PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Third Delegated Legislation Committee

DRAFT OCCUPATIONAL PENSION SCHEMES (CLIMATE CHANGE GOVERNANCE AND REPORTING) REGULATIONS 2021

Monday 5 July 2021

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not later than

Friday 9 July 2021

The Committee consisted of the following Members:

Chair: Hannah Bardell

Andrew, Stuart *(Treasurer of Her Majesty's Household)*
† Caulfield, Maria *(Lewes)* (Con)
Daby, Janet *(Lewisham East)* (Lab)
Davies, David T. C. *(Parliamentary Under-Secretary of State for Wales)*
† Drummond, Mrs Flick *(Meon Valley)* (Con)
Hollern, Kate *(Blackburn)* (Lab)
Jones, Mr Kevan *(North Durham)* (Lab)
Jones, Mr Marcus *(Vice-Chamberlain of Her Majesty's Household)*
Long Bailey, Rebecca *(Salford and Eccles)* (Lab)
† Mak, Alan *(Lord Commissioner of Her Majesty's Treasury)*
Mann, Scott *(Lord Commissioner of Her Majesty's Treasury)*
Morris, James *(Lord Commissioner of Her Majesty's Treasury)*
† Opperman, Guy *(Parliamentary Under-Secretary of State for Work and Pensions)*
† Rodda, Matt *(Reading East)* (Lab)
Rutley, David *(Lord Commissioner of Her Majesty's Treasury)*
† Tami, Mark *(Alyn and Deeside)* (Lab)
Thomson, Richard *(Gordon)* (SNP)

Seb Newman, *Committee Clerk*

† attended the Committee

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Monday 5 July 2021

[Hannah Bardell *in the Chair*]

Draft Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021

6 pm

The Chair: Before we begin, I remind Members to observe social distancing and to sit only in the places that are clearly marked. I also remind Members that Mr Speaker has stated that face coverings should be worn in Committee unless Members are speaking or they are exempt. *Hansard* colleagues would be grateful if Members could send their speaking notes to hansardnotes@parliament.uk.

The Parliamentary Under-Secretary of State for Work and Pensions (Guy Opperman): I beg to move,

That the Committee has considered the draft Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

The draft regulations were laid before the House on 8 June. This House is leading the way on ensuring that climate change is tackled with our pension system. We are the first country in the G7 to legislate to reach net zero by 2050. We are leading the way on the environmental, social and governance reforms that will transform the way pensions are invested, and with the Pension Schemes Act 2021, which the House passed earlier this year, we have made massive strides. The key stride that we have made is that we have put what is called the Taskforce on Climate-related Financial Disclosure—the TCFD; a catchy title, I accept—into legislation. We are the first country in the entire world to do so, which is something that this Parliament and this country should be exceptionally proud of.

We did that because climate change is the defining issue of our time. Our response will determine not only the future health and prosperity of our world; it is also a major systemic financial risk and threat to the long-term sustainability of UK private pensions. That matters because we are talking about £2 trillion-worth of assets under management. All occupational pension schemes, irrespective of their size, structure or investment strategy, are exposed to climate-related risks. Those risks present a significant threat to the retirement outcomes of millions of savers and all our constituents.

It is therefore vital that we ensure that pension schemes, and their governance, are as robust as possible to withstand those risks in both the short and the longer term. The draft regulations deliver on the commitments set out in the Government's green finance strategy, requiring large asset owners to disclose in line with the recommendations of the TCFD by 2022. The measures will see the UK become the first country in the world in which trustees of occupational pension schemes are statutorily required to consider, assess and report on the financial risks of climate change within their portfolios.

The draft regulations impose requirements on trustees of larger occupational pension schemes, authorised master trusts and, once established, authorised collective money purchase schemes—known as collective defined contribution schemes—to identify, assess and then manage climate-related risks and opportunities. That includes requirements relating to governance, strategy and risk management, and requirements to select and calculate climate-related metrics and to set and measure performance against targets. Trustees will be required both to meet the climate change governance requirements, which underpin the recommendations of the TCFD, and to report on how they have done so in line with the taskforce recommendations.

The largest schemes and authorised schemes will be captured from 1 October 2021. We have made massive efforts to ensure that this is in play and in law prior to COP26 in Glasgow. From 1 October 2022, the draft regulations will apply to more than 70% of pension assets and more than 80% of pension members. The impact of the draft regulations will be significant and transformative. By the end of 2023, the risks and opportunities that climate change poses to £1.33 trillion-worth of pension savings will be assessed and published for all to see. Critically, that develops a system of accountability that we have never had before, and trustees will be required to show how climate change is likely to affect their portfolio.

With respect, this is the most transformational piece of legislation because it puts the consumer back in charge of how their pension is spent, so I commend the draft regulations very strongly to the Committee.

6.4 pm

Matt Rodda (Reading East) (Lab): I would like to start by reflecting on the existential threat of climate change and the climate emergency. We are facing the most serious threat to humanity that we have ever seen. If allowed to carry on unchecked, the rate of temperature increase will dramatically change the world and will unleash a series of geological and environmental processes that will take us on an unsustainable trajectory to massive change to the climate.

So far, the Government's response has been weak. The Prime Minister's words have not been backed up by action on the scale that the emergency requires. The Government's 10-point plan has failed to meet the scale of ambition needed. The Government are veering significantly off course to meet their legally binding 2050 net zero target. Quite simply, it is not good enough, yet it is all the more important in the year of COP26. The world is looking to the UK to show global leadership, but we must start at home if we are to do anything. We need credible action to increase the pace if we are to achieve the substantial majority of our emissions reductions by the end of this decade. That requires leadership, both at home and on the world stage.

A Labour Government will replace the Government's piecemeal approach with a green new deal—a comprehensive plan for the transition to a low-carbon economy. Last week, after our questioning, it emerged that the Chancellor's final report into the net zero review will be further delayed. The report was first due to be published in autumn 2020, and then in spring 2021. It has still not been published.

To show even further the scale of the slippage, last week the UK's independent adviser on tackling climate change, the Climate Change Committee, which is headed by Lord Deben, a former Conservative Minister, revealed that the Treasury has not fully achieved a single one of the Committee's 2020 recommendations. That is the context in which we are working.

I must move on to the scope for tackling climate change through pensions. It is worth noting—the Minister hinted at this—that it is a £1 trillion industry, with enormous potential to make real and lasting change and to protect us from the worst effects of climate change. Even on a tiny scale, a single pension has the ability—if invested properly—to take an amount of carbon out of the air equivalent to several cars being taken off the road. One individual person's pension can make a difference. Imagine that scaled up across thousands or even millions of pensions. There is real potential to do some real good. The industry itself recognises that. The Path, a fund that advises on environmentally friendly investing, recently told the *Financial Times* that investing only a small amount in a more sustainable way could make a huge difference.

I want to reflect on the Pension Schemes Act and climate change, and putting those two parts together. When the Bill was introduced, instead of a net zero provision we saw no mention of net zero—a gaping hole that had to be dealt with on Second Reading. The Minister put a rather favourable gloss on that. The Government introduced amendments in Committee, which had to be strengthened through cross-party agreement and negotiation to ensure that trustees or managers had to take account of the Paris agreement and domestic targets such as net zero. Climate change was then mentioned for the first time in domestic pensions legislation. We should all be proud of that, but there is so much more to do.

I would like to stress that the Act could have gone a lot further. It could have been more ambitious but, sadly, the Government voted against the Labour amendment to allow regulators to mandate occupational schemes to develop an investment strategy aligned with net zero. Instead, we have this much less assertive statutory instrument in its place. Clearly, there remains a wide gap between the Government's rhetoric and their actions on climate change, both in pensions and across a much wider field of policy.

Turning to the SI, I accept that it takes some steps forward. It sets out a duty on trustees and comes forward with a range of technical measures that are worthy in themselves. The SI has been consulted on and has wide-ranging support in the pensions industry and among stakeholders. However, many pensions firms and stakeholders want to go a lot further. To mention a few well-known names, Scottish Widows, Aviva, Nest, the BT pension scheme and some local government pension schemes have all signed up to Make My Money Matter, the green pensions charter that wishes to take things a lot further. It is clear that there is the will to do that among many players in the industry, who I have not been able to reference.

We have seen positive initiatives developed in other related sectors. I note, for example, that Mark Carney, the former Bank of England Governor, last week announced a taskforce on scaling voluntary carbon markets. I hope that colleagues will follow its progress and show the keen interest that it deserves.

Although the SI is worthy and necessary, I want to ask the Minister a series of questions that I hope he will respond to. First, does he really think that the Government are doing anywhere near enough to tackle climate change?

Guy Opperman: Yes.

Matt Rodda: I hope he will address that question more formally later. Secondly, what more can we do together on a cross-party basis to help the pensions sector tackle this enormous problem? Thirdly, will he write to me to set out the Government's next steps? It is all well and good dealing with the regulations coming from the Act, but there is much more to do.

To sum up, the country, and indeed the world, faces an enormous challenge. Government policy is failing to address that and, as their own former Minister said only last week in the Climate Change Committee, the Government are seriously off track. The official Opposition have challenged and pressed for more action, some of which has been forthcoming. Today's SI is helpful, but we need to see much more.

6.11 pm

Guy Opperman: I am surprised and rather disappointed by the hon. Gentleman's speech, because today we should be celebrating how this country is leading the way in the world. I will not go on to half-past 6, although I am tempted to, but part of his speech featured the words, "the world is looking for the UK to show global leadership." Being the first country in the world to introduce TCFD shows great global leadership. Being the first country in the G7 to legislate for net zero shows global leadership. Leading the way in the implementation and application of ESG shows global leadership. On that basis, I utterly reject what he says.

The hon. Gentleman then asked whether we were doing enough to combat climate change. The answer is that there is always more to do. No one disputes that. But this country, and particularly the Department for Work and Pensions, led by my right hon. Friend the Secretary of State for Work and Pensions, and a fantastic team of officials, is doing everything we can.

I want to deal briefly with a Labour amendment to the Pension Schemes Bill. I have great respect for the shadow Secretary of State and for his predecessor, the shadow Minister for Pensions. The shadow Minister for Pensions and I disagreed on nothing whatever except for the one amendment that he tabled, which was misguided and exceptionally foolish, and I told him so very robustly, and I told the shadow Secretary of State. Why? Because it would have induced immediate divestment. The hon. Member for Reading East has to grasp this: who does he think will formulate, produce, create and then actually deliver carbon capture and storage, hydrogen, the fuel cells that we need, and tidal power? It will not be Government. It will not be an organisation in BEIS, however worthy BEIS might be. It will be industry, and industry needs the support of capital and investors.

The moment we introduce mandatory net zero in the circumstances of that amendment, it would inevitably result in immediate divestment. All that would happen is that the pension scheme trustees will divest out of these particular stocks and into, say, tech stocks. Even if that was a good idea, which it is not in the prevailing

[Guy Opperman]

circumstances, here is the problem: they do not then support the people who will be creating these things. So, yes, we need to continue with stewardship and voting in the many different ways that we are already doing, and TCFD is part of that, and continue to work with these organisations to ensure that they have the capacity to create the engines of change that we all want. I wholeheartedly reject that approach.

I mean no disrespect, but I will not write to the hon. Gentleman. I am happy to sit down with him and explain the individual parts of the SI, but I do not think there is much point in my writing to him until he accepts the fundamental principles. If he still stands by the argument that divestment is the way ahead, I suggest he goes away and speaks to the Pensions and Lifetime Savings Association and all the member organisations, who so comprehensively identified that that was a disastrous approach to fiduciary duty and trustee empowerment. There are companies and pension schemes that are genuinely navigating their way with net zero pledges by a particular time, but they are doing that once they have looked at their portfolios and worked with the companies they are investing in. We cannot suddenly mandate that everybody will do it by this particular date in this particular way, because the consequences of such actions will be foolhardy.

I believe there is genuine leadership. I want to thank the team behind TCFD: the Secretary of State, who has supported the process throughout; Mark Carney, whom I met in January last year prior to the pandemic; the special advisers; the various policy officials; the Bill team; and my private office. There are too many to thank, but I will mention Thérèse, Lauren Thomas, Lisa Rumbold, David Farrar, Matthew McPherson and George Greville Williams, who all deserve great credit for all that they have done to explain, articulate, draft and drive forward this piece of legislation, which is game changing, and the first in the world in place prior to COP. I respectfully commend the regulations to the Committee.

Question put and agreed to.

6.16 pm

Committee rose.