

**Committee:** Cabinet

**Agenda Item**

**Date:** 2 September 2021

**Title:** Ethical Investment Policy

**Portfolio Holder:** Cllr Reeve, Portfolio Holder for the Economy, Investment and Corporate Strategy

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## Summary

1. This report sets out the current position with regards to the requirement to establish an Ethical Investment Policy, following discussion at the Investment Board on 27 July 2021.

## Recommendations

2. That Cabinet
  - a. Considers amendments to the revised draft policy set out at Appendix One; and then
  - b. Subject to the agreed amendments, recommend to Council that it formally adopts the revised Ethical Investment Policy.

## Financial Implications

3. None.

## Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

None.

## Situation

5. As part of the Corporate Plan and the wishes of the Investment Board, a draft Ethical Investment Policy (Appendix Two) was considered by the Investment Board at its meeting on 27 July 2021.
6. Following discussion at that meeting a revised draft policy is attached at Appendix One for consideration by the Cabinet. There are two areas of change:
  - a. The introduction has been strengthened; and
  - b. The section on exclusions has been removed as Members felt the list would always be 'incomplete' and therefore subject to challenge, with it being almost impossible to come up with a definitive list. This was not a unanimous view but was that held by the majority of Members who felt it

better to leave the decisions on investments to the Board, rather than try to be over prescriptive in the Policy.

## Appendix One – Revised Draft Policy post Investment Board

### **Ethical Investment Policy**

#### **1. Introduction**

The Ethical Investment Policy aims to ensure that its investments are managed in a productive but socially responsible manner which reflects the mission and values of the Council.

The main principles of the policy are as follows:-

- The Council's Ethical Investment Policy is based on the premise that the Council's choice of where to invest should be in line with its strategic aims and its environmental, social and ethical values.
- The Investment Board, on behalf of Cabinet and Council, will actively monitor and take a view on the ethical position of the Council's investments. In particular, the Board may advise against investment in areas which it considers to be ethically unacceptable. Examples may be environmentally or socially harmful areas and areas of human rights abuse.

This Policy has been developed with the intention of active promotion of investment opportunities which demonstrate policies and practices that are in line with the Commercial Strategy 2021 – 2025. The vision of that Strategy is

'To generate sufficient income to enable the Council to be self-sufficient, in that it generates its own resources from local taxation (Business Rates and Council Tax) and commercial investments thereby removing the reliance on Central Government grants.'

#### **2. Investment of Funds**

The Commercial Strategy 2021 - 2025 sets out the objectives for the investment portfolio held by the Council. The appointed asset managers at the Council have responsibility for asset selection in accordance with the Strategy. Approval for acquisition is then via the Investment Board, Cabinet and Full Council.

#### **3. Investment Principles**

The Council is committed to investing its funds on a socially responsible basis. The Council believes that to accord with its values when investing its funds, regard must be made to Environmental Social and Governance (ESG) issues. 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 values.

The Council has identified two sets of principles which accord with its values and aspirations in this area.

Firstly:

▪ **The United Nations Principles for Responsible Investment.**

These six principles have been developed, *inter alia*, to ‘better align investors with the broader objectives of society’ and are as follows:

- 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 to enhance our effectiveness in implementing the Principles; and
- We will report on our activities and progress towards implementing the Principles.

Secondly:

▪ **The United Nations Global Compact**

The Council also supports the ten principles of the United Nations Global Compact, which stem from the acceptance that, as with the Council itself, corporate sustainability starts with a company’s value system and a principled approach to the way it operates. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment, and anti-corruption. The ten principles are derived from:

- The Universal Declaration of Human Rights.
- The International Labour Organization’s Declaration on Fundamental Principles and Rights at Work.
- The Rio Declaration on Environment and Development; and
- United Nations Convention Against Corruption. The ten principles are:
  - **Human Rights**
    - Businesses should support and respect the protection of internationally proclaimed human rights; and
    - make sure that they are not complicit in human rights abuses.
  - **Labour**
    - Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
    - the elimination of all forms of forced and compulsory labour.
    - the effective abolition of child labour; and
    - the elimination of discrimination in respect of employment and occupation.

- **Environment**
  - Businesses should support a precautionary approach to environmental challenges
  - undertake initiatives to promote greater environmental responsibility; and
  - encourage the development and diffusion of environmentally friendly technologies.
- **Anti-Corruption**
  - Businesses should work against corruption in all its forms, including extortion and bribery.

In managing its investments, the Council therefore expects its assets staff to encourage good behaviour and discourage poor behaviour through the screening of investments (using the principles above or an equivalent framework) and through the direct engagement with the developers and tenants in which they invest. In doing so, they should promote sustainability, good business ethics, good employment practices and the transition to a low carbon economy.

#### **4. Monitoring**

To give effect to its commitment to this Policy the Council will:

- Publish the Ethical Investment Policy on its website following its approval by Council.
- Delegate to the Investment Board the responsibility to monitor the operation and the effectiveness of the Policy and provide Council with an annual update.
- Publish on its website a list of the commercial assets owned by the council and the tenants in occupation, along with details of developers and other third parties where the acquisition is subject to a forward funding arrangement.

## Appendix Two – Draft policy considered by the Investment Board

### **Ethical Investment Policy**

#### **1. Introduction**

This Policy has been developed with the intention of active promotion of investment opportunities which demonstrate policies and practices that are in line with the Commercial Strategy 2021 – 2025. The vision of that Strategy is

‘To generate sufficient income to enable the Council to be self-sufficient, in that it generates its own resources from local taxation (Business Rates and Council Tax) and commercial investments thereby removing the reliance on Central Government grants.’

The governance of investment activities is delegated to the Investments Board of the Council, which reports to the Cabinet.

This Ethical Investment Policy is subject to regular review by the Investment Board and approval by Cabinet and Council.

#### **2. Investment of Funds**

The Commercial Strategy 2021 - 2025 sets out the objectives for the investment portfolio held by the Council. The appointed asset managers at the Council have responsibility for stock selection in accordance with the Strategy. Approval for acquisition is then via the Investment Board, Cabinet and Full Council.

#### **3. Investment Principles**

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- We will work to enhance our effectiveness in implementing the Principles; and
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the developers and tenants in which they invest. In doing so, they should promote sustainability, good business ethics, good employment practices and the transition to a low carbon economy.

#### **4. Exclusions**

Beyond the responsible investment practices and principles set out above, the Council believes that certain types of investment should be excluded from its direct investments. These are:

- Companies whose primary function is to manufacture or derive significant revenue from tobacco products. The Council defines significant as 10% or more of revenues.
- Companies that derive significant revenues from thermal coal or tar sands.
- Companies engaged in testing of cosmetic and non-pharmaceutical products on animals except where it is mandatory.
- Companies whose primary function is to promote gambling.

#### **5. Monitoring**

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  - delegate to the Investment Board the responsibility to monitor the operation and the effectiveness of the Policy and provide Council with an annual update.
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