Item 8

Climate Risk Reporting

Background

At the SAB's meeting on 31st August SPPA advised that the UK DLUHC was expecting to publish a public consultation, in the Autumn, which would cover the Task Force on Climate-related Financial Disclosures (TCFD) reporting. The Scottish SAB sub-group previously advised their intention to follow England & Wales regulations in this area and Scottish Ministers had understood that a representative of the Scottish SAB had attended a meeting of the E&W SAB Responsible Investment sub-group (RIAG).

Stephen Smellie and Jonathan Sharma attended a meeting of the RIAG on 9th November, where the E&W SAB's response to the consultation was discussed. The English and Welsh SAB has now responded to the Consultation, this is appended, and this paper outlines some key considerations for the Scottish SAB.

The consultation which closed on 24th November and applied to England and Wales only can be found here. The UK Government's has set out a view in the consultation that investment by pension funds in more sustainable projects and activities is essential in order to reduce climate change and to mitigate its impacts. As one of the largest pension schemes in the UK with 6.2 million members and a significant UK and global investor with £342 billion of assets in 2022, the LGPS should report to the same standard as already expected from private schemes.

English and Welsh SAB Response

The E&W response sets out some general points which cover timing of the consultation; role of pension funds; fiduciary duty and investment choices; means to achieving ends; and resourcing. Key points arising are:

- That funds have already been producing reports voluntarily in line with TCFD reporting. This is also the case for Scottish funds, as was highlighted by the short life working group earlier this year when it reported to the Scottish SAB.

- That the UK regulatory framework needs to be in tandem, eg polluter pays, rather than forcing LGPS funds to make investment decisions, without these levers in place.

- Clarification on fiduciary duty will be needed where investment choices are informed by carbon or temperature reduction choices, potentially justifying an element of financial detriment. This could include guidance to funds on engaging pension members and local tax-payers in prioritising achievement of targets.

- Best practice guidance should be developed on investment choices around asset allocation vs assets which are developed to reduce emissions.

- Consideration will need to be given to resourcing the production of climate reports, likely to require external expertise at a cost and to be resource intensive, even if joint working/ collaboration can be pursued.

The response goes into further detail in response to specific questions, but broadly these are the key points.

Recommendations

The SAB is invited to consider the E&W response as relevant to the Scottish LGPS and to offer direction on further work in this area.