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Your ref:
Our ref: DB/JM
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Dear Lancashire Resident

Investment in Fossil Fuels

I have received several emails from Lancashire residents on the subject of fossil fuel investments. I am the Councillor responsible for the council's finances and also a member of the Pension Committee.

You have asked me to gain a divestment commitment from the council. I recognise that your request has come in response to the publication of information on the holdings of Local Government Pension Schemes (LGPS) in fossil fuels as part of a divestment campaign by Fossil Free UK.

It is important to make a clear distinction between Lancashire County Council, which has no investments in fossil fuels, and Lancashire County Pension Fund (LCPF) which has direct holdings through its shares in publicly listed companies and indirect interests through pooled funds which contain a changing mix of equities likely to include fossil fuel elements.

Lancashire County Council is the administering authority for LCPF which, as a Local Authority pension scheme, operates within the statutory and regulatory requirements of the LGPS. The management of the pension fund is a nonexecutive function and the role of scheme manager is fulfilled by a Pension Fund Committee which reports directly to Full Council.

The Pension Fund Committee is responsible for setting the investment strategy for the Fund in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The investment strategy is set out in a comprehensive Statement of Investment Principles (SIP) which is available from the Fund website. The SIP reflects that the Fund has a fiduciary duty to protect the retirement savings of scheme members and beneficiaries by ensuring sufficient resources are available to meet liabilities to pay pension benefits as they fall due.

County Councillor David Borrow
Deputy Leader Lancashire County Council
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Fulfilling this fiduciary duty means ensuring the Fund maximises the risk adjusted returns it achieves from investing Fund assets – something which involves tension in the face of conflicting ethical arguments such as those associated with climate change. Recognising this tension the Pension Fund Committee convened a Responsible Investment Working Group during 2014 to consider the Fund's position, options and approach. The recommendations of the working group were adopted by the Pension Fund Committee and are reflected within the current SIP (March 2015) which clearly sets out the practices it will follow as a responsible asset owner committed to encouraging high standards of corporate governance.

Whilst no one single definition exists to clarify what is included and what is excluded when fossil fuel investments are being quantified for comparison, under the methodology used by Fossil Free UK, LCPF was identified as the local government pension fund with the lowest exposure to oil, gas and coal and as an early entrant to investment opportunities in renewable energy. The Fund has substantial direct investments in wind power, solar and clean energy reflecting a policy of actively seeking investments providing wider social benefits as a supplement to the best available risk adjusted returns over the respective investment horizon.

The Fund's position relative to other LGPS is the outcome of the continual assessment of risk adjusted returns and investment opportunities by Investment and Fund Managers and not the result of an ethical or environmental screening process. Negative screening of the type advocated by supporters of divestment reduces the pool of investment choices and compromises the ability to maximise risk adjusted returns. The Fund's holdings in fossil fuels form part of a highly diversified portfolio which offers protection from exposure to risk from a single sector.

The Fossil Free UK campaign calls for LGPS funds to divest from fossil fuels stating that they are contributing to climate change, should be investing in the social interest and are exposed to the threat posed by stranded assets. At face value, these are powerful arguments, but they do not recognise that the primary responsibility of LGPS funds is to scheme members (rather than the general public) ignore the role and very necessary contribution of existing fossil fuel companies to a planned transition to a low carbon future and fail to recognise that the returns earned from fossil fuel companies remain attractive to investors. The impact of divestment by LCPF would be a temporary good news story for campaigners but would result in the transfer of the Fund's interest to new owners (potentially with little interest beyond direct financial returns) and a consequent loss of the beneficial influence of an informed and responsible long term investor committed to working collaboratively through the Local Authority Pension Fund Forum and the UN Principles of Responsible Investment (UNPRI) to encourage timely and effective planning for a lower carbon future. The potential for institutional investors to influence company policy has not been fully realised to date but the future impact of concerted collaborative engagement should not be underestimated.

I hope I have been able to convey the reasons why the Pension Fund Committee does not believe that divestment from fossil fuels is an appropriate avenue for the Fund to take and have offered reassurance that divestment is one option from a wider range of activities the Fund can and is taking to protect the financial interests of Fund members, invest sustainably and have a positive social and environmental influence where this can be achieved within the constraints of fulfilling its fiduciary duties.

The Lancashire Pension Fund Committee is very aware and concerned about the ethical nature of its investment strategy but is also aware that it has a duty to look after the pensions both of current and future pensioners. I think the figures detailed within the Fossil Free UK website demonstrate that the Pension Fund Committee is working hard to set the right balance in its investment strategy and we will continue to do so.

Yours faithfully

A handwritten signature in black ink that reads "David Borrow". The signature is written in a cursive style with a large initial 'D'.

County Councillor David Borrow
Deputy Leader of the Council