FLINTSHIRE COUNTY COUNCIL - 24 MAY 2021
AGENDA ITEM 14 - QUESTION FROM COUNCILLOR TUDOR JONES

Preamble / Rhagair:
Local Authority Pension Funds and investments in fossil fuels

New research has revealed that UK council pensions are investing around £10 billion in fossil fuel companies like BP and Shell. Despite 75% of councils declaring a climate emergency, less than 5% have taken the significant step of withdrawing their investments in companies that are planning for catastrophic global warming of 3-5°C or more.

The choice is clear: we can choose to stick to old systems of investment that drive the profits of destructive businesses and keep accelerating the climate crisis, or we can invest local money in ways that ensure local workers not only have a pension for their retirement, but also a future worth retiring into.

Moreover, the financial argument to divest is becoming increasingly salient. Fossil fuel divestment is a practical, legal and responsible way for pension funds to respond to the climate crisis and address the financial risk caused by continuing to invest in stranded assets.

Nationally, 6 local councils, 86 universities and the UK's biggest pension fund (NEST) have all committed to divest, not to mention countless respected institutions across the globe, including the cities of San Francisco and Oslo, as well as New York State. Recent analysis found that local government pension funds had suffered a £2 billion hit to oil investments since 2017. As the value of fossil fuels continues to decline, continuing to invest public money in this failing industry is becoming financially riskier and the imperative to divest from fossil fuels is ever more urgent.

Further, in the face of extraordinary economic challenges ahead, we need to reset and create a new economy that places the health of us all above the wealth of a few. Local councils can play a part in this by mobilising the money they move out of fossil fuels into socially useful investments in the local economy.

Question / Cwestiwn:
Flintshire County Council is both a member of the Clwyd Pension Fund and its host. May I respectfully ask the Flintshire Member and Chair of the Clwyd Pension Fund Committee to ensure that we are aware of how this Pension Fund is invested and ascertain as to whether any of these investments involve the fossil fuel industries and if so determine to end such investments and chose those that invest in green and new energy technologies as Flintshire is now taking such a leading role in the move to fight Climate Change on behalf of all Flintshire residents?

Note:
It can be done:
Pension scheme Nest is to invest £1.4bn in clean energy.
Nest is the UK's largest pension scheme managing pensions for almost one third of the UK workforce and will invest £1,4bn into renewable energy infrastructure over the next ten years.

RESPONSE:

Thank you for your question Councillor Jones. You attended the all Member briefing session on the 12th May 2021. The purpose of that briefing was to set out for Members the Clwyd Pension Fund's (the Fund) approach to fossil fuel investments and managing the impact of climate change on the Fund's investments.

Your question is in three parts and the answers follow this format.

1. The investments the Fund has in Fossil Fuel Industries

As at 31 March 2021 the Clwyd Pension Fund was valued at £2.2bn. We have measured the proportion of assets invested in publicly listed shares of companies (approximately 20% of the fund) that are involved in the extraction of fossil fuels. This is approximately £25.3m or 1.17% of total fund assets as at 31 March 2021. These company shares have been selected by fund managers either appointed directly by the Fund or appointed through the Wales Pension Partnership (WPP) where Local Government Pension Scheme (LGPS) funds in Wales invest together as a consortium. The Fund has a complex investment strategy which means there will be some exposures to fossil fuels in asset classes that we are not able to measure at this time.

2. A request to end these investments – to divest

Those managing the Fund have a fiduciary duty to the beneficiaries of the Fund. Therefore, we must invest the Fund's assets in the best interests of those beneficiaries (i.e. the members of the Fund and their dependents). This means that our investment strategy must be directed to achieving the necessary investment returns to ensure we have enough assets to pay the benefits required. We must remember this prime responsibility when considering our approach to responsible investing.

There has been much debate across pension funds globally including the 87 Local Government Pension Funds in England and Wales as to whether they should sell these shares given the planned transition to a low carbon or net zero economy. The majority approach, and that of the Clwyd Pension Fund, is not to have a blanket divestment policy for a number of reasons including:

- **The act of selling the shares simply passes ownership to another investor and has no impact on the company**; instead we use ownership powers to engage with these companies to ensure they have policies in place to transition away from fossil fuels
- The focus on engagement, rather than blanket divestment **allows the Fund to benefit from opportunities from fossil fuel companies who are in the process of transitioning to renewable forms of energy**. Several of the companies included in the £25.3m total above now also generate revenues from renewable energy.
- **The approach of engagement, rather than divestment, is supported by Government representatives and best practice initiatives** including the Minister for Pensions and Financial Inclusion, the Pensions Regulator, Local Authority Pension Forum and the Wales Pension Partnership and other groups such as Pensions for Purpose.

The Fund has already taken first steps in managing climate risk including:

- monitoring fossil fuel exposure and within the last 12 months, undertaking carbon footprint analysis on its stock markets investments which include these publicly listed company shares as at 31 March 2020 and 30 September 2020. This analysis has been used to identify sources of carbon risk within these investments. The Fund is committed to reducing its carbon footprint over time; and
- Russell (as the investment manager within the Wales Pension Partnership) have implemented a de-carbonisation strategy within the WPP Global Opportunities Equity Fund in which the Fund invests. This solution looks to reduce carbon exposures by 25% compared with the global index of shares and is seen as the first step by the Wales Pension Partnership.

Furthermore, the Fund is actively exploring a number of ways to develop its approach to climate change which will be considered at our next Pension Fund Committee meeting:

- exploring whether to make a net zero commitment as a Fund by a specific date (e.g. targeting net zero by 2050);
- considering adopting a net zero framework. Amongst other areas this would seek to:
    - Identify the high carbon / low transition potential holdings (including fossil fuel companies) and decrease exposure to these companies over time
    - Identify green holdings and seek to increase allocations to sustainable companies over time

- considering whether to formally request a Sustainable Global Equity Fund offering from WPP which would go beyond addressing climate risk. The fund manager also considers any social impact (e.g. employment practices) and whether the company has a governance arrangement fit for purpose. All these factors together can impact whether a company's value will increase or fall overtime.

3. A request for the Fund to invest in green and new energy technologies

The Fund has made investments in green and new energy technologies for a number of years by investing in private rather than public companies. This includes investments selected by fund managers in solar and wind farms as well as other environmental technologies. Officers are currently exploring the potential for investing more locally in these areas. As part of the Fund's asset allocation 4% is already allocated to 'Impact' investing - investments with a specific environmental or social benefit as well as achieving the investment return required to pay pensions.

We trust this addresses the points raised in your question and provides some assurance on the progress being made by the Clwyd Pension Fund on managing climate risk.

Cllr Ted Palmer and Philip Latham

Chair Clwyd Pension Fund Committee and Fund Manager

25th May 2021