

LGF Pensions Team
Department for Levelling Up, Housing and Communities
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18 November 2022

Dear Team

**Consultation: LGPS (England and Wales): Governance and reporting of climate change risks
Response from Wiltshire Pension Fund**

Please find below a response to the climate consultation from Wiltshire Pension Fund that was agreed at the Pension Fund Committee meeting of 17 November 2022.

The Wiltshire Pension Fund Committee welcomes the consultation and is very supportive of the proposals. Responsible Investment, and particularly climate change, are priority issues for the Fund. In this response “Wiltshire Pension Fund” means the pension fund committee and includes officers where day to day management and operations have been delegated.

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

The governance structure of Wiltshire Pension Fund is as described in the Governance section of the proposed requirements part of the consultation, (i.e the scheme manager for Wiltshire Pension Fund takes the usual form of a pension committee). The Wiltshire Pension Fund Committee agree that the requirements are placed on administering authorities (AAs) and are supported with statutory guidance.

However, regulatory roles do not appear to be clear. The Pensions Regulator’s current role in regulating the LGPS is specific to administration and governance. It would follow that the Secretary of State (DHLUC) would be responsible for oversight of investment and therefore compliance with these proposals. Similarly, the role of Pension Boards is mentioned in the consultation; but for the avoidance of doubt, additional clarity/guidance should be provided that the role of the Local Board does not include oversight of climate risk (in the investment strategy context).

In terms of assessing climate related governance effectiveness, there will similar challenges as with the knowledge, skills and advice requirement, covered in question 11.

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

Wiltshire Pension Fund has begun the assessment of climate risks relevant to both investment and funding strategies. The Pension Fund Committee agrees with these proposals. Physical risks are an area the Fund had started to explore with legacy asset managers before those holdings were transferred to the Brunel Pension Partnership, the LGPS pool for Wiltshire Pension Fund. This is a developing area, so guidance may need to be considered as an ongoing programme rather than a static document that is updated periodically.

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

Wiltshire Pension Fund also acknowledge the uncertainty and data issues inherent with scenario analysis. The Fund has made good progress and will continue to pursue expanding quantitative analysis across asset classes as soon as it is possible on a best endeavours basis.

The proposed analysis requirements, made triennially with valuation cycles, is in line with practice and a very reasonable approach to take. As is pragmatism on updating the analysis where changes to strategy have been minimal. The Pension Fund Committee agree with this.

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

Wiltshire Pension Fund agrees with the proposed requirements in relation to risk management. Risk registers and the processes behind them help to ensure that climate-related risk is integrated into overall risk management. The implementation of risk management processes will vary from Fund to Fund (AA to AA) (Wiltshire Pension Fund recently overhauled its register and systems) therefore acknowledgement of this in applicable statutory guidance is welcomed.

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

Wiltshire Pension Fund considers the metrics proposed one of the most critical parts of the proposals.

This is a highly technical area where terminology and consistency are vital to managing risks and reporting progress to stakeholders. Being able to measure progress and draw conclusions at individual pension fund, LGPS (E&W) and industry levels requires a level of balance between completeness and comparability and spurious precision:

Absolute emissions metric: Total carbon emissions – Wiltshire Pension Fund have reported total carbon emissions and have moved to carbon footprint for monitoring progress. The Fund agrees with the limitations mentioned in the consultation, but agree that from a Scheme perspective, there may be more value in this for establishing a baseline.

Emissions intensity metric: Carbon footprint – Wiltshire Pension Fund have reported Weighted Average Carbon Intensity, together with Brunel and other partnership funds. “Carbon footprint” as a general term, has become interchangeable, and therefore communicating the differences between metrics will need to be considered as part of the review.

Data quality and the data quality metric – Guidance in the areas identified in the consultation, particularly around Scope 1, Scope 2 and Scope 3 emissions, and use of the [Greenhouse Gas \(GHG\) Protocol Technical guidance](#) will help refine methodologies, but proper scrutiny of information may take time to develop as knowledge and skills improve.

Paris Alignment Metric – Wiltshire Pension Fund have made good progress in assessing levels of Paris Alignment across all portfolios and mandates, [Our decarbonisation progress so far](#). Until now, there has been limited examples or precedents as to how to approach this; the Institutional Investors Group on Climate Change has published a Net-zero investment framework (NZIF) implementation guide. This toolkit sets out a methodology with which to address assets where targets, metrics and data quality are in their infancy.

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

Wiltshire Pension Fund agree that the expectation to set targets should not direct divestment or require investment to be made in a prescribed way, and that targets should not be legally binding. The flexibility to review and update targets regularly will be needed to ensure that the developing metrics (that have a high level of subjectivity in many cases) are adapted to best practices on a timely basis.

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

It is acknowledged that setting all LGPS funds (AAs) with the same scenario analysis baseline is desirable. Wiltshire Pension Fund will be running scenario analysis again in 2023/2024 and reporting on it.

Where analysis is to be completed in line with the valuation cycle, a requirement to complete scenario analysis in the reporting year 2023/24 may not align for all LGPS funds. Some flexibility here would avoid duplicating work in consecutive years.

The consultation mentions accessibility for two distinct types of user; specialist and non-specialist. It also specifies that the climate report should be accessible to scheme members, not necessarily by including wording in the annual benefit statement. Wiltshire Pension Fund has adopted an approach to stewardship reporting whereby the report is provided in full form for compliance with the Stewardship Code, but also in a more accessible highlights/mini-magazine summary version. The Fund is also using website analytics and email campaign management software to monitor effectiveness of engagement methods. As digital services and online communication are evolving, along with the education and communication challenges associated with pensions and investment, Wiltshire Pension Fund agree with the less prescriptive approach that has been set out.

There is duplication in restating governance structures, but to be consistent with TCFD recommendations, Wiltshire Pension Fund agree the proposed areas of disclosure and approach to reporting.

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

The consultation notes there may be concern among AAs of being compared unfairly, and thus leading to pressure to reduce emissions through divestment, which is a valid one. The level of engagement with the LGPS, not just on climate, but on other political issues, is growing.

Transparency is an important feature of the LGPS and Wiltshire Pension Fund believes the proposal for aggregated metrics, without creating a 'league table', strikes the right balance between providing information, but doing so in context with appropriate explanations and caveats. In a similar way, the Scheme Annual Report provides a high-level financial statement for the scheme, but with individual LGPS fund (AA) annual reports providing the narrative for variations across individual funds and within the Scheme.

There would also be a need for significant resourcing to complete, especially in terms of data quality metrics and level of estimated and unknown values, at least for the first years. A more prudent use of

resources may be to draw out examples of case studies and strategies that have been effective; scheme level metrics would be more valuable with this sort of context.

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

Setting strategy, and managing climate risk, sits with LGPS funds (AAs), therefore the role of LGPS pools should be to follow direction from shareholders/client funds or partners, depending on the LGPS pool structure. It is very important that pools provide metrics and reporting in line with client requirements. Guidance must be explicit in setting these out, but as some pools may fall under different regulatory regimes there is a risk of duplication of effort/double counting that needs to be considered.

Assets held outside LGPS pools include those where the LGPS pool is unable to deliver a comparable alternative. These may include areas of investment where specialist resourcing or expertise is required. Wiltshire Pension Fund would caution against the assumption that pools will be able to take on more analysis over time, particularly where non-LGPS pooled assets are concerned.

For example, there are challenges around the provision of holdings reports on an LGPS fund basis for pooled and LGPS pooled assets; few LGPS funds have segregated mandates. Reports available for pooled assets often require manual analysis to report at LGPS fund level, leading to increased resource requirements and operational risk.

Provision of TCFD metrics has been a particular strength of the Brunel Pension Partnership especially in markets where reporting is more established. Brunel is further developing its systems and standard reporting is a priority on which climate metrics can be built.

However, where procurement of advisors is concerned (for scenario analysis for example), Wiltshire Pension Fund strongly believe LGPS funds should retain independence and oversight from the pool to avoid potential conflicts of interest.

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

Wiltshire Pension Fund agree with the proposed approach to guidance and that the Scheme Climate Risk Report should be as comprehensive and consistent as possible. But more detail is needed on the content, process, and consultation with AAs on its design to comment further.

Asking the SAB to produce a standard template will help AAs to comply with the requirements, but it is Wiltshire Pension Fund's view that this should be guidance that AAs *should* follow, rather than be *required* to. There are many LGPS funds that have already developed their own TCFD reports, style and communication methods. A collection of examples/case studies pointing to best practice from existing reports could support LGPS funds in creating their own without constraining innovation and LGPS funds' individual distinctiveness.

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

Administering authorities are required to seek appropriate advice under the (Management and Investment of Funds) Regulations 2016, and so the requirement to take proper advice regarding assessing and managing climate risk would seem an extension of that.

In terms of ensuring advice is appropriate in practice, and that required skills and knowledge are held by decision makers, it may be too early to set specific requirements on experience or completion of training courses. There are specialist qualifications, which include the CFA Climate certificate and CISI Climate

Risk certificate. It is also likely that those in responsible investment and ESG related roles will have come from a wide range of backgrounds, and advice may be sought from a variety of advisors, not necessarily from areas and businesses used to serving the LGPS.

As mentioned in answers to other questions, the role and structure of pools mean that the 'could' in 'joint procurement of expert advice' (para 149) is very relevant for pooled assets. The Brunel Pension Partnership has already been very proactive in this regard. It is important, however, to allow some flexibility for non-LGPS pool assets where advice from LGPS pools would not be practical.

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?

Wiltshire Pension Fund agrees with the initial assessment under the Equality Act duty.

Conclusions

Overall, the Wiltshire Pension Fund Committee agrees with the proposals, but would like to highlight the following points:

- Paragraph 117, "Scenario analysis must be carried out in the reporting year 2023/24", isn't clear on whether scenario analysis needs to be *completed* during 2023/2024 or *by* that time. Some flexibility around analyses already completed – or in the process of being completed – as part of the 2022 triennial valuation, would avoid unnecessary duplication in 2023
- LGPS Pools will play an increasing role in data provision, but it will be unlikely that LGPS assets will approach 100% pooled. In addition to treasury and cash requirements, and in order to manage specialist assets, local investments, for example; there will be a need for some assets to be held outside of LGPS pools
- It is important for LGPS funds to procure their own advice where appropriate. Where LGPS are acting as asset managers, there is potential for conflicts of interest if there is not independent oversight
- The Scheme Report should demonstrate the strength of collaboration inherent in the LGPS, but not risk creating a more competitive culture. Simple comparisons between LGPS Funds on single metrics without narrative and explanation may risk weakening stakeholder confidence
- It will be important to consult with LGPS fund practitioners on developing a report 'template' that achieves consistency but with enough flexibility that innovation and emerging best practice are not constrained.

If you have any questions regarding this response, please contact [Named contact / telephone number or alternatively e-mail]

Yours faithfully

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