

## 7.4 RESPONSIBLE INVESTMENT

Responsible Committee: Environmental Advisory Committee

### **RECOMMENDATION**

*That Council:*

1. *Notes that Council has no direct investment (shareholdings) in any fossil fuel company or fossil fuel aligned company.*
2. *Commits to adopting a positive screening approach for Council's investment with financial institutions by actively investing with fossil free financial institutions within the parameters of Council's investment policy.*
3. *Advocates for fossil free financial institutions to improve their credit rating and financial rate of return.*
4. *Amends Council's investment policy to allow for long-term investments in financial institutions receiving a 'BBB' credit rating from leading credit ratings agencies.*
5. *Gives preference to fossil fuel free financial institutions when tendering for transactional banking services, providing:*
  - a) *these services are offered at a comparable rate to services available from other compliant financial institutions at the time;*
  - b) *these services represent 'value for money';*
  - c) *the financial institution and product is otherwise compliant with Council policy.*
6. *Gives preference to fossil fuel free Authorised Deposit-Taking Institutions when making deposits if:*
  - a) *the rate of return on investment is greater than or equal to the rates of other Authorised Deposit-Taking Institutions which comply with Council's investment policy and are available at the time;*
  - b) *the financial institution and product is otherwise compliant with Council policy.*
7. *Gives preference to fossil fuel free financial institutions when borrowing money if:*
  - a) *applicable interest rates are lesser than or equal to interest rates available to Council from other compliant financial institutions;*
  - b) *the financial institution and product is otherwise compliant with Council policy.*
8. *Includes a report on Council's compliance with these new parameters within future annual reports of Council.*

**INTRODUCTION**

Fossil fuel divestment is the conscious removal of investments in companies that are involved in fossil fuel projects, such as coal or gas. The fossil fuel industry is a leading generator of greenhouse gases, which have been attributed to negative impacts on climate and our environment.

The purpose of this report is to summarise research conducted by the Environmental Advisory Committee (EAC) in relation to fossil fuel divestment by local government organisations, and to seek Council endorsement of recommendations aimed at reducing greenhouse gas emissions through divestment.

This research was previously presented at the June 2017 meeting of Council, and several adjustments have been made to this report, including:

- Removal of any reference to Vision Super;
- Changing the required rate of return to ensure no financial impacts to Council.

**BACKGROUND**

In the 2016-17 Draft Budget meeting, Council received a submission from a community representative asking Monash Council to declare their current exposure to the fossil fuel industry, and consider divestment provisions in its Investment Policy, as the first key steps to developing an ethical investment policy.

In September 2016, Council's Chief Financial Officer presented an outline of Council's approach to investment to the EAC for discussion, along with context and financial data. A working group was established, including EAC members: Ayush Gupta; Andrew Armstrong; and Mukul Relan.

At the EAC meeting held 30 January 2017, the working group presented findings.

At the 31 January 2017 Council Meeting, Cr Fergeus submitted a Notice of Motion (NOM) in relation to the extent to which Council's assets and investments are exposed to the fossil fuel industry. Council resolved that Council officers submit a report to the next Ordinary Meeting of Council in February 2017, detailing the term deposits which the Council currently holds and the banks in which the Council holds those deposits.

At the 28 February 2017 Council Meeting, the Director Corporate Services presented a response to the NOM, including details of terms deposits, which the Council currently holds.

**DISCUSSION**

Monash Council has no direct investments in fossil fuels. But 59% of its investments reside in banks, which currently invest in financial institutions which fund fossil fuel projects.

As a significant customer of financial institutions, local government has the potential to influence more responsible funding practices. There are currently thirty Australian local government organisations that have divested from fossil fuels, including eight from Victoria.

Monash Council currently invests 41% in banks with no fossil fuel investment. This is the result of accessing the most competitive rates rather than a conscious choice to divest, and aligns with Council's current Investment Policy; the Local Government Act (LGA). Section 143 of the LGA states that Council may only invest in Authorised Deposit Taking Institutions.

Many major banks and superannuation companies in Australia are already reducing their exposure to fossil fuel. Due to effective community lobbying, some major banks have decided to not provide funding to Hazelwood Power Station, resulting in the closure of Victoria's dirtiest power station and a commitment by the parent company, Engie to invest in solar.

While it may be difficult for Council to influence banks directly, there is potential for local government to influence the market through divestment.

Superannuation is another investment portfolio in which Council is a key stakeholder, and may encourage the institutions that manage its employees' super to fully disclose investments.

### ***POLICY IMPLICATIONS***

Divestment aligns strongly with Council priorities in the Environmental Sustainability Strategy 2016-26 and Council's policy on sustainable procurement. Council's current financial policies do not currently address divestment, but they are reviewed annually. The current policy would need to be revised to address divestment, based on the recommendations in this report and endorsed by Council.

### ***SOCIAL IMPLICATIONS***

Divestment activities need to consider the responsible management of community funds and ensure there is no impact on Council services.

### ***CONSULTATION***

Internal consultation has been undertaken with the Chief Financial Officer on Council's current investments and current investment policy.

### ***FINANCIAL IMPLICATIONS***

Council's current investment portfolio revealed that, as at 31 January 2017, 41% of all Council investments are already in divested banks, indicating that divested banks can provide competitive returns, and can help ensure liquidity requirements are being met.

The Council has no direct investment (or shareholdings) in any fossil fuel company or fossil fuel aligned company.

<b>Bank</b>	<b>Credit rating</b>	<b>Investment</b>	<b>Invested in fossil fuels?</b>
National Australia Bank	AA-	\$12 million	Yes
ANZ Group	AA-	\$14 million	Yes
Bank of Queensland	A-	\$13 million	No
Bendigo Bank	A-	\$5 million	No

### **CONCLUSION**

The City of Monash has a stated commitment to integrating best practice climate change thinking into Council's corporate and operational functions, as outlined in the City of Monash Environmental Sustainability Strategy 2016-2026.

As significant customers of financial institutions, local governments have the potential to influence their level of investment in fossil fuels.

Endorsement of the recommendations in this report will support Council to deliver on this commitment, whilst meeting investment obligations under the LGA.