**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

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| **Decision Maker:** | Pension Fund Responsible Investment Sub-Committee |
| **Date:** | 2 March 2023 |
| **Title:** | Consultation Climate Change Risk Reporting |
| **Report From:** | *Director of Corporate Operations* |

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## Purpose of this Report

1. The purpose of this report is to present the Pension Fund's third annual Taskforce for Climate Related Financial Disclosure (TCFD) report

## Recommendations

2. That the Pension Fund's annual TCFD report is noted.

## Executive Summary

3. The international Taskforce on Climate-related Financial Disclosures (TCFD) published a set of recommendations in 2017 with the aims of improving assessment, management, and disclosure of climate-related financial risks. Hampshire has published two annual reports for the Pension Fund based on the TCFD recommendations, which have been reported to the RI sub-committee.

4. In September 2022 the Department for Levelling-up, Homes and Communities (DLUHC) published a consultation - Governance and reporting of Climate Change risks, which proposed to make reporting based on the TCFD requirements mandatory for LGPS funds starting for 2023/24 reporting. This followed a similar move for private sector pension funds by the Department for Work and Pensions which made TCFD reporting a requirement for the largest private sector pension funds starting in 2022. Although DLUHC is yet to publish its response to the consultation, as Hampshire continues with its early adoption of TCFD reporting, it has chosen to follow the proposals contained in DLUHC's proposals.

## Hampshire's TCFD report

5. Hampshire's TCFD report is attached to this report as Annex 1. The report continues to be structured under the four headings of Governance, Strategy Risk Management and Metrics and targets. The majority of DLUHC's requirements simply adopt the original TCFD recommendations, therefore there is little change to Hampshire's report, other than for updates that have occurred in the last year. DLUHC proposals do introduce additional data metrics; total carbon emissions and the percentage of investments that are *Paris Aligned* (with strategies to limit temperature rises to no more than +1.5-2ºC).

## Scenario Analysis

6. TCFD reporting continues to require the consideration of scenario analysis. DLUHC's proposals clarify that authorities are required to undertake scenario analysis for both investment and funding strategies. The analysis must consider one Paris-aligned scenario and one other scenario. The scenario analysis must be conducted at least once in each valuation period.

7. In its previous TCFD report the Pension Fund had undertaken scenario analysis on its investment strategy with its investment managers. This was limited in not being able to quantify a conclusion but did help in further assessing the Pension Fund's investment managers abilities to consider the impact of Climate Change. As part of the Fund's 2022 Actuarial Valuation, the Fund has commissioned its Actuary – Aon, to undertake Climate Change scenario analysis of the Fund's funding position. Aon's analysis has considered three scenarios:
    - No transition – implied temperature rise (by 2100) +4ºC
    - Disorderly transition – implied temperature rise +3-4ºC
    - Orderly transition – implied temperature rise +1.3-2ºC

8. A training session will be arranged in order that Aon can present their analysis to the full Pension Fund Panel and Board and allow Members to ask any questions to further their understanding.

## Carbon Reduction Targets

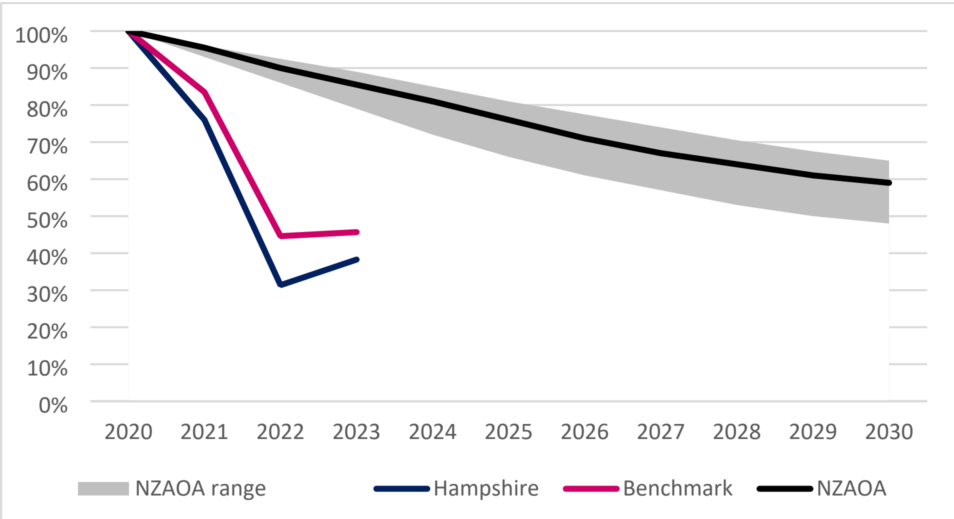
9. In its revised RI policy, following consultation, the Pension Fund Panel and Board agreed that the Pension Fund would commit to the aim for its investments to have net-zero greenhouse gas emissions (which includes Scope 1, 2 and 3 emissions) by 2050 at the latest. Following this the Pension Fund Panel and Board has considered if setting an interim target would help to achieve this commitment, and this was a question put to the RI consultant's

MJ Hudson, who the Pension Fund commissioned following agreeing the updated RI policy.

10. MJ Hudson's advice to the Pension Fund was to ask its investment managers to estimate their portfolio's carbon emissions by 2030 in order to produce a total Fund target. None of the Pension Fund's investment manager's have been able to produce a 2030 emissions estimate. This is disappointing and will be an issues that the Pension Fund continues to work with its investment managers on.

11. The Pension Fund can still use the Net-Zero Asset Owner Alliance (NZAOA) trajectory to measure its decarbonisation against. The Pension Fund can measure the reduction of the Scope 1 and 2 carbon footprint of its equities, which was data it was first able to measure starting from 2020. The latest figures for 2023 show the Pension Fund has achieved a 62% reduction since 2020, well below the NZAOA trajectory.

**Decarbonisation – Hampshire Equities (Scope 1&2) NZAOA decarbonisation guidelines (indicative)**
(% reduction vs. Baseline)




12. The graph above shows a small increase in emissions from last year, for both Hampshire's equities and the benchmark as result of:
    - The majority of the world emerging from lockdowns in response to the COVID-19 pandemic, which has increased economic activity and the resulting emissions. This was a risk that MJ Hudson highlighted in their assessment of the Pension Fund's carbon emissions last year.
    - Challenging market conditions in 2022 reduced the value of low emissions companies, particularly technology companies, and increased the value of higher emitting companies especially energy companies.

13. Whilst the increase is disappointing, the Pension Fund is well positioned overall, well below a trajectory to net-zero. The Pension Fund is still benefiting from a number of changes agreed by the Pension Fund Panel and Board to reduce the carbon emissions of its investment portfolios or invest in portfolios with already very low emissions:

**Data Risk**

14. Following DLUHC's Governance and reporting of Climate Change risks consultation the risk of the inaccuracy of carbon emissions data was added to the Pension Fund's risk register. This reflects the evolving understanding of the Pension Fund, its advisors and investment managers in this relative new area. In addition the potential for more carbon data becoming available and that the method of calculation changes over the years, makes comparisons difficult and challenging to report to the Pension Fund's stakeholders.

15. The Pension Fund's mitigation of this risk is the early adoption of TCFD reporting to build its understanding of carbon data and to have an open dialogue with investment managers on the availability of data. This dialogue will continue and the Fund will also continue to make use of specialist advisors when appropriate to meet the requirements of TCFD reporting.

**Climate Change Impact Assessments**

16. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

17. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy, therefore the Pension Fund recognises the risk that ESG factors, including the impact of climate change, can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [Responsible Investment | Hampshire County Council (hants.gov.uk)].

18. This reports specifical concerns the impact of climate change on the Pension Fund the actions the Fund has taken in response.

## REQUIRED CORPORATE AND LEGAL INFORMATION:

### Links to the Strategic Plan

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| **Hampshire maintains strong and sustainable economic growth and prosperity:** | no |
| **People in Hampshire live safe, healthy and independent lives:** | no |
| **People in Hampshire enjoy a rich and diverse environment:** | no |
| **People in Hampshire enjoy being part of strong, inclusive communities:** | no |
| **OR** | |
| **This proposal does not link to the Strategic Plan but, nevertheless, requires a report because of the ongoing management of the Hampshire Pension Fund.** | |

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

| Document | Location |
|---|---|
| None | |

## EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 (‘the Act’) to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. **Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.