

Cherwell District Council

Executive

3 April 2023

Environmental, Social and Governance Principles

Report of Assistant Director of Finance (S151)

This report is public

Purpose of report

To provide information to Executive on ESG in the context of Local Government and to allow for consideration of the motion referred by Council 19 December 2022 to the Executive.

1.0 Recommendations

The meeting is recommended to:

- 1.1 Note the Local Government context for the application of ESG principles and how the Council will respond to the motion relating to Environmental, Social and Governance (ESG) principles.
- 1.2 In response to proposal 1, to request officers to update the Executive on ESG audit requirements following the outcome of the Financial Reporting Council (FRC) and subsequent CIPFA requirements.
- 1.3 In response to proposal 2, to agree to continue to comply with the current Council approved Capital and Investment and Treasury Management Strategies until such time as there is more information available about defining ESG principles within a Capital and Investment or Treasury Management Strategy.
- 1.4 In response to proposal 3, to agree the Leader to initially write to the Pension Fund to understand how the pension fund invests in its assets and then act appropriately based on the information received.

2.0 Introduction

2.1 The motion submitted to Council to debate at its meeting 19 December 2022 read:

“Environmental, Social and Governance (ESG) principles have become ever more important in recent years due to the focus of organisations such as ours on issues surrounding climate change and ethical values.

ESG audits are commonplace in many organisations and apply a set of standards measuring their impact on society and the environment as well as how transparent and accountable they are.

This council holds significant sums on deposit with numerous investment bodies, including banks, other local authorities and the Oxfordshire pension fund. We also have some internal investments, particularly associated with commercial property and property investment.”

2.2 The Council therefore requested that the Executive consider the following proposals:

1. Holding transparent annual audits of all our investments to be measured against ESG principles which will be published alongside the annual accounts.
2. To divest as soon as practicable from any investment that runs contrary to ESG principles and any other standards set by the council, particularly with respect to any funds connected with fossil fuels, unfair labour practices or exploitation of workers.
3. To urge the Oxfordshire Pension Fund to further divest from fossil fuel investments at the earliest opportunity with a firm timetable for complete divestment from such funds by 2030.

3.0 Report Details

What is ESG?

- 3.1 ESG is a widely accepted measure 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, will 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 the planet, not just climate change. It also includes energy efficiencies and how to hit net zero, carbon footprints, greenhouse gas emissions, deforestation, biodiversity, waste and other environmentally sensitive issues.
- 3.3 Social: Split into internal social 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, customer satisfaction, 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.

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 In Jan 2023 the Financial Reporting Council (FRC) published a Statement of Intent in relation to ESG reporting (<https://www.frc.org.uk/getattachment/28eee408-ea7f-4a9e-af5f-f144ec2804c1/ESG-Statement-of-Intent-Whats-Next-January-2023.pdf>). The FRC's purpose is to serve the public interest by setting high standards of corporate governance, reporting, audit and actuarial work and by holding to account those responsible for delivering them.
- 3.7 The purpose of their paper is to build on previous work and conversations with market participants to set out areas in which such challenges must be addressed if they are to ensure entities act and report in a way that meets the ambitious demands of many stakeholders. The FRC has set 2023 for focussing on key areas of ESG reporting. Where the FRC lead for the private sector, CIPFA will follow for the public sector.
- 3.8 Officers will monitor the outcomes of the FRC work and any additional reporting guidance issued by CIPFA and incorporate best practice into the Council's Statement of Accounts where appropriate.

ESG and Investments

- 3.9 In February 2021, CIPFA consulted on including ESG principles in the Treasury Management Code of Practice. Following consultation, CIPFA "...will not at this juncture include a separate TMP for ESG. However, we will incorporate ESG issues as a consideration within TMP1 [Risk]. This would place ESG alongside the other risks facing local authority treasury management, rather than potentially being seen to give it precedence. This will ensure robust due diligence procedures are designed, implemented and monitored to the same professional level subject to the relevant treasury activity for each individual authority."
- 3.10 In the resulting 2021 edition of the Code TMP1 now includes the following guidance:
"The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level."
(Treasury management in the public services – Code of practice and cross-sectoral guidance notes, p.18)
- 3.11 Section 1.13 of the Cross-sectoral guidance notes advises:
"Environmental, social and governance (ESG) issues are increasingly significant for investors and investment managers. This is better developed in equity and bond

markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult. Organisations are therefore recommended 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. It is not expected that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level".
(Treasury management in the public services – Code of practice and cross-sectoral guidance notes, p.50)

- 3.12 Officers are in the process of updating the Council's TMPs and TMP1 will be drafted giving regard to the guidance in the code of practice. The revised TMPs will be approved once all of the information is available.

ESG and the Oxfordshire Local Government Pension Fund

- 3.13 Council employees are eligible to be members of the Oxfordshire LG Pension Fund. The Fund had investments of £2.3 billion as at 31 March 2022. The Fund has published its ESG Policy on page 9 of its Investment Strategy Statement (https://www.oxfordshire.gov.uk/sites/default/files/file/pensions/Investment_Strategy_Statement.pdf). Within it, the Fund state that they recognise that they will hold investments in companies with varying ESG quality but that they intend to use their influence to work with companies in which they have invested to bring about improvements to their ESG quality.
- 3.14 The Fund also state in the ESG Policy that the Brunel Partnership they are part of will, through its investing scale, allow for improved implementation of responsible investment and stewardship.
- 3.15 Officers will draft a letter for the Leader of the Council to send to the Fund encouraging the application of ESG principles in their investment strategy.

4.0 Conclusion and Reasons for Recommendations

- 4.1 The report sets out ESG in the context of Local Government and the proposed actions in response to the motion received by Council and referred to the Executive.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

- 6.1 No alternative options have been identified and rejected.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from this report.

Comments checked by:

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Legal Implications

7.2 There are no legal implications arising directly from this report.

Comments checked by:

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Risk Implications

7.3 There are not risk implications arising directly from this report.

Comments checked by:

Shona Ware, Assistant Director – Customer Focus, 01295 221652
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Equalities and Inclusion Implications

7.4 There are no equalities implications arising directly from this report.

Comments checked by:

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Sustainability Implications

7.5 There are no sustainability implications arising directly from this report.

Comments checked by:

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8.0 Decision Information

Key Decision **No**

Financial Threshold Met: **No**

Community Impact Threshold Met: **No**

Wards Affected

None

Links to Corporate Plan and Policy Framework

None

Lead Councillor

Councillor Adam Nell, Portfolio Holder for Finance

Document Information

Appendix number and title

None

Background papers

None

Report Author and contact details

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