

Protecting our pensions and the planet

Briefing for councillors



✗ UK DIVEST

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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.

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 period, usually between three and five years.

The pace of ending fossil fuel investment in the UK has been accelerating. More than half of all UK universities and 80 faith institutions have committed to divesting from fossil fuels.^[2] 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.^[3] Globally, at least 1,250 institutions representing over \$14.5 trillion in assets have already committed to going fossil free.^[4]



LGPS funds are already divesting

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, at least 17 more pension funds have made full or partial divestment commitments, or have taken steps to reduce the exposure of the fund to fossil fuels.^[5] Many of these funds have also committed to increase investment in sustainable projects like local renewable energy.

Even more councils have passed supportive motions calling on their associated fund to divest – at least 27 councils across the UK have adopted policies officially supporting ending fossil fuel investment, including Sheffield, Bristol, Reading, Kirklees, Derby, Monmouthshire and Birmingham.^[6]

Most recently, Glasgow City Council requested divestment to commence in the UK's joint largest local government pension fund, the Strathclyde Pension Fund, prior to the UN climate talks, COP26.^[7]



Why divest local government pension funds?

1. Protect pensions

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.^[8]

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 degrees target of the Paris Agreement, which was signed into law by the UK Government.^[9] 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.^[10]

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'.^[11]

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.^[12]

Funds that continue to invest in fossil fuels can expect to suffer considerable losses when this '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.

Protect pensions

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**.^[13]

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.

Crucially, a number of 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.^[14] In March 2021, BlackRock, the largest asset manager in the world, came to the exact same conclusion.^[15]

Between 2010 and April 2021, the MSCI - the world's leading stock market index - has shown that 'fossil free' funds earned more than the standard funds which contained oil, gas and coal companies.^[16]

Meanwhile, the price of renewables is falling dramatically, 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.

Protect pensions



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.

Following on from the largest ever UK local elections in May 2021, we are urging councillors to advocate for ending fossil fuel investment. The public are more concerned about climate change than ever before.^[17]

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.'^[18] New and established local leaders have the opportunity to respond to this with meaningful action that will have a long-term impact.

2. Protect communities

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 in order to thrive.

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.^[19]

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 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.

Protect communities

Besides, we know that local councils are facing financial difficulty because of the economic consequences of the COVID-19 pandemic. 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

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.^[20] 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.^[21]

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%.^[22]

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

- Councils in Manchester and London have invested in wind farms^[23]
- Lancashire Pension Fund invested in the UK's first community-owned solar power cooperative as well as building student housing in Preston^[24]
- Falkirk Pension Fund has invested over £30 million in social housing^[25]
- 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^[26]

Invest in our future

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.”** ^[27] 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.”

Clean energy technologies are a golden opportunity to rebuild our manufacturing base, creating jobs for thousands, representing a sound and stable investment, and ensuring that we leave a strong legacy for future generations. Jobs in offshore oil and gas in the North Sea have been declining for years, long before the pandemic.^[28] 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.



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. While it is admirable that pension funds want to use their money to make things better, 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.^[29]

The inefficacy of this 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.^[30]

It is becoming increasingly clear to the public and asset managers that these companies are not changing at the speed the climate crisis demands. A survey of 64 institutional investors, with almost \$11tn in assets, found that only 17% believe oil groups will transform their businesses to focus on green energy.^[31]

Engagement has not worked



In April 2021, the Local Authority Pension Fund Forum (LAPFF) said that it did not believe Shell was changing its business to respond to climate change fast enough and that its net-zero plans were unreliable.^[32]

In May 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.^[33]

Not one of the ten fossil fuel companies most heavily invested in by LGPS members has yet to make this commitment, despite many celebrating their supposed “net-zero” plans.^[34]

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 political parties.^[35]

Here's why now is the time to act:

1. Climate emergency

Over three-quarters of local councils have declared a climate emergency.^[36] 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.

2. Financial risk

Oil prices have been trending downwards ever since they peaked in 2008.^[37] Economic modelling of divesting from fossil fuels has been shown to have no negative financial impact on funds.^[38] Why take the chance in an increasingly volatile market?

3. UN climate talks

The UK is hosting the global COP26 climate conference in Glasgow in November 2021. As a result, Parliament has made some ambitious promises in the lead-up to these talks. These include ending its support for overseas fossil fuel projects and passing into law a target of reducing emissions by 78% by 2035 compared to 1990 levels.^[39] 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.

Now is the time for ending fossil fuel investment

4. COVID-19 response

A 2020 poll revealed that the UK public wants a response to climate change of the same urgency and ambition as the response to the COVID-19 crisis.^[14] The path out of COVID-19 is a chance to prioritise what really matters for our health and our future.

5. Divestment is popular

A YouGov poll commissioned in March 2021 found that just 12% of the British public supported the investment of local government pension funds in fossil fuel companies.^[41]

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.

6. '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 in May 2021, the post-COVID-19 predicted recovery in oil prices has begun.^[42] 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.^[43] 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 LGPS 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. [Find campaigners in your area](#) using the UK Divest local groups map.
- **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, help and support with this.
- **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.

What can councillors do?

- **Watch this presentation on divestment and send it to colleagues** – [click here](#) to see 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.^[44]
- **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 together on a tailored approach for your situation.

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- [44] See p.9 of this guide for more information on how to go about putting forward a motion, whether your council does or doesn't control the pension fund: http://gofossilfree.org/uk/wp-content/uploads/sites/3/2016/09/Fossil-Fuel-Divestment_v2-1.pdf

About us

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.

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