

Investing for the Future, Divesting Local Councils

Across the UK, councils invest over £14 billion in the oil, coal and gas industries through local government pension schemes. But investing pensions in fossil fuels is an unacceptable long-term financial risk, and contradicts local, national and international commitments to tackle climate change.

This briefing for councillors addresses the risks of fossil fuel investments. It highlights how councils across the UK are already protecting communities from climate change, ensuring financial security for pension-holders and investing in their local area through fossil fuel divestment.

Ahead of the May elections, councillors can advocate for divestment to be part of local party manifestos and/or pledge their individual support.

What is fossil fuel divestment?

Divestment is the opposite of investment; it means selling assets. The fossil fuel divestment campaign asks that institutions such as local council pension funds move their direct and indirect investments from the fossil fuel industry over a period of 5 years.

Councils in the UK have committed to divest their pension funds either by applying pressure through full council, or by the pensions committee agreeing policy.

Globally **nearly 700 organisations** and tens of thousands of individuals have committed to divest more than **\$5 trillion** of assets so far, including over 80 pension funds and 120 local councils.¹

Councils are already taking action

In September 2016 the London Borough of Waltham Forest became the first council in the UK to fully divest from fossil fuels, voting to sell its entire £24 million stake in oil, gas and coal. In December, the London Borough of Southwark's fund followed suit - committing to fully divest their £1.2 billion fund. Other funds are moving in the same direction - South Yorkshire's pensions are divested from coal, and the Environment Agency's pension scheme had divested 50% of its oil and gas, and 90% of its coal.

Many more councils have also passed supportive motions calling on their fund to divest - nine councils across the UK have policies officially supporting divestment, including Sheffield, Bristol, Reading and Kirklees.

As well as shifting away from dirty energy some council funds are investing positively; the Strathclyde Pension Fund invests £10 million in renewable energy and the Falkirk fund has invested £30 million in social housing, for example.²

Why divest local council pension funds?

Protecting pensions

Local government pension schemes have a legal responsibility to invest in the best interests of fund members - their fiduciary duty. However, by investing in fossil fuels, these pensions are being put in financial risk. Legal opinions by leading UK barristers show that pension fund trustees who fail to consider climate risk could be exposing themselves to legal challenge.³

We know that the vast majority of fossil fuels need to stay in the ground to meet the globally agreed climate targets of the Paris Agreement - now signed into law by the UK government. Action by governments to limit carbon emissions in line with this will leave fossil fuel reserves - the core assets of the industry - 'unburnable'. This 'carbon bubble' has the potential to leave over \$2 trillion worth of assets 'stranded'.⁴

Funds which continue to invest in fossil fuels can expect to suffer considerable losses when this “bubble” bursts. This makes the oil, gas and coal industries an increasingly financially-risky sector to invest in – especially for long-term investors like pension funds.

Figures such as Bank of England Governor Mark Carney, are already warning of these risks. He has warned that fossil fuel companies face “potentially huge” losses from climate change action that could make vast reserves of oil, coal and gas “literally unburnable”.⁵ Last year, UK local councils lost up to £683 million of their pension funds, because of failed investments in coal firms.⁶

Crucially, a number of high profile reports have also shown that a 'fossil free' portfolio can give equivalent or even higher returns for investors. MSCI - the world's leading stock market index - for example, have shown that 'fossil free' funds earned more over the last five years.⁷

Local government pension funds should be investing for the long-term, but by investing in oil, coal and gas, they are exposing members to carbon risk.

Protecting communities

Fossil fuel investments are also threatening all of our communities by fuelling climate change. Already in the UK, we have seen devastating floods becoming more common, with the physical and economic impacts of climate change worsening yearly.⁸

To prevent catastrophic climate change we have to keep the vast majority of fossil fuels in the ground and transition quickly towards a clean renewable economy. The fossil fuel industry, however, has spent decades funding misinformation and lobbying against legislation that would address the climate crisis.⁹

Local councils are already leading the push for climate action in so many ways - championing local renewable energy, improving public transport and working for sustainable housing. Investing in the companies fuelling climate change contradicts these great efforts.

By divesting councils can join with hundreds of public bodies addressing climate change risk and can invest in a positive future for their community.

Leading for change

This isn't the first time local councils have led the way. During the 1980s, many councils across the UK chose to divest from the South African Apartheid regime, cutting their ties symbolically, politically and financially.

By doing so they added huge weight to the call for national governments to act responsibly and stand up against Apartheid on the international stage, a major contributing factor to the end of regime.

How can councillors show support?

There are two key ways councillors and prospective-councillors can show support for divestment in the run up to local elections:

1. **Include it in your party group manifesto** - commit to work for local government pensions divestment in your local party's election manifesto
2. **Publicly pledge your support** - add your name to our public councillor pledge by emailing ellen@350.org

There are also community groups up and down the country working to push for divestment. You could work with them to show your support via the local press and social media. If you'd be interested in working with your local campaign and would like to be put in touch - **email ellen@350.org**.

More information

Want to find out more or pledge your support for divestment? Email Ellen Gibson, UK Divestment Network Coordinator for 350.org - ellen@350.org.

For more information on divestment, visit the Fossil Free UK website:

www.gofossilfree.org/uk

For more information on how we can reinvest in the local economy, view the Platform research¹⁰ and Community Reinvest report.¹¹

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Endnotes

- ¹ See the full list of commitments at: <http://gofossilfree.org/commitments/>
- ² More examples can be found at: <http://gofossilfree.org/uk/local-councils-are-starting-to-go-fossil-free-and-heres-how/>
- ³ More information: <http://www.clientearth.org/pension-trustees-face-legal-challenge-ignoring-climate-risk-leading-qc-confirms/>
- ⁴ For more information on the Carbon Bubble: <http://www.carbontracker.org/resources/>
- ⁵ View the speech here: <http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx>
- ⁶ More information: <http://platformlondon.org/p-pressreleases/uk-local-council-pensions-lose-683-million-with-coal-crash/>
- ⁷ Read more: <http://www.theguardian.com/environment/2015/apr/10/fossil-fuel-free-funds-out-performed-conventional-ones-analysis-shows>
- ⁸ More information on UK climate impacts: <https://www.carbonbrief.org/uk-faces-urgent-climate-change-risks-says-ccc>
- ⁹ Exxon, for example: <https://insideclimatenews.org/content/Exxon-The-Road-Not-Taken>
- ¹⁰ View a PDF here: http://platformlondon.org/wp-content/uploads/2015/09/Council_Pensions_Divest-Reinvest_briefing.pdf
- ¹¹ Download from here: <http://communityreinvest.org.uk/reinvestingpensions/>