

## **The Tap is Running during the drought: Why Pension Schemes Need to Stop Reporting Climate and Start Funding It**

The UK pensions industry finds itself in a strange position.

On one hand, there is an increasingly heated debate about whether pension schemes should be focusing on climate change, nature, biodiversity loss, social inequality, human capital, or the latest sustainability priority. Conferences are filled with discussions about what should come next. Consultants debate frameworks. Policymakers debate definitions. Working groups debate priorities.

Yet while the industry argues about where attention should be directed, it is ignoring the elephant in the room.

### **The money is already being spent!**

Pension schemes are already spending significant amounts of money, time and resource on climate. The problem is that almost none of that expenditure is going towards climate solutions. Instead, it is being consumed by reporting, disclosures, scenario modelling, governance processes and compliance exercises.

It is the equivalent of leaving the tap running while we are in a drought.

### **Climate Won the Budget Battle Years Ago.**

When discussing sustainability priorities, many commentators correctly state that climate is not the only risk that schemes face. However, the debate on where schemes should concentrate their resources was settled years ago.

If we follow where schemes are spending money, climate is already the dominant sustainability issue in UK pensions. Tens of millions of pounds are being spent every year across the industry on climate reporting, emissions measurement, climate governance, regulatory compliance, consultancy advice, stewardship and scenario analysis.

Current spending on <sup>1</sup>TCFD reporting and Implementation reports is conservatively estimated to be in the range of £30m per annum. This is the estimate of spending on consulting and does not include the spending on legal or even the vast communication exercises that some schemes undertake following the publication of their TCFD reports. It also does not include the time spent collating the information or it being produced by fund managers – this work will continue with or without TCFD for pension schemes as is a good by-product of the original introduction of these disclosures.

Not only are some TCFD reports costing schemes upwards of £500k per annum, implementation reports for defined benefit schemes with assets under £50m account for around £10m per year, well over 10% of their annual spend on investment consulting. As

1. Taskforce for Climate Financial Disclosures. An annual requirement for schemes with over £1bn of assets.

the cost of implementation reports is mainly fixed for schemes of this size, the smaller schemes can be paying over half of their investment consulting budget on these mainly generic reports. These schemes, on the DB side, are not attractive to consolidators and it cost a lot of money to consolidate them – legal and actuarial – so the easy answer is not for them to consolidate. This money is sunken cost that is leaking out continually.

No other sustainability issue attracts anything close to this level of expenditure.

The question therefore should not be whether climate deserves attention. It clearly already receives attention.

The question should be whether the industry is directing that attention in the right place.

### **Reporting Has Become the Objective**

The original intentions behind climate disclosure requirements were sound.

The aim was to help pension schemes recognize climate change as a financial risk, improve investment decision-making and encourage more resilient long-term investment strategies.

But somewhere along the journey, reporting became the objective rather than the means to an objective.

Many schemes now spend months preparing climate disclosures that are rarely read beyond a small group of specialists. Large teams of consultants, advisers, trustees and asset managers devote substantial time to producing reports that satisfy regulatory requirements but often have little influence on investment outcomes.

At an industry level, this represents an enormous commitment of resources.

The challenge is that every pound spent producing another report is a pound not spent identifying climate investment opportunities.

Every hour an ESG specialist spends reviewing disclosure wording is an hour not spent developing solutions for pension schemes to invest in renewable infrastructure, climate technology, energy transition projects or natural capital.

### **The Resource Constraint Nobody Talks About**

The pensions industry often talks as if sustainability expertise is unlimited.

It isn't.

There is a relatively small group of sustainability specialists across pension funds, consultants, fiduciary managers and asset managers. These individuals are already heavily stretched.

Imagine what could happen if even half of those resources were redirected.

Instead of discussing emissions metrics, they could be helping schemes understand private market opportunities.

Instead of preparing another climate report, they could be working with government, the British Business Bank, the National Wealth Fund and private asset managers to create investable solutions.

Instead of measuring transition risk, they could be financing the transition itself.

### **A Drought of Action**

Another irony is that the UK is not short of opportunities.

The country has innovative companies developing climate technologies, improving biodiversity outcomes and supporting the transition to a lower-carbon economy. The UK also faces massive infrastructure investment requirements as it modernizes its energy system and seeks long-term economic growth.

At the same time, pension schemes collectively control more than £1 trillion of assets.

Yet the flow of capital from that asset base into the transition remains far below its potential.

The industry has been becoming better at describing climate risk. More work is needed here but it is not for the majority of pension funds to lead this work – some leading pension funds, universities, professions and other institutions are leading this work.

It has become far less effective at financing climate solutions.

That is the drought.

And all the while, the tap remains wide open as money continues to flow into reporting exercises that generate little real-world impact.

### **We Don't Need Another Debate**

The industry does not need another debate about whether climate is more important than nature.

It does not need another consultation on sustainability priorities.

It does not need another reporting framework.

The spending patterns already tell us what the priority is.

Climate is urgent and has already won that battle. You only have to look at the three heatwaves in the UK already this year!

The challenge is to ensure that climate expenditure produces climate outcomes.

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Every regulator, policymaker and trustee board should be asking one simple question:

What proportion of our climate budget is being spent creating change rather than describing it?

For many schemes, the answer may be uncomfortable.

### **Turn Off the Tap**

The next phase of pension scheme sustainability cannot simply involve producing more disclosures.

It must involve redirecting resources away from low-value reporting and towards high-value action.

That means simplifying disclosure requirements.

It means replacing repetitive reporting with practical transition planning.

It means freeing up sustainability professionals to focus on investment opportunities rather than compliance exercises.

And it means recognizing that the greatest barrier to climate investment may now be the reporting machinery built to encourage it.

The UK pensions industry does not have a shortage of climate attention.

It has a shortage of climate action.

If we want pension schemes to contribute meaningfully to the energy transition, support UK innovation and help deliver long-term economic growth, then the solution is obvious.

### **Turn off the reporting tap.**

Use the money saved to fund the transition.

Because when you're in a drought, the last thing you should be doing is letting the water run down the drain.

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