ShareAction»|

Fay Bowen
Clerk, Public Accounts Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

27th November 2020

Sent via email

Dear Ms Bowen,

Barriers to the successful implementation of the Well-being of Future Generations (Wales) Act 2015: Consultation response

I am writing on behalf of ShareAction; we are a registered charity established to promote transparency and responsible investment practices by institutional investors throughout our capital markets. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters. ShareAction advocates regulatory reform of the investment system, so that it better facilitates responsible investment and mitigates the financial risk posed by environmental, social and governance (ESG) factors. In doing so we seek to empower asset owners, in particular pension schemes, so their money is helping build a better world to retire into.

With reference to the consultation document, our response focuses in particular on awareness of the Act and its implications, and how to ensure the Act is implemented successfully in future.

1. The Future Generations Commissioner's report recommends that all public bodies covered by the Act should be 'ensuring that all decisions, including pension fund investments, are compatible with the climate emergency'.[1] We welcome the recognition that public bodies must consider how their financial assets, including pension funds, are safeguarding the well-being of future generations. We would also emphasise the fact that the climate emergency poses a financial risk as well as an environmental one. Public bodies should ensure their assets are being utilised to help tackle climate change to prevent diminishing returns in the long-term.

2. The report states that 'all public bodies need to take action to divest their pension funds from fossil fuels'.[2] We would encourage a more nuanced approach to this. If the overall aim is for public bodies to make decisions compatible with the climate emergency, then divestment is just one of a number of tools they can use to achieve this. For example, pension schemes can engage with investee companies about decarbonisation, or pension schemes could diversify their portfolios to invest in green energy as well. We would ultimately encourage consultation with pension scheme members to determine what a preferable course of action may be, and this of course may be to divest from fossil fuel companies. However we would emphasise that in the first instance, divestment may not the

[1] Future Generations Commissioner for Wales, *The Future Generations Report 2020*, p. 608.
[2] Ibid, p. 603.

most constructive tool for pension schemes to use in tackling the climate emergency. ShareAction has worked with a number of public sector pension schemes to use their assets for accelerate decarbonisation efforts in investee companies; we would be happy to engage further with the Committee on this.

3. Public bodies should limit their consideration of how to use their financial assets to the climate emergency alone. ESG-related risk covers a range of issues that affect the well-being of future generations, including the promotion of 'Good Work' (i.e. well-paid, secure jobs), childhood obesity, and diversity on company boards. As well as the negative impact on financial returns these issues can have long-term, they also have tangible 'real world' impacts on future generations. Ensuring better employment, healthier lifestyles and equality of opportunity are central to their well-being.

4. The Act identifies seven 'Well-being Goals' for public bodies to achieve: A Prosperous Wales; A Resilient Wales; A More Equal Wales; A Healthier Wales; A Wales of Cohesive Communities; A Wales of Vibrant Culture & Thriving Welsh Language; and A Globally Responsible Wales. In respect of all of these goals, public bodies can utilise their financial assets to achieve them.

5. To take one example, ShareAction's Healthy Markets campaign promotes action on childhood obesity in publicly traded companies. A tenet of this is to encourage pension schemes and other asset owners to engage with investee companies on obesity and healthy eating concerns. In England, rising obesity rates have led to local authorities increasing spend in this area, with councils reporting a 50% increase on childhood obesity spend between 2013/14 and 2016/17.[3] Ironically many of their pension schemes are contributing to the problem; Essex County Council faced strong media criticism in 2014 following revelations that it had invested £40 million in junk food and tobacco companies.[4] The Healthy Markets campaign seeks to use pension scheme assets to encourage promotion of healthier lifestyles by investee companies. As detailed in the Future Generations Commissioner's report, more action needs to be taken to encourage healthier lifestyles in Wales. In doing so, public bodies should not neglect the power of their pension scheme assets to help achieve this.

Yours sincerely,

[redacted]
UK Policy Officer, ShareAction

[3] ShareAction, *Hitting the Sweet Spot: The Investment Case for Solutions to Childhood Obesity* (May 2019), p. 12.
[4] Ibid.