

PENSIONS COMMITTEE

13 December 2022

Subject Heading:

**CLIMATE RISK MANAGEMENT PLAN
PROGRESS REPORT**

CLT Lead:

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Policy context:

**Develop the Fund's plan for
addressing climate risk**

Financial summary:

Set out in Appendix A as exempt

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

<p>SUMMARY</p>

Appendix A to this report sets out the progress made and further actions required in developing the Fund's Plan for embedding climate risk management within the Fund's investment portfolio.

Appendix A is (in part) not available for public inspection as it contains or relates to exempt information within the meaning of paragraphs 1 and 3 of Schedule 12A to the Local Government Act 1972 by virtue of which the public are likely to be excluded.

It is in the exempt part of the agenda because it includes financial information relating to the financial or affairs of the Fund's Investment Advisor (Hymans) and commercially sensitive.

RECOMMENDATIONS

That the Committee:

Consider the Hymans Report at Appendix A which sets out indicative plans/actions and timescales and agree what, if any, of the proposals should be progressed at this stage in developing the Fund's plans for embedding climate risk management into the Fund.

REPORT DETAIL

1. Hymans will discuss the key actions required over 2023 to embed climate risk management into the fund.

2. BACKGROUND

- a. The Committee on the 29 July 2020 agreed and published a Statement of Investment Beliefs and a Responsible Investment policy, which are included in the Fund's Investment Strategy Statement (ISS). This reflects the broad views of committee members on investment, Environmental, Social, Governance (ESG), and climate matters.
- b. The Committee belief - *"Climate change and the expected transition to a low carbon economy represents a long-term financial risk to Fund outcomes and should be considered as part of the Committee's fiduciary duty"*.
- c. Climate factors were a major consideration in developing the ISS, and in particular have already implemented the following:
 - 16 March 2021- agreed to invest 2.5% in a *London Collective Investment Vehicle (LCIV) renewable energy infrastructure fund
 - 14 September 2021 – agreed to switch assets from the LCIV Global Alpha Fund (15%) to the LCIV Global Alpha Paris Aligned variant
 - 20 July 2021 – agreed to invest 10% of the Funds' assets into the Legal and General Investment Management (LGIM) Future World, which is an equity allocation with a climate-tilted focus.

- 03 December 2021 – Agreed to invest 5% of its passive equity investments the LCIV Passive Equity Progressive Aligned (PEPPA) Fund
- d. The Committee's Business Plan for 2022/23, agreed at its meeting on the 15 March 2022, includes the development of a broader climate risk management action plan.
- e. The Climate Risk Management Plan follows on from the climate risk workshop held on 24 November 2021.
- f. At the Pension Committee meeting on the 26 July 2022, the Committee received a presentation from Hymans, the Fund's Investment Consultant, which included the possible next steps in developing the Fund's plans for addressing climate risk within its portfolio.
- g. At the Pension Committee meeting on the 20 September 2022, the Committee was presented with a baseline assessment of several carbon metrics which identified gaps in data and set out those asset types where data is harder to collect and measure. Assessing the Fund's current position against a series of standard metrics will address ongoing reporting requirements.
- h. The Committee requested that the development plan includes a full timeline of actions and costings and this is attached as **Appendix A** for consideration.

IMPLICATIONS AND RISKS

Financial implications and risks:

Climate related risks and broader environmental, social and governance (ESG) factors are a source of financial and reputational risk. The Committee have agreed a climate risk management plan is a necessary part of its fiduciary duty.

The Committee has established and published a Statement of Investment Beliefs, which reflects the broad views of committee members on investment, ESG and climate matters. These beliefs are documented in the Investment Strategy Statement and include financial materiality of climate risk.

The Department of Levelling Up, Housing and Communities (DLUHC) is consulting on the implementation of Task Force on Climate related Financial Disclosures (TCFD) for Local Government Pension Schemes, which ends on the 24 November 2022. Guidance is expected to be published in the early part of 2023 with reporting requirements expected to start on 1 April 2023 and the first Climate risk annual report due December 2024

There will be a cost to the Pension Fund for the work carried out by Hymans to develop the Climate Risk plan, this is set out in Appendix A to this report. Officers have received a full cost breakdown of the planned activities and these will be monitored closely. The plan provides a full picture of the activities Hymans propose in developing a climate risk management plan that meets the needs of members. Climate risk management is evolving and once DLUHC guidance is published, new information becomes available and when members' views become clear through this process then it is possible that the component activities in Hymans plan may need change. Where that happens, members will be informed on the impact this will have on the overall Hymans cost estimate.

This plan will determine the form of ongoing climate risk monitoring of the investment portfolio that can be implemented for the Fund which will result in additional ongoing costs for the Fund. There are a number of potential suppliers of the data such as the LCIV, the Custodian and Hymans and officers will carefully evaluate those options nearer the time. These costs however need to be balanced with the benefits that embedding risk management into the Fund's investment portfolio will provide, not least in terms of minimising the risk of holding stranded assets but also helping to refocus the investment strategy towards exploiting the opportunities that transitioning to a low carbon economy provides.

The Committee's current approach to addressing climate risk will mean that the TCFD requirements will largely be met but can be tested against the final requirements once these are published.

Legal implications and risks:

The Authority does have a broad discretion under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946), after taking proper advice, to formulate an investment strategy which must include the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;

Therefore, the climate risk issues are relevant matters for the Committee to consider. However, there no other apparent implications arising directly from consideration of the content of the Report.

Human Resources implications and risks:

There are no immediate HR implications.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

<i>BACKGROUND PAPERS</i>

None