategies are valid. One potential consequence of this reporting is that Funds may be challenged to act now (reducing carbon emissions through divesting from high emitting sectors) rather than working with companies to encourage decarbonisation of processes and economic activity.

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

We believe that Pools should support and drive stewardship by making available relevant strategies, rather than dictating them.

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

We agree that statutory guidance should be provided, but as climate reporting is at an early stage of its evolution and to suggest that there is a single reporting approach that would capture that broad range of potential practices at this time is potentially not appropriate.

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

We agree that individuals making decisions in response to climate-risk management processes need to have appropriate knowledge and understanding of the topic and therefore proper, high-quality advice must be received, while administering authorities should set out their approach to relevant training.

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?

We are not aware of any elements of the proposals that could impact protected groups.