UK DIVEST

# Protecting our pensions and the planet

Briefing for councillors

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Friends of the Earth England, Wales & Northern Ireland

PLATFORM

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## Contents



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## Introduction

Across the UK, councils invest nearly £10 billion in the oil, gas and coal industries through local government pension funds on behalf of nearly seven million pension-holders.[1] Taken together, local government pension funds represent the largest pension scheme in the UK.[2]

**Investing local pensions in fossil fuels is fuelling climate change** and air pollution, contradicting local, national and international commitments to tackle climate change. It is also **putting members' pensions in jeopardy** as fossil fuel investments now pose a dangerous long-term financial risk to investors.

This briefing for councillors outlines what fossil fuel divestment is, how divestment safeguards pensions and our communities, and why now is the time to act.

There are a number of local government pension funds across the UK that are already divesting from fossil fuels and thereby protecting communities from climate change, ensuring financial security for pension-holders and, in many cases, also increasing investment in their local areas. Your council can be next and make a change that will improve our future health and prosperity, both locally and globally.

## What is fossil fuel divestment?

Divestment is the opposite of investment; it means selling assets. The fossil fuel divestment campaign asks that institutions, such as local government pension funds, move their direct and indirect investments out of the fossil fuel industry over a sensible time period, usually between three and five years.

To move toward the zero carbon future we all want, we need to phase out the use of fossil fuels. This means we need to follow the science and limit the extraction and production of fossil fuels as part of a managed energy transition. There are already far more known fossil fuel reserves than can possibly be burned to stay within globally agreed targets for limiting global heating. Nearly 60% of oil and fossil methane gas, and 90% of coal, must remain unextracted to keep within a 1.5 °C carbon budget.[3] Yet the fossil fuel companies that our pension funds invest in continue to expand.

What is deemed 'acceptable' within our society is informed in no small part by the actions of trusted public bodies, such as local councils. The power of these trusted bodies comes in their ability to grant and/or rescind the social license for individuals, groups and companies to operate in a given way. In turn, the decision to grant or rescind this license of acceptability holds huge sway over legislation; as a country, we legislate for or against a practice once it is considered morally controversial.

Local governments in the UK were some of the first institutions in the world to commit to divestment in opposition to apartheid in South Africa in the early 1980s.[4] Although this had little financial impact on the companies there, it was still vital in strengthening opposition to apartheid and ultimately changed legislation.[5]

The public are more concerned about climate change than ever before.[6] Research on the behalf of the Conservative Environmental Network has found that consistently across age, region and voting behaviour, 70% of the public would view a failure to tackle climate change and pollution in a post-Covid economy as 'a sign that the government has the wrong priorities'.[7]

In our efforts to halt climate breakdown, and necessarily to phase out fossil fuels, local governments have two equally important roles to play: reflecting public opinion and shaping central government action. With the eyes of the world on the UK as a consequence of hosting the UN COP26 climate talks, now is a fantastic time to make a local decision with truly global consequence, and commit to ending costly and unpopular investments in fossil fuel companies.

## Local government and other pension funds are already divesting

As a result of a growing awareness of both the environmental and financial case for divestment, the pace of announcements has increased. In September 2016, the London Borough of Waltham Forest became the first council in the UK to commit to fully divest from fossil fuels, voting to sell its entire £24 million stake in oil, gas and coal. Since then, 17 more pension funds have made full or partial divestment commitments.[8] Many have also committed to increase investment in sustainable projects like local renewable energy.

Over 60% of all UK universities and 80 faith institutions have committed to divesting from fossil fuels.[9] Both the Welsh Parliament and Northern Ireland Assembly have committed to divest their pension funds, and 360 MPs from across the political spectrum have called on their pension fund to divest.[10] Globally, 1,485 institutions representing over $39.2 trillion in assets have committed to going fossil free.[11]

In the build-up to the November 2021 Glasgow UN COP26 climate talks, there has been an increased interest in divestment and a number of notable announcements such as New York state's $226bn pension fund.[12]

# Why divest local government pension funds?

## 1. Protect pensions—the financial case for divestment

Local government pension funds have a legal responsibility to invest in the best interests of fund members; this is known as fiduciary duty. However, by investing in fossil fuels, these pensions are placed in a financially risky position. Legal opinions by leading QC barristers show that pension fund trustees who fail to consider climate risk could be exposing themselves to legal challenge.[13]

As the UN warns, globally we are on course to produce more than double the amount of fossil fuels in 2030 than would be consistent with the 1.5 °C target of the Paris Agreement, which was signed into law by the UK Government.[14] Action by governments to limit carbon emissions in line with this will leave fossil fuel reserves unburnable. This 'carbon bubble' has the potential to leave over €1 trillion worth of assets 'stranded' in Europe alone.[15] Experts like Mark Carney, the former Governor of the Bank of England, have warned of these risks: he has cautioned that fossil fuel companies face 'potentially huge' losses from action on climate change that could make vast reserves of oil, coal and gas 'literally unburnable'.[16]

In May 2021, the influential International Energy Agency (IEA) released modelling that predicts global oil demand will decline from the 90m barrels a day at present to 24m barrels a day by 2030.[17] Following this announcement, the Executive Director of the IEA discouraged continuing to put money into oil and gas projects, referring to them as potential 'junk investments.'[18] The IEA also published new findings in October 2021 which noted that oil demand could peak as early as 2025.[19]

Funds that continue to invest in fossil fuels can expect to suffer considerable losses when the 'carbon bubble' bursts. This makes the oil, gas and coal industries an increasingly financially-risky sector to invest in—especially for long-term investors like pension funds. Pension investment is not about taking a punt on the stock market, it is about seeking strong and reliable returns over a long-term period.

In 2015, **UK local councils lost up to £683 million off the value of their pension funds as a result of failed investments in coal firms**, and by November 2020 the Local Government Pension Scheme (LGPS) had **collectively lost £2 billion by not divesting from oil and gas.**[20] By continuing to invest in the fossil fuel industry despite this evidence, local government pension funds are exposing pension-holders' savings to considerable losses when the carbon bubble bursts.

The shift away from fossil fuels is a technological shift. Fossil fuels have dominated our energy system for decades because there was no threat to their monopoly on heating and transportation. But solar and wind are now the cheapest and cleanest sources of energy.[21]

## Case study: Is BP changing fast enough?

BP, the second most heavily invested in fossil fuel company by LGPS funds, has claimed that it will transition to net-zero by 2050. In 2000, BP briefly renamed themselves 'beyond petroleum'.[22] Twenty years later 96% of BP's annual capital expenditure was spent on oil and gas.[23] Even under its "net-zero by 2050" plan, BP still plans on producing 1.5 million barrels of oil per day, including new expansion plans that go directly against clear guidance from the IEA that says we must end all new exploration now.[24] BP's emissions reduction plan explicitly excludes the one third of its overall oil and gas production that comes as a result of the company's 20% stake in the Russian oil company Rosneft[25]. In October 2021, representatives from the UK Government decided to exclude fossil fuel companies from any formal role at the UN COP 26 climate talks in Glasgow, due to doubts over the trustworthiness of their net-zero plans.[26] BP in particular was singled out by civil servants, who did not want them to take part as "it's unclear whether BP's [net zero] commitments stack up yet." [27]

When determining the value of a company, investors look at what they think the company is worth today and—crucially—what it will be worth in the future. That is why by mid-2020 the electric vehicle manufacturer Tesla was worth more than Ford, BMW, Honda, Volkswagen, Fiat Chrysler, Ferrari and General Motors combined.[28]

Crucially, several high profile reports have also shown that a 'fossil free' portfolio can give equivalent or even higher returns for investors. For example, a study over ten years up until mid-2020 found that sustainable funds delivered higher returns than traditional funds, both before and during the pandemic.[29] In March 2021, the investment firm BlackRock, the largest asset manager in the world, came to the same conclusion.[30] Between 2010 and 2021, MSCI—the world's leading stock market tracker—has shown that 'fossil free' funds earned more than the standard funds which contained oil, gas and coal companies.[31]

Solar and wind energy are now the cheapest form of energy to produce in most regions,[32] and smarter investors are rapidly moving their money into the clean energy sector. In order to safeguard the retirement savings of millions of LGPS pension-holders across the UK, councils must recognise that the low carbon technological transition is already underway and that future developments lie in renewable technologies like solar and wind, not in the fossil fuels of the 20th century. **The short-term efforts associated with creating a clean, green economy will deliver long-term benefits for everyone, both in our local communities and around the world.** The Government's independent Climate Change Commission has said that in any of the five possible future scenarios, the cost of reaching net-zero will be 1% of GDP per year.[33] The Office for Budgetary Responsibility calculated in July of 2021 that the sooner we act on this, the cheaper it will be.[34]

## 2. Protect the planet—the environmental case for divestment

Fossil fuel investments are also threatening our local communities by fuelling climate change. Already in the UK, we have seen that climate change poses severe threats and danger to our society: more frequent and extreme flooding causing damage to our homes and livelihoods, disruption to seasonal changes, and the destruction and loss of wildlife that depends on stable weather patterns to thrive.[35] In addition to driving climate change, fossil fuels are also causing direct damage to public health through their contribution to air pollution. Almost one in five deaths in the UK—and 18% of deaths globally—have been linked to fine particle pollution from road traffic, power generation and other activities that involve burning petrol, diesel, coal and gas.[36]

In response to this challenge, **local councils are already leading the push for climate action in many ways: championing local renewable energy, improving public transport, and working towards sustainable, energy efficient housing.** In the past, local authorities have helped clean up our rivers, banish smog from our cities, and protect the forests that we all enjoy today.

**Investing in the companies fuelling climate change in tandem with these great efforts is counter-productive, at best.** The inconsistency in this approach has both policy and financial consequences: not only do these investments go against councils' declarations of climate action, any actions that local governments take to cut fossil fuel use will also indirectly harm the profitability of these funds.

We need local authorities to re-invest our pensions into companies and projects that help tackle these problems in the present and build a better future. Thankfully, via the local government pension scheme, there are hundreds of millions of pounds already in councils' hands that local authorities could direct away from fossil fuels and towards local infrastructure.

## 3. Invest in our future—support local economies

There are many challenges and uncertainties ahead in relation to climate change. But what we do know is that here in the UK we have immense capacity to produce our own renewable energy locally, potentially creating thousands of local green jobs at the same time. In Germany this practice has been common for many years; hundreds of small energy enterprises allow local people to share in the profits of this infrastructure and enjoy a real sense of pride, ownership and responsibility towards their community.[37] For instance, **in Munich, public services like swimming pools and transport are subsidised by the council's investment in wind farms both locally, and off the coast of Wales.**[38]

This kind of investment would not be new for UK councils. Thirty years ago, 60% of the LGPS was invested internally in the UK. By 2018, this figure had dropped to a mere 30%.[39] A recent report found that the total value of LGPS investment in place-based impact investing in key sectors is currently only £7.7 billion.[40] **This is less than the almost £10 billion invested in fossil fuels.** Research shows that if all LGPS funds allocated 5% of their assets under management to local investing, this would unlock £16 billion for local communities.[41]

Some councils have already started utilising their pension funds to invest in our future:

- Councils in Manchester and London have invested in wind farms[42]
- Lancashire Pension Fund invested in the UK's first community-owned solar power cooperative as well as building student housing in Preston[43]
- Falkirk Pension Fund has invested over £30 million in social housing[44]
- In London, pension organisations have worked together to launch a fund to invest hundreds of millions into affordable housing, community regeneration, digital infrastructure and clean energy around the city[45]

In England and Wales the **Law Commission has issued guidance for trustees** worried that these kinds of investments might breach their duty to run the fund solely in the interest of the fund's beneficiaries. This guidance asserts that **"there are no legal or regulatory barriers to social investment."**[46]

The Commission also stressed that UK pensions invest very minimally in social investments such as property and infrastructure compared with pensions in the rest of the world, and reminded trustees bluntly that "it is possible to do well and do good at the same time."[47]

**Clean energy technologies are a golden opportunity to rebuild our manufacturing base** to create jobs for thousands, represent a sound and stable investment, and ensure that we leave a strong legacy for future generations. Jobs in offshore oil and gas in the North Sea have been on a downward trajectory since 2014.[48] We can use the transferable skills of these workers to build and train others to create the next great wave of national energy infrastructure for decades to come and to provide greater long-term employment opportunities spread across the UK.

### Case study: Is Shell changing fast enough?

Shell is the fossil fuel company most heavily invested in by LGPS funds.[49] Proponents of shareholder engagement are likely to point out that Shell has set a target of reaching net-zero by 2050, with an interim target of cutting the carbon intensity of its output by 20% by the end of the decade.[50] However, according to Shell's plan, reaching this 2030 target would require the use of more carbon offsets, such as planting trees, than are currently available in the entire global market.[51] In May 2021, a Dutch court ruled that Shell must cut its net carbon emissions by 45% by 2030. The ruling noted that Shell's current target of a 20% reduction is not sufficient to prevent global temperatures rising more than 1.5°C, in line with the Paris Agreement.[52] Shell has since confirmed that it will appealing the ruling. Surely any company truly committed to net-zero would not appeal against a legally binding, independent court ruling that says they must make their operations Paris-aligned?[53]

## 4. Engagement has not worked

Proponents of "shareholder engagement" with fossil fuel companies suggest that, instead of divesting their portfolios, investors committed to climate action should hold on to their fossil fuel stocks in order to influence these companies to do better on environmental issues. This has been the main argument most LGPS funds have made against divestment recently. There is very limited evidence to suggest that engagement with fossil fuel companies can help meet this aim.

In order to keep warming below the 1.5°C global threshold needed to avert unacceptable dangers to humanity, the measure of successful engagement with fossil fuel companies would be that **these companies commit to keeping the vast majority of their oil, gas and coal stocks in the ground, stop exploring for more reserves and rapidly transition to become almost entirely renewable energy companies.** In the history of shareholder engagement with fossil fuel companies, this has not happened.[54] As the UN warns, countries are on course to produce more than twice the amount of fossil fuels in 2030 than would be consistent with 1.5 °C warming.[55] The solution, as 101 Nobel laureates have said, "is clear: fossil fuels must be kept in the ground".[56]

The inefficacy of the engagement approach is especially evident in the case of local government pension funds, whose size and capacity limits them even further in their ability to achieve any fundamental change to the core business model of fossil fuel companies.[57]

Increasingly It is becoming clear to the public and asset managers that **these companies are not changing at the speed the climate crisis demands**. In October 2021, the OECD-funded International Energy Agency (IEA), the most influential energy modelling agency in the world, announced that if we are to reach net-zero by 2050 and meet the Paris targets then all fossil fuel companies must stop new oil and gas exploration projects this year.[58] **Not one of the ten fossil fuel companies most heavily invested in by LGPS members has yet to make this commitment.**[59] In October 2021, the Treasury, BEIS and DWP published a report for the pensions and investment sector entitled Greening Finance: A Roadmap to Sustainable Investing. They clearly state that, in some cases, engagement may need to be escalated to 'withholding capital or divestment for example where a company is not taking appropriate action to transition to net-zero'.[60]

In October 2021 ABP, the Dutch pension fund for civil servants and teachers, committed to divesting their €15 billion worth of holdings in fossil fuels by early 2023.[61] ABP is one of the world's largest pension funds and has significant holdings in Shell and BP.[62] Having previously attempted the strategy of engagement, the chair of the fund said 'We part with our investments in fossil fuel producers because we see insufficient opportunity for us as a shareholder to push for the necessary, significant acceleration of the energy transition at these companies.'[63]

Ultimately, none of this is to say that if you divest from fossil fuels you cannot continue to undertake engagement as a strategy to push other companies to do better on climate issues. It is admirable that the Local Authority Pension Fund Forum (LAPFF) has successfully lobbied both Tesco and Sainsbury's on their impact on deforestation and the amount of plastic used in their packaging.[64] Pension funds that have divested from fossil fuels continue to pursue environmental engagement strategies with banks like HSBC and Barclays on their financing of fossil fuel projects. Crucially, here as with supermarkets, banks do not need fossil fuel production to continue to make a profit in the long term. This is clearly not the case for the likes of Shell and BP.

# Now is the time for ending fossil fuel investment

We are at a pivotal moment in the energy transition. The responsibility for divestment rests equally between councils run by all major political parties.[65] Here's why now is the time to act to demonstrate impactful local leadership, to financially protect pensions and our communities, and invest in a more sustainable future.

## Climate emergency

Three-quarters of local councils have declared a climate emergency.[66] For many councils, their largest carbon emissions will come from the emissions of the companies their pension fund invests in, though this is often not accounted for. Councillors often have to work very hard over a number of years to implement important responses to the climate emergency like cycle lanes, recycling facilities and EV charging points. Given the oversized impact it can play in reducing a council's overall carbon output, ending fossil fuel investment is relatively easy.

## Financial risk

Oil prices have been trending downwards ever since they peaked in 2008.[67] Economic modeling of divesting from fossil fuels has been shown to have no negative financial impact on funds.[68] Joint research from Imperial College and the IEA has shown that the share price of fossil fuel companies are up 57% over the past decade, versus 423% growth for renewable firms.[69] Why take the chance in an increasingly volatile market? There is no fiduciary duty to invest in risky companies.

## UK climate targets

Parliament has committed to ending financial support for overseas fossil fuel projects and passing into law a target of reducing emissions by 78% by 2035 compared to 1990 levels.[70] This ambition can be matched by local governments by taking the decision to divest and ending the financial support they give to the most polluting industries in the world.

## Divestment has popular support

YouGov polling in March 2021 found that just 12% of the British public supported the investment of local government pension funds in fossil fuel companies.[71] On the other hand, 65% of voters supported the investment of pension funds into 'renewable energy projects' and only 5% opposed this suggestion. These findings are broadly consistent across regions in Britain and voters for the three largest political parties.

## 'Selling into strength'

This is a term for when someone who holds shares sells them as the price is still rising, but the seller expects the trend to reverse in the short to medium-term. By selling fossil fuel holdings at the right time, a pension fund can guarantee a return, while removing the possibility of a significant loss. At the time of writing, fossil fuel share prices are rebounding following the end of COVID-19 lockdowns.[72] This process is expected to continue in the medium term as oil-reliant sectors like aviation will return to early 2019 levels only by 2023 at the earliest.[73] To fully implement a divestment commitment of a local government pension fund can take 3-5 years. Therefore, now is the time to pass a motion to fully divest so that your fund is in the best possible position for the future.

## What can councillors do?

Every councillor has power to help end fossil fuel investment from their local area. Whether you are on the pension fund committee or not you can help:

- Explore your local government pension fund's fossil fuel investments using UK Divest's interactive tool.
- Pledge your support—add your name to UK Divest's list of councillors looking to push for fossil fuel divestment, by emailing ukdivest@gmail.com. We can also put you in touch with other councillors and individuals in your area who are supportive of the campaign.
- Connect with local divestment campaigners in your constituency and have a meeting about how you can work together.
- Share this briefing with your colleagues—in particular, with party colleagues on your fund's pension fund committee. Ask them to meet to discuss the risks highlighted.
- Get on your council's pension fund committee or request an audience with them to discuss divestment—contact UK Divest for resources and invite us to present alongside you.
- Identify local investment priorities that your pension fund can invest in and start making the case as to why this matters and how it can work.
- Watch this presentation on divestment and send it to colleagues—the Founder of Carbon Tracker, an independent world-leading financial think tank, the Chief Executive of the Centre for Local Economic Strategies (CLES), and Cllr Chris Weaver, Chair of a divesting pension fund, discuss the role pensions can play in enabling councils to build back better now and in the years to come.
- Put forward a motion to full council, calling on the council to stop any further investment in fossil fuels and divest current holdings within a defined number of years and calling on the pension fund associated with your council to divest. UK Divest have created a template motion you can use.[74]
- Not sure what you can do? Every councillor is in a unique position and every journey to ending your local area's support for fossil fuel companies is different. Get in touch with us at ukdivest@gmail.com and we can work on a tailored approach for your situation together.

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To find out more about fossil fuel divestment and to get in touch;
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## About UK Divest

Across the UK, local grassroots groups are demanding our communities and public institutions cut their political, social and financial ties to the fossil fuel industry. Supporting this network is UK Divest, a collaboration between Friends of the Earth, Friends of the Earth Scotland and Platform.

**View this document as an interactive PDF with hyperlinks online at www.divest.org.uk/councillorbriefing**

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