

Councillor's Monthly Report February 2022

As an elected Councillor one of the roles I volunteered to undertake was serving on the Shropshire Council's Pensions Committee. This Committee provides oversight of the Pension Fund which ensures that Shropshire Council (and others, such as Telford and Wrekin's Council) has sufficient funds available to pay its pensioners; the Committee members act in a similar fashion to trustees. There are 50k pensioners and approx. £2bn under management. The fund manager is LGPS Central (which manages many Local Authority pension funds) and the advisor is AON plc. The Committee is non political but consists of 3 Conservatives, 2 Labour and 1 LibDem, so politics can come into play. The ambition is to ensure that in accordance with actuarial calculations the Pension Fund is fully funded – and the good news is that it is!

In the normal run of events I doubt that the Pension Committee would ever warrant a mention in the Shropshire Star or attract any attention whatsoever – unless perhaps there was a stock market crash. However, the challenge of addressing Climate Change has brought the Committee under very close press and public scrutiny. In many ways for all the right reasons.

The question is what action Pension Funds (or for that matter any other investors) can take to ensure that the ambitions of the Paris Agreement (to keep the rise in global temperature below 2degrees above preindustrial levels) are met.

The Paris Agreement was needed as there is no doubt, whatever the fossil fuel company lobbyists may say or the conspiracy theorists may believe, that (as per the UN's IPCC) mankind is responsible for global warming via the release of Green House Gasses (including CO₂) into the atmosphere. This means that global warming can be slowed, and the Paris Agreement's targets hit, if mankind reduces the amount of Green Houses Gasses emitted – or in other words, and this is a massive simplification, among other things mankind stops burning the fossil fuels that emit the CO₂. The difficulty is how exactly do we do this and achieve what is described as 'net zero carbon'.

The UK Government has set a target for the UK to be net zero carbon by 2050. Shropshire Council has set its own target, ie covering its own emissions and the emissions of say its Highways contractors, of 2030 – though this does not cover the Pension Fund. It has made good progress specifically by ensuring that its electricity supply is from renewable, as opposed to fossil fuel, sources.

But does the Pension Fund have a role to play as well? Can the Pension Committee require the fund managers to take action to reduce the global reliance on fossil fuels as an energy source? After all the Council had passed a motion in 2020 to the effect that the Pension Fund should be setting a 3-year timescale for the reinvestment of funds currently invested in fossil fuel dependent assets. Though I would note that there are more sectors than Oil & Gas that are / have fossil fuel dependent assets – eg Transport, Steel, Cement, etc. My understanding is that the Pension Committee can offer strategic direction to the Fund Managers and Advisors eg to ensure that acceptable environmental, social and governance (ESG) issues relating to the investments are met. But they shouldn't 'cherry pick' which investments are held and which are sold – that is the role of the Fund Manager.

The Pension Committee is acutely aware of the need to ensure that the Fund's investments, while primarily meeting the financial needs of present and future pensioners, adheres to accepted ESG standards. This clearly poses a dilemma when it comes to the Oil & Gas sector (fossil fuel producers) and some mining entities (especially coal miners). Can any of these companies be acceptably held in the Fund's portfolio?

There is a lobby (UK Divest, Fossil Free Shropshire (FFS)) group that believes they cannot – and the leader of the Green Party tweeted that investing in these companies is 'murderous to future generations'. FFS presented its views to the Committee in Jan22, noting that 1k people (not pensioners) had signed a petition demanding divestment. FFS claimed that investing in companies such as BP and Shell (I have never seen a list of which other listed companies are deemed unacceptable) is a poor financial decision, could suffer a challenge in the law courts and was, in any event, immoral.

The Fund Managers believe that there is an alternative to divestment – which nevertheless ensures that climate change is being addressed. Their view is that they will ensure that the Pension Fund is net zero carbon by 2050 – by measuring carbon emissions of each company and only remaining invested if these emissions are reducing. They will engage with these companies and only where they do not have credible programs, to move themselves to net zero carbon, they will sell. They will work using the disclosure parameters established by the Task Force on Climate Related Financial Disclosure (a G20 body). For immediate impact they will commit £130m to a sustainable equities fund and transition £700m away from tracking UK equities and into a low carbon transition tracker fund. I understand that these changes will halve the Pension Fund's current exposure to companies with fossil fuel reserves!

The Pension Committee fully appreciates that the measurement of carbon emission reduction must be in absolute terms and not just in % terms ie a reduction as a % of revenues; that the path to net zero emissions needs to be frontloaded and not just wait to 2049; that there must be clear reporting at least annually, if not every 6months – and all of this means that if the Fund Managers are seen to be failing then some form of divestment is possible.

I voted for the action that the Fund Managers have outlined, this should not be political – though the only Party represented that voted against this pathway to net zero carbon was the LibDems; I regret that I don't know why.

This is a critically important issue for our immediate environment and for humanity as a whole. We must act and we must get it right – the decisions made by the Pensions Committee are not 'blah, blah, blah' nor are they 'murderous'. The decisions are designed to respond to climate change . I am available to anyone that wishes to discuss the route to net zero. It is a complex but fascinating subject.

Simon Harris : Councillor Cleobury Mortimer Division 1Feb2022