Divest Dyfed

7-11-20

A call to respect democracy and withdraw the investments in fossil fuels held by the Dyfed Pension Board.

This report has been put together by a grassroots network of people from Carmarthenshire, Ceredigion and Pembrokeshire. Our simple purpose is to ensure that the pension contributions taken from firefighters, police officers and local government workers, amongst others, are no longer used to harm our planet. To do this, we need urgently to halt investments that contribute to environmental degradation and instead use the money for local, sustainable projects.

It is our contention that the current policies of the Dyfed Pension Fund (DPF) are contrary to guidance given by the Welsh government to local authorities and in breach of the "Well-being of Future Generations (Wales) Act, 2015". Furthermore, that the advice given to the DPF committee members by officers has been irregular, with no proper consideration being given to the motion of 9th October 2019 that "calls on Dyfed Pension Fund to divest from fossil fuels within the next two years and invest the funds in local renewable energy schemes." or the similar motion from Ceredigion County Council. That officers and fund managers have not exercised due diligence in keeping Committee Members informed of their statutory obligations. That there has been minimal risk assessment of the impact that the legal obligation to consider climate change will have on the value of investments, and that financial decision making takes little account of the growing consensus that investing in digging, burning and drilling is simply bad for business.

If necessary, the degree to which continued investments in fossil fuels by DPF complies with statutory obligations will have to be legally tested. No one wants to go down that route.

The need to act in the face of the imminent climate crisis.

Climate change is the defining crisis of our time. The Scientific evidence is irrefutable. We are destroying the Earth. It is so obvious and so unthinkable.

Billions of tons of CO_2 are released into the atmosphere every year as a result of coal, oil, and gas production. Human activity is producing greenhouse gas emissions at a record high, with no signs of slowing down. The last four years were the four hottest on record. The 2015 Paris Agreement on climate change calls for holding eventual warming "well below" two degrees Celsius, and for the pursuit of efforts to limit the increase even further, to 1.5 degrees. The UK Committee on climate change in their most recent report to government in 2020 said, "*there is no clear threshold where climate change moves from safe to dangerous. We can expect some disruptions and irreversible losses of natural habitats and resources, even with a 1.5 or 2°C temperature rise. However, with rapid global action to cut greenhouse gas emissions, we can still reduce the likelihood of global temperatures increasing by more than 1.5 – 2°C. On the other hand, if we take no action, global temperatures could increase by 4°C or more by the end of the century.*"

Disasters linked to climate and weather extremes are becoming more frequent and intense as the world warms. Nowhere is immune from rising sea and river levels, natural disasters, weather extremes, species extinction. It is clear that "business as usual" is not good enough. This is a profoundly important moment. We still have time, but if we do nothing, we face a catastrophe.

https://www.un.org/en/un75/climate-crisis-race-we-can-win

The structure of the Dyfed Pension Fund.

The enormity of the Climate Crisis is not the first concern of the Fund managers. On the advice of their officers the committee has been extremely reluctant to divest their members contributions from companies involved in fossil fuels. There are only two sentences relating to environmental considerations in their Statement of Investment Principles (SIP) 2015 and they emphasise the role of managers as the decision makers.

"The Pension Panel recognises that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale The managers have produced statements setting out their policies. The managers have been delegated by the Panel to act accordingly.".

https://www.dyfedpensionfund.org.uk/local-government-pension-scheme/investments-fund-information/investment-principles/

Their "paramount fiduciary duty", it is argued, is to obtain the best possible financial return on investments, balanced against a suitable degree of risk. The investment managers do claim to consider a company's good practice in terms of social, environmental and ethical issues, but only in so far as these have an impact on the long-term investment performance of the company and the returns to shareholders.

Although the fund is operated by Carmarthenshire, Ceredigion and Pembrokeshire are also part of the £2.4 billion Dyfed scheme. At the time of the last report there were 48 active employers within the Dyfed Pension Fund with 47,250 members (18,344 current employees, 13,187 pensioners and 15,719 deferred members).

The largest members are Carmarthenshire County Council, Pembrokeshire County Council and Ceredigion County Council. Dyfed-Powys Police, Mid & West Wales Fire & Rescue Service, local Colleges, Town and Community Councils and many other bodies contribute to the Fund. The fund does not consult contributing members about individual investment decisions. Their interests are represented the Pension Board set up in 2015. This is made up of one representative from each of the three counties, three representatives from member organisations, an independent Chair and an investment adviser from MJ Hudson of London.

"*The Board is responsible for assisting the administering authority and will perform an oversight role, to secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme and any other connected scheme, and any requirements imposed by the Pensions Regulator in relation to the Scheme; and ensure the effective and efficient governance and administration of the Scheme."*

https://www.dyfedpensionfund.org.uk/local-government-pension-scheme/investments-fund-information/pension-board/

The position of the elected councillors.

On February 20, 2019 Carmarthenshire County Council unanimously agreed to declare a climate emergency. It also committed to becoming a net zero carbon local authority by 2030, and to develop a clear plan within the next year. The proposer Cllr Vaughan Owen said that, "local Authorities and communities across Wales and the UK are becoming frustrated by governments that are unwilling to take the urgent steps needed, to deal with these issues. Humanity's future depends on today's bold and brave leaders to make the necessary decisions now in order to safeguard the environment, our future and those of generations to come." Backing the motion, Cllr Jeff Edmunds said: "This is probably the most important thing we have discussed – this is a reality that is going to affect us all." Cllr John James called for councils to influence governments by using the Wellbeing of Future Generations Act to move things forward.

https://newsroom.carmarthenshire.gov.wales/2019/02/carmarthenshire-county-council-declares-climate-emergency/#.X6FGa4j7RPY

On 9th October 2019 the Council passed another motion. "This Council calls on Dyfed Pension Fund to divest from fossil fuels within the next two years and invest the funds in local renewable energy schemes." Speaking in the debate, Cllr Rob James stated "You can't declare a climate emergency and carry on investing in the very companies that are responsible for the climate crisis. It is important to note that the Pension Fund policyholders will not suffer as a result of this bold agenda. We believe they will be financially better off".

Cllr Owen explained that he had looked at the investment record of the Dyfed Pension Scheme. From 2009 to 2017, the amount the fund held in fossil fuel-related funds had risen inexorably; the fund no longer published the figures underpinning those investments, it only recorded them as a percentage of the whole fund. He set out that one fund in which Dyfed Pension Fund invested was the Blackrock fund relating to fossil fuels which had plummeted in value over the last few years. He said retaining that investment was bad for the fund, bad for its beneficiaries, and did nothing to tackle the climate emergency the Council had unanimously declared.

The divestment motion was unanimously supported by the full council and referred to the Dyfed Pension Fund Committee for consideration.

https://democracy.carmarthenshire.gov.wales/ieListDocuments.aspx?CId=155&MId=2009&Ver=4

On 23rd January 2020 Ceredigion has also passed a motion recommending divesting. Councillor Alun Williams said: "Ceredigion Council has already taken big steps to reduce its carbon emissions and is putting together a comprehensive plan for becoming a net carbon neutral local authority in the future. It's therefore unfortunate that the investment policies of the Dyfed Pension Fund are not currently in alignment with this. As one of the public organisations taking part in the fund, it's important that we send a message to fund managers that they must recognise the world climate crisis in their decisions in future and disinvest in holdings with the fossil fuel companies that are contributing the most to the crisis".

The position of the DPF committee.

It might be assumed that when a motion is passed unanimously in full council calling on the pension fund to "divest from fossil fuels within the next two years and invest the funds in local renewable energy schemes" then that decision would be implemented, or at the very least the DPF would provide a reasoned argument about why they would not comply. This was not the case. At the DPF meeting of 24th June, the committee members, on the advice of Chris Moore (Director of Corporate Services) and Adrian Parnell (Pension Investments Manager), refused to withdraw its fossil fuel investments in accordance with the motion passed by elected representatives of two county councils. It would be business as usual.

The guiding principle behind this position is that “active engagement with companies is preferred to actively divesting”. This is asserted even though the full council had voted unanimously for divesting earlier that year. Whenever they were challenged by members, the managers used generalisations - “we recognise the carbon agenda” or “we have a strong strategy of orderly movement away from fossil fuels”. They highlighted the investments held in low carbon products without revealing the overall percentage of these investments or clarifying how sustainable these investments really are. Any fair-minded observer could be forgiven for suspecting that their comments were either evasive or disingenuous.

The timescale requested by the Councillors` motion was rejected out of hand – “it will all take a long time”. The impossibilities of divesting from pooled investments and passive markets was stressed as was the need for WPP involvement.

Highly questionable claims were made for some investments. Mr Moore commented that Shell and other fossil fuel companies are moving “a lot” to renewables and that it is difficult to differentiate between the element of funds invested in fossil fuels and element invested in renewables. Mr Parnell “there are different metrics which can result in very different lists of good and bad companies”.

When Cllr Dai Thomas raised the issue of there being no signs of developing investments in local green energy projects it was claimed that fund managers would like to reinvest funds in sustainable, local assets but no such funds are available. Anthony Parnell said that many such investments are over-valued or do not have economy of scale.

In brief, the DPF rejected all three elements of the motion – the necessity to divest, the timescale imposed by the motion and the need to reinvest in local, sustainable alternatives. All were overruled.

Nor, it was decided on the recommendation of Mr Moore, was there any cause to report back to the executive or to the other county councillors. The only record of the meeting is a brief executive summary written by the Director of Corporate Services on 24th June 2020. In it he notes the decision to take no notice of the Council’s motion and claims that he shares many of the concerns over climate and carbon issues.

https://democracy.carmarthenshire.gov.wales/documents/s42113/Summary.pdf

A clip of the Dyfed Pension board discussion from the 41st minute is available. It shows the dynamics of the meeting clearly.

https://carmarthenshire.public-i.tv/core/portal/webcast_interactive/493698

The role of the Wales Pension Partnership.

In any discussion of divestment in west Wales the role of the Wales Pension Partnership (WPP) is crucial. The partnership was established in 2017. As of the end of the financial year 2019 it had assets of £1.7 billion. It is made up of eight Welsh funds and is a work in progress. The aim eventually is to pool the majority of DPF investment assets with the other funds in order to achieve fee savings from the investment managers. In 2019 two funds worth circa £590m were transitioned into WPP funds.

Carmarthenshire County Council is heavily involved in this venture. It is the host authority for the WPP. It provides administrative and secretarial support and implements decisions made by the Joint Governance Committee of the Wales Pension Partnership. The Director of Corporate Services is the Responsible Finance Officer of the Wales Pension Partnership and the Council’s Monitoring Officer is the Monitoring Officer of the WPP.

Increasingly, because of pooled funds and a common directorate, whatever policies originate in Carmarthen will have a disproportionate influence on councils elsewhere in Wales. In short, if the partnership is dominated by those with contempt for the tactic of divesting funds from fossil fuels then it will provide cover for inaction by other councils. This is already the case to some degree, with the argument being advanced that no divestment can take place without the approval of the eight constituent funds. The attitude taken by the officers of Carmarthenshire County Council have a much greater significance because of their leading role in the WPP. It is not an exaggeration to say that their principles and priorities could have an impact on the whole of Wales.

The position of the Welsh government.

In November 2019 Rebecca Evans MS, Finance Minister wrote to the Chairs of Wales Pension Partnership and Pension Authorities also outlining the importance of environmental considerations in investment decisions they make. She noted that some local authorities have moved investments to Low Carbon Tracker investment funds and divested from companies engaged in fossil fuels extraction. Taking such an approach she said provides important signals. Fossil fuel based companies view divestment as a significant risk to their business, providing an important stimulus to encourage alternative business models, products and services.

https://gov.wales/energy-wales-low-carbon-transition

It is significant that the Welsh Assembly Member Pension Scheme has taken the decision to move nearly all their investments away from fossil fuel companies and set themselves a timeline for ditching the rest.

The impact of the Future Generations Act.

In 2015, the Welsh Assembly passed the Well-being of Future Generations (Wales) Act making it the first legislature in the world to enshrine in law a duty, falling on public bodies, to safeguard the well-being of future generations. The well-being duty is based on the principle of sustainable development. Public sector duties are nothing new, but this is the first which concerns the welfare of stakeholders who do not yet exist and hence require a guardian, in the shape of the Future Generations Commissioner.

"In the Act, any reference to a public body doing something "in accordance with the sustainable development principle" means that the body must act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs". Part 2 'Improved well-being` section 5 paragraph 1.

It might be argued that the DPF is not a public body and therefore falls outside the Act. However, the County Council, its officers and representatives, certainly do fall within the remit of the legislation and "have a duty to take all reasonable steps to follow the recommendations of the commissioner".

The extent to which this is an enforceable legal duty as opposed to an aspirational political duty has been the subject of some scholarly debate. Haydn Davies writing in the Environmental Law Review (2016) concludes: "*Its success in safeguarding the interests of future generations will depend heavily on the political will and the personalities of those tasked with holding public bodies to account "*

The DPF argue that their overriding duty is to maximise profit and that all other considerations are secondary. This runs contrary to the legal obligations contained in the Act. The Commissioner's current analysis is that "the well-being objectives and steps relating to the environment set by many public bodies do not always reflect the true definition of the Resilient Wales goal, which is focussed on maintaining and enhancing 'a biodiverse natural environment with healthy functioning ecosystems".

The Future Generations Commissioner for Wales, Sophie Howe has explicitly advocated divestment. In an open letter sent to Powys CC in August 2019 she said: “Decision-makers in Wales need to be taking immediate action and one strategic commitment they can make to contributing to a globally responsible Wales is by making the right financial decision for the well-being of our future generations.”

The Act also has implications for the Auditor General for Wales. As well as auditing the accounts of Welsh public bodies, he is required to undertake examinations of the extent to which public bodies have applied the sustainable development principle when setting and pursuing well-being objectives. Significantly, there is a specific requirement for transparency; public bodies need to demonstrate that they are making progress towards their goals.

The example of other Welsh local authorities and public bodies.

Friends of the Earth Cymru estimate that Welsh local authority pensions have almost three quarters of a billion pounds invested in fossil fuel companies, such as Shell and BP. In recent days there have been significant moves towards divestment across Wales.

A similar motion calling on Cardiff & Vale Pension Fund to divest from fossil fuels within five years was passed by Cardiff Council in July. Monmouthshire Council voted unanimously in March 2018 for the Greater Gwent Fund to make “an ordered withdrawal” at the “earliest opportunity”. Fund managers said a review into “responsible investment” was “ongoing”. It also handles pensions for Torfaen, Blaenau Gwent, Caerphilly and Newport councils. In October 2019, Powys County Council passed a motion calling on the Powys County Council Pension Fund Committee to consider to continue the ongoing support for the principle of divestment in companies engaged in fossil fuel extraction in order to divest from direct ownership of equities and corporate bonds, as well as any comingled funds, of companies engaged in fossil fuel extraction.

The financial case for divestment.

Aside from its environmental impact, funding fossil fuel companies carries significant financial risks. Oil, coal and gas are predicted to become so-called stranded assets, investments that no-one wants on balance sheets because they will lose value. This matters: DPF has a legal obligation to consider material risk. For them to continue to lend to fossil fuel companies, given the future losses predicted by, amongst others the European Investment Bank would be a breach of fiduciary duty. It is not an economically viable strategy.

“From both a policy and from a banking perspective, it makes no sense for us to continue to invest in 20-25-year assets that are going to be taken over by new technologies and do not deliver on the EU’s very ambitious climate and energy targets”

(Andrew McDowell, vice-president for energy EIB, Bloomberg 15th November 2019)

The outgoing governor of the Bank of England, Mark Carney has also warned that a substantial portion of assets invested in fossil fuels are going to be “worthless”. On the issue of whether investors should be divesting from companies in the fossil fuel sector, Carney said fund managers would “have to make the judgment and justify to the people whose money it ultimately is. A question for every company, every financial institution, every asset manager, pension fund or insurer: what’s your plan?” (Interview with the Today programme on Radio 4. December 30th 2019.)

The Dyfed Pension Fund assets have already dropped in value from £2.6bn last year to £2.4bn this year by sticking to its "business as usual" policies, partly due to being invested in fossil fuel companies which have dropped in value by $87bn in the last 9 months (https://www.theguardian.com/business/2020/aug/14/seven-top-oil-firms-downgrade-assets-by-87bn-in-nine-months).
Investments in local renewal energy in the meantime have seen no drops in value, despite the impacts of Covid 19.

The need to ensure that funds previously invested in fossil fuels are used for sustainable, local sources of energy generation.

The motion passed by Carmarthenshire County Council was not only concerned with divestment from fossil fuels. It also stated that the funds should be reinvested in local renewable energy.

The failure to properly explore potential local schemes for generating clean energy is a matter of record. Instead huge sums of money taken in pension contributions from local government workers leaves west Wales and is invested elsewhere by gigantic asset management companies like Schroders or Black Rock.

If the £141 million currently invested by the DPF in fossil fuels were to be invested directly into renewable solar, wind and hydro energy production it would transform energy consumption in Wales. Additionally, the ongoing income provided is estimated to be many times more than the current fund provides. A detailed proposal to generate electricity using solar has been put to the council by Ynni Sir Gar. It is by no means the only such scheme.

http://www.carmarthenshireenergy.org/climate-emergency

The UK government's position.

The Welsh Government does not have legislative competence in the area of pensions. That lies at Westminster, where the UK Government's Pension Schemes Bill which is coming into law soon. The move to disinvestment from fossil fuels should be further strengthened by the legislation which will ensure occupational pension schemes take climate change into account as both a risk and an opportunity. It will compel trustees to disclose how they have done so to their members and the public. The Act will also contain a requirement for schemes to take the government's net zero targets into account, as well as the Paris Agreement goals of limiting the rise of average global temperatures, for the purposes of managing their own climate risk.

https://www.gov.uk/government/news/landmark-pension-schemes-bill-proceeds-to-house-of-commons

The impact such divestment would have beyond Dyfed.

Guided by its advisors, the Dyfed Pension Fund continues to invest in fossil fuels, funding a global warming crisis that has exacted such a huge toll on humanity and the environment. It continues to employ subterfuge, while profiting from plundering the planet and destroying our eco-system.

But such a strategy has huge dangers financial as well as reputational. The fall-out from such an approach will be immense and irreparable. It will make the Fund the number one target for those who advocate challenging its procedures and its transparency.

If those who exercise financial power could be persuaded to retrace their steps, we might still avoid even greater catastrophes. If the DPF participated honestly and whole heartedly in the campaign to end fossil fuel investment it could be held up as an example to other councils. It could use its leading role in the WPP to secure real change across Wales, in line with the policies of the Welsh government and in harmony with the Future Generations Act.

The demands of environmental activists in west Wales are simple – that the Dyfed Pension Fund recognises that climate change really is the most significant issue facing us all. That the Fund shows respect for the unanimous decision of elected councillors and, within the timeframe specified in the motion, uses the £141 million that it has invested in fossil fuels for local, clean energy projects.

The issues raised by this case – issues of democratic accountability, the scope of Welsh legislation and the role of unelected officials- are so fundamental that they demand to be resolved.

We would value your considered response.

Hywel Davies (Castell Newydd Emlyn)

Divest Dyfed

Some points from the Dyfed Pension Fund committee meeting on 24/6/2020

Taken from a letter from Greg Parker to Cllrs DE Williams, DC Cundy, Dai Thomas and T.J Jones..

https://carmarthenshire.public-i.tv/core/portal/webcast_interactive/493698 (41st minute onwards).

"It's our fiduciary duty to obtain best financial return for its members and minimise risk."

If it is, then it is not responsible investing in fossil fuel companies when $87bn has been wiped off the value fossil fuel companies in the last 9 months: https://www.theguardian.com/business/2020/aug/14/seven-top-oil-firms-downgrade-assets-by-87bn-in-nine-months.

Investing in local renewable energy can produce 10s of times higher returns than the fossil fuel investments at very low risk, as covered in the attached Really Simple Plan. If nothing is done about the Climate Emergency, and the tipping point for Climate Disaster is reached within 8 years, all pensioninvestments are likely to become very quickly worthless anyway. Tackling the Climate Emergency is the number one priority for ensuring the long term security of the pension fund members' investments.

"The pension fund is invested in pooled investments and it is difficult to find which parts are invested in certain companies and some of the fossil fuel companies have renewable parts."

Many funds find it no problem to invest ethically

https://www.ethicalconsumer.org/money-finance/shopping-guide/ethical-pensions

During the full council meeting it was explained that the Dyfed Pension Fund had previously managed to withdraw from an underperforming fund and reinvest within a matter of months. So when it is necessary, it can be done.

"We prefer 'Active Engagement' rather than 'Divestment' as e.g. fossil fuel companies have investments in renewable energy."

Shell was mentioned a lot in the meeting, with officers saying how good they were "delivering a lot in renewable energy". Shell has invested $2bn invested in renewable energy from 2016 to 2020. Over the same period, they have invested $120bn in new fossil fuel development. This 1.6% investment is a token gesture only, allowing them to continue exploiting fossil fuels, and safeguard the remaining 98.4% in damaging fossil fuels. It is truly naïve to think that you are going a good job for the Climate Eme going a good job for the Climate Emergency by investing in Shell.

https://www.edie.net/news/10/Royal-Dutch-Shell-may-fail-to-reach-green-energy-targets/

BP is many times worse than even Shell. They have invested $66m in renewable energy out $303bn (0.02%) in last annual report.

https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bp-annual-report-and-form-20f-2018.pdf