

Report to: Audit and Standards Committee

Date: 26 July 2021

Title: Environmental, Social, and Governance Investments

Report of: Chief Finance Officer

Ward(s): All

Purpose of report: To provide an update on the position of the Council's Treasury Management investments in respect of the environmental, social and governance aspects of investing.

Officer recommendation(s): The Committee is asked to note the report.

Reasons for recommendations: An update on the approved Council's Environmental, Social and Governance investments opportunities.

Contact Officer(s): Name: Ola Owolabi
Post title: Deputy Chief Finance Officer
E-mail: ola.owolabi@lewes-eastbourne.gov.uk
Telephone number: 01273 485083

1 Introduction

- 1.1 The CIPFA Code sets out a suggested framework for managing treasury management risk. Regarding investment activity, the Code primarily states that public sector organisations should focus on security and portfolio liquidity and seek value for money (minimise net debt costs) within their risk parameters. With this in mind, the majority of the Council's treasury balances must be invested with highly secure institutions, where it is possible to withdraw funds at short notice, and the risk of losses to the taxpayer are minimised as much as possible.
- 1.2 To fulfil these criteria's, the Council is largely limited to short-term deposits with highly rated banks, building societies, money market funds and government institutions such as other local authorities. The Council does however have the possibility of investing core surplus treasury assets for longer term horizons where these exist.
- 1.3 Over recent years the concept of responsible investing has started to gain prominence. This concept includes taking into consideration factors other than financial return when an organisation is making an ESG investment decision. At the current time, the CIPFA code of practice does not require the inclusion of any of these factors within the investment strategies, and the Council has no legal requirement to include them in its policies.

- 1.4 In terms of typical local authority investments, there is not a wide range of products in this area at the moment, although the Council expect to see more banks and funds providing specific products over the coming years. As this area continues to develop and become more prominent, the council will continue to monitor it and make best use of ESG opportunities when they become available within the parameters of the Council's counterparty criteria and the requirement of the MHCLG Investment Guidance to prioritise security, liquidity before yield in that order of importance.

2 Environmental, Social and Governance TM Strategy

- 2.1 The Cabinet at its meeting on 4 February 2021 approved the 2021/22 Treasury Management and Investment Strategy, which include Non-Specified investments in Green Energy Bonds and/or other ESG products that met the Council's internal and external due diligence criteria.
- 2.2 Following the approval, the Council external treasury management advisors (Link Asset Services) was requested to conduct a review, looking into what potential investment options available to the Council that would fulfil the Council's objective of supporting climate related activities with regard to Environmental, Social and Governance concerns (ESG).
- 2.3 There is not yet a mature market focusing solely on Environmental issues. However, with the Social and Governance theme of ESG investment, there is now a focus on engagement with companies which are not necessarily environmentally focused, but how the Council counterparties can use their influence to encourage more ESG focused behavior. This is known as the engagement approach, which contrasts with the divestment approach that focusses on precluding investment in any company deemed to be weak in ESG matters.

3. Potential Approach to ESG Investing

- 3.1 The Council will consider options for various investments of up to £2 million of short/medium-term funds with institutions who ring fence the use of such funds for ESG related matters. The criteria for credit ratings of security of such deposits will need to remain in line with the wider Council policy. However, where appropriate and at the Council's discretion, some flexibility might be provided to allow for slightly longer duration of investment and potentially lower returns to support the ESG focus. Any investment will be subject to agreement of the S151 Officer taking these factors into consideration.
- 3.2 Direct involvement and financing of Green energy projects is treated as capital expenditure, and as such is not covered within the remit of treasury management.
- 3.3 The Council might also consider investing longer term for up to £2m into ESG focused funds. The Council will work alongside its treasury advisors to identify, review, and assess potential suitable funds including the following ethical investing options:

- Barclays' Green Bond Purchasing Programme - which covers a variety of thematic projects including energy efficiency, renewable energy, green transport, sustainable food, agriculture and forestry, waste management and greenhouse gas emission reduction.
- Standard Chartered 'Green and Sustainable Product Framework', which includes 'No poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; partnerships for the goals.
- Lloyds Sustainability 95 Day GBP Notice Account - a deposit product of Lloyds Bank which helps to support Lloyds Bank sustainability lending, comprising the green and social projects categories and which may include financing and/or refinancing projects. The sustainability lending and management criteria have been developed with the support of Sustainalytics, a leading provider of ESG research and ratings, for alignment with market practice.
- Multi-asset pooled funds - suitable 'all in one' solution for most long-term investors. They offer the following benefits:
 - long-term growth in capital and income.
 - efficient access to a wide range of investments.
 - low cost.
 - simple administration.
 - well established ethical and responsible policies.

4 Financial Implications

4.1 Not applicable as this report is for information.

5. Risk Management Implications

5.1 Not applicable as this report is for information.

6. Equality Screening

6.1 Not applicable as this report is for information.

7 Legal Implications

7.1 None arising from this report.

8. Background Papers

8.1 The 2021/22 Treasury Management and Investment Strategy.