

BRIEFING NOTE – ETHICAL INVESTMENTS

To Scrutiny Finance Panel
From Head of Finance
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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 area that some would consider unethical would be highly challenging; for example, avoiding investment in Oil & Gas or mining companies (environmental concerns), companies producing armaments or parts for armaments, tobacco, alcohol and gambling companies would rule out 31% of the UK stock market, and 16% of global stock markets. Even if these exclusions were feasible on financial grounds, the loss of diversification 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 obvious companies which produce armaments and there are other companies which provide parts which go into the armaments. Should, for example, Rolls-Royce be considered unethical because its jet engines are fitted to fighter jets as well as commercial airliners? Should an

engineering company that provides parts for tanks but whose overwhelming majority of turnover is based on civilian use of its products be considered 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 Council's 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 its values, 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.youethicalmoney.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 adapted to 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.