

Investment, Governance and Engagement Sub Committee

Item 9 – Paper D

Responsible investment – Climate risk

1. In February 2017, ShareAction and Client Earth submitted a referral to the Pensions Regulator regarding serious concerns about the way in which many LGPS funds are approaching the financial risks associated with climate change ("**climate risk**"), putting scheme members' savings at risk.

2. A copy of the referral (26 pages) can be found at <https://shareaction.org/wp-content/uploads/2017/04/TPRReferral.pdf>.

3. In response to the referral, a meeting between ShareAction, Client Earth, DCLG and the TPR took place in April. TPR's read out from that meeting said :-

"TPR confirmed its role in the regulation of LGPS investment, namely that we don't have a role in regulating compliance with the investment regulations but we have an interest in investment governance. We are minded to promote our recently published DB Investment governance guidance to LGPS funds.

TPR and DCLG confirmed that they are sympathetic to the issues raised in the referral, and recognize climate risk as an ESG factor that may be financially significant, and accordingly should be considered when determining investment strategy, consistent with guidance from the Law Commission, DCLG and TPR. TPR has recognized climate risk explicitly in both their DB and DC guidance, which CE and SA valued. We are also sympathetic to the issues raised in the referral around scheme managers assuming they can delegate responsibility to others.

TPR however needs to consider the broader context of governance (including investment governance) rather than address a specific issue – we have a programme of work around 21C governance which aims to build up governance standards from the ground up, and we need to deliver this work as a priority. However while we won't be delivering the steps the referral recommended, we will continue to state our public position on climate risk eg through speaking events such as those done by our CEO Lesley Titcomb and ED Andrew Warwick-Thompson. We could also consider a more 'informal' communication such as a blog post. SA/CE expressed interest in this.

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DCLG will be considering the funds' investment strategy statements published early April and Darren confirmed this would include looking at consideration of ESG. SA/CE offered assistance in the review where required. DCLG is also open to signposting guidance where available and SA/CE took an action to develop a short piece of guidance on climate risk for DCLG to consider signposting to.

SA/CE explained that Defra is minded to include more financial regulators in their next round of ARP programme. They will be consulting on the scope of the programme next year, and SA/CE's response will urge for TPR to be included. SA/CE will share contact details for BoE with us to understand how ARP works in practice.

SA/CE wondered if there might be appetite for a webinar or Lesley to attend an annual member meeting in order to drive member pressure to drive further action. We were non-committal on this.”

4. It is understood that a number of LGPS administering authorities have written to the TPR requesting a meeting to discuss the contents of the referral. The councils concerned are East Riding Pension Fund, Hampshire Pension Fund, Leicestershire Pension Fund, London Pension Fund Authority, Surrey Pension Fund, West Yorkshire Pension Fund and the Wiltshire Pension Fund, At the time of writing, the TPR is unable to confirm when this meeting will take place.

5. Councillor Roger Phillips, Chair of SAB, has confirmed his intention to write to the Pensions Regulator about their role in this matter and, in particular, whether their declared interest in investment governance covers the strategy and policy decisions taken by pension fund authorities under the LGPS Investment Regulations 2016 and the associated DCLG statutory guidance.

Recommendation – that the committee notes the contents of the referral note to the TPR and tasks the Secretariat to keep members fully informed of future developments.

twoThe TPR has published its 2016 Public Service Governance and Administration Survey.

A summary of the report can be found at <http://www.thepensionsregulator.gov.uk/docs/public-service-research-summary-2017.pdf>

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The main report (43 pages) can be found at

<http://www.thepensionsregulator.gov.uk/docs/public-service-research-2017.pdf>

The table below sets out some of the main findings :-

	LGPS	Fire	Police	Other
1 Survey response rate	90%	98%	76%	100%
2 Conflicts policy and procedure for pension board members	85%	80%	71%	100%
3 Register of interests	87%	86%	74%	100%
4 Knowledge and Understanding arrangements	93%	94%	89%	100%
5 Frequency of scheme manager attendance at pension board meetings	86%	68%	43%	82%
6 Procedures for assessing and managing risk	92%	44%	51%	91%
7 Risk register	91%	38%	51%	91%
8 Where risk management procedures have contributed significantly to new or revised internal controls	29%	14%	28%	20%
9 Where administration is delivered in-house	73%	24%	20%	36%
10 Employers providing timely, accurate and complete data	7%	58%	63%	9%
11 Data review within the last 12 months	83%	68%	77%	100%
12 Data review covering both before and after 1 April 2015	76%	68%	61%	91%
13 Where data review identified any issues or problems	66%	45%	52%	100%
14 All annual benefit statements received by statutory deadline	45%	32%	54%	36%
15 Average number of complaints entering IDR	38%	48%	44%	60%
16 Procedures in place to identify, assess and report breaches of the law to TPR	91%	78%	69%	100%
17 Proportion that had identified any breaches of the law in the past 12 months	45%	58%	11%	64%
18 Proportion of reported breaches that were thought to be materially significant	15%	38%	9%	45%
19 Frequency of visiting TPR web site	61%	60%	29%	73%
20 Proportion judging TPR to be effective	85%	82%	74%	82%

Recommendation – that the committee notes publication of the report