Divesting to protect our pensions and the planet

An analysis of local government investments in coal, oil and gas

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Foreword

Mark Campanale

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The biggest economic disruption of our modern era will be the transition from fossil fuels to renewable energy. This is a historic event that is unfolding rapidly, as renewables are now cheaper in most if not all parts of the world. The conclusion is clear: in times of rapid disruptive innovation, incumbents defending dominant market shares are almost never safe. The argument has evolved rapidly in the last decade because of the plummeting price of cleaner technologies, mirrored by the collapse in returns to investors in the fossil fuel industry. While there is an important moral debate that 'we shouldn't burn this stuff', now, because of clean technology competitiveness, it has also become a financial debate which says 'actually, there are cheaper, more efficient technologies out there. So we *won't* burn this stuff.'

In this essential new report from Platform and Friends of the Earth, local stakeholders are asked to face the compelling case for fossil fuel divestment. The invitation for decision-makers on local pension fund committees is to consider how pension fund investments today reflect what is already happening in the real world: the energy economics is only going in one direction, which is the end of the fossil fuel age. So how should we adjust accordingly?

Renewable energy has historically been deemed too expensive and unreliable to power the grid, but new research (Goldman School of Public Policy, 2020) has overturned that trope for good. Wind, solar and storage prices have plummeted so fast that, for example, the United States can reach 90% clean electricity by 2035 – without raising customer costs at all from today's levels, and actually decreasing wholesale power costs by 10% (Marcacci, 2020). The International Renewable Energy Agency report *Renewable Power Generation Costs in 2019* shows that more than half of the renewable capacity added in 2019 achieved lower power costs than the cheapest new coal plants. Electricity costs for solar and wind power continued to fall significantly between 2010 and 2019 – by 47% for concentrated solar power, 82% for solar photovoltaic (PV), 39% for onshore wind and 29% for offshore wind (IRENA, 2020).

In the 'Our World in Data Energy Dataset',[1] wind and solar energy were scaled up rapidly in recent years; in 2019, renewables accounted for 72% of all new capacity additions worldwide (Roser, 2020). The global price of electricity from new coal declined from $111 to $109. While solar got 89% cheaper and wind 70% cheaper, the price of electricity from coal declined by merely 2%. As a consequence, between 2010 and 2018, 411 million people gained access to clean electricity, and an additional 200 million to clean cooking technologies and fuels (Tracking SDG 7, 2018).

A great deal of the planned fossil fuel production by fossil fuel companies – including the ones owned by the local authority pension funds in this report – is going to be redundant, leading to stranded assets. The mechanism of asset stranding is simply that as cheaper new energy technologies take over, so the old ones are no longer required. In the case of solar and wind, and batteries and electric vehicles, prices are dropping at around 20% for every doubling of capacity. So it becomes cheaper to drive electric vehicles, and cheaper to generate renewable electricity. There will be cascading effects through a multitude of industries, from coal to oil to gas. This has already started in the machinery sectors which are linked to these industries, from power plants to gas turbines to cars.

The moment that the sticker price of an electric vehicle is comparable to that of an internal combustion engine (ICE), we enter a new paradigm: a world of declining demand for fossil fuels. And this then plays out in sector after sector, country after country. Peak demand for fossil fuels was reached in the OECD 16 years ago, in 2005. Peak coal was in 2013. Once you start searching for fossil fuel demand peaks, you find them everywhere. We saw peak oil demand and peak fossil fuel demand in 2019/20, and all COVID-19 has done is to bring the peak forward.

Incumbents, however, expect and build for growth, which is what the oil and gas sector is doing now – planning for growth, as the $20 billion a year invested by the likes of Chevron and Exxon illustrates. But at the same time as challenging technologies take that growth, incumbent demand will fall. And so a gap opens up between capacity to produce and demand. That is overcapacity, and hence stranded assets. But it is not just a question of stranded assets and a few high-cost facilities being shut down. The problem is much deeper than that. Thanks to the simple laws of economics, overcapacity means lower prices for everyone. So the entire industry faces lower volume and lower prices, and that means lower profits for incumbent fossil fuel companies, lower returns for investors and losses for local authority pension fund beneficiaries.

[1] Available at https://github.com/owid/energy-data.

Financial markets know this. And that is why we have seen the collapse in the valuations of the fossil fuel sector, followed by write-downs[2] and bankruptcies. For example, after the 2007 peak, the European electricity sector wrote down €150 billion in stranded assets. In the last year, the global oil sector has written down $100 billion of assets. The Norwegian state sovereign pension fund saw this in 2020: it announced at the start of 2021 that it had sold its entire portfolio of companies focused on oil exploration and production, but only after the fund revealed an approximately $10 billion loss in 2020 on oil and gas holdings that had been valued at more than $40 billion at the start of the year (Taraldsen, 2021).

Why is this energy transition significant for investors who failed to divest in the last few years? Or for those who caught it late, such as Norges Bank? The explanation is pretty simple. Equity markets discount future expected profits. When they see a turning point, as we've seen particularly dramatically in 2020, they derate stocks and sectors. And by the time sales volume in coal or oil has peaked, the price is already down a long way, before it finally finds a new equilibrium suitable to an industry in decline. The most significant shift is when the new technology takes all the growth, usually at a market share of 3–5%. This is roughly what happened with the European electricity sector after 2008, with US coal after 2011 and with the oil services sectors after 2012. Moreover, financial share prices persistently underperform as the sector declines (with a few bumpy 'reversals of hope' along the way, of course).

The risks of staying invested in fossil fuels do not stop here. The world has built up an enormous fossil fuel system over the last 200 years. The three main assets are the 900 billion tonnes of coal, oil and gas, valued by the World Bank at $39 trillion; supply infrastructure of $10 trillion and demand infrastructure (electricity, transport and heavy industry) of $22 trillion; and financial markets with $18 trillion of equity (a quarter of the total), $8 trillion of traded bonds (half the total) and up to four times as much in unlisted debt. Pension funds exposed to the fossil fuel system in the coming decade will face a rollercoaster ride of disruption, write-downs, financial instability and share price deratings as markets adjust (Hobcraft, 2020).

Finally, what about the case for staying invested and 'engaging'? The argument for 'engagement' tends to be one made by asset owners who employ investment managers who won't or can't accept that there is a technology-driven transition occurring. This approach is like arguing: 'We're long-term shareholders in Blockbuster, the video rental store. We don't divest. We'll engage with them to adapt to the threat of low-cost live-streaming posed by this new disruptor called Netflix.' And as the 'engagement'

[2] Write Down - A reduction in the estimated value of an asset.

proceeds over the years, this one company goes bust as the world no longer uses videos, while others' share prices run away with themselves as the technology shift happens. So this approach of 'we'll decarbonise when markets decide to decarbonise' is clearly not a risk management strategy. It is a 'do nothing, and hope a few meetings will help' strategy. It is vital to realise that this is at heart a technology shift.

The only shift comparable with this is the rise of the internet, which also wrecked established industries and created the opportunity to build the largest companies in the world today, from Google to Facebook, from Apple to Amazon. Policy shifts can be managed; technology shifts cannot. And because new energy technology just keeps getting cheaper, and the incumbent market share keeps falling, it just gets worse and worse. Financial markets know this, and change is being measured over years, not decades.

As the burning of fossil fuels accounts for 87% of the world's CO_2 emissions (Global Carbon Project, undated), a world run on fossil fuels is not sustainable: they endanger the lives and livelihoods of future generations and the biosphere around us. And the very same energy sources lead to the deaths of many people *right now*: the air pollution from burning fossil fuels kills 3.6 million people in countries around the world every year (Our World in Data, undated); this is *six times* the annual death toll of all murders, war deaths and terrorist attacks combined (Lelieveld et al., 2019).

This important new report underlines the argument that trustees and fiduciaries need to take three important steps: (1) implement investment beliefs that allow them to incorporate decarbonisation goals and risk parameters that work together, not against each other; (2) put in place financial performance measurement benchmarks together with decarbonisation goals, in ways that recognise that this transition is happening; (3) ensure that investment consultants and fund managers don't think this is an ESG (environmental social governance) issue. It is a classic risk issue, as the transition is fundamentally disrupting markets.

Executive summary

Just under seven million people in the UK rely on local government pension funds to provide them with an income when they retire. As with the vast majority of investments around the world, there has not always been great consideration of the impact these investments have on wider society. The climate crisis is forcing workers, investors, policy-makers and the general public to reconsider, to look at what their money is doing in their name, and to withdraw their investments from the most harmful companies on the planet so that we can help to finance a local green recovery instead.

Local grassroots campaigns across the UK, with the support of Platform, Friends of the Earth England, Wales and Northern Ireland (EWNI), and Friends of the Earth Scotland alongside countless other organisations, have been driving this effort at a local authority level for the last few years.

After submitting a Freedom of Information (FOI) request to every local authority that administers a pension fund and analysing their responses, we provide in this report a breakdown of the investments in oil, gas and coal of every local authority pension fund in the UK. The report builds on similar work carried out by the same organisations on this topic in 2015 and 2017 (FOES, 2015, 2017).

The purpose of this report is to:

- provoke conversations at the local and national level about what these investments mean and how this could change for the better
- inform local decision-makers about why and how to stop investing in fossil fuels
- support and resource people who are campaigning or eager to start campaigning for divestment in their area.

Key findings

- Our analysis, based on the end of the 2019/20 financial year, reveals that local government pensions invest nearly £10 billion in fossil fuels.

- That is £1,450 invested in fossil fuels for each of the 6.8 million members of the Local Government Pension Scheme in the UK, and roughly 3% of the total Scheme value.

	All assets		Direct investments		Indirect investments	
	(£ million)	(% total)	(£ million)	(% total)	(£ million)	(% total)
Coal	3,364	1.0	1,027	0.7	2,337	1.2
Oil and gas	6,495	2.0	1,732	1.2	4,763	2.5
Coal, oil and gas	9,859	3.0	2,759	1.9	7,100	3.7

Total council fossil fuel investments in England, Scotland, Wales and Northern Ireland

Region	Fund count	Fund total (£ million)	Fossil fuel value (£ million)	Fossil fuel (%)
England	78	261,744	8,003	3.1
Scotland	11	47,856	1,205	2.5
Wales	8	16,679	538	3.2
Northern Ireland	1	3,285	113	3.4

- The three local authority pension funds with the largest amount of investments in fossil fuels are Greater Manchester, Strathclyde and West Midlands. Together, these funds account for 20% of all the local government pension fossil fuel investments in the UK.

- The three local authority pension funds with the largest percentage of their assets invested in fossil fuels are Teesside, Dyfed and Dorset - all of which invest around 5% of their pension fund total value into fossil fuels.

- The figures above only consider local authority pension fund investments in the top 200 most harmful fossil fuel companies worldwide. If we were to consider all fossil extractors and companies which provide services to the fossil fuel industry (such as pipeline manufactures, tech services, and financial support), the overall figure would be far greater than £10 Billion.

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Why does this matter?

Our analysis shows that ten companies account for 70% of local authority pension funds' direct fossil investments.

Leading direct investments in fossil fuel companies across all local authority pension funds

Fossil fuel company	Number of assets*	Value (GBP)
Royal Dutch Shell	73	266
BP	71	249
BHP	69	180
Mitsubishi	100	119
Mitsui	106	112
Anglo American	28	91
Glencore	36	64
ENI	12	40
CLP Holdings	21	37
EOG Resources	19	36

Of these ten companies, BP, Shell and BHP account for 40% of total direct investments across all local authority pension funds in the UK, roughly the same amount as in 2017. BP is a British company, Shell is Anglo-Dutch and BHP is an Anglo-Australian mining company, all of which have been associated with human rights abuse, violent militarised resource extraction, and tremendous global pollution (Corporate Watch, 2020). If it is wrong to wreck the planet, then it is wrong to profit from or invest in the wreckage. In its 2020 project *Wreckers of the Earth*, Corporate Watch reports that:

- The largest fossil fuel company beneficiary of local authority funds, Shell, has been associated with a number of environmental and human rights violations. It has been linked to the killing of the 'Ogoni Nine' campaigners against its practices

in Nigeria. Shell is currently on trial both for this crime and for an alleged US$1.3 billion bribery deal with a former Nigerian oil minister (Corporate Watch, 2020).[3]

- BP, the second largest beneficiary of direct investments from local authority pensions, caused the world's largest ever oil spill in 2010; as a result, tens of thousands of workers have lasting respiratory illnesses to this day, while fish in the Gulf of Mexico are still contaminated with hydrocarbons a decade on. Despite advertising themselves as a 'green' energy company, BP plans to spend £41 billion on new oil exploration in the next decade, including projects in the Canadian 'tar sands', the Arctic National Wildlife Reserve and the Amazon rainforest (Corporate Watch, 2020).
- The largest mining company that local authority pension funds invest in, BHP, spilled 45 million cubic metres of mining waste into the Rio Doce as recently as 2015. Today it is actively pursuing the establishment of a mine that would destroy 3,000 hectares of public land, harm endangered species, and threaten massive water loss and contamination (Corporate Watch, 2020).

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Divesting: now is the time!

For local government

- Over three-quarters of local councils have declared a climate emergency. For the majority of councils, their largest carbon emissions will come from their pension fund investments. With the UN Climate talks taking place in the UK in November 2021, UK Councils can show their commitment to climate action by ending their investments in the companies causing climate damage.
- Investing in fossil fuels is increasingly costly. It's a financial risk - with UK Public Pensions losing £2 billion on oil investments in the last 4 years.[4] It's also a political risk - with the UK public more concerned about climate change than ever before.[5]

[3] Since this text was published by Corporate Watch in 2020, the appeal court in the Hague has ruled - on Friday 29 January 2021 - that Royal Dutch Shell's Nigerian subsidiary is responsible for multiple cases of oil pollution in the Niger Delta and must compensate Nigerian villages for oil contamination which has brought death, illness and environmental destruction to the region. The court also judged that the Netherlands-based Royal Dutch Shell breached its duty of care by not doing enough in response to the oil spills (Friends of the Earth International, 2021).

[4] https://www.ft.com/content/f74502ad-8ae9-4715-a297-364ab8418c11

[5] https://www.gov.uk/government/statistics/beis-public-attitudes-tracker-wave-35

- Local government has a choice to make. It faces a near £10 billion funding shortfall this year, and may be stretched to its very limits. At the same time, local authority pension funds invest nearly £10 billion in some of the most destructive companies in the world – fossil fuel companies. In this context, councils can lead their local communities out of the pandemic by taking their members' money out of fossil fuels, and re-investing in a social and resilient economy.

For investors

- Fossil fuel stocks were already on a long-term downward trajectory, and COVID-19 has accelerated this process. Meanwhile, renewables stock prices are growing by up to 20% a year. The Fossil Fuel age is ending, and financial markets know it. If pension fund committees don't move their members' money out of fossil fuels soon; lowering prices, financial instability and likely bankruptcies could cause huge losses.
- Engagement with fossil fuel companies is not working. This is especially undeniable in the case of local authority pension funds: their scale is too small to fundamentally change the core business model of fossil fuel majors.
- Change that is both good for the planet and good for returns is possible. Six local government pension funds, half of all UK Universities, and over 1,250 institutions representing over $14.5 trillion in assets have already gone fossil free (Nauman, 2020). You can do it too.

For all of us

- Instead of seeing pensions as distant assets we do not have to worry about until the day we retire, we need to take an active role in understanding what they do and how they can work.
- 2021 and the path out of COVID-19 should be a chance for a fresh start, and for us to act on what really matters for our health and future. In 2018 alone, the burning of fossil fuels caused more deaths than tobacco-smoking and malaria combined - often through heart disease and respiratory ailments (Milman, 2021). We owe it to ourselves and future generations to move towards a healthier energy system.
- With every day that we put off divesting from fossil fuels, we keep pouring billions into companies' harmful operations. Fortunately, we are the ones who elect the UK representatives who can make divestment happen, so we should ensure we have

a say on where pension money goes. For our communities, our health and the planet.

What if our pensions could fund a future worth retiring into?

At its most ambitious, divestment is a demand not just for taking money out of fossil fuels but also for reinvesting it in socially and environmentally useful projects with stable returns. Thirty years ago, 60% of local authority pension funds were invested internally within the UK – it's only half of that today.

We should take inspiration from some impressive local action and demand more and greater ambition. Councils have invested their pensions in UK wind farms (Coyne, 2017), community-owned solar power cooperatives (Blue & Green Tomorrow, 2013) and social housing projects (FOES, undated). Following a decade of austerity, bringing an average 38% reduction in central government grants (Institute for Government, 2020), now is the time to raise ambitions, focus on what matters and put in place the foundations for a sustainable future for all.

We need to start imagining a world powered entirely by renewables – a world beyond the extraction of wealth and resources. We must ask what opportunities this will open up, and also look at the practical steps to get us there. After all, our pensions are for us, when we're older. Imagine the world you want to retire into. And then invest your pension in it.

What can you do next?

For Councillors

- Seek representation on your council's pension fund committee and push for divestment as a popular, moral and financially prudent decision.
- Pass a divestment motion[6] to sell all shares in fossil fuel companies within a defined number of years.
- Work with your local community to identify local investment projects the pension fund could fund, as other pension funds have done.

[6] 'For a template motion you can pass at your local authority please see our website www.divest.org.uk

- Through our website at www.divest.org.uk, get in touch with councillors who have moved to divest their pension, or would like to do so, and work together to make UK pensions stop funding fossil fuels.

For fund managers

- Implement investment beliefs that allow decarbonisation goals and risk parameters to work together, not against each other.
- Put in place financial performance measurement benchmarks together with decarbonisation goals - to recognise the energy transition and adjust accordingly.
- Ensure that investment consultants and fund managers don't think this is an Environmental Social Governance (ESG) issue. It is a classic risk issue, as the transition is fundamentally disrupting markets.

For all of us

- Support action to keep all fossil fuels in the ground and reject any 'net zero' targets that fail to deliver this aim.
- Find out what your council invests in and talk to your neighbours about it. Remember, our pensions are for us – how they are invested is up to us too.
- Contact your Councillors and election candidates about the council's investment in fossil fuels. Find resources to send your councillors on our website at www.divest.org.uk
- Contact local government trade union branches in your area and ask them to put you in touch with those eager to push for divestment. If they cannot suggest anyone, ask to make a presentation about it.
- Join one of the many local divestment campaigns across the UK. If there is none in your area, set one up.
- Sign up to our mailing list at www.divest.org.uk and if you have any questions, contact the authors of this report.

Introduction

A future worth retiring into

Local authority pension funds invest the pensions of over six million people in financial 'assets' supposed to keep their money safe and, ideally, generate increasing returns. This system is designed to enable workers to access their money upon retiring. Historically, councils – like most institutions tasked with investing – have functioned according to the sole logic of generating stable returns on investments. Until relatively recently, little consideration was given to the social and environmental impact of these investments. In 2021, those pensions not seeking to invest more sustainably are increasingly at odds with growing public awareness of the importance and impact of climate change[7] in our lives and willingness to do something about it. A 2020 poll revealed that the UK public wants a radical response to climate change and with the same urgency as the response to the COVID-19 crisis (Stone, 2020). We believe that tackling climate breakdown cannot be put on the back-burner and must be, with the lessons from the COVID-19 crisis, front and centre in informing how we move forward. We see this as a chance to move our economy away from competition and towards cooperation, from hoarding of wealth towards redistribution and reparation (Walker and Sheikh, 2020).

In this context, we explore how pension fund investment could ensure that we have not only a pension for retirement but also a future worth retiring into. For several years, grassroots environmental groups and organisations – including Platform, Friends of the Earth England, Wales and Northern Ireland (EWNI), and Friends of the Earth Scotland (FOES) – have highlighted that together, local councils invest billions in the companies most responsible for this climate crisis, using council workers' pension funds. And it's often ordinary people with a desire to contribute to concrete change in their local area who have come together to challenge this status quo. The movement to divest,[8] in the UK and abroad, is the gathering of all these efforts. And it has already achieved countless milestones in building bottom-up pressure to deliver the following message: local councils – and in fact all public institutions – hold the key to a historic and necessary change. As many local councils have already realised, they can choose to stick to old systems of investment that keep accelerating climate change, or they can invest local money in ways that matter for local people and their future.

[7] If you'd like to read our definition of climate change, see the text box on p. xx
[8] If you want to know what the divest movement and divestment are, check out the text box on p. xx.

In 2021, the year when the country is hosting the United Nations climate talks (COP26), UK public institutions taking action for radical change could not be more relevant. Besides, the UK is a focal point for the global economy. We have a responsibility not only in relation to ourselves and our own lives, but also to all of those affected by decisions made on our doorsteps – those impacted by the fossil fuel industry elsewhere in the world, but also those future generations we want to leave a safer planet to.

[TEXT BOX: What is divestment?]

Divestment is when wealth owners decide to withhold their capital – by selling stock-market-listed shares, private equities or debt – from firms engaged in anything they consider to be reprehensible activity.

The campaigning tactic was in the past directed at tobacco, arms, corporations in apartheid South Africa, pornographic industries and gambling, among others. Since 2007, the climate justice movement has focused on investments in fossil fuels, whether in banks, universities, religious bodies or public pension schemes like the Local Government Pension Scheme (LGPS). At its heart, fossil fuel divestment is based on the premise that if it is wrong to wreck the planet, it is wrong to profit from the wreckage.

When successful, divestment is not just shareholder activism but part of a broader movement that delegitimises the targeted industries or companies and leads to policy being enacted that reduces their ability to continue to operate as they have (Ansar, Caldecott and Tilbury, 2013). The ultimate aim is to strip the targeted companies of their 'social licence to operate' in the eyes of investors and the general public.

When this aim is achieved, divestment can lead to very challenging circumstances for targeted companies: stigmatisation, legal uncertainty, divergent valuations, reduced demand for shares, reduced availability of debt, higher cost of debt, lower stock value, redirecting of investment to alternative providers, decline in share price prompting manager behaviour change, inability to finance new capital expenditure and, ultimately, inability to continue operating due to a lack of capital (Ansar, Caldecott and Tilbury, 2013). Once the later stages of a campaign are reached, a change in legislation can be introduced too. The more people that engage in a divestment campaign, the more likely each outcome is.

Along with a vast coalition of other actors, divestment activism has already led to a growing stigmatisation of fossil fuels. The last few years have seen a huge increase in the number of fossil free funds available,[i] increased legal and regulatory changes in subsidies and production, and a dramatic increase in shareholder activism.

[i] *We recognise that to be ethical, it is not sufficient for a fund to be 'fossil free', as many industries are socially and environmentally harmful despite being fossil free. We explore this further in Chapter 3, Section B*

This report shows that pension funds are continuing to pursue investment strategies that expose them to the risks and responsibilities of ownership in some of the most harmful fossil fuel companies in the world.

As part-owners of the fossil fuel industry, pension funds are bearing the costs of its failures and retaining responsibility for the damage the industry causes. Fund managers may continue to judge that these burdens are outweighed by the benefits of fossil fuel dividends, but the dire situation for fossil fuels brought about by the coronavirus pandemic shows how short lived these benefits may be. Those councils that have placed the most fossil fuel bets are facing the greatest risks.

We all have a stake in our climate, but we also all have a stake in these investment decisions. The law says that pension funds must do right by their individual members, workers and retired members, as well as employers. Since the employers here are public services, including our local councils, we should all have a voice in the shape of investment decisions. Public support for climate action is clear, but the data shows that with levels of investment in climate-wrecking companies still high, investors aren't investing in a fossil free transition and aren't recognising public support for a change in direction. Local authorities and citizens could lead the way in divesting pension funds out of fossil fuels, and into socially useful investments. This report will give you the tools and knowledge that you need to get involved.

Research aims

This report is the most up-to-date review of how much local councils invest in some of the most harmful fossil fuel companies in the world. It is designed to:

- open conversations at the national and local level about what these investments mean and how this could change
- inform local decision-makers about why and how to divest from fossil fuels
- support and resource local people already campaigning for divestment in their area.

Research approach

We have used, as a primary point of reference, the 'Carbon Underground 200' (CU200) list produced and maintained by Fossil Free Indexes, LLC (FFI Solutions, 2020).[9] This list includes the 200 companies with the largest quantities of coal, oil and gas reserves globally. The burning of fossil fuels is the main driver of climate change, and is therefore incompatible with keeping a safe and habitable planet for retirement and for future generations to have a world where life is not only possible but worthy of being lived.

We recognise, however, the limitations of looking only at fossil fuel investments – as many other investments held by local authorities also contribute to violent and damaging extraction of resources, often (but not always) in the Global South (War on Want and London Mining Network, 2019; Selwyn, 2020). This includes investments in the arms trade and mining operations, and generally any corporate activity designed to violently extract natural resources to generate profit, often displacing and harming local communities in the process. The decision to focus on fossil fuels in this report is therefore rooted not in an argument that fossil fuel investment is 'the worst' kind, but rather in a desire to support ongoing local campaigns across the UK that are already focused on fossil fuel divestment.

[TEXT BOX: What is climate change ?]

'Climate change' is a term used to refer to all the ways in which our planet's climate is being deeply disturbed by the intensive use of its natural resources to sustain humans' way of life. For people in the UK, climate change has translated into increased floods and extreme weather, including the record high temperatures of winter 2019, as well as the long-lasting effects of air pollution – primarily affecting working-class communities across the country (Ogden, 2019). For diaspora communities and people in the Global South, these effects have been known and lived for decades in the form of rising sea levels swallowing up coastal towns, or hurricanes such as Irma, which ravaged Saint-Martin island in 2017, or Idai, which took hundreds of lives in Mozambique in 2019, to name only a few of these climate tragedies. The central driver of climate change is the amount of carbon dioxide that we collectively release into the air, and the fossil fuel industry has been identified as the main global polluter in this regard (Gilbertson, 2019; Corporate Watch, 2020). Most companies making up this polluting industry have their financial

[9] This is an annually updated listing of the top 100 public coal companies and top 100 public oil and gas companies globally, ranked by the potential carbon emissions content of their reported reserves. Divestment campaigns across the globe have long used this list to set targets (Fossil Free, undated).

headquarters in the Global North. For example, the fossil fuel corporations housed in the City of London alone produced over a fifth of global carbon emissions from 1988 to 2015 (Corporate Watch, 2020).

[TEXT BOX: Pensions, fossil fuels and colonial history (Platform only)]

Platform traces the root of climate change to a very old belief system. Called 'extractivism', this belief system includes the assumption on which our economy functions – that certain humans, along dividing lines of race, class, gender, geography, etc., are to be considered separate and superior to the rest of the living world. It has been at the core of European societies' colonial conquests and parallel economic development. And today it is visible in rising levels of inequalities along similar dividing lines, here and abroad. In the UK for instance, this translates into the fact that while people experiencing poverty have the highest levels of exposure to air pollution, it is the richer households that are more responsible for polluting (Ogden, 2019). The same logic translates into how money is invested, including through pensions funds. As of 2018, the asset value of pension funds around the world represented roughly 51% of global GDP,[i] with just 20 pension funds representing 9% of that. Of this estimated £36.5 trillion, 98% belongs to pension funds in OECD countries (Rempel and Gupta, 2020). And yet the impact of these investments, in particular in fossil fuel assets that accelerate climate change, is primarily felt by populations in the Global South, outside of OECD countries. All in all, pension funds and the fossil assets they own both play a significant part in accelerating climate change and continue to create profit from the violent legacy of colonialism and inequality they emerge from.

[i] *Gross domestic product, or GDP, is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year.*

The first chapter of this report presents the current state of affairs regarding local government investment in the fossil fuel industry: how much each local council invests in fossil fuel companies, which localities can and should change the most in this regard, and what this means for local money and local people. We will also explore what has changed in regard to these fossil fuel investments over the past three to four years and some of the reasons why. Lastly, the chapter will contextualise fossil fuel investments within the 2021 UK local governance landscape, while also presenting some facts about the frontline effects of these financial choices in the places where fossil fuel companies are operating, in the UK and abroad.

The second chapter, grounded in analysis of the data presented in the first, will present the case for divestment: why, in 2021, has it become more important than ever to shift all assets away from extractive industries and back into the public good? We will answer this question by exploring the policy and financial rationales for divestment and, most importantly, the social and environmental justice argument.

After looking at what is going on and why it needs to change, in the third chapter we explore practical steps for collectively creating such change in the current UK context. We will explore the potentially transformative power of pension funds as building blocks for local green recoveries in the wake of the COVID-19 pandemic and its ravages, and the role that pension fund money can play in shaping a new economy that supports and sustains life in all its forms.

CHAPTER 1. Local pension investment in fossil fuels: current state of affairs

A. How much do local authority pension funds invest in fossil fuels?

Our analysis, based on the end of the 2019/20 financial year and using a list of the world's 200 biggest extractors of fossil fuels, shows that UK local government pensions invest at least £9.9 billion in fossil fuels.[10] That's £1,450 invested in fossil fuels for each of the 6.8 million people[11] who depend on local government pension funds across England, Wales, Scotland and Northern Ireland, and it represents 3% of the total value of the Local Government Pension Scheme (LGPS).

Table 1: Local authority pension fund investments in fossil fuels

	All assets		Direct investments		Indirect investments	
	(£ million)	(% total)	(£ million)	(% total)	(£ million)	(% total)
Coal	3,364	1.0	1,027	0.7	2,337	1.2
Oil and gas	6,495	2.0	1,732	1.2	4,763	2.5
Coal, oil and gas	9,859	3.0	2,759	1.9	7,100	3.7

Local authority pension funds invest in fossil fuels directly through stocks and bonds in fossil fuel companies and indirectly through indirect investment vehicles, including actively managed and passive investment funds. In our analysis, the majority of local authority pension fund investments in fossil fuels, approximately £7 billion (72%), takes place through indirect investment vehicles. Looking at direct and indirect investments together, £3.4 billion (1%) of local government pension fund investment is in coal and £6.5 billion (2%) is in oil and gas (see Table 1).

[10] For more details see p. xx 'Fossil fuel exposure is even greater than we estimate in this report & here's why'' and Appendix 2, 'Methodology in detail'.
[11] This is a rounded approximate for 6,784,000.

Table 2: Local authority pension fund investments in fossil fuels in England, Wales, Scotland and Northern Ireland

Region	Fund count	Fund total (£ million)	Fossil fuel value (£ million)	Fossil fuel (%)
England	78	261,744	8,003	3.1
Scotland	11	47,856	1,205	2.5
Wales	8	16,679	538	3.2
Northern Ireland	1	3,285	113	3.4

Out of the 98 local authority pension funds[12] that were considered in the analysis, 13 were removed from the main sample that we screened for fossil fuel investments because they failed to provide sufficient data (see Appendix 2, 'Methodology in detail'). We estimated values for the fossil fuel holdings of these 13 using data from this research and relative rankings from the 2017 report *Councils: Fuelling the Fire* (Platform and Friends of the Earth, 2017).

Table 3: Funds with the highest amount of investments in fossil fuels

Local authority pension fund	Fund value (£ million)	Fossil fuel value (£ million)	Fossil fuel %
Greater Manchester*	22,035	1,012	4.6
Strathclyde	22,702	508	2.2
West Midlands**	14,768	508	3.4
West Yorkshire	13,214	503	3.8
Nottinghamshire***	5,770	241	4.2
Merseyside	8,633	240	2.8

[12] We refer to local authority pension funds as the actual funds that pension holders get attached to through the Local Government Pension Scheme (LGPS). Sometimes there is a difference between the name of the pension fund (as referred to in this report) and the local authority in charge of administering the pension fund (sometimes several local authority areas are combined in a single fund). We have tried to indicate when that's the case to avoid confusion.

Tyne and Wear****	8,453	238	2.8
South Yorkshire	8,454	230	2.7
Kent	5,717	210	3.7
Teesside	4,110	201	4.9

(methodology detail is available in Appendix 2).

Table 4: Funds with the highest proportion of investments in fossil fuels

Local authority pension fund	**Fund value (£ million)**	**Fossil fuel value (£ million)**	**Fossil fuel (%)**
Teesside	4,110	202	4.9
Dyfed	2,378	114	4.8
Dorset	2,705	128	4.7
Warwickshire	2,025	94	4.6
Royal Borough of Greenwich	1,160	53	4.6
Greater Manchester	22,035	1,012	4.6
Gloucestershire	2,245	100	4.4
London Borough of Wandsworth	2,385	103	4.3
Shetland Isles	459	20	4.3
Somerset	2,270	97	4.3

(methodology detail is available in Appendix 2).

Conservative estimates

Our figures are based on the most advanced methodology ever used to calculate UK local authority pension funds' investments in fossil fuels (see Appendix 2 p. xx). We also know that actual fossil fuel exposure through these funds is even higher than we estimate, meaning our figures are rather conservative. Here's why:

1. **We only measured CU200 exposure:** Our method only measures investment in CU200 companies – the top 200 extractors of fossil fuels. We do not count investment in smaller fossil fuel extractors not on the CU200 list or industries linked to fossil fuel extraction, such as pipeline manufacturers.
2. **Not all indirect investment vehicles have been screened:** Our method only screened indirect investment vehicles which represented more than 1% of each pension fund's total value. Unfortunately, this means there are likely to be small undetected funds in the dataset which have CU200 exposure.
3. **Difficulties estimating the CU200 exposure of opaque investments:** Many indirect investment vehicles do not publicly disclose their holdings, so it is not possible to calculate their fossil fuel exposure. We estimated these larger investment vehicles to have a CU200 exposure equal to the MSCI World Index,[13] which has a CU200 exposure of 3.5%. This was the case for approximately £40 billion worth of assets. If we had instead used the FTSE 100 index as a proxy, reflecting a bias towards UK markets, our results would have been much higher as it has a CU200 exposure of 12% (this would have added around £3 billion to the indirect fossil fuel investment total).
4. **Our results are only as good as the data disclosed by local authorities:** Our analysis is based exclusively on data collected from FOI requests. Some local authorities did not engage fully with this process, which constrained us to produce estimates using partial data. As already described, for 13 local authorities we assigned estimated values. For a further seven local authorities, we noted that the assets disclosed in the FOI response were less than the pension fund total disclosed in their 2019/20 annual reports so we estimated the unreported amounts using the average fossil fuel exposure for the disclosed assets.
5. **'Low-carbon' and 'climate- aware' funds were estimated to have zero CU200 exposure:** Any fund mentioning terms related to sustainability was assumed to have no fossil fuel exposure . In reality, up to a third of these funds will still be investing in oil and gas companies, as explored in Chapter 3 of this report.

B. Where does the money go and what has changed since 2017?

Which fossil fuel companies do pension funds invest in? Our analysis shows that ten companies account for 70% of councils direct fossil fuel investments. Three companies -

[13] The MSCI World Index is a market index that indicates the overall performance of so-called large and mid-cap equity performance in developed markets. Large-cap funds are considered highly secure; they carry low risk and have the potential to generate stable returns on investments. Mid-cap funds are considered slightly high in risk and the returns might vary more.

BP, Royal Dutch Shell and BHP - account for 40% of all direct fossil fuel investments; all are listed on the FTSE 100.[14] This is consistent with our findings of our 2017 report *Councils: Fuelling the Fire* (Platform and Friends of the Earth, 2017) which found BP, Shell and BHP to be among the largest direct investments by local authority pension funds.

Leading direct investments in fossil fuel companies across all local authority pension funds

Fossil fuel company	**Number of assets***	**Value (GBP)**
Royal Dutch Shell	73	266
BP	71	249
BHP	69	180
Mitsubishi	100	119
Mitsui	106	112
Anglo American	28	91
Glencore	36	64
ENI	12	40
CLP Holdings	21	37
EOG Resources	19	36

Note: Some local authority pension funds hold multiple assets in a single company so the number of assets can be higher than the total number of pension funds.

Many of these top 10 companies most financially supported by local authority pension funds are headquartered in London, which has been one of the main global hubs of financial power derived from resource extraction around the world.[15] London's position in global finance has clear historical roots in colonial conquest and all its present-day legacies. For instance, London corporate giants such as Anglo American, BHP and Glencore (listed in Table 5) emerged from four centuries of European colonisation and

[14] The FTSE 100 is an index composed of the 100 largest companies by market capitalisation which are listed on the London Stock Exchange (LSE).
[15] For an explanation of extractivism in relation to climate change, see text box 'What is climate change?', p. xxx.

settlement in the Americas, Africa, Asia and Australia before transforming into multi-billion dollar transnational corporations over the last hundred years (Selwyn, 2020: 6–10).

The individuals at the head of these companies are firmly part of the international corporate elite, with revolving doors not only between these companies' membership boards and executive committees but also between them and the highest UK state institutions (War on Want, 2018; Selwyn, 2020). Some examples are given below, drawn from War on Want and London Mining Network reports:

- The Ministry of Defence's chief information officer, Charles Forte, spent over two decades in the same role at BP, while the chair of the Defence Audit Committee, Simon Henry, spent over 30 years at Shell (Selwyn, 2020: 48).
- Sir John Parker, Anglo American's chair until October 2017, is a former senior non-executive director of the Bank of England who was then asked by the UK government to lead a review of ethnic diversity on UK boards and a review of naval shipbuilding (War on Want, 2018: 7–8).
- Baroness Shriti Vadera, senior independent director at BHP, was formerly a minister in the UK government, including in the Department for International Development, Department for Business, Innovation and Skills, and Cabinet Office (War on Want, 2018: 8; Selwyn, 2020: 49)

Many of these individuals are paid huge amounts of money, and their position symbolises the state of global inequalities within our current economic system. For example, Glencore's CEO is the multi-billionaire Ivan Glasenberg, who personally owned 8.5% of the shares in the company in 2018 (War on Want, 2018: 7). Anglo American's CEO, Mark Cutifani, was paid £3.7 million in 2015 and £3.4 in 2016. In 2017, BHP Billiton's CEO, Andrew McKenzie, was paid nearly £5.3 million (War on Want, 2018: 7).

On top of translating into tremendous levels of inequality, the concentration of power and wealth at the top of fossil fuel companies – while many workers at the bottom face precariousness and insecurity (Platform, FOES and Greenpeace, 2020) – also enables them to fuel military repression when necessary to sustain extractive operations, often in the Global South. For instance, fossil fuel company Mitsui (listed in Table 5) owns 20% of the Mozambique Liquified Natural Gas (LNG) Project (Banktrack, 2020) – a project which has led to the forced removal of thousands of people in the local area, with large fishing communities losing their income and homes (Banktrack, 2020). A militarisation process led by the Mozambican government has grown in the region since the project's

implementation, with local communities reportedly living in fear of rising violence erupting in their region (Friends of the Earth Mozambique, 2020).

This example is not isolated. London Mining Network's (2020) report *Martial Mining* references at least 63 military conflicts surrounding the extractive operations of only four London corporate giants: Glencore, BHP, Anglo American and Rio Tinto.[16] These operations are often confronted by community resistance, which is then met with further repression – from intimidation, surveillance and harassment to forced disappearances, invasions and assassinations (Selwyn, 2020). By continuing to support these companies with our investments, we directly support the destruction of lives and environments on the frontline of their operations.

[TEXT BOX - FOSSIL FUEL COMPANY CASE STUDIES]

Some of the fossil fuel companies that local authority pension funds invest the most money in (as shown in Table 5) are profiled in Corporate Watch's directory of 'Wreckers of the Earth' (Corporate Watch, 2020) – from which the case studies below are directly copied. For any further information about these case studies, you can visit Corporate Watch's full directory here.

BP

Oil and gas multinational headquartered in London. Has a bloody history of colonial exploitation, environmental devastation and violence, from its foundations in the Anglo-Iranian Oil Company to the world's largest oil spill, Deepwater Horizon in 2010. BP contributed 1.53% of global carbon emissions in 1988-2015, according to Carbon Majors Database. In recent years the company has cynically tried to rebrand itself as a "green" energy company developing renewable sources – while in reality its business remains overwhelmingly focused on fossil fuels. It plans to spend £41 billion on new oil exploration in the next decade including projects in the Canadian "tar sands", the Arctic National Wildlife Reserve, and the Amazon rainforest.

Royal Dutch Shell

British-Dutch multinational oil and gas company, headquartered in the Netherlands and incorporated in the United Kingdom. Accountable for 1.67% of global carbon emissions in 1988-2015, according to Carbon Majors Database. Shell has no shortage of controversies; in particular it has been linked to the killing of the "Ogoni

[16] Rio Tinto is not a fossil fuel company but a mining one sharing historical ties with the other companies listed in this sentence.

Nine", including Ken Saro-Wiwa, as well as other horrific atrocities in the Niger Delta, where it is the main multinational oil exploiter. Shell, with Italian oil company Eni, is currently on trial in Italy over an alleged $1.3 billion bribery deal with a former Nigerian oil minister.[17] In May 2016 an estimated 2,100 barrels of oil, nearly 90,000 gallons, spilled into the Gulf of Mexico – leaked from an undersea pipeline system operated off the Louisiana coast.

BHP Group

BHP is one of the world's largest mining companies, with 30 operations in 13 countries. It is among the top 25 fossil fuel producers worldwide. It is the joint owner of the Cerrejon coal mine (see Anglo American PLC), and was responsible for the massive Samarco dam collapse in 2015, which spilt 45 million cubic metres of mining waste into the Rio Doce and its tributaries. BHP's proposed copper mine in Tonto National Forest in the US would destroy 3,000 hectares of public land, harm endangered species, and threaten massive water loss and contamination.

Anglo American

UK and South African multinational that is the world's largest producer of platinum and a major producer of diamonds, copper, nickel, iron ore, metallurgical and thermal coal. Anglo American has violated indigenous land rights across the globe and polluted the water, agricultural land and air of many communities. It is co-owner (with Glencore and BHP) of the huge open-pit coal mine Cerrejon, in Colombia, where pollution and dust from the mine has caused contamination on a massive scale. In Brazil, it is facing strong opposition from local communities over its plan to expand a large tailings dam, the collapse of which would have horrific consequences. In the state of Chile, residents of ***El Melón*** *are amongst those fighting its attacks on their land and water sources.*

Glencore

Mining and commodities trading company, the world's largest mining company by revenue. It is one of the world's largest producers of zinc, copper and other metals,

[17] Since this text was published by Corporate Watch in 2020, the appeal court in the Hague has ruled - on Friday 29 January 2021 - that Royal Dutch Shell's Nigerian subsidiary is responsible for multiple cases of oil pollution in the Niger Delta and must compensate Nigerian villages for oil contamination which has brought death, illness and environmental destruction to the region. The court also judged that the Netherlands-based Royal Dutch Shell breached its duty of care by not doing enough in response to the oil spills (Friends of the Earth International, 2021).

and also a major global coal miner. The company was formed from the merger of Glencore and XStrata in 2013: both have a terrible history of environmental fines, fatalities, health problems, dumping toxic assets, contamination of water, air, land. Glencore is part-owner of Cerrejon, a huge open-pit coal mine in Colombia.

ENI

Italian multinational oil and gas "supermajor", active worldwide. It is the second main multinational, after Shell, involved in the Niger Delta – "one of the world's most polluted regions". Eni and Shell are currently on trial in Italy over an alleged $1.3 billion bribery deal with a former Nigerian oil minister. In an extremely rare case, the Eni CEO actually faces criminal charges. 30% owned by the government of Italy. The remaining shares are publicly traded and owned by major global investors.

Changes over time

Since 2017, we've observed that a much bigger proportion of fossil fuel investment happens through indirect investment vehicles. This makes the assessment of local authority pension funds' composition quite complex, as indirect investment vehicles have a wide range of exposures to fossil fuels, which vary by up to tenfold. In general, investment vehicles which invest in US and global markets have much lower fossil fuel exposure than UK equities, which continue to be fossil-fuel-heavy. Table 6 shows some of the largest investment funds for which we found a breakdown and how considerably fossil fuel exposure can vary. Table 7 then lists the top 10 investment funds we were able to fully screen, classified by their fossil fuel exposure.

Table 6: Fossil fuel exposure of the top ten indirect investment vehicles, by amount invested (excluding cash and real estate)

Asset name	**Asset count***	**Value (£ million)**	**Fossil fuel value (£ million)**	**Fossil fuel % (%)**
LF Access Global Equity Fund	11	4,143	142	3.4
LPPI Global Equities Fund	2	4,085	30	0.8
Border to Coast Global Equity Fund	7	4,009	44	1.1

Legal & General UK Index Fund	8	3,002	371	12.4
Wales Pensions Partnership Global Equities	3	2,765	87	3.2
Border to Coast UK Listed Equity Fund	4	2,655	347	13.1
LCIV Global Equity Fund	3	2,536	98	3.9
Border to Coast UK Equity Alpha Fund	5	2,177	244	11.2
FP Brunel High Alpha Global Equity Fund	7	2,122	72	3.4
UBS Life World Equity Tracker	10	2,001	69	3.4

*Note: * Asset count refers to the number of discrete investments we found in these investment vehicles, across all local authority pension funds.*

Table 7: Total value invested in top ten indirect investment vehicles, by fossil fuel exposure

Asset name	**Asset count***	**Value (£ million)**	**Fossil fuel value (£ million)**	**Fossil fuel % (%)**
Border to Coast UK Listed Equity Fund	4	2,655	347	13.1
Legal & General UK Index Fund	8	3,002	371	12.4
Baillie Gifford - Japanese Fund	1	79	10	12.3
UBS Life UK Large & Mid Cap Tracker**	1	77	9	11.9

FP Brunel UK Equity Fund**	4	1,203	143	11.9
SSGA MPF UK Equity Fund**	2	504	60	11.9
Blackrock Aquila Life UK Equity Index**	10	1,348	164	11.9
Border to Coast UK Listed Equity Alpha Fund	5	2,177	244	11.2
Blackrock Aquila Life Japanese Equity Index Fund	1	11,190	1	9.6
SSGA MPF Japan Equity Index Fund	1	257	24	9.4

*Note: * Asset count refers to the number of discrete investments we found in these investment vehicles, across all local authority pension funds.*

***As a detailed breakdown could not be found for these funds we estimated their fossil fuel exposure to be the same as the FTSE 100, which is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation.*

Table 8: Comparison of local authority pension fund investments in fossil fuels, 2015–2020

	All assets	Direct fossil fuel investments		Indirect fossil fuel investments		Total fossil fuel investments	
	£ million	£ million	% total	£ million	% total	£ million	% total
2015	229,000	5,500	2.4	8,300	3.6	13,800	6.0
2017	295,000	6,900	2.3	9,300	3.2	16,100	5.5
2020	330,000	2,759	0.8	7,100	2.2	9,859	3.0

In terms of overall fossil fuel investments across all local authority pension funds, our analyses in 2015 and 2017 found that councils were investing £13.8 billion and £16.1 billion in fossil fuels, respectively (Platform et al, 2017). The analysis in this report shows that the amount invested in fossil fuels is now £9.9 billion, a decrease of approximately

40% since 2017. The overall fossil exposure of 3.0% is broadly consistent with, albeit slightly lower than, the findings of a recent study which suggested average fossil fuel exposure across large pensions funds in the OECD of 3.8% (Rempel and Gupta, 2020).

C. What are local government pensions doing about the climate crisis?

Typically, pension funds' actions to manage climate risk within their portfolio and tackle the climate emergency fall into five different categories: weighting carbon footprint and 'decarbonising' the portfolio accordingly; investing in 'green' alternatives; participating in climate-orientated coalitions; engaging with highly polluting companies to compel change; and lastly, divesting from highly polluting companies.

At present, the first of these methods, 'decarbonisation', shows little sign of success in either materially impacting efforts to halt climate collapse or advancing the need to keep fossil fuels in the ground. For one thing, scope 3 emissions[18] – those emissions that come from the use of products a company sells – are too rarely included in efforts to account for the carbon footprint of a company. This renders the assessment of investment portfolios' actual climate impact of limited value. Further, the lack of consistent methodological approaches to measuring the climate impacts of different companies makes comparing different funds impossible. The second approach taken by investors – investing in green alternatives – faces similar challenges. Indeed, the lack of a consistent definition of what a 'green investment' constitutes means that there is no guarantee that investments labelled as such contribute to dismantling the systemic drivers of the climate emergency.[19]

Thirdly, while participating in a climate-orientated coalition has some potential for collective leverage over fossil capital, as yet there has been no collective demand for firms to leave fossil fuels in the ground. As such, by itself it cannot be said to be an adequate way to advance that aim.

What is engagement and how does it actually work?

Generally speaking, this leaves pension funds with two choices when it comes to halting emissions from their most polluting investments – to engage directly with fossil fuel

[18] Greenhouse gas emissions are categorised into three groups or 'scopes' by the most widely used international accounting tool, the Greenhouse Gas (GHG) Protocol. Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain, namely the emissions that come from using the products that a company sells. Historically, many companies have sought to avoid being held responsible for Scope 3 emissions and have lobbied extensively against measuring carbon use in this way. In much the same way, cigarette companies used to claim there was nothing inherently cancer-causing in their products, as it was only when someone bought the cigarette and lit it that it became dangerous.

[19] See text box 'What is climate change?', p. xx.

companies as investors, asking them to leave fossil fuels in the ground, or to divest from these companies altogether.

At present, most prefer the engagement route. Engagement is rooted in the idea that pension funds committed to doing something about the environment should hold on to their stocks in fossil fuel companies. This is on the basis that doing so gives the asset manager, the local authority, its representatives and its pension members greater ability to influence fossil fuel companies and therefore tackle the climate emergency.

However, worldwide, engagement has not so far shown progress at anything like the scale we need. Meaningful action on climate change requires a commitment to ending the expansion and extraction of fossil fuels. However, engagement rarely results in a shareholder resolution to alter the course of the business that the asset is held in.

What actually counts as a 'social or environmental resolution' is undefined and often non-binding. When such proposals are put forward by shareholders, they are rarely supported by the necessary majority. In a 2020 study of the sustainability practices of the largest pension funds in the world, representing ownership of over £70 billion in fossil fuel assets, researchers found only one example of direct engagement with a fossil fuel firm where the company was asked to keep their fossil fuel assets in the ground, and even this did not lead to a commitment to do so from the firm (Rempel and Gupta, 2020). Blackrock, the largest asset manager in the world and an asset manager for much of the LGPS, supported just 6% of 'green' proposals filed by shareholders in 2020 (Mooney, 2020a). Even if a local authority pension fund supports the shareholder resolution, as in the case of shareholder resolutions at HSBC and Barclays this year, it is highly unlikely that it will pass: less than 10% of social or environmental shareholder resolutions worldwide did so in 2020 (Mooney 2020c).

Local authority pension funds are in a particularly weak negotiating position with fossil fuel majors because, as our analysis in this report shows, only 26% of their holdings in fossil fuel companies are direct. Direct holdings mean that if a given council owns, say, 0.5% of a company, they have a direct vote at this scale at an AGM. The other 74% of fossil fuel ownership takes place through indirect or passive investment vehicles.[20] Holding only indirect investments or passive funds makes it much harder to have leverage on companies, because the amount you hold is so small and in many cases local authority pension fund asset managers do not even know the names of all the companies they invest in, let alone to what degree.

[20] This is when a local authority pension fund asset manager defers control of the pension money to an external fund manager, who collects many funds together on behalf of pension funds and other institutional investors all over the world and invests in several financial assets in their name.

Those who favour engagement over divestment often present it as a binary choice: that you must choose one, and therefore they would prefer engagement to doing nothing. This approach presents very serious limitations. For one thing, 'it is by no means obvious that interacting with a company as a prospective investor, [rather] than as a current investor, is any less effective in influencing the activities and practices of a company' (Kolstad, 2016). This means that holding assets in a company isn't necessarily a prerequisite in seeking to influence its course of action. And because engagement with a company as a prospective investor carries no financial risk, this option should be preferable for funds with a duty to their members.

Secondly, engagement as a negotiating position is meaningless without an explicit threat of the possibility that you may withdraw your funds (Dawkins, 2018). That is why not having a policy to divest is so ineffective: because if the company you are engaging in dialogue with knows you are never going to take away your money, then all they have to do is stretch out the correspondence for as long as they can. As such, meaningful engagement must inevitably act in concert with a plan to divest, should the success of the engagement approach falter.

Engagement, particularly on behalf of local government pension schemes, has not delivered the kind of change we need. This should perhaps come as no surprise for those engaging with fossil fuel companies – after all, there is no precedent for successfully persuading a whole industry to change its core business entirely[21].

Quite apart from representing a bystander approach, a vocal decision to divest must be viewed as a highly successful form of engagement in itself. Divesting, especially when done loudly, materially influences the company that is subject to the divestment – because the act pushes down its share price and increases its cost of capital. The act affects the cost of capital both through a direct impact on stock price, and through the reputational damage that a divestment announcement delivers. In turn, the increased cost of capital materially influences the company, by limiting the company's ability to pursue investments in the activity that the divesting investor seeks to influence (Dordi and Weber, 2019).

[TEXT BOX: Case study: fossil fuel net zero claims]

[21] For a further list of useful questions to ask anyone backing divestment, please see pg. 18 here: https://foe.scot/wp-content/uploads/2018/11/Risky-business-How-Local-Gov-Pension-Funds-are-failing-to-protect-themselves-from-climate-risk.pdf

In 2021, adherents of shareholder engagement might point to recent climate promises and net zero targets of fossil fuel companies as a demonstration of success. But unfortunately, despite the publicity, fossil fuel companies have not deviated from their primary objective – to extract and burn fossil fuels. In 2020, the Transition Pathway Initiative assessed 125 oil and gas producers, coal companies, and electricity groups on their preparedness for a lower-carbon economy. They found that 'No major oil, gas or coal company is on track to align their business with the Paris climate goal[22] of limiting the global temperature rise to well below 2°C by 2050' (Raval, 2020a). A similar study of recent net zero announcements can be found in the table below.

[22] See chapter 2 section B for an explanation of the Paris climate goals.

TABLE 1: ASSESSING THE OIL MAJORS' CLIMATE PLANS

	bp [52]	Chevron [53]	eni [54]	equinor [55]	ExxonMobil [56]	REPSOL [57]	Shell [58]	TOTAL [59]
Ambition								
Stop exploration	Only in new countries[h]	No	No	No	No	No	No	No
Stop approving new extraction projects	No	No	No	No	No	No	No	No
Decline oil and gas production by 2030	<30% drop by 2030[i]	No	Plateau by 2025, decline only for oil[j]	No	No	No	No	No
Set long-term production phase-out plan aligned with 1.5°C[k]	No	No	No	No	No	No	No	No
Integrity								
Set absolute target covering all oil and gas extraction (full equity share)	Absolute; major Scope 3 loophole[l]	No	Yes[m]	Scope 3; intensity target only	No	Scope 3; close to absolute[n]	Scope 3; intensity target only	Scope 3 "net zero" only in Europe
Do not rely on carbon sequestration or offsets	No[o]	No	No	No	No	No	No	No
Be honest about fossil gas as high carbon	No	No	No	No	No	No	No	No
End lobbying and ads that obstruct climate solutions	No[p]	No[q]	No[r]	No[s]	No	No[t]	No[u]	No[v]
Transition Planning								
Commit to explicit end date for oil and gas extraction	No	No	No	No	No	No	No	No
Commit plans and funding to support workers' transition into new sectors[w]	No	No	No	No	No	No	No	No

COLOR CODE FOR RATING COMPANY COMMITMENTS AGAINST CRITERIA

Grossly insufficient	Insufficient	Partial alignment	Close to alignment	Fully aligned

Source: Oil Change International, 2020.

Claims of effective engagement leading to net zero pledges have been made by local authority pension funds. The Local Authority Pension Fund Forum (see box opposite) has claimed that their engagement partly led to BP's plans to go 'net zero' (LAPFF, 2020c). As

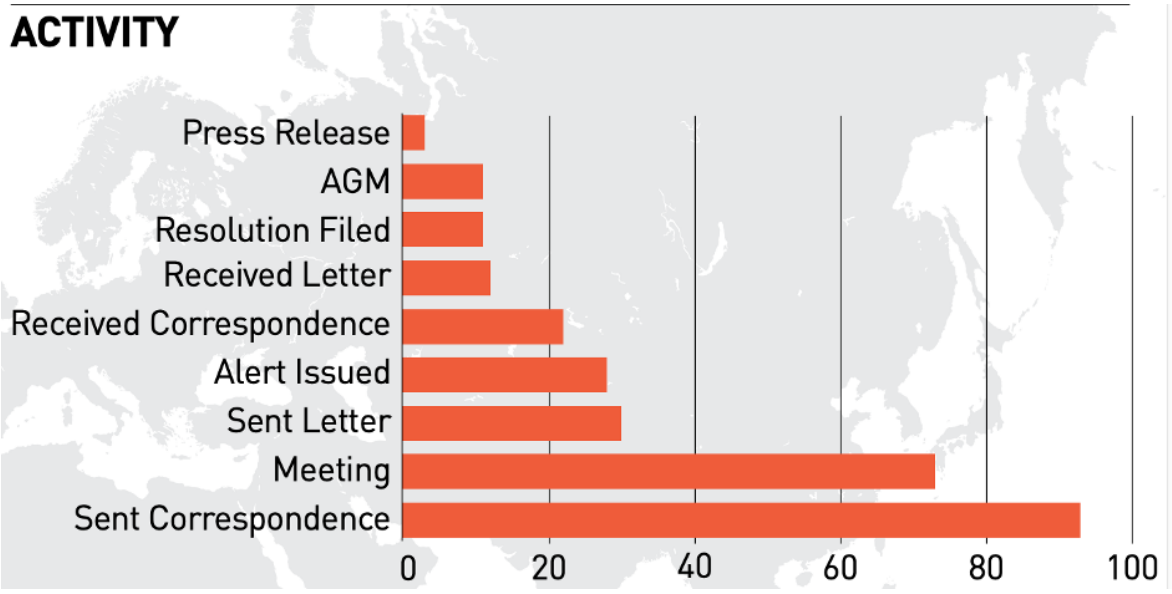
the table illustrates, BP says that it can meet this target while, for instance, continuing exploration, approving new extraction projects, relying on unproven carbon removal technologies and declining to commit to an end date for extraction. If this is considered a positive outcome of engagement then it is clearly not fit for purpose.

Irrespective of their announcements, coal, oil and gas companies are not currently compliant with the goals of the Paris Agreement[23]. This should not be a surprise – on average, investments in low-carbon projects represent less than 3% of the annual spending of fossil fuel companies around the world (Raval, 2020a).

[TEXT BOX: Case Study: Assessing the actions of the Local Authority Pension Fund Forum (LAPFF)]

The Local Authority Pension Fund Forum (LAPFF) represents 82 local authority pension funds and seven pool companies worth over £300 billion across the UK (McMurdo, 2020). It exists 'to promote the highest standards of corporate governance to protect the long-term value of all local authority pension funds' (LAPFF, 2020c). It does this by uniting all the different funds its members represent as one to engage directly with companies (McMurdo, 2020).

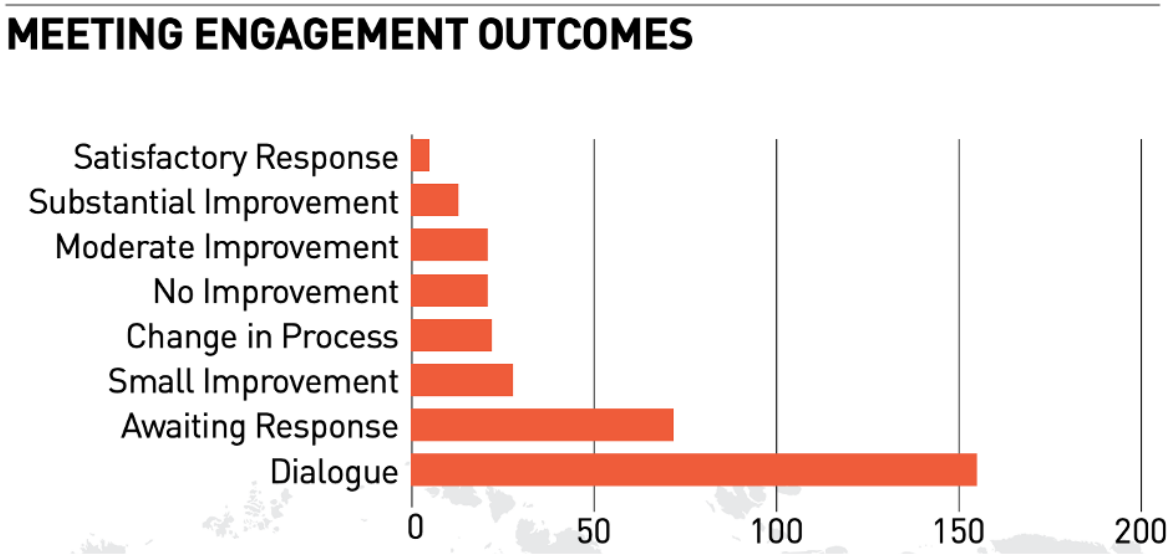
Every year, the LAPFF annual report summarises all the shareholder engagements the forum has undertaken. About half of these are on the topic of climate change, but they also include human rights questions and governance issues, among others. In 2020, their engagement took the following form:



[23] See chapter 2 section B for an explanation of the Paris climate goals.

Source: LAPFF, 2020c.

From this graph, it is clear that by far the most common type of action taken by the LAPFF when it comes to engaging is taking part in dialogue. Across all the funds the LAPFF represents, only ten motions were voted on at AGMs. The same figure is true of resolutions being filed. To be clear, voting or filing a resolution does not mean that it passed. As is pointed out in the main text, in the vast majority of cases they do not. All other activities carried out under the name of engagement here can be categorised as correspondence.



Source: LAPFF, 2020c.

If we look at the results the forum's actions have, as shown in the graph above, by far the least likely result is 'Satisfactory Response'. Simply engaging in dialogue, or waiting for a response, is what happens in the vast majority of cases.

CHAPTER 2. The 2021 case for divestment: why now?

A. Slow to divest: an incoherent response to a popular cause

More people in the UK are concerned about climate change than ever before. Eight in ten people surveyed in September 2020 were either 'very concerned' or 'fairly concerned' about climate change (BEIS, 2020). Increasingly, the UK government has been responding to this anxiety with some meaningful action, such as committing to bring forward the ban on sales of new petrol and diesel cars and announcing plans to end UK funding for fossil fuel projects overseas. The UK Parliament has also declared a climate emergency. A total of 360 MPs have called for their pensions to be fully divested (Fossil Free UK, 2020). Divesting is publicly popular too: polling for Nest in 2020 found that 65% of pension savers believed their pension should be invested in a way that reduces the impact of climate change. Just 4% strongly disagreed (Collinson and Ambrose, 2020).

Since our last report in 2017, many local authorities around the UK have demonstrated the central role they will play in tackling the climate emergency. In November 2018, Bristol City Council became the first, with a unanimous vote that laid the ground for plans to reach carbon neutrality by 2030 (Bristol City Council, 2020). Today, just two years later, over three-quarters of all local councils have formally declared a climate emergency, and over half have set a net zero target to be achieved by 2030 or sooner (Casale, 2020). Notably, in doing so these councils acknowledge the limited ambition of the national target for net zero by 2050.

[TEXT BOX: Net zero]

'Net zero' is when all harmful gas emissions released in the atmosphere are balanced out by removing an equal quantity of emissions in a process known as carbon removal. This can be done by restoring forests to capture carbon in the leaves of trees, or by direct air capture, storage and sealing of these gases, among other techniques.

Therefore 'net zero emissions' does not mean *zero* emissions, so the term should be scrutinised wherever it is used. 'Net zero' targets often involve vaguely written plans with loopholes that allow emissions to continue rising, sometimes for decades, based on the speculation that in the future, new technologies will be capable of removing this carbon

(DCJ, 2020). These technologies can be risky, unproven, harmful and require technological advances that we have yet to see (ibid.). Crucially, there is simply not enough available land on the planet to accommodate all of the combined corporate and government 'net zero' plans for offsetting (Dooley and Kartha, 2018). The senior energy correspondent at the *Financial Times* has said that it is still unclear what net zero commitments actually mean in practice (Raval, 2020b).

From a justice perspective, net zero targets require deeper scrutiny too. The carbon 'removal' process outlined in many net zero plans regularly relies on extensive use of agricultural and forestry land in the Global South; thus, in pursuing net zero, the people who are least responsible for pollution will be even more greatly impacted by lethal emissions that the Global North produces than they already are (DCJ, 2020). (see text box 'What is climate change?', p. xx).

Embracing net zero commitments without assessing their plausibility or equitability is ill-advised. For example, an overly trusting reading of the net zero' targets of fossil fuel companies may have the impact of accelerating our planet's trajectory towards runaway climate change by distracting investors from the core product of all fossil fuel companies extracting and burning fossil fuels. For example, Shell and BP have promised 'net zero by 2050', yet their projections show that they are planning to extract and burn 120% *more* fossil fuels than the limit for keeping the planet under 1.5°C of warming (DCJ, 2020). If in turn, investors do not withdraw finance for fossil fuel companies soon enough, we all bear the costs.

An alternative to net zero is real zero, or as close to it as possible. Two examples of solutions that would put us on that path are ending government subsidies for fossil fuels, and an immediate ban on all new fossil fuel extraction.

One common step for all local authorities after declaring a climate emergency, and outlining net zero ambitions, is to assess the areas of greatest carbon intensity within the council's remit. For most councils, the largest area of carbon emissions resourced through council affairs will be in the local authority pension fund they either administer or defer administration of to a nearby local authority.

But while over 75% of local authorities have declared a climate emergency, so far just under 5% have taken a major step towards backing this up with action, by moving to end their financial support for the biggest single cause of the climate emergency: fossil fuel companies. For local councils to deliver on their net zero ambition, far more need to follow this example in 2021.

Table 9 shows six local authority pension funds that have committed to fully divesting their investment portfolios.

Table 9: Local authority pension funds committed to full divestment

Local authority pension fund	**Date of commitment**
Environment Agency	October 2015
London Borough of Waltham Forest	September 2016
London Borough of Southwark	December 2016
London Borough of Islington	September 2018
London Borough of Lambeth	December 2018
Cardiff	July 2019

Table 10 shows local authorities that have passed individual divest motions, thereby exerting pressure on their pension funds administering authority to divest fully.

Table 10: Local authorities passing individual divest motions[24]

Local authority	**Pension fund administering authority**
Bristol City	Avon Pension Fund
Norwich City	Norfolk Pension Fund
Hastings Borough Council	East Sussex Pension Fund
Brighton and Hove City Council	East Sussex Pension Fund
Lewes District Council	East Sussex Pension Fund
Monmouthshire	Torfaen Pension Fund
Oxford City	Oxfordshire Pension Fund

[24] This list is not definitive. It lists only those that have made public announcements that we have seen in the news and online.

South Oxfordshire	Oxfordshire Pension Fund
Vale of the White Horse	Oxfordshire Pension Fund
Cambridge City	Cambridgeshire Pension Fund
Sheffield	South Yorkshire Pension Fund
Kirklees	West Yorkshire Pension Fund
Reading Borough	Royal County of Berkshire Pension Fund
Belfast City	NILGOSC (Northern Ireland)
Fermanagh and Omagh	NILGOSC (Northern Ireland)
Newry Mourne and Down	NILGOSC (Northern Ireland)
West Dunbartonshire	Strathclyde Pension Fund
Cardiff City	Cardiff and Vale of Glamorgan Pension Fund
Birmingham City	West Midland Pension Fund
Dudley	West Midland Pension Fund
Derby City	Derbyshire Pension Fund
Chesterfield Borough	Derbyshire Pension Fund
Shropshire Council	Shropshire Pension Fund
Telford and Wrekin Council	Shropshire Pension Fund

B. Whatever comes next, divestment is the building block

The continued high levels of investment in fossil fuels by local government pension funds pose a policy conundrum for local and national governments. The United Nations Paris Agreement, signed in 2015, commits to keeping global warming well below two degrees above pre-industrial levels, aiming for 1.5 degrees. The treaty is a cornerstone of

international and UK policy-making, underpinning the UK national goal of net zero climate emissions by 2050, 2045 in Scotland.

The UK's international commitments to reduce emissions are delivered through legally binding actions enshrined in the 2008 Climate Change Act. Interim targets and sector-specific policies seek to enact economic changes to cut UK emissions, with the eventual goal of net zero. Local governments and public agencies are required to contribute, and many local governments have set their own more ambitious targets, as mentioned in Chapter 1, Section C.

Governmental policy provides a guiding framework for cutting fossil fuel demand. In 2019, fracking was finally banned after years of protest. In 2020, the government announced a 2030 end date for sales of new fossil fuel vehicles, and committed to no longer finance fossil fuel projects abroad through export credit or international development spending.

Local, national and international policies to deliver the Paris Agreement and cut fossil fuel demand and supply should be a key focus for the UK-hosted UN climate talks in Glasgow, November 2021.

The Paris Agreement has remained the highest reference point for climate policy. It has guided governmental action but has also been a key reference point for financiers seeking to align their portfolios with the changing energy economy. For example when announcing the state's divestment policy in December 2020, New York State Comptroller Thomas DiNapoli made it clear that ending fossil fuel use was part of a general effort to align New York State investments with the future of global climate policy, underpinned by the Paris Agreement.

However, there is some discrepancy about how financiers are implementing the Paris Agreement, with some upholding the idea that fossil fuel companies can be part of a Paris-aligned future.

As we explored in Chapter 1, Section C, a recent report by Oil Change International investigated the compliance of oil and gas companies with the Paris Agreement. The study deduced that to keep global warming below the two-degree limit, exploration for new fossil fuel reserves must end and production from existing reserves be wound down. The report considered that some companies had made partial commitments to reduce the intensity of their emissions or cut production in certain sectors, but that overall none of the companies' climate strategies, plans and pledges came close to alignment with the Paris Agreement. In fact, the plans and capital spend of these companies (BP, Chevron, Eni,

Equinor, ExxonMobil, Repsol, Shell and Total) put them on target for sizeable production increases (Oil Change International, 2020).[25]

Analysts have found several reasons for the lack of compliance of fossil fuel companies with climate goals. The most critical is that emissions reductions demand an end to fossil fuel use, a change which is an existential threat to their business model. For big oil, Paris alignment means winding down its activities or making a wholesale switch out of fossil fuels and into renewables, something no fossil fuel company appears equipped to do. Paris non-compliance is sector-wide because Paris compliance demands that the sector simply *cease to exist* in its current form.

Continued exploration and development of fossil fuel reserves is also undermining UK and sector-specific targets for emissions reductions. If oil and gas companies continue to expand production and fossil fuel use increases, the UK's goal of net zero cannot be reached. In this way continued investment in fossil fuel companies runs counter to national emissions targets and the Paris Agreement.

Removal of all fossil fuel investments by means of a deliberate policy of divestment is necessary for investors to align their portfolios with climate goals. That is not to say it is the only step to be taken: complete Paris alignment requires cross-portfolio action by investors, divesting from the worst offenders and engaging with companies that can change.

However, any investment policy which seeks to reduce emissions cannot honestly include continued investment in fossil fuels. Fossil fuel divestment is the foundation upon which an effective climate policy can be built.

C. The fossil fuel age is ending - get out while you can

In January 2020, the price per barrel of oil was US$70. By April of that year, as lockdowns were introduced around the world in response to the COVID-19 crisis, the price had fallen to $20. In the US, prices even briefly went negative, meaning that producers were paying anyone to take oil off their hands. It would be easy to dismiss this fluctuation in price as simply the result of the pandemic, but oil prices peaked in 2008 at $147 and have never come close to that figure since (Sheppard, 2019).

Although oil prices have recovered somewhat at the start of 2021, the long-term trend is clear - the fossil fuel age is ending. At the end of 2019, an oil price war primarily between

[25] For further information on the scoring of each company, please see the Table 'Assessing the oil majors' climate plans', p. xx.

Russia and Saudi Arabia led to oversupply and price fluctuation (Raval, 2020b). *The Wall Street Journal* reported in 2015, 2016, 2017, 2018 and 2019 on the trend of low oil and gas prices driven by oversupply (Sanzillo, 2020). Fossil fuel demand growth was already low before the crisis, at less than 1% a year (Bond, 2020). According to calculations by Carbon Tracker, even before COVID-19, fossil fuel demand was expected to peak in the mid-2020s (Bond, 2020). By contrast, renewables continue to grow at a remarkable rate - investments in renewable energy globally are up 45% in 2020 alone (The Economist, 2020). These trends are backed by substantial policy shifts and widespread technological innovation. For example, US President Joe Biden has promised to spend $2 trillion to decarbonise the economy of the US, while the EU has promised to cut greenhouse gas emissions by 55% over 1990 levels in the next decade. Essentially there are too many companies and countries producing too much oil and gas, at low prices and profits and with increased production costs, for a world that is moving away from fossil fuels.

Local Government Pension Funds must treat these changes seriously, or risk substantial exposure to the coming collapse of fossil fuel companies in this world wide technology shift. Unless action is taken soon, the £10 billion invested in fossil fuels by UK local government pension schemes could drastically reduce in value once the 'carbon bubble' bursts (see text box, p. xx). The Bank of England (BoE) has said that in the UK up to £16 trillion of assets could be wiped out if the climate emergency is not addressed effectively (Partington, 2019). As Mark Carney, the former governor of the BoE has said , the longer the adjustment is delayed in the real economy, 'the greater the risk that there is a sharp adjustment' (Partington, 2019). Local Government Pensions can and should act now to reduce their exposure to this risk, so they don't lose their members even more money in the transition than they already have.

[TEXT BOX: THE CARBON BUBBLE:]

The 'carbon bubble' is the idea that only a fraction of the known existing amount of fossil fuel reserves can be burned if we are to stay below 1.5 degrees of global warming, the aim agreed by the UK and nearly every national government in the Paris Agreement. Currently, the price of fossil fuels companies' shares is calculated under the assumption that all fossil fuel reserves will be used. If even a small number of the fossil fuel companies invested in by UK LGPS members were to use their full reserves, we would certainly exceed 1.5 degrees of warming. The carbon bubble bursts when the reality – that these assets are 'stranded' and will never be used – is recognised fully in their share price.

After all, they have lost out from risky fossil fuel investments in the recent past. Indeed, calculations by Transition Economics and Platform in November 2020 (Minio-Paluello and Markova, 2020) demonstrated that the value of oil company shares owned by UK public pension funds has fallen by £2 billion in less than four years (Flood, 2020b). The largest losses by total value in the LGPS are shown in the table below.

Table 1: Largest losses by absolute value in GBP

	Local Authority Pension Fund	Value lost 2017-2020, £
1	Greater Manchester Pension Fund	374,831,107
2	West Yorkshire Pension Fund	211,201,819
3	Nottinghamshire County Council Pension Fund	81,241,089
4	East Riding Pension Fund	81,053,203
5	West Midlands Pension Fund	79,564,936
6	Teesside Pension Fund	73,139,447
7	Hampshire Pension Fund	68,424,492
8	Derbyshire County Council Pension Fund	64,904,000
9	Surrey County Council Pension Fund	61,002,532
10	Kent County Council Pension Fund	51,983,275

Source: Minio-Paluello and Markova, 2020.

Remember, the downward movement in oil prices over the last 12 years is a trend, not an aberration (Raval, 2020b). In fact, this isn't the only time that local authorities have lost their members money in risky fossil fuel investments. In 2015, Platform calculated that UK local authority pension funds lost a collective £683 million by not divesting from coal sooner (Carrington, 2015), as divestment campaigners at the time demanded.

To avoid a potential massive write-off of fossil fuel portfolio value, we advise local authority pension funds to 'sell into strength'. This means selling when the price is still rising but the seller expects the trend to reverse in the short to medium term. By selling their fossil fuel holdings at the right time, a pension fund can guarantee a return, while removing the possibility of a significant loss.

Selling into strength is particularly important for pensions because they depend on a stable, long-term return rather than short-term highs. This principle applies particularly to

stocks in fossil fuels. Oil majors are mature companies in an established industry, so the kind of rapid long-term growth that a new innovative technology company could have is highly unlikely (Raval, 2020b). This is especially true given that the global energy supply is shifting towards renewables. As a result, some investors will choose to sell their fossil fuel assets into strength in the medium term and take partial profits rather than taking any unnecessary risks. At time of writing, a rise in oil prices is expected as the COVID-19 vaccine is rolled out across the world and the economy recovers. Aviation – a massive consumer of fossil fuels – is expected to return to early 2019 levels only by 2023 at the earliest (Haill, 2021). All this points to the need to act now to benefit from the gains to come in the medium term. For Councillors on pension fund committees, 2021 is the time to prepare, by passing divest motions[26] and directing fund managers to sell their fossil fuel assets while the price is rebounding in the short-medium term.

The transition away from fossil fuels is a question not of 'if' but of 'when'. It is not in the interests of the vast majority of pension holders to gamble on trying to change these companies to be part of this shift. The best response, therefore, is to adjust your portfolio to the necessary energy transition, and the financial disruption it brings. In doing so, we can protect pensions as well as the planet.

[TEXT BOX: 'We can't divest – we have to maximise returns because of our fiduciary duty']

Fiduciary duty is a legal obligation that requires trustees to act in the best interest of their members. Simply, this means they have an obligation to be careful with investors' money. Pensions exist to provide steady and long-term returns.

In the past, fiduciary duty was often used as an excuse by those opposed to divestment to say that they could not divest from specific asset classes for 'ethical' reasons because a pension fund should be neutral in how it makes its returns. This was despite the fact that divestment from tobacco, arms, pornography and apartheid South Africa, among many other campaigns, have been common around the world for decades (Ansar, Caldecott and Tilbury, 2013). Any argument that uses fiduciary duty against divestment specifically in relation to the local government pension funds has a very weak basis. LGPS legal advice (LGPS Advisory Board, 2019) and Law Commission guidance (Law Commission, 2015), applicable to England and Wales, says that fiduciary duty rules do allow pension funds to consider ethical factors in investment decisions, so long as these do not

[26] 'For a template motion you can pass at your local authority please see our website divest.org.uk

negatively affect financial performance and are not contrary to members' wishes. Similar conclusions have been reached by legal experts in Scotland (FOES, 2019a). Six local authority pension funds have fully divested from fossil fuels and have faced no legal or financial repercussions.

In fact, a 2016 legal opinion for ClientEarth from two leading Queen's Counsel barristers found that pension fund trustees who fail to consider climate risk could be exposing themselves to legal challenges in the future for failing to protect the long-term interests of their members (ClientEarth, 2017). Fiduciary duty requires fund managers to act in a way that best serves all their members fairly. This means that equal consideration should be given to current pensioners and those paying into a scheme at the very start of their career.

As Carbon Tracker has persistently noted, there is a very realistic chance the 'carbon bubble[27] *will burst. And hoping that fossil fuel majors will transform themselves to lead the green energy revolution is a gamble too. Betting on the very unlikely chances both that the carbon bubble will not burst and that fossil fuel majors will be part of the energy transition is not in the interest of pension fund members and is therefore contrary to the pension fund committee's fiduciary duty.*

[27] See text box 'The carbon bubble', p. xx.

CHAPTER 3. Leap forward: practical steps for our communities, our pensions, our planet

A. For all of us: COVID-19, the desire for radical change, social and environmental healing

It is ordinary people living and working across society who feel the blunt impacts of decisions made by a few fund investors and policy-makers. This is one of the main reasons why the conversation about divestment needs to involve all of us – starting with the people whose money is invested through local pension funds, and stretching as far as anybody who is impacted by policy decisions on local investments. We believe that these decisions should ultimately reflect where local people want to put most effort, resources and focus to sustain the lives and values they want to manifest at the local level. As Platform LEAP project leads Kennedy Walker and Sakina Sheikh put it: 'For decades we have witnessed extractive economies put the political elite and corporations before people, and it is assumed this is the only way in which the economy can function' (Walker and Sheikh, 2020). But *we* are those people. 'Workers and communities that have been wrangled through the austerity machine, surviving through wage stagnation and seeking home in a hostile housing market are the same people that have kept [society] running. This was true before COVID-19 and will continue to be the case in the face of economic and political challenges that present themselves through climate breakdown' (Walker and Sheikh, 2020).

We are the ones who make our neighbourhoods places where hope can be nurtured and restored, and so it only makes sense for us – local people – to be the ones who shape decisions on where local money goes. After the events of the past few years that have dominated our TV screens and newspapers – youth climate strikes, wildfires, stories of hurricanes and floods - more and more people across society are open to the necessity of caring more for our planet. Everywhere across neighbourhoods, local solutions to pollution and climate change are taking root through generous efforts by engaged communities (Energy Cities, 2020).

The COVID-19 pandemic has only amplified this collective shift in public consciousness. A Boston Consulting Group survey of more than 3,000 people across eight countries has found that in the wake of the pandemic, people are more concerned – not less – about addressing environmental challenges and are more committed to changing their own behaviour to advance sustainability (Kachaner et al., 2020). This makes sense considering that in 2020 we have witnessed, some of us for the first time, how a virus coming straight from 'nature' can completely wreck our existence. There is also a growing understanding that pandemics like COVID-19 are a direct reflection of how badly we have treated the environment. The constant expansion of extractive economies is disrupting species of virus living in so-called 'natural' habitats (Anderson and Rockstrom, 2020).

Experiencing this pandemic has facilitated, for more and more people, the profound realisation that we do depend on our environment to lead the lives we choose. Our very health depends on it. The air we can breathe and how healthy our bodies can be depend on how we treat the Earth underneath our feet, be it in our local neighbourhood or on the other side of the globe. In unexpected ways, the virus's contamination patterns have also demonstrated to us how interconnected we are as a species, from one side of the world to the other.

More people than ever are simultaneously being confronted with the reality of their own mortality in the face of extreme natural events such as pandemics. While this realisation is not novel for the communities who have faced the worst effects of climate change over the past decades (if not centuries), it was certainly unheard of before for Global North citizens enjoying significant social and economic privilege. This has created an unprecedented experience for a whole generation, time and space seeming to have collapsed into a parallel dimension where we can no longer take the blessings of the Earth for granted, in the form of food on the supermarket shelves or access to 'green spaces', for instance.

But most importantly, the pandemic has brought to the surface, as crudely as ever, the depth of the inequalities that the current economic system is built upon: how much some people are struggling to no end and being locked out of the safety and the healthy, fulfilling lives they deserve, while a privileged few reap the profits of an economic system that shows its limits more clearly every day. These are in fact two sides of the same coin: the tendency to exploit natural resources for profit comes from the very same impulse that shaped the historical exploitation of labour and communities by Western powers in the last centuries (Gilbertson, 2019; War on Want and London Mining Network, 2019). Participants in London LEAP – a coalition of community organisers campaigning for a 'just transition' in London – put it in these terms:

> A dysfunctional economic system has enabled the planet to burn in the pursuit of profits for oil barons and used marginalised communities as disposable byproducts of the economy. The exploitation of our essential workers that capitalism relies on has been a devastating reality lived by so many and yet invisible to those privileged few. But this pandemic has removed this veil around our economy showing us that frontline workers are the backbone of society's survival, not CEOs. (Walker and Sheikh, 2020)

These collective realisations – facilitated by parallel experiences of the virus – must be channelled into an understanding that recovering from the COVID-19 crisis and meeting the challenge of climate breakdown are two parts of the same strategy.

An understanding of the violating nature of an economic system based on unequal power relations, as well as of the interconnectedness of all things on Earth, has been at the core of the work of indigenous communities and others fighting against fossil fuel extraction on the frontline.

> **"Violence against the land is direct violence against our bodies"**
>
> - Pueblo Action Alliance organizers stating a phrase frequently used by organizers against extractives in their area at the indigenous pilot training. Chicago, July 2019.

(extracted from Gilbertson, 2019)

Those most affected include not only indigenous and local communities whose land has been and continues to be stolen for fossil fuel extraction. They also include all those who are most vulnerable to air pollution – one of the direct consequences of fossil fuel burning – in cities around the world, often (though not only) working-class communities of colour. The communities who have witnessed first hand the limits of our extractive economy much earlier than most privileged decision-makers have crucial lessons to teach us about the necessity of healing our collective home: the Earth. As London LEAP participants put it:

> To know where we can go, we have to know where we have been. For cities, countries and the world's future generations to inherit healthy and full lives, we must honour the wisdom that has sustained the ecosystems of the planet for generations. Integrating ancestral knowledge has enabled indigenous communities to maintain 80% of the world's biodiversity. Knowledge from elders, indigenous folk and frontline communities hold the keys to organising a just economy that works harmoniously with the community and planet. In building for an economic democracy and undergoing a just transition, we must cite their work, and uplift their voices. (Walker and Sheikh, 2020)

Because marginalised communities have borne the brunt of our extractive economy for longer than some of us, there is much to learn from how these most affected communities have responded to the climate crisis's worst effects. And this wisdom must be accessed with profound respect, careful listening and rigorous acknowledgement of all the ways in which it has been marginalised, silenced and violated through a long history of colonial extraction (War on Want and London Mining Network, 2019).

The global situation we find ourselves in now provides a unique occasion to heal these historical ruptures by learning how to draw on anti-extractive, indigenous and decolonial wisdom. To be truly reparative, this must be done by uplifting the voices of those who have carried these messages for decades and centuries. In this work of healing our connection to the Earth, there is the chance to go deeper than plastering over a crumbling economic system, by focusing on technical solutions to climate change and opening space for relearning how to relate to our environment and each other.

In this unique context, creating and contributing to a local divestment campaign can be not just a way to fight against the environmental effects of climate change but also an opportunity to build reparative solidarity with the communities most historically impacted, here and abroad. And it can be done with the understanding that these are two aspects of the very same struggle against an unjust concentration of wealth and power in the hands of a global minority. When anchored in wider narratives of decolonial and reparative justice, divestment campaigning can do a lot more than shifting around some investments. It becomes one of countless ways to blow into the cracks of centuries-old systems of oppression by promoting other ways of relating to the beings and resources we rely on for our collective sustenance. A decolonial narrative in divestment campaigning has been applied in some student-led campaigns, bolstered by slogans such as 'decolonise, disarm, divest' circulating across campuses including Cambridge and Oxford (Rogaly and

Thorpe, 2018). We believe that there is much scope for other UK divest groups – including those focused on local authority pension funds – to draw inspiration from these narratives as they decide what kind of climate justice campaigning they want to build at this time in history.

B. Local and union leadership: how you can do it too

How to lead on divestment as a Councillor

Many Councillors continue sustained campaigns towards divestment, showing that action on divestment is possible, even in the face of opposition over many years. For example,

- The first divest motion[28] in the UK was passed in 2016 by the pioneering **Labour** Councillors of Waltham Forest, setting the standard for all others to follow.
- One **Green** Councillor we spoke to in North West England asked to be placed on the Council's pension fund committee so as to transform its investment policy for the better, and the Committee has successfully begun to decarbonise the fund's holdings.
- The Lord Provost of Edinburgh, a **Scottish National Party (SNP)** Councillor, has pushed for divestment in Scotland alongside other supportive colleagues, despite strong reluctance from others.
- In Shropshire the sole **Green** Councillor put forward a divest motion and worked with a **Conservative** ally to build up support to pass the motion unanimously.
- A **Labour** Councillor in Yorkshire who qualified as an actuary started to campaign on divestment because they were worried about their exposure to stranded assets and the result this could have on long-term pension pay-outs.
- An **Alliance** Councillor in Northern Ireland, inspired by the action of their local divestment campaign, has consistently put divestment on the agenda in their region.
- **Conservative**-controlled Monmouthshire County Council unanimously passed the first divest motion in Wales. This led a **cross-party group** at Cardiff Council to come together to explain the reality of divestment to their colleagues and pass a motion there too.

[28] 'For a template motion you can pass at your local authority please see our website divest.org.uk

- For councils pooled in the London Pension Collective Investment Vehicle, it is now even easier to divest because of the committed work of a number of Councillors across the city who demanded that a Sustainable Equity Exclusion Fund should be set up (London CIV, 2020).

These are just a few of the examples of admirable work that Councillors across all parties have been doing for a number of years. As they show, divest motions can pass despite what might not seem like favourable chances. Any Councillor can follow in their lead. Councillors we spoke to said they were most likely to succeed by speaking to their colleagues in a friendly and honest way about the realities of divesting and also by getting in touch with the local divestment campaign group in their area.[29]

How to lead on divestment as a concerned local citizen

One of the most significant things you can do for the environment as an individual local campaigner is to join or build a collective movement that advocates on an issue that has both local and international ramifications. Participating in a local divest group can do just that. There may already be one that is active in your area that would benefit massively from new energy and ideas for its campaign.

Simply put, there would be no local authority pension fund divestment commitments without the work of grassroots groups across the UK who campaign to stop their pension investing in fossil fuels. People in these groups come from varied age, professional and social backgrounds with a wealth of different experiences and passions. Taking local action with global resonance, they inspire the authors of this report regularly.

How to lead on divestment as a trade union member

Local divest groups and Councillors have also received great backing from a number of trade unions. Unions respond to the needs of their members, and it is clear that there is a demand for divestment among workers in all kinds of employment in the UK. In 2017 the Trades Union Congress (TUC), representing over 6.4 million workers, backed divestment following a motion by the BFAWU and with support from the CWU, FBU, ASLEF and TSSA (Fossil Free UK, 2017) – demonstrating the call for divestment among food workers, communication workers, fire brigades, train drivers, and other transport workers.

At the local government level, union members are usually entitled to some form of representation on their pension fund committee and board. Unison, with over 700,000 members who pay into the LGPS, has led on this admirably.

[29] If you would like to know if there is an active local group in your area, please visit our website, XX . If you would like to be put in touch with other Councillors working on this, you can also email us at XXXX.

Unions exist to protect the interests of their members in the workplace, and they have led on ensuring there is both a decent pension waiting for workers for when they retire and also a just and thriving planet in which to live.

How to achieve divestment wins for everyone

What matters more than anything else is that all these individuals and groups come together.

Councillors or union representatives can speak at fund committee or board meetings and make the case directly to those who need to hear it most. Local residents can build community support, talk to local press and raise the issue with their elected representatives. Unions are well placed to teach reps the necessary financial knowledge and to survey their members and prove that they do not wish to support the expansion of fossil fuel companies.

Building a collective movement is not only the best way to pass a divest motion: it also lays the groundwork for continued local environmental action. As the next two sections outline, this can range from making the case for what the divested money should be reinvested into in the local community, to developing international solidarity and campaigning groups with others around the world.

C. Creating the building blocks for our future through ethical reinvestment

ESG investing and low-carbon funds: 'They're here; should they stay?'

When a pension fund is seeking to decarbonise its portfolio, or reduce its exposure to risky fossil fuel investments, it will often invest in so-called 'low-carbon funds' in order to curtail its carbon footprint and align with the terms of the Paris Agreement. Over the course of 2020, investors, including those acting on behalf of local authorities, have invested record amounts in so-called sustainable investment funds. New money invested in environmental social governance (ESG) equity funds between April and July 2020 exceeded the combined amount for the previous five years (Riding, 2020a), with positive effects for investors, as the sustainable funds delivered higher returns than traditional funds both before and during the pandemic (Riding, 2020b).

While this seems to be a positive step, and a strong rebuttal to the idea that fossil fuel stocks are an essential investment for profitable returns, without stringent ESG standards the funds may not be as sustainable, ethical or socially regenerative as they claim to be.

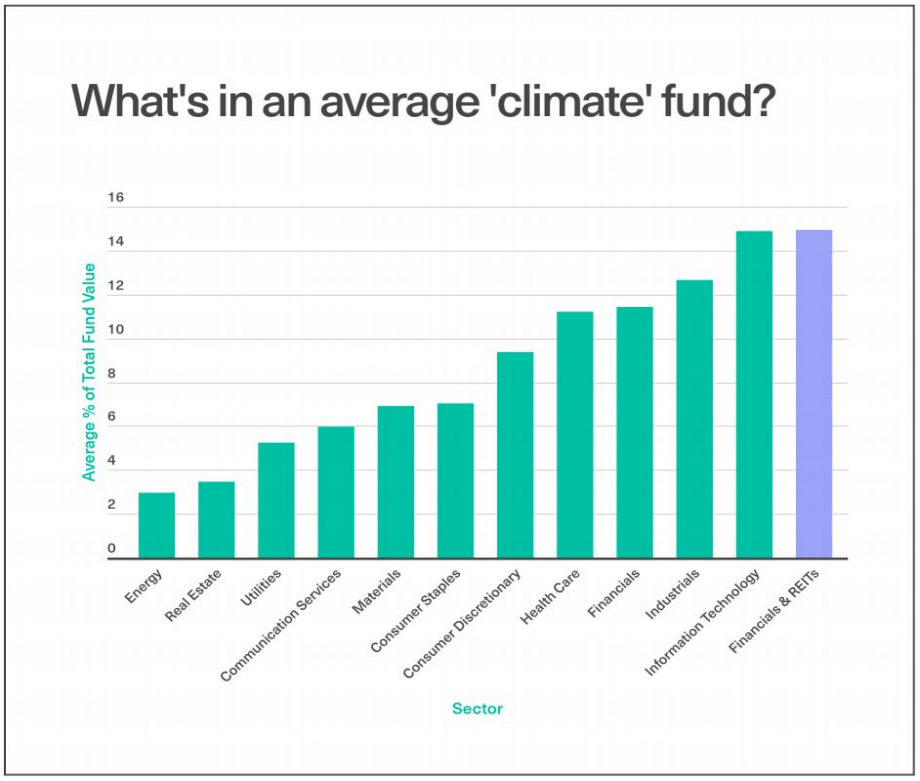
As of January 2020, in the UK, there are currently 33 funds marketing themselves to prospective investors as ‘low(er)-carbon’ or ‘climate’ funds (see Table 11).

Table 11: Examples of indirect investment vehicles presented as ‘low carbon’ that local authority pension funds invest in

Fund name	**Amount invested (£ million)**
ACS World Low Carbon Equity Tracker Fund	318
UBS Life Climate Aware World Fund	228
LCIV RBC Sustainable Equity Fund	198
Stewart Investors Asia Pacific and Japan Sustainability Fund	71
MSCI World Low Carbon Target Index Fund	48
UK Green Investment bank Offshore Wind	44
MPF All World Equity Climate Balanced Multi-Factor Index Fund	29
Temporis Renewable Energy Strategy Fund	16
Quinbrook Low Carbon Power Fund	7

Whether you are an investor, a Councillor on a pension fund committee, a member of the pension fund itself or a climate justice campaigner, it would be reasonable to assume that a low-carbon fund is likely to invest in tackling the climate emergency. If a fund markets itself as ‘climate aware’, it would be reasonable to assume your assets in the fund are invested in decarbonisation or clean energy projects. Unfortunately, in general this assumption would be wrong: there is no mandate for such funds to invest in the green economy.

Figure 1: What’s in an average ‘climate’ fund?



Source: Buller, 2020: 25.

Far from providing a high level of financing for decarbonisation or clean energy, a third of the 33 low-carbon funds still invest in one or more oil and gas companies (Buller, 2020: 23). On average across the 33 funds, oil and gas companies comprise approximately 3% of all holdings, representing nearly all of the investment in 'energy' across the funds (see Figure 1). Indeed, three of the cohort still hold shares in Exxon Mobil – which intends to increase its fossil fuel output by a third in the next four years (Brower, 2020). Even the most ardent advocate of investor engagement would be hard pressed to contextualise this company's place in a climate-friendly fund.

As demonstrated in Figure 1, the average 'climate' or 'low-carbon' fund invests most heavily in information technology, financial companies, industrials, healthcare and pharmaceuticals. Technology and financial companies are the most notable winners, comprising an average of at least a quarter of a 'low-carbon' or 'climate'-themed funds in the UK.

Such sectors may pass screening for inclusion in a low-carbon fund by virtue of having low direct carbon emissions, but this is an extremely narrow definition, as it does not factor in the essential indirect roles such sectors play in enabling the climate crisis. Financial companies, through their investments, underwriting and loans, largely fund the fossil fuel production that perpetuates the climate emergency, with 35 banks alone providing US$2.7 trillion in fossil fuel finance since 2015 – and with investments

increasing, not decreasing, year by year (Rainforest Action Network, 2020). Tech companies like Microsoft and Google, through the use of cloud computing technologies, make billions each year by helping oil companies to extract fossil fuel as fast and efficiently as possible (Matthews, 2018), while Amazon's annual overall emissions are as large as those of Norway (Reynolds, 2020). Rather than because of their role in developing a low-carbon economy, these companies feature prominently in 'low-carbon' funds because of the narrow scope given to measuring their emissions, and their relative positioning to provide a substantial return on investment in an era demanding rapid emissions reductions.

As local authority pension funds implement climate policies in their portfolios, we urge them to be guided by the success of any low-carbon fund they may choose to invest in, not by its popularity. Green investing cannot be limited to investing in companies that directly produce fewer fossil fuel assets. While ending investment in fossil fuel producers is increasingly urgent, merely shifting finance from large oil companies into large financial, technological and pharmaceutical companies will do very little to drive the requisite changes in the real economy needed to keep global heating below 1.5 degrees.

While the trends outlined above remain, it is difficult to judge whether ESG investing is a feasible option for local authorities seeking to take meaningful steps toward constructing a sustainable and equitable financial system. Certainly, it is not the magic bullet many claim it to be.

Pensions empower people: using pensions to build community wealth

At its most transformative, what is needed is the transfer of money into community renewable energy, good-quality affordable housing, a decent welfare system and other socially regenerative ends. For too long, the development of this transformative potential has been arrested by the outsourcing of important investment decisions to fund managers. At present, the mobilisation of our common wealth to build a better world remains captive to transnational corporations with little or no democratic oversight. In 2021, with the planet hotter than it has been for 12,000 years (Carrington, 2021), this cannot continue.

While fossil free funds and the reduced portfolio carbon exposure they entail are steps in the right direction, reinvestment decisions cannot be left to global asset managers alone. Instead, we should be looking to divestment as an opportunity to redirect our common wealth away from private gain and towards community and environmental renewal. Over the past decade, council budgets around the UK have been severely reduced by austerity cuts, with devastating effect (Snoussi and Mompelat, 2019). Though calculations vary, on

average local authorities have had their total spending power cut by at least a fifth (£15bn) (Wallis, 2021). Unfortunately, the economic implications of the pandemic may accelerate this trend (ibid).

In this context, it is no surprise that local authorities may struggle to fund some of their loftier ambitions when it comes to their climate action plans. Indeed, when asked by the Local Government Association (LGA) what barriers they faced in tackling the climate emergency, funding was identified as by far the single greatest barrier to action (LGA, 2020).

Similarly, such cumbersome financial challenges may appear to render local authorities powerless to finance efforts for a green and just economic recovery following the economic impacts of COVID-19. But it does not have to be this way. There is nearly £320 billion in local authority pension funds - a vast reservoir of wealth. For the most part, access to deploy this wealth is permitted to a small number of fund managers, whose main accountability is to shareholders. Instead of this, we can unblock the reservoir and pour common wealth into socially useful activities around us. Of course, the fund cannot entirely devote itself to social impact investments like infrastructure projects - but it can certainly invest a far higher proportion than it does currently, as pensions around the world have done. The investments of a local pension can reflect the values and needs of not just its members but also the wider community they belong to.

Local authorities around the UK have an opportunity in 2021: to maximise their financial power in the service of building more resilient, more democratic local economies, while tackling the climate emergency. They can leverage the financial power of our common wealth, held in local authority pensions, to drive changes in the real economy that generate social as well as financial returns.

The good news is that they have done this before. Thirty years ago, 60% of the LGPS was invested internally within the UK (by 2018, this was down to 30%) (Gray, 2018). There is also recent precedent for socially useful, local investment by local authority pension funds. Councils in Manchester and London have invested in wind farms (Coyne, 2017), Lancashire County Council invested in the UK's first community-owned solar power cooperative (Blue & Green Tomorrow, 2013), and Falkirk Pension Fund has invested over £30 million in social housing in the Forth Valley (FOES, 2017).[30]

Encouragingly, a number of locally focused pension investment funds have been developed over the past few years, structured to deliver a 'triple bottom line' of positive

[30] https://foe.scot/resource/divest-reinvest-councils-report/

local social and environmental contribution alongside long-term sustainable income to fund members (CLES, 2020: 31). For example:

- In Preston, this helped to enable place-based investment in student housing (Preston City Council, undated).
- 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 (LPP, London CIV and LPFA, 2020).

Reassuringly, in England & Wales the Law Commission has also issued guidance for trustees worried that these kinds of investment might breach their duty to run the fund solely in the interest of the fund's beneficiaries: 'there are no legal or regulatory barriers to social investment' (Law Commission, 2017). They also noted 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 that 'it is possible to do well and do good at the same time' (Law Commission, 2017).

As the process of pooling local authority funds continues and normalises, trustees and members should remember this, as the increased size of local authority pension fund pools should enable greater opportunity to invest locally with greater confidence.

Conclusion

As the 2020s advance, and climate collapse is all the more present around us, we must be bolder than ever before. Discrediting the fossil fuel industry while safeguarding our pensions is a good first step, but we must do more. We must challenge the passive investment culture that our local authorities adopt when outsourcing important decisions to big finance. We must imagine a positive vision to build an alternative future. We must articulate the principles of democratic, socially useful reinvestments that nourish that future. We have a choice before us in 2021 – to drag the old world with us into another decade of loss, or to imagine a different world, and fight for it (Roy, 2020).

So let us reject the idea that there is nothing we can do about climate change. You can take action: no matter who you are, you can help to push for a divestment commitment. It has been done before, and you can be part of making it happen in your local area. The decision lies with those we elect. A fairer and sustainable future is possible, and you can be part of making it happen.

Appendix 1: Investments in detail

Table A1: Breakdown of investments by local authority pension fund

Local authority pension fund	Fund value (GBP)	Fossil fuel value (GBP)	Fossil fuel (%)
England			
Avon	4,350,976,628	103,390,274	2.38%
Bedfordshire*	2,209,403,992	36,526,777	1.65%
Buckinghamshire	2,893,967,682	63,126,069	2.18%
Cambridgeshire	3,098,582,909	87,386,797	2.82%
Cheshire	6,108,279,398	63,342,957	1.04%
City of London*	1,023,600,000	33,607,687	3.28%
City of Westminster*	1,319,741,000	55,809,644	4.23%
Cornwall	1,880,548,136	44,255,266	2.35%
Cumbria	2,563,006,221	63,472,322	2.48%
Derbyshire	4,727,341,691	146,583,988	3.10%
Devon	4,003,706,431	157,481,152	3.93%
Dorset	2,705,088,275	128,138,628	4.74%
Durham	2,739,626,964	35,298,487	1.29%
East Riding	4,800,159,113	201,062,950	4.19%
East Sussex	3,735,131,487	110,535,327	2.96%
Environment Agency	3,604,724,984	31,431,393	0.87%
Essex	6,646,843,255	129,103,548	1.94%
Gloucestershire	2,244,562,648	99,768,695	4.44%
Greater Manchester*	22,034,789,000	1,011,755,935	4.59%
Hertfordshire*	4,752,843,000	78,575,958	1.65%
Isle of Wight	624,864,480	18,798,132	3.01%

Kent	5,716,796,261	209,862,064	3.67%
Lancashire	8,356,321,016	99,772,761	1.19%
Leicestershire	4,143,668,000	153,884,735	3.71%
Lincolnshire	2,219,316,215	63,458,153	2.86%
London Borough of Barking and Dagenham	1,065,547,668	28,763,338	2.70%
London Borough of Barnet	1,076,786,168	30,661,059	2.85%
London Borough of Bexley	888,435,173	35,951,990	4.05%
London Borough of Brent	835,270,201	25,806,937	3.09%
London Borough of Bromley	1,178,531,163	16,953,378	1.44%
London Borough of Camden	1,554,197,693	62,251,114	4.01%
London Borough of Croydon*	1,256,839,000	35,834,874	2.85%
London Borough of Ealing	1,192,160,000	39,678,442	3.33%
London Borough of Enfield	1,167,611,000	30,004,364	2.57%
London Borough of Hackney	1,480,120,976	34,810,820	2.35%
London Borough of Hammersmith and Fulham	1,115,205,000	11,317,956	1.01%
London Borough of Hampshire	6,993,033,190	136,056,249	1.95%
London Borough of Haringey*	1,441,541,000	38,333,028	2.66%
London Borough of Harrow	775,988,992	25,091,756	3.23%
London Borough of Havering	705,034,408	17,087,130	2.42%
London Borough of Hillingdon	1,069,417,764	40,812,499	3.82%
London Borough of Hounslow	1,062,918,792	44,865,562	4.22%
London Borough of Islington	1,356,190,974	18,867,528	1.39%
London Borough of Lambeth	1,427,200,000	36,987,545	2.59%
London Borough of Lewisham	1,472,826,892	44,832,656	3.04%
London Borough of Merton	689,145,008	14,581,431	2.12%
London Borough of Newham	1,411,423,824	26,217,717	1.86%

London Borough of Redbridge*	751,729,998	19,989,780	2.66%
London Borough of Southwark	1,545,011,886	38,460,303	2.49%
London Borough of Tower Hamlets*	1,519,562,000	57,916,971	3.81%
London Borough of Waltham Forest	855,305,016	27,866,378	3.26%
London Borough of Wandsworth	2,384,875,615	102,888,363	4.31%
London Pension Fund Authority	5,808,145,539	173,132,470	2.98%
Merseyside	8,632,909,002	240,465,939	2.79%
Norfolk*	3,605,053,000	118,364,100	3.28%
North Yorkshire	3,543,115,024	72,900,367	2.06%
Northamptonshire	2,398,260,844	59,013,353	2.46%
Nottinghamshire**	5,770,300,000	241,059,641	4.18%
Oxfordshire	2,621,771,414	109,834,482	4.19%
Royal Borough of Greenwich	1,159,918,120	53,537,625	4.62%
Royal Borough of Kensington and Chelsea*	1,134,651,695	30,172,319	2.66%
Royal Borough of Kingston Upon Thames	807,287,538	22,346,337	2.77%
Royal County of Berkshire	2,154,840,609	27,471,392	1.27%
Shropshire	1,831,000,033	48,097,335	2.63%
Somerset	2,270,248,557	97,247,526	4.28%
South Yorkshire	8,453,828,692	230,383,400	2.73%
Staffordshire	4,402,542,417	145,722,872	3.31%
Suffolk	2,753,199,441	97,190,054	3.53%
Surrey	4,293,193,723	107,633,119	2.51%
Sutton	632,628,000	14,101,068	2.23%
Teesside	4,110,410,569	201,728,855	4.91%

Tyne and Wear	8,453,131,912	238,038,084	2.82%
Warwickshire	2,025,345,433	93,717,916	4.63%
West Midlands**	14,768,000,000	508,139,332	3.44%
West Sussex	4,141,610,817	128,777,475	3.11%
West Yorkshire*	13,214,300,000	503,653,175	3.81%
Wiltshire	2,677,512,079	34,935,410	1.30%
Worcestershire	2,863,432,882	122,244,655	4.27%
	261,302,435,524	**7,989,227,169**	**3.06%**
Scotland			
Dumfries and Galloway	825,599,848	31,165,479	3.77%
Falkirk	2,298,923,603	97,263,363	4.23%
Fife	2,427,493,675	70,102,646	2.89%
Highland	2,114,889,081	46,148,656	2.18%
Lothian**	7,442,687,000	164,691,111	2.21%
North East Scotland	4,404,702,477	124,457,073	2.83%
Orkney Isles	450,562,319	9,303,106	2.06%
Scottish Borders**	716,173,265	15,851,755	2.21%
Shetland Isles	459,300,000	19,679,134	4.28%
Strathclyde	22,702,413,180	508,463,509	2.24%
Tayside	4,013,372,242	117,695,060	2.93%
	47,856,116,690	**1,204,820,892**	**2.52%**
Wales			
Cardiff and Vale of Glamorgan	2,014,224,984	57,476,831	2.85%
Clwyd	1,808,060,032	77,214,096	4.27%
Dyfed	2,377,618,793	1,14,167,090	4.80%
Greater Gwent (Torfaen)	3,015,514,356	70,813,784	2.35%

Gwynedd*	1,938,336,922	51,543,676	2.66%
Powys	631,104,669	19,829,673	3.14%
Rhondda Cynon Taf**	3,350,224,000	103,382,172	3.09%
Swansea	1,985,814,816	57,579,842	2.90%
	17,120,898,572	**552,007,165**	**3.22%**
Northern Ireland			
Northern Ireland	3,285,302,576	113,152,455	3.44%
Total	**329,564,753,363**	**9,859,207,682**	**2.99%**

*Note: * Proxy data was used for these councils (see Appendix 2).*

*** The following local authorities did not appear to fully disclose their holdings because the total was more than 10% lower than the figure in their 2019/2020 annual report: West Midlands (−56%), Lothian (−52%), Scottish Borders (−34%), Nottinghamshire (−27%) and Rhondda Cynon Taff (−15%). We accounted for this difference by assuming that the undisclosed assets had the same fossil fuel exposures as the disclosed assets and added this to the total.*

Appendix 2: Methodology in detail

Important notes on Greater Manchester, West Midlands, Nottinghamshire and Tyne and Wear pension funds

* Greater Manchester pension fund did not disclose any direct assets when asked as part of this study, so we estimated their exposure to fossil fuels (as outlined in Tables 3 and 4) using an estimation method (full methodology detail available in Appendix 2). Besides, we know from previous analyses (Platform and Friends of the Earth, 2017) that the council was one of the leading holders of direct assets in fossil fuels, with over 10% of its total value invested in fossil fuels across both direct and indirect assets. Referring to its 2019 annual report (for the financial year 2018/19), it appears that Greater Manchester then held at least £1,143 million of direct equities in CU200 companies (Greater Manchester Pension Fund, 2019: 15), so the estimated value in this study is very likely to be an underestimate.

** West Midlands did not disclose all of its assets. We estimated the value of the undisclosed assets using data from the West Midlands Pension Fund Annual Report (2019/20). We assumed that the undisclosed assets which totalled £5.4bn had the same fossil fuel exposure as the disclosed assets (full methodology detail available in Appendix 2).

*** Nottinghamshire did not disclose all of its assets. We estimated the value of the undisclosed assets using data from the Nottinghamshire Pension Fund Annual Report (2019/20). We assumed that the undisclosed assets which totalled £1.3bn had the same fossil fuel exposure as the disclosed assets (full methodology detail available in Appendix 2).

**** This local authority pension fund was created by a merger which began in May 2020, between the existing Tyne and Wear Pension Fund, administered by South Tyneside Council on behalf of members in the five Tyne and Wear council areas, and the Northumberland Pension Fund, administered by Northumberland County Council.

Our methodology in eight steps

1. Data collection

Data on local government pension fund holdings was collected by investigative journalists and research associates Edward Jones, Jan Goodey and Nicole Pihan through private FOI requests via the WhatDoTheyKnow website. Any data issues were addressed by asking the council for clarification, or as a last resort by collecting additional data from annual reports.

2. Data quality check

The data for each council was manually checked to ensure that totals were correct and that direct and indirect assets were reported in separate sheets. Data was excluded from the dataset if it did not meet these quality criteria:

- at least 50% of fund names reported
- variance between fund total and asset breakdown total < 60%.

3. Data cleaning

The data was cleaned using a Python script to ensure that asset names were consistent and that erroneous values such as subtotals were not included in the dataset. For example, the output of this step converted complex asset names such as ROYAL DUTCH SHELL (OFC) EUR 6.65% 12/12/20 to the name of the underlying company – in this case ROYAL DUTCH SHELL.

4. Direct analysis

Assets were screened for direct holdings in fossil fuels by using a Python script to match the name of assets to a list of Carbon Underground 200 (CU200) companies and synonyms. This list of companies is shared by CU200 at their discretion at the website https://fossilfreefunds.org/carbon-underground-200.

5. Indirect analysis

All assets accounting for > 1% of each pension fund's value were screened for indirect investments in fossil fuels. This accounted for 679 assets totalling £170 billion. A complete breakdown was found for 448 assets totalling £82 billion (52% of total).

Indirect assets which could not be broken down were estimated using indexes sourced from the State Street Global Adviser's website (www.ssga.com/uk/en_gb/institutional/etfs) for which a CU200 exposure could be calculated. The research team used the following proxies; the CU200 exposure is shown in brackets and is based on the complete holdings of each index at 11 February 2021:

- MSCI World Index (3.4%)
- MSCI ACWI Index (3.9%)
- MSCI Emerging Markets Index (6.0%)
- MSCI Japan Index (9.6%)
- S&P 500 Index (2.0%)
- FTSE UK All Share Index (11.9%)
- Bloomberg Barclays Sterling Corporate Bond Index (2.8%)
- Bloomberg Barclays Global Aggregate Bond Index (1.2%)

All indirect investments accounting for less than 1% of each fund's total and not picked up by the direct analysis were assumed to have no CU200 exposure. It is highly likely that this method missed smaller funds invested in CU200 companies.

6. Breakdown by fossil fuel

The CU200 companies are classified as either coal or oil and gas, so we used this to calculate the percentages for each type of fossil fuel. For the four CU200 companies involved in coal *and* oil and gas extraction – BHP Billiton, Sasol, Mitsui and PTT – we split detected assets equally between these categories. So, if the asset value was £1,000 we allocated £500 to coal and £500 to oil and gas.

7. Adding estimates for data gaps

Estimates were calculated for the 13 councils that did not pass the data quality check (see point 2): Bedfordshire, City of Westminster, City of London, London Borough of Croydon, London Borough of Haringey, London Borough of Redbridge, London Borough of Tower Hamlets, Greater Manchester, Gwynedd, Royal Borough of Kensington and Chelsea, Hertfordshire, Norfolk, West Yorkshire.

The total CU200 exposure percentage ($CU200_{Total\ \%}$) was calculated for each proxy by relating its ranking in a previous analysis by Platform and Friends of the Earth in 2017 to the $CU200_{Total\ \%}$ values identified in this study. Proxy councils were assigned the average $CU200_{Total\ \%}$ value for its corresponding decile when the data was ordered by $CU200_{Total\ \%}$. For example, Norfolk is a council which required a proxy value. Norfolk had the 35th-highest $CU200_{Total\ \%}$ value out of 97 councils in the 2017 analysis. This placed it in the 3rd decile. Therefore, Norfolk was assigned the average $CU200_{Total\ \%}$ value for the 3rd decile in this study.

Table A2: Proxy values used in this study

Local authority pension fund	**2017 rank**	**2017 decile**	**Proxy description**	**Estimated $CU200_{Total\ \%}$**
Greater Manchester	1	1	Average for decile 1 in this study	4.6
City of Westminster	11	2	Average for decile 2 in this study	4.2
West Yorkshire	22	3	Average for decile 2 in this study	3.8
London Borough of Tower Hamlets	26	3	Average for decile 3 in this study	3.8
City of London	32	4	Average for decile 4 in this study	3.3
Norfolk	35	4	Average for decile 4 in this study	3.3
London Borough of Croydon	48	6	Average for decile 6 in this study	2.9
London Borough of Redbridge	54	7	Average for decile 7 in this study	2.7
Gwynedd	56	7	Average for decile 7 in this study	2.7

London Borough of Haringey	57	7	Average for decile 7 in this study	2.7
Royal Borough of Kensington and Chelsea	60	7	Average for decile 7 in this study	2.7
Bedfordshire	85	10	Average for decile 10 in this study	1.7
Hertfordshire	88	10	Average for decile 10 in this study	1.7

The proxy $CU200_{Total\ \%}$ values were broken down by funding type and fuel using these equations:

1. $CU200_{Direct\ \%} = CU200_{Total\ \%}$ * Average Direct Funding Proportion
2. $CU200_{Indirect\ \%} = 1 – CU200_{Total\ \%}$
3. $CU200_{Direct\ Coal\ \%} = CU200_{Direct\ \%}$ * Average Direct CU200 Coal Funding Proportion
4. $CU200_{Direct\ Oil\ +\ Gas\ \%} = 1 – CU200_{Direct\ Coal\ \%}$
5. $CU200_{Indirect\ Coal\ \%} = CU200_{Indirect\ \%}$ * Average Indirect CU200 Coal Funding Proportion
6. $CU200_{Indirect\ Oil\ +\ Gas\ \%} = 1 – CU200_{Indirect\ Coal\ \%}$

Where:

- Average Direct Funding Proportion = Total Value of Direct Assets / Total Value of Assets;
- Average Direct CU200 Coal Funding Proportion = Total Value of Direct Coal Assets / Total Value of Direct Coal, Oil and Gas Assets; and
- Average Indirect CU200 Coal Funding Proportion = Total Value of Indirect Coal Assets / Total Value of Indirect Coal, Oil and Gas Assets

The rationale for this method is that it ensured estimated values were consistent with the relative rankings in 2017 and the absolute magnitudes identified in this study. By averaging the estimates by decile, we also controlled for anomalies and small changes in ranking that are likely to have occurred.

8. Adding estimates for underreporting

We checked the value of the assets reported by each local authority against figures in their latest annual report. For these local authorities we found that the reported amount was more than 10% lower than the figure in the annual report: *West Midlands (−56%), Lothian (−52%), Scottish Borders (−34%), Nottinghamshire (−27%) and Rhondda Cynon Taff (−15%).* We estimated the undisclosed assets by assuming they had the same fossil fuel weighting as the disclosed assets.

Appendix 3: The impact of pooling on governance as of 2019

Name of pooled fund	Name of pool	Total value of assets (BN)
ACCESS	Northamptonshire, Cambridgeshire, East Sussex, Essex, Norfolk, Isle of Wight, Hampshire, Kent, Hertfordshire, West Sussex and Suffolk	£43.2
Border to Coast	Cumbria, East Riding, Surrey, Warwickshire, Lincolnshire, North Yorkshire, South Yorkshire, Tyne and Wear, Durham, Bedfordshire and Teesside	£45.4
Brunel	Avon, Cornwall, Devon, Dorset, Gloucester, Somerset, Wiltshire, Oxfordshire, Buckinghamshire and the Environment Agency Pension Fund	£28.9
Central	Cheshire, Leicestershire, Shropshire, Staffordshire, West Midlands, Derbyshire, Nottinghamshire, Worcestershire and West Midlands.	£44.3

London CIV	London Boroughs of: Barking and Dagenham, Barnet, Bexley, Brent, Bromley, Camden, Croydon, Ealing, Enfield, Hackney, Hammersmith and Fulham, Haringey, Harrow, Havering, Hillingdon, Hounslow, Islington, Royal Borough of Kingston upon Thames, Lambeth, Lewisham, Merton, Newham, Redbridge, Richmond upon Thames, Southwark, Sutton, Tower Hamlets, Waltham Forest and Wandsworth. Royal Borough of Greenwich, Royal Borough of Kensington and Chelsea, City of Westminster and City of London.	£35.9
LPP	Lancashire, Royal County of Berkshire and the London Pension Fund Authority	£15.2
Northern	West Yorkshire, Greater Manchester and Merseyside	£44.9
Wales	Carmarthenshire, Cardiff, Flintshire, Gwynedd, Powys, Rhondda Cynon Taff, Swansea, and Torfaen	£16.8

Source: Reeve, 2019.

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