

TRAFFORD COUNCIL

Report to: Council
Date: 30 January 2019
Report for: Information
Report of: The Executive Member for Finance and the Corporate Director of Finance and Systems

Report Title

INVESTMENTS IN FOSSIL FUEL INDUSTRY

Summary

This report details the level of investments which the Council and its pension provider have in the fossil fuel industry.

Recommendations

It is recommended that Council note the contents of the report.

Contact person for access to background papers and further information:

Name: Graham Perkins
Extension: 4017

Background papers: None

Relationship to Policy Framework / Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not applicable
Financial	There are no specific financial issues arising from this report.
Legal Implications:	Not applicable
Equality/Diversity Implications	Any equality and diversity implications are as set out in this report
Sustainability Implications	Not applicable
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	Not applicable
Health and Safety Implications	Not applicable

1. **Background**

- 1.1 This report has been produced in response to a request made at the Council meeting held on 28th November 2018 for details of the level of investment which the Council and its pension provider, Greater Manchester Pension Fund (GMPF), have in the fossil fuel industry.

2. **Trafford Council**

- 2.1 All investments undertaken by the Council's in-house treasury management team are made in accordance with criteria stipulated within the Investment Strategy. This strategy forms part of the annual Treasury Management Strategy report issued and approved by Members prior to the commencement of each financial year.
- 2.2 The main purpose of the Investment Strategy is to provide a framework which is followed by the in-house team whenever it makes an investment. This strategy as well as stipulating the maximum amount which can be placed and how long for, also details which type of institutions are to be used and these comprise Banks, Building Societies, Money Market Funds and Local Authorities. The Council's framework does not permit any institutions in the fossil fuel industry and therefore the Council does not have any direct investments in these areas.

3. **GMPF**

- 3.1 The Greater Manchester Pension Fund (GMPF) administers the Local Government Pension Scheme (LGPS) for Council employees.
- 3.2 The rules of the Local Government Pension Scheme are set nationally, although it is administered at local level by administering authorities, whose responsibilities include managing fund investments within the statutory framework.
- 3.3 When making decisions on investment, the primary responsibilities of administering authorities are to deliver the returns needed to pay scheme members' pensions, and to protect local taxpayers and employers from high pension costs.
- 3.4 The level of funds administered by the GMPF is currently around £23bn and in order to ensure that investment risks are kept to a minimum whilst enabling a reasonable rate of return to be achieved, funds are spread across various types of investments including equity and bond holdings in companies which extract or process fossil fuels as part of their operations.
- 3.5 It must be acknowledged that given the size and frequency of transactions undertaken and the variation of market pricing, the level and make-up of the GMPF fund will vary day by day. In addition, for many of the companies in which GMPF invests, the extraction or processing of fossil fuels only forms a small part of their operation. As such it is not possible to provide an accurate figure of GMPF's current investment in fossil fuels.
- 3.6 GMPF's listed equity and bond holdings at 31 March 2018 can be viewed on the following link:
<https://www.gmpf.org.uk/documents/investments/holdings/2018/mar/mainstream.pdf>
- 3.7 Appendix 1 includes more specific details from GMPF on this position.

Other Options

This report has been produced for information purposes in response to a request made at a previous Council meeting.

Consultation

Advice has been obtained from Greater Manchester Pension Fund.

Reasons for Recommendation

Not applicable

Key Decision

This is not a key decision

Finance Officer Clearance **GB**

Legal Officer Clearance *DS*

Corporate Director's Signature



TRAFFORD COUNCIL – REQUEST FOR INFORMATION RE FOSSIL FUEL INDUSTRY AND APPROACH TO BECOMING CARBON NEUTRAL

The Greater Manchester Pension Fund is asked to provide the level of investment in what is known as the fossil fuel industry – this includes traditional fossil fuel companies such as Centrica, formerly and better known as British Gas.

It is not possible to give an accurate figure as whilst the Pension Funds public shareholdings are made available publically, they are published in arrears to ensure that they are not tracked and the Fund loses its commercial advantage.

However, whilst the fund has no active position or holding in fracking, it generally holds about 5% in traditional fossil fuel companies such as BP, Shell and Centrica. The current level of funding is around the £23 bn level. This needs to be set against the fact that the Fund holds about 2% in renewables and has just committed and in process of implementing a 10% allocation to a beta smart green passive fund.

Independently, TRUCOST a globally recognised Ethical, and Governance analyst, which assess risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors stated that the **Greater Manchester Pension Fund's carbon footprint was 20% less carbon intensive than the benchmark as at 31.3.17 in our active equities.**

Moreover, experts and those with an interest in environmental sustainability would say that the more important question to be asked is not about its fossil fuel shareholding but what the Greater Manchester Pension Fund is doing to become carbon neutral by 2050 if not sooner in line with the Paris Agreement.

As we know Carbon is used as the shorthand for greenhouse gas emissions, including CO₂, methane, nitrous Oxide and F-Gases. These gases are released by many different types of activity – not just the burning of fossil fuels, but also farming, deforestation and some industrial processes.

Global emissions can be allocated to human activities in various ways. One of the most granular analyses is this one from the World Resources Institute (WRI), which breaks down total global emissions into the following headline sectors:

Energy

- Electricity & heat (24.9%)
- Industry (14.7%)
- Transportation (14.3%)
- Other fuel combustion (8.6%)
- Fugitive emissions (4%)

Agriculture (13.8%)

Land use change (12.2%)

Industrial processes (4.3%)

Waste (3.2%)

These sectors are then assigned to various end uses, giving the following most significant impacts:

Deforestation (11.3%)

Road transport (10.5%)

Fuel and power for residential buildings (10.2%)

Other industry (7.0%)

Oil and gas production (6.4%)
Fuel and power for commercial buildings (6.3%)
Livestock and manure (5.4%)
Agricultural soils (5.2%)
Cement production (5.0%)
Chemicals production (4.1%)
Iron and steel production (4%)

It should be stressed that there is a fair degree of uncertainty about the precise contribution of some activities, especially those which include biological processes such as land use change and agriculture. The other point to note is that emissions levels are permanently changing. Total global emissions are significantly higher now than they were last measured, and the ratios between sectors will also have changed because global datasets take a long time to compile, hence there is usually a multi-year lag before reliable figures are published.

Nevertheless, what it shows is this is a very complex problem affecting all industries and commercial sectors such as financial sector that the Pension Fund invests in.

That said we are working hard at addressing the issue and significantly the Greater Manchester Pension Fund has been recognised as being:

- 30th best out of the *World's Top 500 Institutional Investors* for taking account of climate change risk – 2nd best of all Local Government Pension Schemes after the Environment Agency.
- rated as achieving the 'highest standard' of being 'more engaged' by Mary Creagh MP's Environmental Audit Committee, which published her committee's assessment¹ on the steps that the UK's largest pension funds are taking to manage the risks that climate change poses to UK pension investments.
- formally acknowledged as a *Transition Pathway Initiative Supporter* meaning that it is recognised as being committed to the transition to a low-carbon economy, and supporting efforts to address climate change.

The rules of the Local Government Pension Scheme are set nationally, although it is administered at local level by administering authorities, whose responsibilities include managing fund investments within the statutory framework.

When making decisions on investment, the primary responsibilities of administering authorities are to deliver the returns needed to pay scheme members' pensions, and to protect local taxpayers and employers from high pension costs.

New guidance on preparing and maintaining an investment strategy statement was published on 15 September 2016. On taking social, environmental and corporate governance considerations into account, it says:

*The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise. However, the Government has made clear that using pension policies to pursue boycotts, **divestment** and sanctions against foreign nations and UK defence industries are inappropriate, other*

¹ <https://www.parliament.uk/business/committees/committees-a-z/commons-select/environmental-audit-committee/news-parliament-2017/top-25-pension-funds-letters-17-19/>

You can read our response to the committee here:

<https://www.parliament.uk/documents/commons-committees/environmental-audit/Pension%20fund%20letters/Greater%20Manchester%20response.pdf>

than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

In managing a Local Government Pension Scheme fund, the administering authority has both fiduciary duties and public law duties (which are in practice likely to come to much the same thing). Prior to the new guidance being published, the Local Government Association published legal advice on the fiduciaries duties of Local Government Pension Scheme administering authorities. This said that the power of investment must be exercised for investment purposes and not for wider purposes. However, as long as this remained true, the precise choice of investment could be influenced by wider considerations. Nigel Giffen QC stated:

The administering authority's power of investment must be exercised for investment purposes, and not for any wider purposes. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments, and to what is best for the financial position of the fund (balancing risk and return in the normal way).

However, so long as that remains true, the precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund. In taking account of any such considerations, the administering authority may not prefer its own particular interests to those of other scheme employers, and should not seek to impose its particular views where those would not be widely shared by scheme employers and members (nor may other scheme employers impose their views upon the administering authority).

So for example, in our view, an administering authority may choose to take into account the public health implications of tobacco investment but only if the result of such consideration is the replacement of these investments with assets producing a similar return.

Alternatively, in our view, an administering authority may take account of social housing needs but only if an investment in such stands up as an investment in its own right and can demonstrate that it is not preferring its own interests over other scheme employers in making the investment."

Accordingly, the Fund is not in a position to divest itself of such fossil fuel shares as it would fetter the legal fiduciary duty of the Fund.

The Fund has an excellent long term investment track record, over the last 30 years; the value of its returns has been **£3.7 billion more** than would have been the case if it had achieved the average Local Government Pension Fund return.

All employers and the taxpayer have benefited from this outperformance of the Greater Manchester Pension Fund through lower employer contribution rates, which enables more to be spent on local services.

That said collectively the £250billion Local Government Pension Scheme funds are one of the largest 10 global sources of capital and importantly can influence behavioural changes that lead to better stewardship by the global asset management community and the entities and places they invest in and thus serve to improve the world we live in.

The Greater Manchester Pension Fund has published its Statement of Investment Principles, which complies with the Myners Principles believed to be best practice for the governance of pension schemes.

The UK Stewardship Code (second edition 2012) and global United Nations Principles of Responsible Investment (UNPRI) set out key principles of effective stewardship for asset owners to help them better to exercise their stewardship responsibilities.

Compliance with these UK and global sets of principles is not mandatory for Local Government Pension Scheme funds although they have the support of the UK Government and Local Authority Pension Fund Forum (LAPFF).

Nevertheless, the Greater Manchester Pension Fund was one of the first to sign up to compliance the UK Stewardship Code (second edition 2012) and global United Nations Principles of Responsible Investment (UNPRI).

Significantly, five Local Government Pension Scheme funds were named and **ranked in the top 500 of the worlds institutional investors for taking account of climate change risk** in their investments in the 2016 annual survey by the global 'Asset Owners Disclosure Project'. They were Environment Agency 1st, **Greater Manchester 30th**, Norfolk 66th, West Midlands 75th, West Yorkshire 95th.

A notable addition to the work on the Pension Fund in the past financial year has been reviewing the Pension Fund's approach to Climate Risk as the Fund believes that this is an area of work that requires constant attention and vigilance.

The Pension Fund whole-heartedly supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

Despite financial decarbonisation of the economy being a complex and challenging issue, particularly for long-term investors such as pension funds, the Pension Fund has COMMITTED to the Paris Agreement goal of 100% of our assets being compatible with the net-zero emissions ambition by c2050.

Progress towards this goal is being regularly evaluated in line with the Pension Fund's objective of maintaining long-term financial performance, ensuring that we can continue to deliver affordable and sustainable pensions for employers and taxpayers.

On the 25 May of this year, Mary Creagh MP, Chair of the Environmental Audit Committee published her committee's assessment² on the steps that the UK's largest pension funds are taking to manage the risks that climate change poses to UK pension investments.

The committee rated the Greater Manchester Pension Fund as achieving the 'HIGHEST STANDARD' of being 'MORE ENGAGED' against the criteria they set - noting that we are committed to reporting on the climate change risks and opportunities facing our funds in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

Further on the 5 June this year, the Greater Manchester Pension Fund was formally acknowledged as a Transition Pathway Initiative Supporter meaning that it is **recognised as being committed to the transition to a low-carbon economy**, and supporting efforts to address climate change.

In line with the Environment Agency Pension Fund who are leading on this we are tackling climate change through three pillars; **"to invest, decarbonise and engage"**:

1. The Greater Manchester Pension Fund continues to be the **biggest local government pension investor in low-carbon sources** with over £444 million invested in renewable energy and /low carbon/sustainable investments. The Fund has just finalised a £130m portfolio of biomass assets that will convert 350

² <https://www.parliament.uk/business/committees/committees-a-z/commons-select/environmental-audit-committee/news-parliament-2017/top-25-pesion-funds-letters-17-19/>

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thousand tonnes of waste per year into useful gas, electricity and fertiliser. During the Summer, the Pension Fund also completed our phased investment into Clyde windfarm which is the third biggest onshore windfarm in Europe, a vital component of UK renewables and generation as a whole, providing power to over 300,000 homes and roughly 3% of UK wind generation.

2. At the Pension Fund Management meeting on the 19 October 2018, the Greater Manchester Pension Fund took a major step and significant step toward integrating climate risk into our investment process and **decarbonising** by approving that **£2.3 billion** of the Fund Assets to be moved to a low carbon approach targeting a significant reduction in carbon footprint and intensity as we move on our journey to become carbon neutral. This will be the largest allocation from any single local Government pension Fund or indeed any of the eight pools that have been created from the 98 local government pension funds.
3. The Greater Manchester Pension Fund will continue to **engage** with companies, voting against them where it feels they are making inadequate progress towards decarbonisation and actively engage with fossil fuel companies to encourage “real change” in the industry bringing shareholder resolutions at companies including Shell, BP, Rio Tinto, Anglo American and Glencore. The Fund continues to use its voice and size on the Local Authority Pension Fund Forum (LAPFF)³ and the Institutional Investor’s Group on Climate Change to engage with and challenge companies in which we have an interest. The Fund uses shareholder engagement to engage companies not only on climate change but also on employment and labour issues. This is a clear example of implementing leading practices on responsible investment.

Friends of the Earth Manchester and Fossil Free GM were invited to the Greater Manchester Pension Fund’s first (and in fact the first in the local government) stakeholder Stewardship day last year where 80% of the Fund’s stakeholders agreed with our approach, that engagement is more effective than divesting our holdings and **passing the buck on to someone else who may not share our commitment to responsible investment.**

The Pension Fund will continue to keep our Responsible Investment policy under review in order to bring it into line with the goals set out in the 2015 Paris Agreement on climate change.

We are implementing our Climate Risk Strategy and moving towards ‘decarbonisation’, reducing our exposure to investments that are connected to climate change and TRUCOST⁴ a globally recognised Ethical, and Governance analyst, which assess risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors stated that the **Greater Manchester Pension Fund’s carbon footprint was 20% less carbon intensive than the benchmark as at 31.3.17 in our active equities.**

The Greater Manchester Pension Fund through its asset ownership will continue to campaign for all companies that we have an interest in to clean up their act and become carbon neutral. The Fund will not shirk from its leadership role and disinvest allowing others who do not care about the environment to own those shares instead and fail future generations to come.

The Greater Manchester Pension Fund is operating within a clear ethical framework and seeking to change the behaviours of those companies we invest in to become carbon

³ <http://www.lapfforum.org/>

⁴ <https://www.trucost.com/>

neutral whilst ensuring we protect the pensions of our members and reduce cost to taxpayers.

The Pension Fund is working hard to achieve carbon neutral status as quickly as possible but it will not jeopardise hard earned pensions of our workers and pensioners or importantly increase the costs for hardworking taxpayers of Greater Manchester.