

Report of the Director of Customer and Business Support Services

Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2016/17 to 2020/21

Summary and Background

1. Audit & Governance Committee are responsible for ensuring the effective scrutiny of the treasury management strategy and policies.
2. The Treasury Management Strategy Statement and Prudential Indicators 2016/17 to 2020/21 are attached at Annex A and cover the:
 - Integrated treasury management strategy statement including the annual investment strategy and the minimum revenue provision policy statement;
 - Prudential indicators
 - Revised treasury management policy statement
 - Specified and non-specified investments schedule
 - Treasury management scheme of delegation and role of the section 151 officer

Ethical Investment Policy

3. Some members have expressed interest in having a focus on ethical investments, in particular avoiding any investment in fossil fuels. At its meeting on 9th December Audit & Governance Committee resolved that this report should include;
 - information on CYC's own investments;
 - information gathered from other Local Authorities and;
 - details of North Yorkshire Pension Fund investments policy and investment in fossil fuels.
4. Whilst the Council does not have any direct investments with fossil fuel companies it could, indirectly, be investing in fossil fuels. The Council only invests in money market funds or directly with banks and building societies but has very little information as to where these counterparties place their funds. A money market fund is comprised of short-term securities representing high-quality, liquid debt and monetary instruments. Money market funds are widely regarded as being as safe as bank deposits yet

providing a higher yield. Unlike stocks, money market fund investments are always worth the same. What changes is the rate of interest they earn.

5. It is important to note that the surplus funds the Council has available are predominantly of a short term duration as they depend on the cash flow of payments in and out of the authority. This means that they are of little interest to anyone other than bank type institutions where they help with their liquidity. They would not, for example, be attractive to any other institutions looking for longer term investment funding. There is never any direct Council investment in companies and there is no trading on the stock market.
6. The Council has not previously considered ethical criteria when determining investment policy. The financial investment environment can be very fast moving and ethical criteria can be difficult to evaluate objectively as they are, to a certain degree, a matter of individual judgement. Our counterparty list is relatively small, due to the high credit criteria we use, and ethical considerations would need to be applied to this list after considering creditworthiness. Restricting this small list even further may impact the rate of return the Council is able to achieve.
7. Some information is available on ethical rating schemes. The website <http://www.youethicalmoney.org> assesses the ethical “ratings” of banks and building societies. The table below shows their assessment of the main institutions on our counterparty list using a traffic light system (ie green is better, red is worse).

Bank	Green / Ethical Products	Ethical lending or insurance	Human Rights	Financial Exclusion	Envt	Carbon Neutral	Equal Opps
Barclays	Y	Red	Red	Green	Green	Red	Green
RBS	Y	Amber	Amber	Amber	Green	Red	Green
Santander	Y	Amber	Green	Amber	Green	Red	Green
Handelsbanken	Y	Red	Red	Red	Amber	Red	Green
HSBC	Y	Amber	Red	Amber	Green	Red	Green

8. A number of other Local Authorities have made ethical statements within their Treasury Management Strategy. However, these are essentially statements that outline their aspirations rather than having any direct impact on investment strategy. A few examples include;

Cambridge City Council

“Where consistent with our fiduciary responsibilities the Council will avoid direct investment in institutions with material links to environmentally harmful activities including fossil fuels”

Oxford City Council

“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 direct investment in institutions with material links to:

- a. Human rights abuse (eg child labour, political oppression)
- b. Environmentally harmful activities (eg pollutions, destruction of habitat, fossil fuels)
- c. Socially harmful activities (eg tobacco, gambling)”

Bristol City Council

“Wherever possible, the City Council wishes to make investments in ways that are consistent with the mission and values of the City council as expressed in the Corporate Plan...The Council will not knowingly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission or values of the City Council”.

South Kesteven Council and Brighton & Hove City Council

“The Council, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. We will actively seek to communicate this support to those institutions we invest in as well as those we are considering investing in by:

- encouraging those institutions to adopt and publicise policies on socially responsible investments;
- requesting those institutions to apply council deposits in a socially responsible manner.”

9. The North Yorkshire Pension Fund (NYPF) Investments Policy is attached at Annex B of this report. Section 8 deals with Socially Responsible Investments. Further information on the investment by the fund in fossil fuels is set out in the table below and accounts for approximately 3% of the total fund.

Security Description	Market Value
ANGLO AMERICAN	6,345,627
APACHE CORP	1,164,140
ASIA RESOURCE MINERALS PLC	1,828,208
BHP BILLITON PLC	1,883,780
CHEVRON CORP	3,245,029
CONOCOPHILLIPS	763,671
DRAGON OIL	888,000
EOG RESOURCES	3,996,000
EXXON MOBIL CORP	2,947,128
GLENCORE PLC	8,787,111
HESS CORP	1,034,043
INPEX CORPORATION	3,545,190
JX HOLDINGS INC	217,246
MARATHON OIL CORP	594,432
NOBLE CORP PLC	461,359
OCCIDENTAL PETROLEUM CORP	1,268,895
OIL SEARCH LTD	611,574
RIO TINTO PLC	13,893,166
SEMPRA ENERGY	858,980
TOTAL SA	5,535,366
TULLOW OIL	888,000
ULTRA PETROLEUM	3,330,000
VEDANTA RESOURCES PLC	8,670,330
Total	72,757,274

North Yorkshire Pension Fund investment in oil, gas and coal

10. All pension fund investments are made by external investment management companies, all of which are signatories to the UN PRI (principles for responsible investment) which states:

“As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.

- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

11. Any employer wishing to pursue an ethical investment strategy which goes beyond this is free to approach the Pension Fund Committee with a proposal. However, it is worth noting that any partitioning of assets separate from the comingled assets of NYPF's 120 other employers will inevitably result in a significantly higher cost of investment as economies of scale are lost. In addition, the consultation on pooling of LGPS investments means that options for investing in a bespoke way will soon be replaced by a different opportunity set once these pooling arrangements have been established, so now may not be the best time to be pursuing a divergent investment strategy.

Consultation

12. Treasury Management strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council. Both the revenue and capital budgets have been through a process of consultation, details of which are outlined in the budget reports to be considered by Executive on 11th February 2016.

Options

13. It is a statutory requirement for the Council to operate in accordance with the CIPFA Prudential Code.

Council Plan

14. The Treasury Management Strategy Statement and Prudential Indicators are aimed at ensuring the Council maximises its return on investments and minimises the cost of its debts whilst operating in a financial environment that safeguards the Council's funds. This will allow more resources to be freed up to invest in the Council's priorities, values and imperatives, as set out in the Council's Plan.

Implications

Financial

15. The revenue implications of the treasury strategy are set out in the Revenue Budget report to be considered by Executive on 11th February 2016.

Legal Implications

16. Treasury Management activities have to conform to the Local Government Act 2003 and statutory guidance issued under that Act, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.
17. In 2014 the Local Government Association (LGA) obtained legal opinion, on behalf of its members, on the duties owed by local government pension funds and the factors they can legitimately take into account when making investment decisions. The principles can apply equally to investment decisions made by local authorities generally. Public bodies making investments have both fiduciary duties and public law duties (which are in practice likely to come to much the same thing).
18. The power to invest must be exercised for investment purposes, and not for any wider purposes. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments, and to what is best for the financial position of the fund (or the Council in the case of wider investment decisions) balancing risk and return in the normal way. This is consistent with the Government Guidance issued under the 2003 Act which indicates that investment decision should be made on the basis of security, liquidity and then yield in that order.
19. The Council could only use other considerations (including those around fossil fuels and other ethical considerations) to choose between investments which were otherwise broadly equivalent in terms of security, liquidity and yield.
20. However, so long as that remains true, the precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund. In taking account of any such considerations, the administering authority may not prefer its own particular interests to those of other scheme employers, and should not seek to impose its particular views where those would not be

widely shared by scheme employers and members (nor may other scheme employers impose their views upon the administering authority).

Other Implications

21. There are no HR, Equalities, crime and disorder, information technology or other implications as a result of this report

Risk Management

22. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Recommendation

23. Audit and Governance Committee are asked to:

- a. note the issues outlined in the report on ethical investments and consider any recommendation they wish to make to the Executive;
- b. note the Treasury Management Strategy Statement and Prudential Indicators for 2016/17 to 2020/21 at Annex A.

Reason: So that those responsible for scrutiny and governance arrangements are properly updated and able to fulfil their responsibilities in scrutinising the strategy and policy.

Contact Details	
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	Report approved 29 January 2016
Wards affected	All

Annexes

Annex A – Treasury Management Strategy Statement and Prudential Indicators for 2016/17 to 2020/21

Annex B – NYPF investment policy