

Report of the Deputy Chief Executive

ENVIRONMENTAL, SOCIAL AND GOVERNANCE BANKING1. Purpose of report

To inform Members of the position of the Council's banking service providers in respect of the environmental, social and governance (ESG) aspects of investing which have been coming into prominence over the last few years.

2. Background

A report to the Committee on 30 March 2021 detailed the overall position of the Council's treasury management investments in relation to environmental, social and governance investments. The report was drawn from the research undertaken by ShareAction, a non-profit making organisation working to build a global investment sector which is responsible for its impacts on people and planet. ShareAction's initial research was into asset managers and did not include banks.

ShareAction have subsequently published a follow up report looking at banking service providers in more detail. This report has been used to provide a ranking in ESG investments. The appendix contains details of this analysis.

3. Summary

As per the Council's Treasury Investment Strategy the Council's policy on treasury investments is to prioritise security and liquidity over yield. In other words, the objective is to focus on minimising risk rather than maximising returns. The main priority of any decision the Council makes in terms of its banking and investment policies needs to be the security of its investment. The rate of return and the ESG factors are necessarily secondary to that. However, the Council does have the opportunity in the future to bring ESG factors into its decision making process in terms of its banking investments with the Investment Strategy being updated on an annual basis and its banking services provider when the contract is renewed in 2026.

Recommendation

The Committee is asked to NOTE the position of the Council's banking service providers in the terms of environmental, social, and governance agenda.

Background papers

Nil.

Environmental, Social and Governance Banking

1. Introduction

A review of the Council's banking service providers has been carried out to establish the environmental, social and governance credentials of those third party organisations.

2. Banking Services

The Council's main banking services, for day to day banking and overnight investment, are provided by Barclays Bank plc. The contract for these services expires in March 2026 with an option to extend the contract for two years until March 2028. The Council will have an opportunity to include ESG considerations into the next contract in five years' time.

In addition, the Council uses high street banks to invest surplus cash on a short term basis. Historically the banks used have included:

- Bank of Scotland
- Santander
- Lloyds

3. Credit Ratings

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.

One of these criteria is credit rating, which gives an indication of the strength and financial resilience of the institution. The Council has a duty to safeguard the public money in its keeping and will only invest in banking institutions which have a credit rating of A- or above. The Council's treasury advisors, Arlingclose, update the Council on credit ratings on a regular basis.

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 April 2020 they issued a report entitled “Banking on a Low-Carbon Future II – A ranking of the 20 largest European banks’ responses to climate change. As the title suggest this report includes the ranking of banks and analysis of their performance on transitioning to integrating ESG factors. It is ShareAction’s ranking of banks which has been used to rank the Council’s counterparties.

6. Rankings

The following table ranks the Council’s counterparties using ShareAction’s rating bands and the financial market credit ratings.

ShareAction’s rating bands are as follows:

- A – Best Practice
- B – Leaders
- C – Building Capacity
- D – Business as Usual
- E – Laggards

The Council’s acceptable credit ratings are:

- AAA
- AA+
- AA
- AA-
- A+
- A
- A-

<u>Bank</u>	<u>Investment Value</u> <u>(as at 30/04/21)</u>	<u>ShareAction</u> <u>Rating</u>	<u>Credit Rating</u> <u>(Fitch)</u>
Barclays Bank UK plc	815,765	D	A+
Bank of Scotland plc	0	D	A+

Santander UK plc	0	C	A+
Lloyds	0	B	A+

The Council's investment in Barclays is held on an overnight basis and is reviewed on a daily basis to determine if it is worth making a definitive investment in, for example, a money market fund.

Balances held in other financial institutions at as 30 April 2021 amounted to £15,190,000 as detailed below:

<u>Counterparty</u>	<u>Long Term Investment Value</u> (as at 30/04/21)	<u>Short Term Investment Value</u> (as at 30/04/21)	<u>Rating</u>
Pooled Funds			
NinetyOne Fund Managers UK Ltd	2,000,000		Not Available
CCLA	4,000,000	4,373,000	Not Available
Asset Managers			
Royal London Asset Management		2,000,000	D
Aberdeen Standard Investments		2,817,000	B
Total	6,000,000	9,190,000	

ShareAction have not yet reported on ESG ratings for the pooled funds which are held by the Council so the rating for these counterparty's is not available at this point in time.

7. Future Implications

As demonstrated above the Council, on a whole, only invests a small percentage of its surplus cash flow in the banking sector. Investments are made on the basis of security, liquidity and yield. An additional element of ESG rankings could be introduced into the Investment Strategy enabling the ESG credentials of a banking institution to be taken into account when placing investments.

Any proposed switch to a highly rated ESG organisation will require a zero impact on yield. Care must be taken to ensure that the Council's required ESG factors are being met – for example a high ESG score does not necessarily mean a high Environmental score within ESG factors. The Council must be sure of its own priorities and the service evaluation used.

To allow future consideration of ESG in the Council's investment strategy the Treasury Management Strategy will need to be amended and approved by Full Council in February 2022.

The following table shows ShareAction's top ranking European banks, based on their response to climate change, together with their credit ratings as advised by Arlingclose.

<u>Rating</u>	<u>Rank</u>	<u>Bank</u>	<u>Credit Rating (Fitch)</u>
B	1	BNP Paribas	Not Rated
B	2	Lloyds Banking Group	A+
B	3	ING	Not Rated
C	4	UBS	Not Rated
C	5	HSBC	AA-
C	6	Credit Agricole	Not Rated
C	7	Societe Generale	Not Rated
C	8	Standard Chartered	A+
C	9	Santander	A+
C	10	ABN AMRO	Not Rated