

## Council – 15 July 2019

### Notice of motion – Investment in Fossil Fuels

A notice of motion has been received from Councillors Shires (lead member), Barker, C. Bott, P. Bott and Young:-

Walsall Council notes reports on BBC News 12 June 2019 by Roger Harrabin Environmental Analyst that the UK Government was to commit to almost zero greenhouse gas emissions by 2050 and Prime Minister Theresa May's comments that:

*There was a "moral duty to leave this world in a better condition than what we inherited" and that "Cutting emissions would benefit public health and cut NHS costs".*

This Council recognises that:

1. Burning fossil fuels poses a serious risk to the stability of the climate upon which our wellbeing and our economy depend.
2. Research demonstrates that up to 80% of proven fossil fuel reserves will have to remain unburnt if we are to have a reasonable chance of keeping global warming to less than 2 degrees Celsius, the globally agreed target for climate change mitigation.
3. Since 80% of fossil fuel must remain in the ground, the reserves of the fossil fuel industry risk becoming "stranded assets" with little or no value – representing a substantial financial risk for those that invest in them.
4. The West Midlands Pension Fund currently has over £490 million invested in the oil, coal and gas industries.
5. As of January 2019 1000+ institutions with assets totalling in excess of £8.05 trillion have made divestment from fossil fuel commitments.

The Council pledges to:

- A. Review its investment strategy and develop and implement a Responsible Investment Policy which rules out new investment in fossil fuel companies.
- B. Call on West Midlands Pension Fund to divest from fossil fuels by mandating its representative on the West Midlands Pension Fund Committee to call for the development and adoption of Responsible Investment Policies which:
  - i. Immediately freeze any new investment in the top 200 publicly traded fossil fuel companies;

- ii. Divest from direct ownership any co-mingled funds that include fossil fuel equities and corporate bonds within 4 years;
- iii. Set out an approach to quantifying and addressing climate change risks affecting all other investments; and
- iv. Focus future investments on areas that minimise climate change risk.”

**Response:**

**Walsall Council Investment Policy**

Walsall Council does not currently invest in any in fossil fuel companies, with instead the majority of the council's investments being in the form of cash deposits with financial institutions.

The CIPFA Treasury Management Code (2017) and Prudential Code (2017) set out the statutory requirements in relation to the requirement to produce a Treasury Management Strategy and Treasury Management Policies each year, but there is no requirement for local authorities to produce a 'Responsible Investment Policy' as part of these statutory requirements.

Given this statutory position, and the fact that the authority has chosen not to invest in this area, the council's current treasury management policies are silent on the matter of investment in fossil fuel companies.

If Council is therefore supportive of the request to rule out any new investment in fossil fuel companies the easiest practical way to do this would be for the next update to the authorities treasury management policies (which are due to be presented to Cabinet and then on to Council in February 2019) to incorporate a statement in to Treasury Management Policy 1 (TMP1) in regard to suitable counterparties that the authority will seek to utilise as follows:

*The Council, as a public body, has taken the view that it does not wish to invest in companies which are generally seen to be undertaking a business which is contrary to its corporate values, and as such has taken the specific decision to divest from any new investment in fossil fuel companies.*

**West Midlands Pension Fund Investment Policy**

The key objectives of the pension fund are to be able to pay the pension benefits that have been promised to its members whilst keeping costs of these pensions to employers within the fund to a minimum.

Therefore being able to invest in a wide range of diversified assets without restriction enables the Fund to assess investment risks and opportunities and to focus on delivering its key objectives.

As long term investors, the West Midlands Pension Fund is aware that climate change brings with it risks and opportunities and at all times it needs to balance that with having a clear focus on the financial performance of its portfolio. The Fund therefore undertakes ongoing monitoring of the potential impact that climate change is likely to have on the global economy and society as a whole and has incorporated that message into its 'Responsible Investment Framework' and also into its 'Climate Change Framework and Strategy'.

It is the Fund's view that the scale of these impacts is such that a proactive and precautionary approach is needed in order to address them. As such, at the present time, the Fund does not believe that divesting its investments from carbon-intensive stocks would be in the best interests of its members and instead has focused on an active stewardship programme to work with other like-minded investors to develop a robust engagement program with companies.

Using a three-pillar framework comprising Selection, Stewardship, and Transparency & Disclosure, climate change risk is addressed by integrating assessment into asset allocation and selection decisions, incorporating climate metrics into shareholder voting decisions, co-filing where this can promote effective action and disclosing in line with best practice recommendations.

An independent Climate Risk Assessment undertaken in 2018 considered the impact on the Fund's investments under a range of climate change scenarios noting these are *"well positioned for a shift to a low carbon economy"*.

The Fund's investment portfolio continues to evolve to reflect the emerging risks (and opportunities) of climate change, for example, during 2018 the Fund has made:

- Commitment of £100m to a direct investment in a wind farms which produces 550MW of renewable power each year. This builds on over £200m investment in pure-play renewable energy investments.
- Allocation and launch of a search in October 2018 to deliver up to £750m within a global equity sustainable investment portfolio, one of the largest mandates of its kind ever issued in the UK.
- Reporting for the second year running in line with the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD), having been highlighted by the Environmental Audit Committee in May 2018 as the first UK Fund to include this within the 2017 Annual Report.

The Chair of the Fund's Pension Committee notes *"the Committee continues to recognise and debate some the challenges climate change risks bring for longer-term asset owners. Dedicated training and development of our approach has built demonstrable resilience, but we will not rest on our laurels as further opportunities emerge."*

The Fund continues to work with others to enhance the impact of engagement across the industry:

- An active member of the Institutional Investor Group on Climate Change (“IIGCC”). Through this group the Fund has petitioned global policy-makers including the G20 to ratchet up the policy response to climate risks and publicly supporting the Paris Agreement on climate change.
- Signatory of the United Nations Principles for Responsible Investment
- Founding partner of the Transition Pathway Initiative (TPI), which draws on expertise from the London School of Economics and FTSE Russell to appraise companies’ preparedness for a low-carbon transition, supporting investment stewardship
- Supporting climate-related shareholder resolutions at the AGMs of Royal Dutch Shell Plc and Rio Tinto Ltd in 2018
- An active member of the Local Authority Pension Fund Forum (“LAPFF”). LAPFF issues progress reports on company engagement, including climate change. LAPFF engaged with 27 companies on climate change issues in 2017.
- Supported by Hermes EOS who have been appointed from October 2018 to provide stewardship services to the Fund via the LGPS Central investment pool where the Fund already has significant assets invested. Last year Hermes EOS engaged 215 companies on the matter of climate change risk.
- A member of Climate Action 100+ campaign, which is backed by investors worth \$30tn of assets under management (AUM). This initiative focuses on the c150 most systemically important carbon emitters in the world, and seeks three objectives: (a) best practice governance of climate change (b) emission reduction targets in line with the Paris Agreement (c) disclosure aligned with the TCFD recommendations.

The Fund will also shortly be making a re-allocation within its global equity portfolio to a sustainable equity mandate, and is also working with the LGPS Central Pool to develop a low carbon equity sub-fund. Both allocations are likely to result in a further reduction in allocation to assets exposed to the risks associated with fossil fuel energy generation and these are being made following a wider strategic climate risk review across the portfolio.

The Funds ‘Responsible Investment Framework’ and also its ‘Climate Change Framework and Strategy’ are publicly available on its website at the following links:

Responsible Investment Framework –

<http://www.wmpfonline.com/CHttpHandler.ashx?id=15265&p=0>

Climate Change Framework and Strategy –

<http://www.wmpfonline.com/CHttpHandler.ashx?id=17527&p=0>

It should be noted that whilst the authority does have a voting member on the West Midlands Pension Fund board, it is not able to exert overall control in voting matters and as such if Council is supportive of this motion it would need the support of other board members to seek to implement the changes that are being requested.

A handwritten signature in black ink, appearing to read 'James Walsh', with a stylized, cursive script.

James Walsh  
Executive Director, Resources and Transformation  
2 July 2019