

Report of the Deputy Chief Executive

ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTMENTS1. Purpose of report

To inform Members of the position of the Council's Treasury Management investments in respect of the environmental, social and governance aspects of investing which have been coming into prominence over the last few years.

2. Background

The Council's investments are made in line with its Treasury Management and Investment Strategies which are approved by Finance and Resources Committee in February each year. Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

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 investment decisions and has become known as ESG Investing (Environmental, Social and Governance Investing).

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. However, in conjunction with the Council's Treasury advisors, Arlingclose, initial work has been undertaken to identify the status of the organisations in which the Council places its investments. The appendix contains details of this analysis.

3. Summary

There are practical difficulties in ascertaining the true extent of the ESG agenda in the investment decisions of the Council's investment counterparties. The existing research has been conducted into asset managers and the majority of the Council's investments are held with banks and pooled funds which have not yet come under the same level of scrutiny. However, the market for "green" investment opportunities is still emerging and the Council should continue to monitor the situation to ensure it is up to date with the latest development.

Recommendation

The Committee is asked to NOTE the position of the Council's investment in the terms of environmental, social, and governance investing criteria.

Background papers

Nil

APPENDIX

Environmental, Social and Governance Investments1. Introduction

A review of the Council's financial investments has been carried out to establish the environmental, social and governance credentials of the third party organisations which hold those investments.

2. Investments

The Council's investments are made in line with its Treasury Management and Investment Strategies which are updated and approved by Finance and Resources Committee on an annual basis.

A council can invest its money for three broad purposes:

- Treasury Management - because it has surplus cash as a result of its day-to-day activities. For example, when income is received in advance of expenditure
- Service - to support local public services by lending to or buying shares in other organisations and
- Commercial – where earning investment income is the main purpose of the investment

The Council's investments are all in relation to treasury management cashflow and ensuring cash is available for the payment of employees and creditors on a monthly and weekly basis. Whilst the Council does have shares in Liberty Leisure Ltd and is in partnership with Erewash Borough Council to provide Crematorium services the contributions to the day to day use of investment vehicles are for treasury management purposes.

Dependent on cash flow commitments investment may be invested in the short term (immediate access) or the long term (notice required). This enables the Council to maximise its return whilst still ensuring that day to day cash needs are met.

3. Counterparties

The Council's Treasury Management Strategy sets out both the criteria a counterparty is required to meet in order for it to be considered suitable for investment of the Council's funds and a list of those counterparties meeting the minimum criteria.

The Council invests with the following counterparties:

- Banks
 - Barclays Bank UK plc
 - Bank of Scotland plc
 - Santander UK plc
- Pooled Funds
 - NinetyOne Fund Managers UK Ltd
 - CCLA
- Asset Managers

- Royal London Asset Management
 - Aberdeen Standard Investments
 - Legal and General Investment Management
 - Insight Investment
 - Federated Hermes
- Other
 - Other Local Authorities

It is the extent to which these counterparties engage in the ESG agenda in their investment product offering that will support the Council's own ESG agenda.

4. ESG Factors

There are no universally agreed and accepted set of ESG definitions and they can be difficult to apply on a consistent basis. Environmental and social issues are diverse and can be emotive based on personal perception and values. Even the terms used can be interpreted in a variety of ways. However, the United Nations has sought to bring some commonality with its Principles for Responsible Investment. Whilst it does not provide a prescriptive or exhaustive list it does give common examples of ESG issues.

Environmental

- Climate change
- Greenhouse gas emissions
- Resource depletion
- Waste and pollution
- Deforestation

Social

- Human rights
- Working conditions including slavery and child labour
- Local communities
- Employee relations and diversity

Governance

- Bribery and corruption
- Board diversity and structure
- Executive pay
- Political lobbying and donations
- Tax strategy

5. ShareAction

ShareAction is a non-profit making organisation working to build a global investment sector which is responsible for its impacts on people and planet. As part of this work in March 2020 they issued a report entitled “Point of No Returns – A ranking of 75 of the world’s largest asset managers’ approaches to responsible investment”. As the title suggest this report includes the ranking of asset managers and analysis of their performance on stewardship, transparency and governance. Further reports will offer more detailed insights into the management of risks and impacts relating to human

and labour rights, climate change and biodiversity. It is ShareAction's ranking of asset managers which have been used to rank the Council's counterparties.

6. Rankings

The following table ranks the Council's counterparties using ShareAction's rating bands

A+ – Gold Standard

A – Leaders

B – Challengers

C – Building Capacity

D – Business as Usual

E – Laggards

<u>Counterparty</u>	<u>Investment Value</u> <u>(as at 31/01/21)</u>	<u>Rating</u>
Banks		
Barclays Bank UK plc	3,300,000	Not Available
Bank of Scotland plc	3,000,000	Not Available
Santander UK plc	3,000,000	Not Available
Pooled Funds		
NinetyOne Fund Managers UK Ltd	2,000,000	Not Available
CCLA	9,000,000	Not Available
Asset Managers		
Royal London Asset Management	2,000,000	D
Aberdeen Standard Investments	552,000	B
Legal and General Investment Management	0	A
Insight Investment	0	D
Federated Hermes	4,950,000	Not Available
Other		
Other Local Authorities	0	Not Available

Additional information in respect of non-rated counterparties:

- Banks – whilst the Council only invests in banks with a high credit rating it is near impossible to know or track to which corporates banks lend their monies to and with whom these corporates, in turn, do business with.
- Pooled Funds – the Council's investments are not in ESG focused funds, however, ESG risks and opportunities are integrated into the funds' value assessment modelling.
- Other Local Authorities – it is difficult to know exactly which counterparties other local authorities invest with but it is likely their portfolio will be similar to Broxtowe's.