Report to:	**Audit and Standards Committee**
Date:	**18 March 2019**
Title:	**Climate Change and Investment**
Report of:	**Director of Planning and Regeneration and Chief Finance Officer**
Ward(s):	**All**
Purpose of report:	**To advise the Audit and Standards Committee on the implications of the detail and the implications of the recommendations in the motion on Climate Change and Investment agreed at the Lewes Full Council meeting in November 2018, in order for the Committee to consider any further action the Council might reasonably take, and if appropriate to present its findings to Full Council.**
Officer recommendation(s):	**That the Committee considers the report and presents its findings to Full Council if appropriate.**
Reasons for recommendations:	To enable the Committee to comply with the recommendations of Full Council.
Contact Officer(s):	Name: Brian Mew Post title: Interim Deputy Chief Finance Officer E-mail: Brian.Mew@lewes-eastbourne.gov.uk Telephone number: 01323 415587

1 Introduction

1.1 At the Lewes District Council Full Council meeting in November 2018 a motion on Investment (set out in Appendix 1) proposed by Councillor Denis was agreed.

The purpose of this report is to enable the Committee to consider the implications of this motion in more detail and present its findings to Full Council if appropriate.

2 Motion – Lewes District Council

2.1 In respect of Lewes District Council itself, the motion agreed by Full Council states:

"That Lewes District Council will:

(a) immediately freeze any new investment in the top 200 publicly-traded fossil fuel companies (ie. the 100 coal companies and the 100 oil and gas companies whose proven fossil fuel reserves have the largest carbon content) and develop and implement a Responsible Investment Policy through which it will;

(b) divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within 5 years;

(c) set out an approach to quantifying and addressing climate change risks affecting all other investments; and

(d) focus future investments in property and other assets on areas that minimise climate change risk and continue to reduce the council's carbon footprint, while ensuring that the investment continues to generate a sufficient level of return to ensure the current and future sustainability of the investment".

2.2 The current position regarding investment in fossil fuel companies in the Council's Investment Strategy is outlined below. The Investment Strategy prioritises security and liquidity over yield, and focuses on minimising risk rather than maximising returns. The Council does not directly invest in equities, or in any Certificates of Deposit that are issued by any institutions other than banks or building societies . The potential investment type in theInvestment Strategy that could conceivably entail investment in fossil fuel companies is Pooled Funds.

This counterparty investment type covers shares or units in diversified investment vehicles consisting of a range of investment types, including equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds (MMFs) that offer same-day liquidity and very low or no volatility are used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period are used for longer investment periods.

Money Market Funds are primarily invested in instruments issued by financial institutions –term deposits, CDs, short-dated bonds - and facilities such as call accounts as well as sovereign instruments such as treasury bills and gilts. MMFs may have some exposure to very short dated instruments such as commercial paper issued by corporates other than banks, but funds do not preclude any specific industry. MMFs do not apply climate change or other similar criteria. MMFs are used for liquidity purposes and, most importantly, to diversify credit risk. The Council does not at the current time use pooled funds which are invested wholly in equities or in bonds.

The Council currently invests in two Money Market Funds - Goldman Sachs (GSMMF) and Deutsche Bank (DBMMF).The Council's investment limit for both of these funds is £3m each. These funds are reported in US dollars, and at the time of writing, GSMMF has a total fund of $15.5bn in which the Council has $3.8m, equating to 0.025%, and DBMMF has a total fund of $5.9bn in which the Council has $2.6m, equating to 0.034%. Neither of these funds preclude investment in fossil fuel companies, but at the time of writing, neither of these funds included investments of this nature in their portfolios. Clearly, with such a small stake in these funds, the Council itself would not be in a position to influence their policy regarding investment in in particular sectors. Withdrawing from these funds at the present on the basis that they could theoretically invest in fossil fuel companies would deprive the Council of a valuable, low-risk, diverse, and flexible investment alternative to instant access bank accounts or direct deposits..

It should perhaps be noted that there is obviously no guarantee that temporary investments with any counterparties e.g. banks, do not ultimately indirectly result in investments with fossil fuel companies.

Regarding recommendations (c) and (d) of the motion, the Council through its Joint Venture with Aecom & Robertson agreed by Cabinet in July 2017 set out the strategy in relation to environmental, future energy, sustainability and meeting climate changes challenges through the partnership. All projects delivered through Clear Sustainable Futures (CSF) are subject to achieving a number of sustainability targets above what would be standard in a planning policy context. For instance residential development will include requirements for minimising carbon fuel consumption through alternative energy sources, future provision of electric charging points for cars and inclusion of increased cycle storage and connected paths integrated in public realm where possible. In addition CSF have already been commissioned to develop a business case to consider investment in green energy generation at two key capital development sites in Lewes, Avis Way Depot and Seaford Downs Leisure Centre. The Cabinet report from December 2018 setting out the case can be found here.

On the basis of the objectives set out in the private public partnership through Clear Sustainable Futures and projects already in place the Council are already prioritising investment in green energy. All capital development schemes have a focus on creating spaces that are sustainable for a communities not reliant on carbon fuel which is therefore mindful of climate change.

3 Motion – East Sussex County Council Pension Fund

3.1 In respect of East Sussex County Council Fund, the motion agreed by Full Council states:

"That the Chief Executive of Lewes District Council writes to the Chair of East Sussex County Council Pension Committee asking the Committee:

(1) To immediately freeze any new investment in the top 200 publicly traded fossil fuel companies;

(2) To Commit itself, over the course of the next 5 years, to divest the East Sussex Pension Fund from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds; and

(3) To focus re-investment in areas that minimise climate change risk and

reduce the Fund's carbon footprint; while ensuring the Fund continues to generate a sufficient level of return to ensure the current and future sustainability of the investment."

East Sussex County Council Pension Fund have provided the following comments in respect of this motion.

The perspective from the Pension Fund is that the East Sussex County Council (ESCC) is the administering authority for the East Sussex Pension Fund (ESPF), which is the Fund responsible for the Local Government Pension Scheme (LGPS) in East Sussex. Within the ESPF we have more than 130 different employers and over 73,000 members. The investments held by the ESPF are for the sole purpose of paying promised retirement benefits when they fall due. These assets cannot be accessed by any employer in the Fund.

The Pension Committee at ESCC is responsible for the ESPF on behalf of all employers and members of the Fund. An overriding statutory and fiduciary duty exists on the Pension Committee to ensure it has sufficient funds available to pay pensions. In the light of that obligation, and in order to maximise investment return, the Fund has a diverse range of investments and does not restrict investment managers from choosing certain stocks taking into consideration that the Fund's investment strategy is regularly monitored.

The Pension Committee is committed (1) to secure the best realistic return over the long-term and (2) to meet the East Sussex Pension Fund's pension commitments within an acceptable level of risk. In so doing the Committee aims to keep future employer contribution rates stable.

The Fund pursues this strategy by appointing expert specialist investment managers who are given an unconstrained ability to invest within their individual mandates. The Funds Investment Strategy Statement (ISS) sets out how investments will be made. Clearly showing how responsible investment is integral to the funds strategy.

The Committee's perspective as detailed in the ISS is that simply disinvesting from a particular asset class or group of companies is likely to reduce the Fund's ability to secure the best realistic return over the long-term, whilst at the same time keeping employer contributions as low as possible. Furthermore, such an approach denies the opportunity for the Fund to influence companies' environmental, human rights and other policies by positive use of shareholder power, a role the Committee takes very seriously. The Committee has reserved the right to apply ethical or environmental criteria to investments where relevant and appropriate on a case by case basis.

Over the past two years, the Pensions Committee has allocated considerable time to consider the potential impact of climate change (and specifically exposure to fossil fuels) on the Fund's investments. In so doing, the Committee has commissioned a measurement service to provide data on the levels of carbon emissions and exposure to fossil fuel assets across the Fund's range of equity investments, and this information will help to inform future decisions in this area.

The Committee is also looking for investment opportunities that are being presented by climate change. An allocation of 12.5% of the Fund's equity investments into the UBS Climate Aware Fund has been made on the back of these considerations. This would not be possible if a blanket divestment of fossil fuel companies was made. This treats those companies striving to meet the Paris agreement the same as those that aren't and provides no incentive for management to change. The Committee continues to engage with investment managers, along with its investment into the climate aware fund which provides an incentive to companies to move towards limiting climate change.

The Pension Committee believes by increasing pressure on oil and gas companies, through active shareholder engagement, we can get companies to improve their corporate behaviour. Improvements made by these engagements lead to an increase in the long-term value of the Fund's investments. The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund appreciates that to gain the attention of companies in addressing governance concerns it needs to join with other investors sharing similar concerns.

The Committee have made reference to the potential risks from climate change in the Investment Strategy Statement, Responsible Investment Statement and also in the statement of Investment Beliefs and will continue to monitor developments in this area taking into consideration the long term implications for the financial health of the Pension Fund.

4 Financial Appraisal

4.1 Implementation of this motion could potentially have some financial impact on the investment returns achieved by the Council if it entailed divesting from the Money Market Funds currently used . Other relevant implications are referred to in the above paragraphs.

5 Risk Management Implications

5.1 There is risk that the motion agreed by Full Council may not have any effect on the East Sussex County Council Pension Fund as Lewes District Council has no influence over the decisions of the Pensions Committee of the Pension Fund. However, the Pensions Committee has reserved the right to apply ethical or environmental criteria to investments where relevant and appropriate as well as considering the potential impact of climate change (and specifically exposure to fossil fuels) on the funds investments.

As outlined in the report, Money Money Market Funds are primarily used to aid liquidity and diversify credit risk. Disinvestment in MMFs would reduce this diversification and expose the Council to greater risk from investment with individual institutions, rather than in pooled funds of this type.

6 Equality Analysis

6.1 A detailed Equality Analysis is not required for this report.

7 Legal implications

7.1 The Council's statutory powers of investment derive from section 12 of the Local Government Act 2003. These powers permit a local authority to invest–

(a) for any purpose relevant to its functions under any Act of Parliament, or

(b) for the purposes of the prudent management of its financial affairs.

Statutory Instrument (SI) 2003/3146—the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003—develops the controls and powers in the Act and requires local authorities to have regard to the CIPFA Prudential Code for Capital Finance.

Further, the Council must have regard to the latest edition of Statutory Guidance on Local Government Investments, issued by the Secretary of State under section 15(a) of the 2003 Act.

Lawyer consulted 07.03.19 *Legal ref: 008125-LDC-OD*

8 Background papers

8.1
- Treasury Strategy Statements 2018/2019

Appendix 1- Motion approved at Full Council

11) Investment – Proposed by Councillor Denis Councillor Denis moved, and Councillor Catlin seconded, the notice of motion as follows:

"That Lewes District Council will:

(a) immediately freeze any new investment in the top 200 publicly-traded fossil fuel companies (ie. the 100 coal companies and the 100 oil and gas companies whose proven fossil fuel reserves have the largest carbon content) and develop and implement a Responsible Investment Policy through which it will;

(b) divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within 5 years;

(c) set out an approach to quantifying and addressing climate change risks affecting all other investments; and

(d) focus future investments in property and other assets on areas that minimise climate change risk and continue to reduce the council's carbon footprint, while ensuring that the investment continues to generate a sufficient level of return to ensure the current and future sustainability of the investment"

Secondly, that the Chief Executive of Lewes District Council writes to the Chair of East Sussex County Council Pension Committee asking the Committee:

(1) To immediately freeze any new investment in the top 200 publicly traded fossil fuel companies;

(2) To Commit itself, over the course of the next 5 years, to divest the East Sussex Pension Fund from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds; and

(3) To focus re-investment in areas that minimise climate change risk and reduce the Fund's carbon footprint; while ensuring the Fund continues to generate a sufficient level of return to ensure the current and future sustainability of the investment."

Councillor Osborne moved, and Councillor Carr seconded, an amendment as follows:
To add the wording:

"Given how imperative it was that the Council does everything within its power to minimise climate change risks, the proposals contained in the motion be referred to the Audit and Standards Committee as soon as possible where it can fully study the detail and the implications of the recommendations in the motion and consider any further action the council might reasonably take. Thereafter the Audit and Standards Committee would present its findings to Full Council."

The amended motion was put to the meeting and it was:
Resolved (Carried)