

This report is public	
Environmental, Social and Governance considerations	
Committee	Accounts, Audit and Risk Committee
Date of Committee	24 September 2025
Portfolio Holder presenting the report	Deputy Leader and Portfolio Holder for Finance, Property & Regeneration, Councillor Lesley McLean
Date Portfolio Holder agreed report	13 August 2025
Report of	Assistant Director of Finance (Section 151 Officer), Michael Furness

Purpose of report

To update the Accounts, Audit and Risk Committee on the council's position on Environmental, Social and Governance considerations in line with CIPFA recommendations.

1. Recommendations

The Accounts, Audit and Risk Committee resolves:

- 1.1 To note the contents of this Environmental, Social and Governance (ESG) considerations report.

2. Executive Summary

- 2.1 ESG is an area that CIPFA is still working on after the 2022 revised codes. The Treasury Management Practices 2025/26 contains the current update on the developments in the ESG sector which are also laid out in this paper.
- 2.2 While the council is always looking for ways to invest sustainably (or green investments) this must be done within the criteria laid out in the approved Treasury Management Strategy with counterparties that meet the council's investment criteria. Security, liquidity and yield remain the primary investment considerations as required by the Treasury Management Code.

Implications & Impact Assessments

Implications	Commentary
Finance	There are no financial implications arising directly from this report. Comments checked by: Joanne Kaye, Head of Finance (D151), 13 May 2025
Legal	There are no legal implications arising directly from this report.

	Shiraz Sheikh, Assistant Director of Law and Governance & Monitoring Officer, 2 September 2025			
Risk Management	There are no risk implications arising directly from this report. Julie Miles, Performance Analyst & Developer, 2 June 2025			
Impact Assessments	Positive	Neutral	Negative	Commentary
Equality Impact				N/A
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?				N/A
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?				N/A
Climate & Environmental Impact				N/A
ICT & Digital Impact				N/A
Data Impact				N/A
Procurement & subsidy				N/A
Council Priorities	N/A			
Human Resources	N/A			
Property	N/A			
Consultation & Engagement	N/A			

Supporting Information

3. Background

What is ESG?

- 3.1 ESG are widely accepted measures of sustainability that organisations can use to map out their journey to becoming more sustainable and understand how the transition to a more sustainable economy will impact them. It is also the framework against which an organisation's sustainability credentials, and long-term viability, can be assessed by its most important stakeholders. Like sustainability, the individual elements of E, S and G are interlinked and reflect both the internal changes that organisations can make to positively impact the world, as well as the external factors that may negatively impact them as an organisation.
- 3.2 Environmental: this reflects matters that are focussed on how organisations minimise their impact on the planet. It is not just related to climate change. It also includes energy efficiencies and how to hit net zero, carbon footprints, greenhouse gas emissions, deforestation, biodiversity, waste management and other environmentally sensitive issues.
- 3.3 Social: this reflects how an organisation impacts wider society, as well as its own workplace culture. It can consider internal factors of the organisation such as employee rights, fair pay, anti-corruption, grievance procedures, innovation and research & development and external factors, such as social violations, exposure to child and adult trafficking in its supply chain, customer satisfaction and animal rights.
- 3.4 Governance: is the foundation to realising and incorporating the "E" and "S" into an organisation and how it communicates its credentials. It is also related to corporate governance, such as board and management structures, internal controls, policies & standards, auditing, compliance, remuneration, risk management and the disclosures that form an organisation's ESG strategy that is both robust and transparent.

ESG and audit

- 3.5 The National Audit Office Code of Audit Practice applicable to audits of 2020/21 onwards sets out what auditors of local government are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. There is not currently any requirement to audit ESG in local government.
- 3.6 Officers will monitor the outcomes of the Financial Reporting Council (FRC) work, and any additional reporting guidance issued by CIPFA and incorporate best practice into the Council's Statement of Accounts where appropriate.

4. Details

ESG and Investments

- 4.1 The assessment and implementation of ESG considerations are better developed in equity and bond markets than for short-term cash deposits, primarily due to the wider scope of potential investment opportunities. Furthermore, there is a diversity of market approaches to ESG classification, analysis and integration. This means that a consistent and developed approach to ESG for public service organisations, focussed on more typical Treasury-type investments, is currently difficult to achieve. CIPFA, therefore, recommends authorities to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies.
- 4.2 Importantly, CIPFA does not currently expect that any council's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

Policy on ESG issues

- 4.3 It is crucial to understand that any ESG policy that is too broad in its approach, could have a material impact on potential counterparties, which could then limit diversification and / or security considerations in investment processes. Furthermore, councils will also need to be clear that when choosing between two counterparties that pass all relevant "security" tests, that the additional implementation of an ESG policy may mean that a lower investment rate is achieved by choosing the counterparty that passes the council's ESG requirements.
- 4.4 Below are typical examples of ESG factors that are considered by Credit Rating Agencies, such as Fitch, Moody's and Standard & Poor's when assigning credit ratings to counterparties. The credit ratings provided by these agencies are also used as the basis for selecting suitable counterparties by Councils.
- Environmental: Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.
 - Social: Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.
 - Governance: Management structure, governance structure, group structure, financial transparency.
- 4.5 This Council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG factors into the decision-making process for investments. Within this, the council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. As noted above, the council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows:

"We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing

the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.

At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.

In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.

In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.

With this in mind, we share a common vision to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness."

- 4.6 In addition to the underlying integration of ESG factors into creditworthiness considerations by the main rating agencies, the council will continue to evaluate additional ESG-related metric assessments that are available from third parties, as the council does not have the capability to do these ESG-related metric assessments. Once additional assessments have been identified the council could incorporate into its investment process and will update accordingly.
- 4.7 The council will also consider future regulatory changes that may affect providers of ESG ratings and data. The Financial Conduct Authority has stated that it will consult on proposals for the future regulatory regime for these providers once Government has finalised related legislation in 2025.

Money Market Funds

- 4.8 In conjunction with investments in fixed deposits the council uses Money Market Funds (MMF's) to maintain liquidity levels as detailed in the Treasury Management Strategy.
- 4.9 While MMF's domiciled in the UK do not need to be classified, the EU domiciled MMF's are required to have Sustainable Finance Disclosure Regulation (SFDR) classification which fall into the following into three categories:
- Article 6 – funds that do not integrate sustainability into the investment process
 - Article 8 – funds that promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that

the companies in which the investments are made follow good governance practices

- Article 9 – funds that have sustainable investment as their objective

4.10 The council only uses MMF's of the highest quality and will aim to use funds that are classified as Article 8 or 9 when possible subject to the first three criteria of liquidity, security and yield being achieved.

4.11 Details of the MMF's currently being used are as follows:

<u>Fund name</u>	<u>Fitch Rating *</u>	<u>S&P Rating</u>	<u>Moody's Rating</u>	<u>Domiciled</u>	<u>SFDR classification</u>
CCLA Public Sector Deposit Class 4	AAAmmf			UK domiciled	
Federated Hermes Short-Term GBP Prime Class 3	AAAmmf	AAA		UK domiciled	
Goldman Sachs GBP Liquid Reserves 630	AAAmmf	AAA	Aaa	EU domiciled (Ireland issuer)	Article 8
LGIM GBP Liquidity Class 4	AAAmmf	AAA	Aaa	EU domiciled (Ireland issuer)	Article 8
Northern Trust GBP Cash Class F	AAAmmf	AAA	Aaa	EU domiciled (Ireland issuer)	Article 8

*Fitch AAA-mmF definition: Extremely strong capacity to achieve money market fund's investment objective of preserving principal and providing shareholder liquidity through limiting credit, market and liquidity risk.

5. Alternative Options and Reasons for Rejection

5.1 The nature of this report is such that alternative options are not appropriate. It is an option to request further information.

6 Conclusion and Reasons for Recommendations

6.1 This report details the council's approach to ESG's as a fourth priority of Treasury Management after security, liquidity and yield.

Decision Information

Key Decision	N/A
Subject to Call in	N/A
If not, why not subject to call in	N/A
Ward(s) Affected	N/A

Document Information

Appendices	
Appendix 1	None
Background Papers	None
Reference Papers	Environmental, Social and Governance Principles Report to Executive, 3 April 2023 https://modgov.cherwell.gov.uk/documents/s52635/ESG%20Report%20Final.pdf
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