



City of Westminster

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>23 June 2022</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Task Force on Climate Related Financial Disclosures (TCFD) Risk Considerations</b>
<b>Wards Affected:</b>	<b>None</b>
<b>Policy Context:</b>	<b>Effective control over Council Activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b>  <b><a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a></b> <b>020 7641 4136</b>

## 1 EXECUTIVE SUMMARY

- 1.1 During February 2021, the Pensions Schemes Act 2021 received Royal Assent. The Act covers climate risk governance and reporting for the private sector scheme and is expected to have a direct impact on the LGPS.
- 1.2 These measures ensure that trustees are legally required to assess and report on the financial risks of climate change within their portfolios, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations.

## 2 RECOMMENDATIONS

- 2.1 The Pension Fund Committee is requested to:
  - Note and discuss the attached TCFD climate risk considerations, as prepared by the investment advisor, with a view to undertaking further quantitative assessments prior to implementation.

### 3 BACKGROUND

- 3.1 During 2021, the Department for Work and Pensions (DWP) announced a phased introduction of new mandatory measures that ensure trustees are legally required to assess and report on the financial risks of climate change within their investment portfolios. These regulations send a clear signal to UK pensions trustees that government decisions and measures to combat climate change will have a direct impact on pension schemes.
- 3.3 Private sector pensions with assets of more than £1bn have been required to report from 1 October 2022. Although not yet compulsory for public sector pension schemes, it is anticipated these regulations will be extended to the public sector and therefore the LGPS by 2023. Therefore, the Westminster Fund will need to work with Deloitte on the anticipated reporting requirements well in advance of this deadline.
- 3.4 The Financial Stability Board’s Task Force on Climate Related Financial Disclosures is a global, private, independent body formed in December 2015. The Board has advised a number of TCFD recommendations in relation to climate change, which can be split into four thematic areas, as shown in the following table. Please note this report will focus on the Risk Management area.

<b>Governance</b>	Disclose the Fund’s governance framework for identifying, assessing and managing climate-related risks and opportunities.
<b>Strategy</b>	Disclose the actual and potential impacts of climate-related risks and opportunities on the Fund’s investment and funding strategy, including the results of scenario analysis.
<b>Risk Management</b>	Disclose how the Fund identifies, assesses and manages climate-related risks.
<b>Metrics and Targets</b>	Disclose the key metrics and targets used by the Committee to assess and monitor relevant climate-related risks and opportunities.

### 4 RISK MANAGEMENT

- 4.1 Risk management is defined as the process for establishing and maintaining processes for the effective detection, assessment and management of risk.

4.2 Climate related risks can be classified into two broad categories:

- **Physical risks:**

- Damage or disruption to an organisation's infrastructure, assets and equipment;
- Skills, knowledge, productivity and health of workforce can be harmed, reducing number of effective working hours; and,
- Impact of climate change on natural resources used by organisations.

- **Transition risks:**

- Changes to domestic politics and regulatory developments relating to climate-related restrictions;
- Reputational risks derived from changing public opinions on climate change and transitioning to a lower carbon economy;
- Uncertainty in relation to technological advancements and innovations needed to meet carbon reduction targets; and,
- Climate change may lead to changes in behaviour and consumer demand.

4.3 The attached paper, as prepared by Deloitte, explores the climate risks associated with the main asset classes categorised into transitional and physical risks. Alongside this, Deloitte have assessed potential opportunities that may arise as a result of each of those risks.

## 5 NEXT STEPS

5.1 Deloitte has drafted suggested climate related risks for the Westminster City Council Pension Fund, attached within appendix 1. These risks have been included based on a qualitative assessment of the climate related risks faced by the Pension Fund.

5.2 These risks have been drafted in the format of the Pension Fund's current risk registers, however the Committee may wish to develop a more complex approach whereby additional measures and scoring can be included.

## 6 RECOMMENDATION

6.1 The Pension Fund Committee is recommended to consider the TCFD recommendations and determine whether the draft approach presented by Deloitte is consistent with the Committee's view. Following finalisation of risk categories, bespoke scenario analysis will need to be undertaken to assess potential impact and prioritisation of these risks.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

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**BACKGROUND PAPERS:** None

**APPENDIX:**

Appendix 1 – Deloitte Paper: Task Force on Climate Related Financial Disclosures