Agenda

www.oxford.gov.uk

OXFORD CITY COUNCIL

Finance Panel (Panel of the Scrutiny Committee)

Date:	**Monday 24 March 2014**
Time:	**5.30 pm**
Place:	**Plowman Room - Town Hall**

For any further information please contact:

Pat Jones, Principal Scrutiny Officer

Telephone: 01865 252191

Email: phjones@oxford.gov.uk

If you would like help to understand this document please call Pat Jones, Principal Scrutiny Officer or in advance of the meeting.

Finance Panel (Panel of the Scrutiny Committee)

Membership

Chair	**Councillor Craig Simmons**
	Councillor James Fry
	Councillor Roy Darke
	Councillor Jean Fooks

HOW TO OBTAIN AGENDA

In order to reduce the use of resources, our carbon footprint and our costs we will no longer produce paper copies of agenda over and above our minimum internal and Council member requirement. Paper copies may be looked at the Town Hall Reception and at Customer Services, St Aldate's and at the Westgate Library

A copy of the agenda may be:-
- Viewed on our website – mycouncil.oxford.gov.uk
- Downloaded from our website
- Subscribed to electronically by registering online at mycouncil.oxford.gov.uk
- Sent to you in hard copy form upon payment of an annual subscription.

AGENDA

PART ONE
PUBLIC BUSINESS

		Pages
1	**TREASURY MANAGEMENT - ETHICAL INVESTMENT**	5 - 16

Officer: Nigel Kennedy, Head of Finance will support the Panel in this debate

Telephone: 01865 25 2708
Email: nkennedy@oxford.gov.uk

The Panel was asked at the last meeting to consider information presented by the campaign group “Fossil Free Oxfordshire”, the paper presented is attached.

In the light of this the Panel asked to see the current policy and practice guiding ethical investment within the Council’s Treasury Management Strategy and some detail on Ethical Rating Schemes. A paper from the Head of Finance is attached.

DECLARING INTERESTS

General duty

You must declare any disclosable pecuniary interests when the meeting reaches the item on the agenda headed "Declarations of Interest" or as soon as it becomes apparent to you.

What is a disclosable pecuniary interest?

Disclosable pecuniary interests relate to your* employment; sponsorship (ie payment for expenses incurred by you in carrying out your duties as a councillor or towards your election expenses); contracts; land in the Council's area; licences for land in the Council's area; corporate tenancies; and securities. These declarations must be recorded in each councillor's Register of Interests which is publicly available on the Council's website.

Declaring an interest

Where any matter disclosed in your Register of Interests is being considered at a meeting, you must declare that you have an interest. You should also disclose the nature as well as the existence of the interest.

If you have a disclosable pecuniary interest, after having declared it at the meeting you must not participate in discussion or voting on the item and must withdraw from the meeting whilst the matter is discussed.

Members' Code of Conduct and public perception

Even if you do not have a disclosable pecuniary interest in a matter, the Members' Code of Conduct says that a member "must serve only the public interest and must never improperly confer an advantage or disadvantage on any person including yourself" and that "you must not place yourself in situations where your honesty and integrity may be questioned". What this means is that the mater of interests must be viewed within the context of the Code as a whole and regard should continue to be paid to the perception of the public.

*Disclosable pecuniary interests that must be declared are not only those of the member her or himself but also those of the member's spouse, civil partner or person they are living with as husband or wife or as if they were civil partners.

BRIEFING NOTE – ETHICAL INVESTMENTS

To	Scrutiny Finance Panel
From	Head of Finance
Author	Anna Winship Financial Accounting Manager
Date:	18th March 2014

Purpose of Note

Finance Panel have requested information on a number of areas in relation to the Council's Treasury Management investments namely :

- Current position on investment in fossil fuel companies
- Ethical investment policy statement in the TMS or an idea of what this might say
- What we do practically on ethical investment and in which areas
- Information on ethical rating schemes.

1) Current position on investment in fossil fuel companies

The Council do not have any direct investments with fossil fuel companies. The Council invests predominantly in banks, building societies, money market funds and other local authorities. The Council has limited information as to where these counterparties place their funds and consequently may be indirectly investing in fossil fuel companies.

2) Ethical Investments policy statement

Ethics are to some degree a matter of individual judgement and not investing in any areathat some would consider unethical would be highly challenging; for example, avoidinginvestment in Oil & Gas or mining companies (environmental concerns), companiesproducing armaments or parts for armaments, tobacco, alcohol and gamblingcompanies would rule out 31% of the UK stock market, and 16% of global stockmarkets. Even if these exclusions were feasible on financial grounds, the loss ofdiversification that would be suffered would present major difficulties for the Council.

There is also the issue about where lines should be drawn.Within the armaments industry, for example, there are some very obviouscompanies which produce armaments and there are other companies which provideparts which go into the armaments. Should, for example, Rolls-Royce be consideredunethical because its jet engines are fitted to fighter jets as well as commercialairliners? Should an engineering company that provides parts for tanks but whoseoverwhelming majority of turnover is based on civilian use of its products beconsidered unethical?

So it would be important to determine clear definitions to guide an ethical investment policy if members decided to go down that path.

Current Treasury Management Policy
There is no ethical investment policy statement contained within the Councils Treasury Management Strategy.

Ethical considerations are difficult to evaluate objectively, and would also need to be applied to the counterparty list after taking into account security and liquidity issues. The Council's current counterparty list is, due to the high credit quality criteria used by the Council, very small, and therefore does not encompass those organisations which promote themselves as ethical.

In 2013/14 to date the Council made average investments of around £70 million. At times it is difficult to find suitable counterparties within the constraints of the existing Treasury Management Strategy in which to place the Council's surplus cash.

Any further restriction in the number of suitable counterparties may significantly affect the rate of return the Council is able to achieve.

It is for Full Council to agree the Treasury Management Strategy, and it should take into account likely budgetary implications if an ethical statement were included in the TMS. It would therefore be appropriate for members to consider their approach to this area and then include the policy, along with any reductions in projected investment income, in the budget for next year.

Possible Statement of Policy
1. The Council will not knowingly invest **directly**in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. This would include, inter alia, avoiding investment in institutions with material links to:

- human rights abuse (eg child labour, political oppression)
- environmentally harmful activities (eg pollution, destruction of habitat)
- socially harmful activities (eg tobacco, gambling)

2. In order to give effect to its commitment to this policy the Head of Finance will:

- review on a regular basis whether any investment is contrary to the Council's mission and values
- review the operation of this policy annually

Alternatively
The Council makes investments whilst being mindful of its duty to invest in a way that seeks maximum return from those investments, but it is committed to ensuring that investments are made in a responsible manner.

Alternatively
The Council will not knowingly invest in companies whose activities are inconsistent with itsvalues, and the Council is committed to develop and revise its Treasury Management Strategy on an annual basis

It should be noted that such formulations relate only to direct investment in companies, rather than investment in banks, but the panel would need to consider the impact upon diversification of the portfolio and income before agreeing statements affecting investment in banks.

3) What we do practically on ethical investments
In the absence of a current approved Ethical Investment Policy, officers undertake investment transactions using the Security Liquidity Yield principles.

In an effort to undertake some initial research officers contacted the four money market funds making up 20% of its current portfolio. Each fund manager confirmed that they did not invest directly in tobacco or other non- ethical products mentioned above.Goldman Sachs confirmed that they did follow an ethical investment strategy.

The Council is currently looking to invest additional amounts in Property Funds and have sought details of their ethical policies to use as part of the evaluation process. The category of “non-specified” investments could be invested ethically with relative ease; the greater challenge comes with the rest of our portfolio.

4) Information on ethical rating schemes
The Ethical Investment Research Service (EIRIS) is global leader in the provision of environmental, social, governance research for responsible investors. It is a social enterprise that works with clients to help them develop the market in ways that benefit investors, and asset managers and the wider world.

They have recently developed the new EIRIS Global Platform, which provides data on over 3000 global companies including global sustainability ratings, research reports and screening tools. It can be customised to suit the individual needs.

http://www.yourethicalmoney.org/banking/ - website that allows you to look at the ethical ‘ratings’ of banks and building societies.

Examples of the data held:

Bank	Green/ ethical products	Ethical lending or insurance	Human rights	Financial Exclusion	Env	Carbon Neutral	Equal Opps
Barclays	Y	Red	Red	Green	Green	Red	Green
Nationwide BS	Y	Red	Red	Green	Green	Red	Green
RBS	Y	Amber	Amber	Amber	Green	Red	Green

Bank of Scotland	Y	Amber	Amber	Amber	Green	Red	Green
Lloyds	Y	Red	Amber	Green	Green	Red	Green
Co-operative	Y	Green	Green	Green	Green	Green	Green

Conclusions

This briefing note indicates that the Council does not directly invest in companies which would be considered obviously unethical, and that the Treasury Management Strategy could be adaptedto bar such investments in the future with relative ease.

However, restrictions on the placing funds with banks and other financial institutions on our counterparty list would have a potentially significant effect on the diversification of the portfolio and also investment income.

If scrutiny wishes to make recommendations in this area, it is suggested that amendments to the Treasury Management Strategy are aligned with any reductions in income, and that this happens at the time of the budget process next year.

Fossil Free Oxfordshire: The case for divestment

Fossil Free Oxfordshire Divestment Campaign calls on Oxford City Council and Oxfordshire County Council to
1. Immediately freeze any new investments in fossil fuels
2. Divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within 5 years

This paper sets out the moral and economic arguments for local authority divestment from fossil fuel companies.

Climate change

The world is warming due to unabated greenhouse gas emissions. We are seeing the effects in increasingly frequent extreme weather events, most recently and dramatically in the devastation caused by typhoon Haiyan in the Philippines and flooding closer to home in Oxfordshire. Theycost lives, livelihoods, homes and will lead to droughts, floods, food and water shortages, ill health and conflict.They hint at what may be in store for us all in a future in which climate change continues unchecked. It's no longer just environmentalists who are issuing dire warnings about the path we are following: the World Bank and the International Energy Agency are joining the call for urgent change in the ways we generate and use energy.

Carbon budget and unburnable carbon

To prevent the worst impacts of climate change we need to keep global warming below 2°C. In order to do this we must operate within a global carbon budget, which refers to the amount of greenhouse gasses that can be released into the atmosphere without triggering dangerous climate change. Analysis from the Intergovernmental Panel on Climate Change (IPCC) has demonstrated that to run a reasonable chance of avoiding dangerous tipping points, we can only emit roughly 565 gigatons more of carbon dioxide into the atmosphere. However, in the coal, oil and gas reserves owned by private and public companies and governments there is an equivalent to 2,795 billion tons of CO_2, far in excess of the total amount that can be burned without triggering climate catastrophe.

So 60-80% of known fossil fuel reserves must remain underground. Again, it is not just environmentalists who say so: this has been widely reported by New Scientist andFinancial Times amongst many others.

Fossil fuel companies: a rogue industry

The fossil fuel industry has already committed to extracting and burning 5 times the "safe" level of carbon.Their reserves of coal, oil and gas may be below ground physically, but they're already above ground economically and factored into the share price of every fossil fuel company.

Not only this, they spend $1trillion per year exploring *further*"unconventional" sources of fossil fuels in ever more environmentally and socially destructive ways: tar sands, drilling in the Arctic and fracking. On top of this they spend £n/year *lobbying governments* to allow them to continue to pour CO_2 into the atmosphere with impunity.

They are a rogue industry. Their very business plan depends on locking us into a future we can't survive.

Divestment

What is divestment?

When institutions such as local authorities, universities, retirement funds etc invest money, they might buy stocks, bonds or other investments that generate income to help run their institutions.

Divestment is the opposite of an investment–it simply means getting rid of stocks, bonds or investment funds that are unethical or morally ambiguous. Fossil fuel investments are a risk for investors and the planet–that's why we're calling on institutions to divest from these companies.200 publicly-traded companies hold the vast majority of the world's proven coal, oil and gas reserves. Those are the companies we're asking our institutions to divest from.

Divestment is a clear and powerful action that helps build the case for government action, along with making the economic point that we should be moving our money into the solution as supposed to the problem. There have been a handful of successful divestment campaigns in recent history, including Darfur, tobacco and others, but the largest and most impactful one came to a head around the issue of South African Apartheid. By the mid-1980s, 155 university campuses, 26 state governments, 22 counties, and 90 cities took their money from multinationals that did business in South Africa. The South African divestment campaign helped break the back of the Apartheid government, and usher in an era of democracy and equality.

The moral case for fossil fuel divestment

Just like in the struggle to end Apartheid in South Africa, the more we can make climate change a deeply moral issue, the more we will push society towards action. We need to make it clear that if it's wrong to wreck the planet, than it's also wrong to profit from that wreckage. At the same time, divestment builds political power by forcing our most prominent institutions and individuals to choose which side of the issue they are on. Divestment sparks a big discussion and gets prominent media attention, moving the case for action forward.

By divesting from fossil fuels, institutions are not only building the case for that government action, they're starting this important discussion about the fossil fuel industry's "stranded assets."

The economic case for fossil fuel divestment

A swathe of reports from a variety of sources, from academics, asset managers and church groups to a former commissioner for the SEC,have made a persuasive financial case for fossil fuel divestment. They warn that fossil fuel stocks are overvalued: increasing recognition of the concept of unburnable carbon, tighter regulations on greenhouse gas emissions and falling demand could make fossil fuel reserves "stranded" and ultimately rendered worthless. Research published in 2013 by Carbon Tracker and the Grantham Research Institute identified the risk of a $6trillion carbon bubble and stranded assets.In the introduction to this report, Professor Lord Stern (former World Bank Chief Economist) says:*"Smart investors can see that investing in companies that rely solely or heavily on constantly replenishing reserves of fossil fuels is becoming a very risky decision."*

According to a report from HSBC economists, major oil and gas companies, including, BP, Shell, and Statoil, could face a loss in market value of up to 60% if the international community sticks to its agreed emission reduction targets.

As Duncan Clark, co-author of *The Burning Question*wrote in the Guardian, *"Blithely ignoring the fact that there is already far more accessible fuel than can be safely burned, pension fund managers and other investors are allowing listed fossil fuel companies to spend the best part of $1tn a year (comparable to the US defence budget, or more than $100 for every person on the planet) to find and develop yet more reserves. If and when we emerge from this insanity, the carbon bubble will burst and those* *investments will turn out to have been as toxic as sub-prime mortgages. Don't take my word for it. HSBC analysts recently concluded that oil giants such as BP – beloved of UK pension funds – could have their value cut in half if the world decides to tackle climate change. Coal companies can expect an even rougher ride, and yet our financial regulators still allow them to float on stock markets without mentioning in their share prospectuses that their assets may soon need to be written off."*

The President of the World Bank, Jim Yong Kim, at the World Economic Forum in Davos this year, remarked on divestment both as a tactic to cut emissions and as a practical aspect of financial responsibility:*"Be the first mover. Use smart due diligence. Rethink what fiduciary responsibility means in this changing world. It's simple self-interest. Every company, investor, and bank that screens new and existing investments for climate risk is simply being pragmatic."* And *"Through policy reforms, we can divest and tax that which we don't want, the carbon that threatens development gains over the last 20 years."*

Lord Stern, former World Bank Chief Economist, in his introduction to the Carbon Tracker Report, says *"Smart investors can see that investing in companies that rely solely or heavily on constantly replenishing reserves of fossil fuels is becoming a very risky decision."*

Reports from IMPAX Asset Management and MSCI show that removing fossil fuels from a portfolio carries no financial risk, and investment portfolios biased in favour of fossil fuels are increasingly demonstrated to be at risk of stranded assets.

Increasingly, long term investors are interested in the impact of divesting fossil fuel stocks from their portfolios. Impax Asset Management addresses questions about the impacts of divestment of fossil fuel stocks, evaluating the historical return benefits from divestment and low carbon solutions. Based on analysis of 7-year historical data, they found that a portfolio that removed fossil fuel stocks would outperform the world index (MSC World) by on average 0.5% each year without any material increase in risk. They conclude that *"investors should consider reorienting their portfolios towards low carbon energy by replacing fossil fuel stocks with energy efficiency and renewable energy investments, thereby retaining exposure to the energy sector while reducing the risks posed by the fossil fuel sector."*

Pension funds can't sensibly safeguard people's retirements by investing in companies that wreck the future. Operation Noah's *Bright Now* report demonstrates that fossil free investment portfolios are doing better, the minimal risks of removing, and how divestment is in line with institutional investors' fiduciary duties. It says:

"Investors have been used to thinking of oil, gas and coal as safe investments, but this can no longer be the case. Publicly listed fossil fuel companies, with reserves valued in

the trillions of dollars on the world's stock markets, will have to leave most of their assets in the ground if we are to keep climate change below 2°C. Fossil fuel companies are hugely overvalued. Their shareholders risk being left with stranded assets – worthless fuel stocks that regulation will prevent from being burned or can only be consumed at unimaginable cost to us all. Either result will be a disaster for investments and pension funds."

Bevis Longstreth, a former commissioner with the US Securities and Exchange Commission (SEC),makes the financial case for divestment from fossil fuel companies, arguing that the future prospects for fossil fuel companies are suffering as a result of four rapidly evolving developments:
(a) Governmental restrictions on carbon release, leading to the stranding of carbon-bearing fossil fuel assets carried on the balance sheets of fossil fuel companies.
(b) Advances in alternative sources of energy for power, electricity and transportation, resulting in a lessening demand for coal, gas and oil.
(c) A rising tide of public action at the grass-roots level, including actions by stockholder groups, against fossil fuel companies, demanding such obvious steps as cessation of CAPEX on exploration and development of more fossil fuel.
(d) Growing reputational effects from the foregoing, turning fossil fuel companies into pariahs, with adverse consequences for hiring, employee morale and motivation, stockholder satisfaction and equity valuations.

He highlights the danger of stranded assets, pointing out the imprudence of the top 200 fossil fuel companies' allocation last year of $674 billion for finding and developing more fossil fuel reserves and new ways of extracting them, given that 60-80% of current known fossil fuel reserves have to be left in the ground in order to give us a chance of keeping global warming below 2 degrees centigrade.
"There is no good reason for this vast expenditure of stockholder wealth. It is wasted capital, an offense against stockholders in terms financial alone. It suffices as justification for a fiduciary to divest from any company so engaged."

Effectiveness of the divestment campaign

A report published this year by Oxford University's Smith School of Enterprise and the Environment concludes that a divestment campaign can cause significant reputational damage. Stigma attached to a company or an industry as a result of a divestment campaign can have far-reaching consequences for it attractiveness to governments and politicians, shareholders, suppliers and subcontractors. Negative consequences can include being barred from competing for public tenders, cancellation of contracts, mergers or acquisitions. Stigma attached to one area of a large company can impact on sale across the board. Divestment campaigns have a strong track record in lobbying for restrictive legislation.

Local authorities

Our local authority has a duty to look out for the public good. Fossil fuels are in direct conflict with the public good: investing in them poses a risk both to investors and to the planet. So Oxford City Council and Oxfordshire County Council should take a moral, political and economic stand against them by taking our money away from fossil fuel companies and putting it into investments that are less at risk from climate change legislation and more compatible with our values. Divestment from fossil fuels would make a powerful statement that the fossil fuel industry is morally and economically unviable, and that the people of Oxfordshire wish to support an alternative, sustainable energy future that will leave the planet in a shape that allows us, our children and grandchildren to live safely on it.

Other cities and municipalities that have divested

In the USA, 22 cities and 2 counties have committed to divest from fossil fuels, including Seattle, San Fransisco and Portland Oregon.

Additionally, 20 religious institutions and 9 Universities and colleges have pledged to divest.

See here for a list of institutions http://gofossilfree.org/commitments/

Reports and further information

Carbon Tracker Initiative's *Unburnable Carbon 2013: Wasted Capital and Stranded Assets* report
http://www.carbontracker.org/wastedcapital#

University of Oxford' Smith School of Enterprise and the Environment *Stranded Assets and the Fossil Fuel Divestment Campaign* report
http://www.smithschool.ox.ac.uk/research/stranded-assets/SAP-divestment-report-final.pdf

Project Noah's *Bright Green: Towards fossil free Churches* report
http://brightnow.org.uk/wp-content/uploads/2013/08/Bright-Now-report.pdf

Divestment economics Q&A
http://gofossilfree.org/divestment-economics-qa/

News articles
World Bank Chief backs fossil fuel divestment
http://www.rtcc.org/2014/01/27/world-bank-chief-backs-fossil-fuel-divestment-drive
UN Climate Chief backs fossil fuel divestment
http://www.bbc.co.uk/news/science-environment-25743457
Quakers pledge to divest
http://www.energylivenews.com/2013/10/14/quakers-plan-to-convert-to-low-carbon-investments/
Mary Robinson on divestment
http://www.theguardian.com/commentisfree/2014/feb/17/carbon-divestment-emissions-climate-change
17 leading philanthropic foundations pledge to divest from fossil fuels
http://dealbook.nytimes.com/2014/01/29/foundations-band-together-to-get-rid-of-fossil-fuel-investments/?_php=true&_type=blogs&_r=0

Fossil Free Oxfordshire
Introduction to Fossil Free Oxfordshire on CAG site
http://www.cagoxfordshire.org.uk/news-archive/424-fossil-free-oxfordshire-an-introduction

Petition
http://campaigns.gofossilfree.org/petitions/fossil-free-oxford-city-council

Facebook page
https://www.facebook.com/fossilfreeoxon?ref=hl

This page is intentionally left blank