Pension Fund Committee 26 November 2024

Question from Julie-Ann Booker, Dorset resident and member of the Dorset Local Government Pension Scheme.

The draft Dorset Pension Fund Annual Report 2023/2024 (page 10) states: "The Fund investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund".

A BBC report on 15 October 2024 came to the conclusion that burning waste produces the same amount of greenhouse gases for each unit on energy as coal power, which was abandoned by the UK earlier this year. The BBC had examined five years of data from across the country. They concluded that burning household rubbish in giant incinerators to make electricity is now the dirtiest way the UK generates power.
https://www.bbc.co.uk/news/articles/cp3wxgje5pwo

Whilst this in itself is good social, environmental and ethical reason to question asset investment in such facilities, one of the UK's biggest pension funds, Aviva, has now reported losing more than £350m on a series of calamitous investments in incinerator power plants that are expected to go bust in the very near future.

A report in The Guardian, 20 November 2024, stated that "(we) understand that Aviva Investors will put three incinerators into administration this week after pouring millions of pounds into what has been described as the country's "dirtiest form of power generation. Aviva's own accounts show that the three incinerator plants – in Hull in East Yorkshire, Boston in Lincolnshire and Barry in south Wales – accumulated loans totalling £480m from its investors between 2015 and 2023".
Whilst traditional asset risk management theory looks backwards to assess risk and up until now has not taken into account existential factors, this example demonstrates that the writing is on the wall for new strategic asset management thinking in strategic asset allocations.

https://www.bbc.co.uk/news/articles/cp3wxgje5pwo
Dorset Council refused planning permission for Powerfuel's waste to energy plant at Portland Port. Following a public planning inquiry the government overturned the planning refusal. On 24th October 2024 Cllr Nick Ireland was reported in the Dorset Echo expressing his 'deep disappointment' over the government's decision to grant planning permission for the plant, suggesting that it 'knee-caps' the authority's own net zero ambitions.
https://www.dorsetecho.co.uk/news/24672750.dorset-council-writes-letter-deputy-pm-incinerator/

My question is: Do any of the Dorset Pension Fund asset portfolios invest in companies that have, or are investing in, waste incinerators? If so, when will the Dorset Pension Fund Committee be instructing Brunel Pension

Partnership to exclude such companies from their investment portfolio and move the invested assets elsewhere?

Response:

Through its investments in Brunel’s private market portfolios, the Dorset Fund will have small underlying exposures to operations with incinerators, including bioenergy from waste plants, the handling of household waste and recycling operations. There is also likely to be some very small exposure through Brunel’s listed markets’ portfolios as well.

The Pension Fund Committee engages Brunel and other external investment managers to deliver the Fund’s investment strategy. We do not restrict our investment managers from investing in specific companies or sectors, but they must consider all financially material risks relating to their decisions including environmental, social and governance factors.

Rather than impose exclusions, Brunel, widely recognised as a market leader in Responsible Investment, scrutinises its underlying managers’ investment and risk processes, including their approach to stewardship and integration of environmental, social and governance risks throughout their stock selection process.

Question from Caz Dennett, South West Action on Pensions, and Dorset Pension Scheme member

Last week the Chancellor Rachel Reaves announced planned changes to Local Government Pension Schemes structures and governance, aiming to create a unified governance framework like the model used in Canadian pensions schemes.

The strategy is very detailed and quite complex, however, South West Action on Pensions understand the following summarised key takeouts affecting Administrating Authorities:

1. AAs will be required to fully delegate the implementation of investment strategy to the pool, and to take their principal advice on their investment strategy from the pool (regulated by the Financial Conduct Authority).
2. AAs must have an independent advisor who can challenge advice from the pool
3. All assets currently managed by AAs must be transferred to their pool
4. The AA’s responsibility in respect of investments is to set the investment strategy
5. AAs must set out their approach to local investment in their investment strategy including a target range for the allocation, and having regard to local growth plans and priorities.
6. AAs will define Environmental Social and Governance matters and Responsible Investment policy for their assets
7. The new model will be in place by 1st March 2026
8. AAs and Pools need to propose how they will operate under the new proposals by 1st March 2025
9. The consultation runs to the 16th January 2025

10. The Ministry of Housing, Communities and Local Government (MHCLG) consultation requests views on how "scheme members' views and interests are properly understood and taken into account by the pools" and is open until 16th January 2025 https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future

The proposed changes would appear to impact the role of Pension Fund Committees.
Some commentators express concerns with regards:

- periodic reviews of investments and exclusions
- the flexibility to align pension fund investments with, for example, Dorset's transition planning
- the Pension Fund's decarbonisation goals
- diminishes local democratic decision making and scheme member / public engagement
- robust discussions on the financial risks associated with climate change and pension fund investments will be lost

How does the Dorset Pension Fund Committee view the proposed governance changes, how comfortable are you to transfer decision making on mass to Brunel?

Response:

The details of the proposed changes in the consultation are still being considered. Some of the changes would place more reliance on the LGPS investment pooling companies to help design as well as deliver their client funds' investment strategies but it is not clear what recourse client funds would have should their pooling companies fail to deliver their required investment outcomes.