

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND INVESTMENT PANEL
MEETING DATE:	09 SEPTEMBER 2022
TITLE:	DRAFT TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) REPORT
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Draft Taskforce on Climate-related Financial Disclosures (TCFD) Report for the year ending 31 March 2022 Appendix 2 – Mercer Paper: Current Topics	

1. THE ISSUE

- 1.1. The Fund's draft TCFD report for periods ending 31 March 2022 can be found at Appendix 1. The report forms part of the Fund's wider public disclosures which include an Annual Responsible Investment Report and a FRC Stewardship Code Statement, which are approved by the wider Committee.
- 1.2. The Panel have requested the draft TCFD report be shared prior to it being approved for publication by the Committee to give members an opportunity to review the content and make suggestions/recommendations as necessary.
- 1.3. Regulations on how the LGPS will be expected to comply with TCFD are expected to be published by DLUHC later this year. In preparing its TCFD report for the year to 31 March 2022, the Fund has followed statutory guidance which is currently only applicable to private sector schemes.
- 1.4. Mercer have reviewed the draft TCFD report for compliance with best practice, details of which can be found at Appendix 2.

2. RECOMMENDATION

- 2.1. **Notes the draft 2021/22 Taskforce on Climate-related Financial Disclosures Report ahead of final approval by Committee at its September meeting.**

3. FINANCIAL IMPLICATIONS

- 3.1. The budget includes the costs of the carbon and environmental analysis provided by Brunel as an elective service and the supplementary climate analysis undertaken by Mercer on the Fund's behalf.

4. DRAFT TCFD REPORT

- 4.1. The TCFD was established in 2015 by the Financial Stability Board (FSB), a body set-up by the G20 to monitor and make recommendations about the global

financial system. It was created following a review into how the financial sector can take account of climate-related issues and the need for better information to support informed investment.

- 4.2. In 2017 the TCFD issued initial recommendations for reporting to help stakeholders in financial markets understand their climate risks and opportunities. This covers the areas of Governance, Strategy, Risk and Metrics & Targets.
- 4.3. In June 2022 the consultation outcome from the Government response to “Climate and Investment Reporting” was published. Within their TCFD requirements, financial institutions (excluding LGPS) now need to include a portfolio alignment metric which describes the extent to which their activities are aligned with the climate change goal of limiting the increase in the global average temperature to 1.5°C above pre-industrial levels (i.e. with the goals of the Paris agreement). Organisations subject to TCFD requirements must select and report on a minimum of one absolute emissions metric, one emissions intensity metric, one portfolio alignment metric and one additional climate change metric.
- 4.4. TCFD disclosures are expected to be compulsory for LGPS when regulations are published by DLUHC in late 2022. The rules are expected to be similar to those introduced last year for private sector schemes and will apply to all LGPS funds regardless of size. The Fund is a strong supporter of these disclosures and was an early adopter of the framework, publishing its first report in 2021.
- 4.5. This is the second time the Fund has reported against these standards and reporting has been completed to the fullest extent possible. The report contains details of the decarbonisation progress made versus last year and against the Fund’s 2019 baseline across various metrics including absolute emissions, carbon footprint and weighted average carbon intensity.
- 4.6. The Fund uses Implied Temperature Rise (ITR) as its portfolio alignment metric and is currently using Mercers ACT tool to assess transition alignment of underlying companies in the Fund’s listed equity portfolios.
- 4.7. Brunel are currently piloting green revenues reporting using the FTSE Russell methodology. At present green revenues reporting is only available for the sustainable equities portfolio but will be rolled out by Brunel to the other listed equity portfolios over time and will serve to strengthen the Fund’s future TCFD reporting. Brunel produce their own TCFD report which is available [here](#).

5. RISK MANAGEMENT

- 5.1. The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6. CLIMATE CHANGE

- 6.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon Equities and

renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7. EQUALITIES

7.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8. OTHER OPTIONS CONSIDERED

8.1. None.

9. CONSULTATION

9.1. The Director – One West has had the opportunity to input to this report and have cleared it for publication.

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Background papers	Mercer papers
Please contact the report author if you need to access this report in an alternative format	