

Climate reporting for the LGPS Scotland

Background

It was common practice in the past for the LGPS in Scotland to mirror, where appropriate, regulations produced for the LGPS in England and Wales. This practice has lessened somewhat in recent years with LGPS Scotland leading rather than following in some cases, for example in relation to the Goodwin survivor regulations.

In relation to regulations covering climate governance and reporting the UK Government published a [consultation for the LGPS in E&W in September 2022](#). The contents of the consultation mirrored (with some exceptions) the reporting requirements for private sector schemes governed by DWP regulations which came into force the previous October and which in turn mirrored those of the Taskforce on Climate-Related Financial Disclosures (TCFD).

Despite the consultation closing to responses in November 2022 there has been no further progress and regulations for the LGPS in E&W continue to be delayed.

This leaves the LGPS, significantly behind the private sector with regard to regulations, (although many LGPS funds have pressed ahead with TCFD reporting regardless), and the LGPS in Scotland with no example to follow in respect of drafting changes to its own regulations.

The continued delays also provide little confidence that, even when they do arrive, such regulations will be kept up to date with fast evolving TCFD requirements. Should this be the case LGPS funds could fall out of step with the rest of the pensions industry potentially resulting in difficulties in both obtaining and reporting on the necessary data together with duplication of effort to meet both LGPS and TCFD requirements.

It should be noted that the 2021 DWP regulations on which the 2022 consultation was based were amended in October 2022 and further amendments are anticipated in 2025. [Comprehensive guidance](#) has been published by The Pensions Regulator (TPR) together with an [annual review](#) of the reports published under the regulations. This indicates the expertise and resources available to DWP and TPR to maintain their regulations in line with industry best practice.

Proposal

This paper proposes a means to ensure LGPS funds in Scotland remain in line with DWP requirements for climate governance and reporting by amending the [Local Government Pension Scheme \(Management and Investment of Funds\) \(Scotland\) Regulations 2010](#)¹ (the 2010 regulations) to effect, with appropriate clarifications the requirements of the Schedule to the [Occupational Pension Schemes \(Climate Change Governance and Reporting\) Regulations 2021](#). (the 2021 regulations)

¹ (amended by [SSI 2016/74](#))

These proposals seek to mirror those set out in the LGPS E&W consultation in order to provide, at least initially, an equivalence of requirements between the two schemes. This mirroring is set out in ANNEX 1.

Proposals to amend the 2010 Regulations for LGPS funds to meet the requirements of the Schedule to the 2021 regulations (the Schedule)

1. A new regulation (12A) would be needed in the 2010 Regulations to mandate, subject to provisions in the new regulation, the requirements of the Schedule to the 2021 regulations.
2. Regulation 12A will need to require all LGPS funds to comply with the requirements with effect from the scheme year set out in the regulation.
3. In order to effectively refer LGPS funds to the requirements of the Schedule to the 2021 regulations, regulation 12A would need to define
 - how the term trustee is to be interpreted in relation to these requirements to refer to administering authorities.
 - The scheme year as 1 April to 31 March
4. Regulation 12A will need to provide for the use of alternative emissions intensity metric by LGPS funds such as Weighted Average Carbon Intensity (WACI) and require the additional climate change metric to be a data quality metric which sets out the proportion of the value of assets for which the total reported emissions were Verified, Reported, Estimated or Unavailable.
5. Regulation 12A will need to provide for LGPS funds to also set their target against any other climate related metric recommended by the TCFD.
6. Regulation 12A will need to require the production of an annual Climate Risk Report by LGPS funds and specify the timetable for the production of the first reports as 1 December in the scheme year following the end of the scheme year to which the report relates and then annually.
7. Regulation 12A will need to require that the Climate Risk Report is published on an accessible website and that scheme members are informed that it is available in an appropriate way.
8. Regulation 12A will need to require that the contents of the annual Climate Risk Report be as that set out in the Schedule Part 2 plus
 - Where alternative emissions intensity metric is used the reasoning for doing so and:
 - the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner.
9. Regulation 12A will need to require each LGPS fund to take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.

Requirements which would be placed on LGPS Funds by the Schedule

10. Part 1 paragraph 1 of the Schedule would require the establishment and maintaining of oversight for climate related risk and opportunities within LGPS funds. Para 2 would require LGPS funds to satisfy themselves about advisors and others.
11. Schedule Part 1 paragraphs 3, 4 and 5 would require LGPS funds to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.
12. Schedule Part 1 paragraphs 6-11 would require two sets of scenario analysis (6). This must involve an assessment of their investment and funding strategies (7). One scenario would need to be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario would be at the choice of the LGPS fund (6). Scenario analysis would need to be conducted at least once in each valuation period (11).
13. Schedule Part 1 paragraphs 12-14 would require the establishment and maintenance by LGPS funds of a process to identify (12) and manage (13) climate-related risks and opportunities related to their assets. As well as the integration of this process into their overall risk management process (14).
14. Schedule Part 1 paragraphs 15-21 would require LGPS funds to select:
 - an absolute emissions metric (15) under which must report, as far as able, Scope 1, 2 and 3 greenhouse gas (GHG) emissions (18)
 - an emissions intensity metric (15)
 - a portfolio alignment metric (Paris Aligned) (15)
 - one additional climate change metric (15)
15. Schedule Part 1 paragraphs 22 to 24 would require the setting of a target by LGPS funds in relation to a selected metric which may be one of the four mandatory metrics (22). Progress against the target would need to be assessed once a year, and the target revised if appropriate (23 and 24).

Optional regulation to mirror E&W requirement for scheme climate report

16. A further additional regulation 12B will need to require the Scheme Advisory Board (SAB) to prepare an annual Scheme Climate Report to include at least:
 - a link to each individual LGPS fund's Climate Risk Report (or a note that none has been published)
 - aggregate figures for the four mandatory metrics.
 - a list of the targets which have been adopted by LGPS funds

Example amendments to 2010 regulations

After regulation 12 add

12A Climate Change Governance and reporting: administering authorities

12A-(1) In this regulation references to the Schedule to the 2021 regulations means the Schedule to The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

(2) For the purpose of this regulation:

References to trustees in the Schedule to the 2021 regulations shall include administering authorities.

References to scheme year in the Schedule to the 2021 regulations shall mean 1 April to 31 March.

(3) Administering authorities must, subject to paragraph (4) comply with the requirements of Part 1 of the Schedule to the 2021 regulations.

(4) Administering authorities:

may use an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI)

must use as the additional climate change metric, a data quality metric which sets out the proportion the value of assets for which the total reported emissions were Verified, Reported, Estimated or Unavailable.

may set their target against any other climate related metric recommended by the TCFD.

(5) Administering authorities must produce a climate risk report containing, subject to paragraph (7), the information set out in Part 2 of the schedule to the 2021 regulations.

(6) The climate risk report shall be produced annually by the 1 December following the end of the scheme year to which the report relates starting with the scheme year 20xx to 20xx

(7) The climate risk report must also contain:

where alternative emissions intensity metric is used the reasoning for doing so and:

the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner.

(8) The report required under paragraph 5 must be published on a publicly available website, accessible free of charge. Administering authorities should make scheme members aware of the publication of the report in an appropriate way.

9) Administering authorities must take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.

12B Climate Change Governance: scheme advisory board

12B-(1) Administering authorities must submit a copy of the climate risk report required under Regulation 12A (5) to the scheme advisory board within one month of its publication.

(2) The scheme advisory board shall produce an annual scheme climate report no later than 1 May of the year following the end of the scheme year to which those reports relate

*(3) The contents of the annual scheme climate report shall include at least
a link to each individual Climate Risk Report (or a note that none has been published)
aggregate figures for the four mandatory metrics.
a list of the targets which have been adopted by AAs*

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Annex 1 Provisions in E&W consultation

Area	Requirement	Met by proposal number
Overall	Each LGPS AA must complete the actions listed below and summarise their work in an annual Climate Risk Report.	1
Scope and Timing	The proposed regulations will apply to all LGPS AAs. The first reporting year will be the financial year 2023/24, and the regulations are expected to be in force by April 2023. The first reports will be required by December 2024.	2,3
Governance	AAs will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. They must also maintain a process or processes by which they can satisfy themselves that officers and advisors are assessing and managing climate-related risks and opportunities.	10
Strategy	AAs will be expected to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.	11
Scenario Analysis	AAs will be required to carry out two sets of scenario analysis. This must involve an assessment of their investment and funding strategies. One scenario must be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario will be at the choice of the AA. Scenario analysis must be conducted at least once in each valuation period.	12
Risk Management	AAs will be expected to establish and maintain a process to identify and manage climate-related risks and opportunities related to their assets. They will have to integrate this process into their overall risk management process.	13

Metrics	<p>AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below.</p> <p>Metric 1 will be an absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions.</p> <p>Metric 2 will be an emissions intensity metric. We propose that all AAs should report the Carbon Footprint of their assets as far as they are able to. Selecting an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI) will be permitted, but AAs will be asked to explain their reasoning for doing so in their Climate Risk Report.</p> <p>Metric 3 will be the Data Quality metric. Under the Data Quality metric, AAs will report the proportion the value of its assets for which its total reported emissions were Verified*, Reported**, Estimated or Unavailable.</p> <p>Metric 4 will be the Paris Alignment Metric. Under the Paris Alignment Metric, AAs will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner.</p> <p>Metrics must be measured and disclosed annually.</p>	4,14
Targets	<p>AAs will be expected to set a target in relation to one metric, chosen by the AA. The target will not be binding. Progress against the target must be assessed once a year, and the target revised if appropriate. The chosen metric may be one of the four mandatory metrics listed above, or any other climate related metric recommended by the TCFD.</p>	5,15
Disclosure	<p>AAs will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the AA's annual report. The deadline for publishing the Climate Risk Report will be 1 December, as for the AA's Annual Report, with the first Climate Risk Report due in December 2024. We propose that scheme members must be informed that the Climate Risk Report is available in an appropriate way.</p>	6-8
Proper advice	<p>We propose to require that each AA take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.</p>	9

Scheme Climate Report	We propose that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual AA's Climate Risk Report (or a note that none has been published) and aggregate figures for the four mandatory metrics. We also propose that a list of the targets which have been adopted by AAs. We are open to views as to whether any other information should be included in the Scheme Climate Report.	16
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