COUNTY COUNCIL – 23 MARCH 2021

QUESTIONS FROM MEMBERS OF THE PUBLIC

Note: Questions 1 to 9 relate to the East Sussex Pension Fund exposure to fossil fuel investments, the response to climate emergency and related issues. The answer to these questions is set out after question 9 below

1. The same or similar questions were asked by:

Eveline Tijs, Hastings, East Sussex
Dirk Campbell, Lewes, East Sussex
James Eaton-Brown, Cross-in-Hand, East Sussex
Iain Sheard, Battle, East Sussex
Steve Jeanes, Brighton
Serena Penman, Lewes, East Sussex
Sue Fasquelle, Lewes, East Sussex
Melanie Jarman, Lewes, East Sussex
Sharon Hamlin, Brighton
Richard Boyle, Eastbourne, East Sussex
Julian Blundell, Brighton
Dean Robinson, Hastings, East Sussex
Steve Pine, Hove
Jonathan Lewis, Brighton
Tessa George, Lewes, East Sussex
Ting Planskett, Eastbourne, East Sussex
Andrea Needham, Hastings, East Sussex
Jane Wilde, Brighton
Anna Reggiani, Forest Row, East Sussex
Sarah Gorton, Brighton
Kathy Bor, St Leonards on Sea, East Sussex
Les Gunbie, Brighton
Madeleine Ehm, Hastings, East Sussex
John Enefer, Hastings, East Sussex
Michael Bernard, Bexhill-on-Sea, East Sussex
Duncan Armstrong, Lewes, East Sussex
Oliver Darlington, Lewes, East Sussex
Hugh Dunkerley, Brighton
Peter Murray, Lewes, East Sussex
Gary French, St Leonards on Sea, East Sussex
Denzil Jones, Lewes, East Sussex
Carol Mills, Eastbourne, East Sussex
Kate Norman, Forest Row, East Sussex
Natalia Serrano, Brighton
Sally Phillips, Hastings, East Sussex
Karen Stewart, Eastbourne, East Sussex
Nicola Reese, Saltdean
Jane Wigan, St Leonards on Sea, East Sussex
Richard Pike, Forest Row, East Sussex
Anna Page, Hastings, East Sussex

Becca Horn, Hastings, East Sussex
Jane Swan, Ditchling, East Sussex
Robert White, Eastbourne, East Sussex
Caroline Gorton, Brighton
James Self, Newick, East Sussex
Chris Benner, Hastings, East Sussex
Chris Murphy, Polegate, East Sussex
Sarah Oxenbury, Eastbourne, East Sussex
Patricia Rigg, Lewes, East Sussex
Jane McIntosh, Lewes, East Sussex
Arnold Simanowitz, Lewes, East Sussex
Jayne Ford, Brighton
Claire Duc, Lewes, East Sussex
Rosemary Pickersgill, Lewes, East Sussex
Fran Witt, Lewes, East Sussex
Elizabeth Hankins, Hailsham, East Sussex
Ann Link, Lewes, East Sussex
Fiona MacGregor, St Leonards on Sea, East Sussex
Alison Cooper, St Leonards on Sea, East Sussex
Benjamin Clench, Hove
Carol Turner, Eastbourne, East Sussex
Lesley Buckley, Brighton
Anne Massey, Hove
Karl Horton, Hastings, East Sussex
Ayesha Mayhew, Brighton
Ilona Brunzel, Bexhill on Sea, East Sussex
Gabriel Carlyle, St Leonards on Sea, East Sussex
Judith Knott, Lewes, East Sussex
Laurence Johnson, Brighton
Sundari Poorun, Hastings, East Sussex
Terence Walker, Brighton
Judith Scott, Hastings, East Sussex
Lisa Stevens, Horam, East Sussex
Sheila Parkin, Brighton
Paul Lloyd, Brighton
Zoe Garrity, Seaford, East Sussex
Anthony Bradnum, St Leonards on Sea, East Sussex
Dorothy Amos, Hastings, East Sussex
Rachelle Dare, Hastings, East Sussex
Lucy Butler, St Leonards on Sea, East Sussex
Colin McCloskey, Lewes, East Sussex
Karen Simnet, St Leonards on Sea, East Sussex
Lucy Dixon, Hastings, East Sussex
Esme Needham, Hastings, East Sussex
Emily Price, Hastings, East Sussex
Angela North, Crowborough, East Sussex
John Doherty, Bexhill on Sea, East Sussex

According to a 12 February assessment by the Transition Pathway Initiative: ‘An almost complete and immediate stop in exploration and sanctioning of new oil fields would … be required to avoid locking in future oil production that would see temperatures exceed a 1.5°C increase’ in global warming (https://www.transitionpathwayinitiative.org/publications/48?type=NewsArticle).
Yet to date *none* of the world’s eight largest oil majors (BP, Chevron, Eni, Equinor, ExxonMobil, Repsol, Shell and Total) has agreed to stop exploration and *none* has agreed to stop approving new extraction projects (see http://priceofoil.org/content/uploads/2020/09/OCI-Big-Oil-Reality-Check-vF.pdf).
As at 31 December 2020 the East Sussex Pension Fund had £76.4m invested in fossil fuel companies, including £14.2m in these companies’ corporate bonds – one of the two main sources of funding for such new fossil fuel projects.
What (if any) time limits has the Fund set for these companies to stop exploring for new oil fields and stop sanctioning new oil extraction projects? And what (if any) action will the Fund be taking if, as seems highly likely, these companies continue along their current path, making limiting global warming to 1.5°C impossible?
If it has not already done so will the Fund now: (a) set a near-term time limit for such companies to stop exploring for new oil fields and stop sanctioning new extraction projects; and (b) commit to divesting from those companies that fail to do so by the given time limit? If not, why not?
We would remind you that:
(1) The East Sussex Pension Fund is a signatory to the UN Principles of Responsible Investment (PRI) and that the East Sussex Pension Committee was briefed by one of the PRI’s directors (Anastasia Guha) at the Committee’s 1 March 2021 meeting.
In her presentation Ms Guha, made clear that if the East Sussex Pension Fund was going to continue its policy of ‘engaging’ with fossil fuel companies then it was essential that it should have an ‘escalation strategy’ (ie. a plan for what to do if a company fails to do the things that the Fund has asked them to do), and that this ‘has to be an escalation strategy that comes with time limits’. She also made clear that these time limits would need to be near-term, noting that ‘unless we do stuff in the next nine years we’re in serious trouble … some would say we’re already in serious trouble’.
As an example, she cited the recent announcement by one Britain’s top asset managers (Aviva) that it would divest from 30 of the world’s largest oil, gas, mining and utilities companies [the escalation] unless these companies carried out its demands, setting a deadline of 1 - 3 years for these companies to comply [the time limit]. According to the Financial Times Aviva’s demands are as follows: ‘set short and medium-term targets to meet the energy transition, align management pay with climate goals and ensure that direct and indirect lobbying was not in conflict with their public position on global warming.’
She also reminded the Committee that it was crucial that the Fund ‘keep 1.5°C front of mind.
(2) The UN’s Intergovernmental Panel on Climate Change projects that going from 1.5ºC of global warming to 2ºC could mean:
• 1.7 billion more people experiencing severe heatwaves at least once every five years
• Several hundred million more people being exposed to both climate-related risks and poverty
• Coral reefs that support marine environments around the world declining by 99%

2. Question from Jessica Nieman, Brighton

Why does ESCC continue to derive investment income from Fossil Fuel corporations?

We are all conscious of the dangers inherent in breathing filthy PM2.5 - filled air - we're still under Lockdown, living in fear of respiratory disease.
Investment Fund Managers are commercial operators, and when a client states: "Find me a long term stable equivalent return now" their job is to provide you with a list.
Can you show us that list?
Can ESCC divest?

3. Question from Vanessa Jewell, Lewes, East Sussex

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4. Question from Peter Newell, Kingston, East Sussex

I would like to congratulate members of the council for their endorsement of the idea of a Fossil Fuel Non-Proliferation Treaty, the first municipality in the UK to do so. Given this support, I would like to know when, following other councils, they plan to divest their funds from fossil fuels in line with this endorsement.

5. Question from Melissa Hay, Lewes, East Sussex

In October 2019 East Sussex County Council (ESCC) declared a 'climate emergency'. But it continues to act as though it has all the time in the world to address the crisis – even as the giant oil and gas companies in which it invests act in ways that will rapidly make limiting global warming to 1.5°C impossible.

When is ESCC going to recognise the irresponsiblity of continuing to invest in these companies? There are 'green' alternatives!
When are you going to be part of the solution, not indirectly part of the problem?

6. Question from Sheila Deen, Brighton

I'm extremely concerned that by investing in fossil fuels you are ignoring scientific evidence and endangering the future of our planet. Why are you so short-sighted?

7. Question from Hilary Pogge von Strandmann, Ripe, East Sussex

I read that you have still not resolved the frightening and catastrophic problem of your investment, on our behalf (I am a pensioner of ESCC) in fossil fuel companies, apparently to the tune of over £76 million including in such companies' corporate bonds. I am unable to understand your stance given that none of the world's eight largest oil companies has undertaken to stop extraction and investing in new projects.

What time limits have you set, or are proposing to set (I hope very soon) so that these companies stop extraction and future exploration. And what action will you take if such companies continue to extract and explore?

I find it hard to believe that you are consciously and willingly aiding and abetting the current race towards the 'tipping point' of climate change, but that is what it looks like.

8. Question from Jenny Clench, Hove

I am contacting you to voice my serious concerns over the continuing investments of the County Council's pension fund in companies that are at odds with the council's sign up to the current climate emergency.

As a past employee of the County Council for many years and thus as a long-term contributor to the pension fund and now as a retiree and in receipt of an ESCC pension I am shocked to learn of the County Council's poor track record in responding to past questions and concerns raised regarding its investment activities in relation to the CC pension fund.

- What is the timescale for divesting from fossil fuels
- How will the Council communicate transparently to both those contributing to the LA's pension scheme and those in receipt of an ESCC pension that its investments are ethically aligned to the climate emergency.

9. Question from Gillian Bargery, St Leonards on Sea, East Sussex

I am horrified to learn that as of the end of last year your council had an investment totaling £76.4M in fossil fuel companies. I am quite sure that investing in companies which have contributed so disproportionately to the destabilising of the global climate is not what most East Sussex Council taxpayers and residents would wish for.

Please could you let me know what plans you have to disinvest and by when you expect these plans to have been fulfilled?

Response by the Chair of the Pension Committee to questions 1 to 9 above

The Pension Fund has not set any time limits relating to companies' exploration for oil. This is primarily due to the fact that the Pension Fund does not directly invest in any company, so the setting of time limits on companies by the Fund is not be something that the Fund can act upon. The Fund makes decisions to firstly invest into an asset class, for example, equity funds, bond funds, property or infrastructure. From there the Fund will consider options of possible investment managers to carry out that strategy on behalf of the Fund. When selecting a specific investment manager the Fund takes into account a number of factors such as the expertise of the team; the conviction of decisions on what to hold; anticipated performance; risk; integration of environmental, social, governance (ESG) and any sustainability risks; as well as many other considerations. As the Fund does not hold any investments directly with companies it is reliant of the investment manager to carry out engagement and voting with those companies and exclude when it is deemed to be in the best interest of the underlying investors such as the East Sussex Pension Fund. The Fund expects investment managers to have engagement and escalation strategies in place; and the fund expects as a minimum, its equity investment managers to be members of Institutional Investment Group on Climate Change (IIGCC). The Fund and its advisers liaise with the active investment managers and are able to question their holdings, methodology, strategic decisions and voting to ensure confidence with the risks faced by the Fund. It is necessary to note at this point that the 2016 Investment regulations moves selection of investment managers from Pension Fund Pension Committees to FCA regulated operators of the new LGPS investment pools, this has only been partially embedded in the Fund but the Pension Committee’s ability to select a manager has reduced and continues to reduce as this piece of legislation embeds.

As to the second part of the primary question, asking if the Fund will now commit to set any time limits, neither myself as Chair of the Pension Committee nor Full Council can dictate investment activity and decisions of the Pension Fund. Investment decisions must be made by the Pension Committee through a majority vote, in line with the Investment Strategy and with proper investment advice to ensure our beneficiaries will receive their pensions when they fall due; as a result no commitments can be made in this forum in response to this question.

The Pension Fund is on a journey with respect to its ESG credentials and response to the climate crisis and energy transition; and is ahead of the curve in many respects within the LGPS with the significant actions taken over the past 18 months. The most recent valuation of the Funds exposure to fossil fuel companies across all types of investments is 1.9% at 31 December 2020; with only 0.7% within the equity allocation, where further changes were approved at the March 2021 Pension Committee to move away from the last of the traditional passive index investments. In contrast, the Fund has currently invested 10% of the whole portfolio (or 25% of its equity allocation) into investments that are focused on providing a positive impact to the environment, socially or providing solutions to sustainability challenges and 10% of the whole portfolio (or 25% of its equity allocation) into a smart beta fund that aims for long term alignments with the Paris agreement through climate solutions.

The Pension Committee has committed to a number of other actions which are planned over the next 12 month period including a responsible investment impact assessment and annual refresh of carbon benchmarking in June/July 2021; an RI Implementation Statement and Stewardship Code submission statement in September 2021, then climate change scenario analysis modelling in December 2021. In addition to these actions, the Fund has committed to report based on the Task Force on Climate related Financial Disclosures (TCFD) and a first draft of PRI reporting this year. All of these actions are aligned with guidance and expectations of Pension Funds through the climate focused investor groups and newly outlined regulations that will come into place in the near future. 5 of the Funds 13 investment managers are within the leading group of 30 global asset managers that have committed to support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with achieving the long run objectives of the Paris Agreement.

I have commented on the stance of the Pension Fund regarding divestment on numerous occasions and there was a detailed discussion at the March 2021 Pension Committee where the Committee received a presentation from the PRI (as noted in the primary question) and committee members were able to ask questions and discuss this topic. The stance has not changed at this time. To reiterate, the Fund has a policy of Engagement and not Divestment. Regardless, the Fund vehicles in which its assets sit also preclude unilateral divestment options. The UN PRI, LAPFF & IIGCC all favour engagement over divestment as a tool for asset owners; with divestment being a last resort in an escalation process of engagement where required and possible - noting that divestment is not possible for passive managers but the use of voting rights is powerful in its absence. The most recent Department of Works and Pensions guidance promotes a similar position with the Pensions Minister stating in a number of interviews and speeches that blanket divestment is not advised, highlighting the importance to drive these companies to find solutions to a net zero future through engagement. A more detailed statement on this can be found on the Pension Fund website and has been answered at numerous recent Full Council meetings which are also published.

When the Pension Committee met with the representative of the PRI, they made it clear that PRI cannot give investment advice and that they cannot take a position on the merits of investment vs divestment; although they noted that in the context of effecting change the latter achieved little. The representative underlined the criticality of ensuring that many companies and sectors make the transition; this requires investors to remain heavily involved. Agreeing that the direction of travel of any company is more critical than alignment with a particular warming scenario, they cited Shell, which is making progress but not yet aligned with 2°, as an example of good company engagement with the energy transition. The PRI representative went on to outline a number of possible different investor engagement approaches that have emerged recently and suggested that an effective strategy might involve a set of escalating steps. They confirmed that the engagement approach taken by IIGCC, which employs escalation, with which the PRI work closely and of which the Fund is a member, is completely aligned with and to some extent more aggressive than that taken by PRI. There was also support for Impact approaches to investment which the Fund has adopted and in which it has invested 25% of its equity portfolio.

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