

## Carbon Tracker Initiative Pension Schemes Bill Submission on the LGPS

1. About Carbon Tracker: Carbon Tracker Initiative is an independent financial think tank that carries out in-depth analysis on the impact of climate risk and the energy transition to help markets and state actors align capital allocation with the finite carbon budget predicated by the need to keep global warming within 1.5°C. We have a sister organisation, Planet Tracker, which focuses on nature and biodiversity, also with a finance and investment emphasis.
2. Previous Carbon Tracker reports focussed on the Local Government Pension Scheme (LGPS) include [‘Engaging for a Low-Carbon Transition’](#) (with LAPFF) and [‘Loading the DICE Against Pension Funds’](#) - with Professor Steve Keen.

### The Local government pension scheme, ‘megafunds’ and moral hazard

3. The local government pension scheme in England and Wales (LGPS) is the largest funded public service pension scheme. The bill would consolidate LGPS funds into LGPS megafunds.
4. Carbon Tracker agrees with the organising principle of pooling, namely that larger funds are more likely to be well resourced, professionally run, and better equipped to manage emerging issues like climate risk - as confirmed to us via discussions with international regulators. We are however concerned by default plans for professional advice as issued by unregulated investment consultants to even less transparent pools. Moreover, as strategic asset allocation decisions are being removed from the remit of pension fund trustees and moved to pool level, this risks undermining the democratic oversight of fiduciary responsibilities, which has been a key feature of the LGPS to date.
5. As funds such as the Environment Agency Pension Fund (EAPF) and pools such as Brunel have highlighted, the forced consolidation of funds/pools without adequate provision for inter-fund nuance & separation of investments along investment policy and asset allocation lines risks compromising member choice. It also risks introducing moral and financial hazard - should members be exposed to risks from other adjacent funds at pool level, relating to investment choices they would not have made at fund level.

### Defined Benefit schemes

6. The Pension Schemes Bill would allow trustees of well-funded DB pension schemes to share surplus funds with sponsoring employers.
7. In our view, allowing LGPS and/or other DB pension schemes to return current fund surpluses to sponsoring employers and/or reduce employer contributions is a risky move, which threatens to increase perverse incentives on fund administrators to ignore, minimise or obscure mounting risks of future physical climate damages on

future fund asset valuations and returns, in favour of securing additional short-term free cashflow for sponsoring employers today.

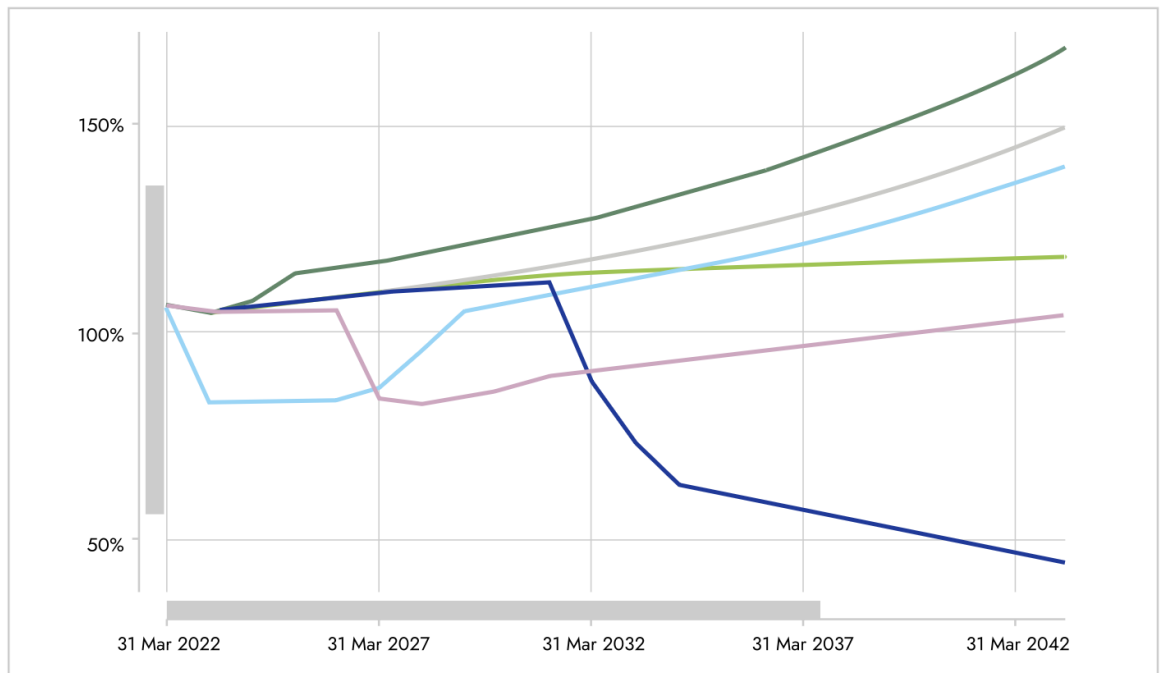
8. Carbon Tracker's initial assessment of the strategic risk registers of LGPS funds and pools finds only 25 out of 94 funds assessed (England, Wales and Scotland) mentioned climate risks in their 2024 risk registers, and only 20 of 94 funds assessed considered the so-called *double materiality* of climate risk, i.e. both the impact of the fund investments on climate change, and crucially, the impact of systemic climate risks on the funds investments - financial risks which cannot be diversified away.
9. From our review of the stated valuations & surpluses of select LGPS funds, we observe that detailed assessment of climate risks (also refer to the attached '[Loading the Dice Against Pension Funds](#)' [policy makers brief](#)) appear largely absent from consideration within the LGPS triennial valuation process, which forecast assets & liabilities years into the future.
10. Those climate scenario analysis risk assessments within the LGPS that are referenced in the context of fund valuations are typically reliant upon the services of external investment consultants to the funds. The simplifying assumptions, advice, and risk modelling outputs resulting are commonly withheld from public scrutiny - citing commercial sensitivity concerns of the external third parties and it is therefore not possible to ascertain the extent to which climate risks are factored in valuations.
11. As an example, the London Borough of Hackney, in its [11 June 2025 pension fund committee meeting](#) to agree the terms of the 2025 triennial valuation states, states in Section 4.3: "Since the previous valuation, the financial, demographic and political environment within which the Fund operates has changed. The financial and demographic assumptions to be used for the purpose of the actuarial valuation must be agreed based on advice provided by the Fund Actuary". However, the meeting minutes then go on to make clear that the advice of the actuary, and the assumptions and decisions of the pension fund committee informing the valuation based upon the actuaries advice shall remain private - Section 4.7. The full advice provided by the Fund Actuary in respect of these matters is **included in the private papers** (Appendices 2,3, 4 and 5).<sup>1</sup>
12. The Hackney 2022 [Funding Strategy Statement](#) - which includes section C3 *Climate risk & TCFD* reporting on page 26 – states: "The fund included climate scenario stress testing in the contribution modelling exercise for the London Borough of Hackney at the 2022 valuation. The modelling results under the stress tests yielded likelihoods of success that were slightly lower than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied."<sup>2</sup> Because the climate-related assumptions applied by the council and actuaries, and the robustness and results of the stress tests are not public, results cannot be independently verified.

---

<sup>1</sup><https://hackney.moderngov.co.uk/documents/s93695/9+-+Actuarial+Valuation+Asumptions-+COVER+REPORT.pdf>

<sup>2</sup><https://hackneypension.co.uk/assets/uploads/Documents/Actuarial-Valuation-2022-Funding-Strategy-Statement.pdf>

13. Overall, what this means for central Government departments and taxpayers that underwrite defined benefit pension schemes like the LGPS is that the stated surplus for Hackney Council and other LGPS funds is ultimately reliant upon a range of assumptions by investment consultants, actuaries and pension fund committees that the impacts of climate change will be de minimis over the next 20 years - the period for which future fund valuation and funding risks must be assessed as corresponding to the average time to retirement of members of the Hackney scheme.
14. Some of the most robust climate scenario analysis outputs we have seen, such as that produced for Cardiff Council in 2022 (the last LGPS triennial valuation) show potential climate related damages to fund valuations by 2042 in the context of a disorderly transition and 3-4C warming at approximately -55% of the fund value. Yet potential for losses even approaching this magnitude appears absent from LGPS valuations, with scheme actuaries expressing high levels of confidence in maintaining funding levels? even though we're on track for this level of warming by mid-century?
15. Cardiff LGPS Climate Scenario Analysis (source Loading the Dice Against Pensions)



Run by Aon with an effective date of 31 March 2022, using a liability basis of RPI Curve +2.05% to enable us to carry out future projections. This basis gives us the same liability value as the valuation basis as at 31 March 2022. However, the liability value excludes the short-term inflation allowance, which is included in the valuation results. Since we have excluded the short-term inflation allowance, at time 0, the funding level is higher than the valuation results. This doesn't affect the future projections as we have allowed for expected inflation.

Key

<span style="display:inline-block; width:15px; height:15px; background-color:grey; border:1px solid black;"></span> Base case	<span style="display:inline-block; width:15px; height:15px; background-color:lightblue; border:1px solid black;"></span> Orderly transition	<span style="display:inline-block; width:15px; height:15px; background-color:darkblue; border:1px solid black;"></span> Disorderly transition
<span style="display:inline-block; width:15px; height:15px; background-color:lightgreen; border:1px solid black;"></span> No transition	<span style="display:inline-block; width:15px; height:15px; background-color:darkgreen; border:1px solid black;"></span> Smooth transition	<span style="display:inline-block; width:15px; height:15px; background-color:purple; border:1px solid black;"></span> Abrupt transition

16. Given climate risk advice by third party consultants is an unregulated activity by the Financial Conduct Authority<sup>3</sup>, there is no independent verification or scrutiny of the reasonableness of assumptions made regarding future climate risks.
17. While the average funding position of LGPS funds may appear healthy today, the future - for a variety of climatic, environmental and geopolitical reasons - has seldom appeared so uncertain and advisors to the LGPS counsel caution on surpluses.<sup>4</sup> Barnett Waddingham make the point that there is an inherent inter-generational fairness issue at stake here, as the costs of future adverse impacts and underfunding will be borne by future generations, already burdened by high levels of climate change.
18. As is drilled into any investor, past financial performance is no guarantee of future financial success, and LGPS administrators and policy makers would do well to remember this, as they search for innovative new ways to drive growth and plug holes in council finances caused by a decade of under-funding and growing service demand.
19. LGPS regulations make clear that administering authorities (host councils) are the lender of last resort to LGPS funds, so future under-funding of LGPS schemes caused by either reduced employer contributions and/or increased climate damages are likely to result in higher borrowing levels and or taxation - borne by the population at large. [LGPS Wandsworth pension fund 2024/25 annual accounts](#) (refer p131) specifically reference “the administering authority (Wandsworth Borough Council) is the **lender of last resort to the Fund** as facilitated by regulations, where the Fund does not have sufficient liquidity to meet its payment commitments.”<sup>5</sup>
20. Administering authority powers to borrow are set out in [LGPS regulations s5\(2\)](#) states: ‘an administering authority may borrow by way of temporary loan or overdraft from a bank or otherwise any sums which it may require for the purpose of (a) paying benefits due under the (LGPS) scheme.’<sup>6</sup>
21. Understanding the assumptions around future climate risks being made by investment consultants and actuaries in forward LGPS asset valuations is therefore crucial if the Government is to allow employers generally, and administering authorities with tax raising powers specifically to reduce pension fund contributions under the guise of strong expected future pension fund returns. All in in the face of escalating global warming and the associated high and increasing levels of physical climate risk.
22. For the reasons set out above, we request that prior to making a formal policy recommendation regarding the treatment of DB surpluses, Government consider the merits of a cross-cutting inquiry into the advice given by investment consultants on climate risks, and that, as requested by the FCA, the FCA be granted further powers

---

<sup>3</sup> <https://questions-statements.parliament.uk/written-questions/detail/2024-01-24/11299/>

<sup>4</sup> <https://www.barnett-waddingham.co.uk/comment-insight/blog/surpluses-in-the-lgps-cutting-through-the-noise/>

<sup>5</sup> [https://www.wandsworth.gov.uk/media/i4sjfsv4/unaudited\\_statement\\_of\\_accounts\\_2024\\_25.pdf](https://www.wandsworth.gov.uk/media/i4sjfsv4/unaudited_statement_of_accounts_2024_25.pdf)

<sup>6</sup> <https://lgpsregs.org/timelineregs/Amended/SI/20093093.htm>

by HM Treasury to regulate investment consultants advice to pension funds on climate risks.<sup>7</sup>

## **Response to tabled amendments to the Pension Schemes Bill**

23. Tabled amendments to the Pension Schemes Bill, including the introduction of value for money (vfm) tests (Part 2, Chapter 1, s10(2)) for DC pension schemes and permitting greater levels of scrutiny of so-called '*climate alignment metrics*' (269, 270) would be welcomed. We would however still highlight the need to clearly distinguish between climate/ Paris alignment data pertaining to the alignment of corporate business plans with the goals of the Paris Agreement, and climate risk data - especially physical climate risk data - which specifies the risks of climate change to the business.
24. Value for money (vfm) provisions should equally be expanded to explicitly reference climate risk related metrics for DB and LGPS public sector pensions. Our initial assessment concludes that: a) existing LGPS framework agreements for investment consultancy/ actuarial purposes are currently silent on climate risk advice requirements for climate scenario analysis and TCFD purposes; and b) vfm assessment of public spending on climate related advice by LGPS funds is not currently possible, because disclosure of such advice and information is being withheld under the Local Audit and Accountability Act (LAA) 2014, due to over-riding commercial sensitivity concerns on the part of external consultants. Information disclosure rights under FOIA, EIR and LAA therefore will need to be considerably strengthened, to allow for informed member and public oversight of pension fund investment activities and to ensure rigorous assessment of climate risks.

---

<sup>7</sup><https://www.pensionsage.com/pa/Pension-organisations-call-on-Treasury-to-expedite-regulation-of-investment-consultants.php>