

Joint Audit and Governance Committee



Report of Head of Finance

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To: Joint Audit and Governance Committee

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Treasury management: Environmental, Social and Governance investment review

Recommendation

Joint Audit and Governance Committee is recommended to consider the Environmental, Social and Governance (ESG) investment review reports by Link Treasury Services and make recommendations to the Head of Finance for consideration in the preparation of the councils' treasury management strategies for 2025/26.

Implications (further detail within the report)	Financial	Legal	Climate and Ecological	Equality and diversity
	Yes	Yes	Yes	Yes
Signing off officer	Simon Hewings	Pat Connell	Jessie Fieth	Ruth Lewin-Leigh

Purpose of Report

1. To present to Joint Audit and Governance Committee the Environmental, Social and Governance (ESG) investment reviews undertaken by Link Treasury Services for the councils and to seek recommendations from the committee to the Head of Finance for consideration in the preparation of the treasury management strategies for 2025/26.

Strategic Objectives

2. Managing the finances of the authorities in accordance with their treasury management strategies will help to ensure that resources are available to deliver services and meet the councils' strategic objectives.

Background

3. Treasury management in local authorities is defined as:

“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

4. For local authority treasury management activity, guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires councils to prepare and approve an annual treasury management strategy. Such strategies are required to prioritise security, liquidity, and then yield in that order of importance when considering investment decisions.
5. In recent years, there has been much discussion on the extent to which consideration can and should be given to ESG factors in treasury management decision-making. Whilst CIPFA guidance remains clear that security, liquidity and yield remain the primary considerations, there is clearly an appetite in many councils such as South and Vale to identify where ESG factors can be appropriately considered in decision making, noting the regulatory framework which governs treasury activity.
6. In February 2024, alongside the approval of the treasury management strategies for both councils, the Section 151 Officer confirmed that he would conduct a review of investment options with the council's treasury advisors Link Treasury Services (Link) and, in line with the Constitution, report to Joint Audit and Governance Committee. The review would include the latest analysis on environmental, social and governance investment options.
7. Link have now undertaken their reviews and their findings are shown at Appendix 1 for South, and Appendix 2 for Vale. In summary, Link have confirmed that both councils' treasury management activity is compliant with UK legislation, and both councils' investment activity is being undertaken in line with the ESG Policy approved as part of the 2024/25 Treasury Management Strategy. Link's review makes the following recommendations for officers to consider in drafting future treasury management strategies:
 - To consider giving greater consideration to ESG factors in any future Money Market Fund selection process,
 - To consider remove any counterparties that fail to meet a minimum ESG “rating” requirement, for example exclude entities rated below CIS-3 by Moody's, ie those entities where ESG considerations have an impact on the current credit rating of an entity,
 - To consider how to improve monitoring of ESG factors relating to investments,

- SOUTH ONLY – to consider whether the council’s unit trust investment remains appropriate, or whether an alternate investment approach should be followed.
8. Committee members are invited to consider the Link reports and recommendations, and to make recommendations to the Head of Finance for consideration in the preparation of the councils’ treasury management strategies for 2025/26.

Financial Implications

9. There are no direct financial implications arising from this report. Recommendations from committee members may have financial implications that will need to be considered in preparing future treasury management strategies.

Legal Implications

10. Recommendations for changes to the councils’ treasury management strategies must ensure that compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the MHCLG Local Government Investment Guidance is maintained.

Climate and ecological impact implications

11. In order to comply with treasury management professional guidance, the councils’ investments must prioritise security, liquidity and yield in that order. As discussed in this report, ESG factors represent a fourth consideration in the decision making process and any recommendations for changes by members of the committee will need to be considered in the context of the need to comply with the priorities outlined in the professional guidance.
12. As noted in the reports, the council’s current approach is compliant with both legislation, as well as the councils own Ethical Statements. Further to this position, the reviews are the start of a process to reduce, where possible, direct or indirect investments by the councils that have a potential association with enterprises which have negative impacts on the environment and ecosystems, whilst complying with treasury management guidance. Implementation of the report recommendations should help reduce the council’s association with activities that are not aligned with reducing greenhouse gas emissions and reaching our net zero targets.
13. There is also an opportunity for the councils to consider the options for proactively supporting positive environmental action through investment, for example the rollout of net zero carbon technologies, though such investment may fall outside of treasury management activity as defined in treasury management guidance and considered in this report.
14. As agreed with the climate team, use of the climate impact assessment tool is not suitable for this report.

Equalities implications

15. There are no equalities implications arising from this report.

Risks

16. To manage the risk associated with treasury management activity, the councils are required to operate within the treasury limits and prudential indicators set out in their treasury management strategies. As such, maintaining the security of principal amounts remains the primary objective of the strategies.

Other Implications

17. None

Conclusion

18. Link has identified a number of actions that the councils' could take to further include ESG considerations in treasury management activity. Committee members are invited to consider these and make recommendations to the Head of Finance as part of preparing the councils' 2025/26 treasury management strategies.

Background Papers

None.