



SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL



## Governance & Audit Committee

19 June 2024

Report of Councillor Ashley Baxter,  
Leader of the Council and Cabinet  
Member for Finance and Economic  
Development

# Review of Treasury Management: Environmental, Social and Governance Review Report

### Report Author

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### Purpose of Report

This report presents the findings of an independent review of Environmental, Social and Governance (ESG) treasury management activities.

### Recommendations

**The Governance & Audit Committee is requested to:**

- 1. Note and approve the findings of the independent review of the Council's environmental, social and governance activities.**
- 2. Continue to review and assess the Council's approach to ESG as part of the annual review of the Treasury Management Strategy Statement.**

<b>Decision Information</b>	
Does the report contain any exempt or confidential information not for publication?	Yes – Appendix A contains exempt information under paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (Information relating to the financial or business affairs of any particular person (including the authority holding the information)).
What are the relevant corporate priorities?	Effective council
Which wards are impacted?	All Wards

## **1. Implications**

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

### ***Finance and Procurement***

1.1 There are no financial implications arising from this report.

Completed by: Richard Wyles Deputy Chief Executive and Section 151 Officer.

### ***Legal and Governance***

1.2 There are no legal implications arising from this report.

Completed by: James Welbourn, Democratic Services Manager and Deputy Monitoring Officer

## **2. Background to the Report**

2.1 The report has been commissioned by the Council following a request from the Committee for an independent review in relation to the current ESG approach being taken by the Council as part of its Treasury Management Investment Strategy.

## **3. Key Considerations**

3.1 The independent review is appended to the report and sets out clearly and helpfully the current position relating to Environmental, Social and Governance

factors when making investment decisions.

### 3.2 The key findings of the review are:

- a. Environmental, Social and Governance factors are now being increasingly used alongside more traditional financial-related assessment metrics by investors when assessing potential counterparties.
- b. The Council's investment portfolio, as at end-September 2023, shows that investments are not being made with any counterparties that, in the view of ESG rating / score providers, face high risks in terms of E, S or G.
- c. Reviewing the wider counterparty options would suggest that use of alternate entities would not have a material impact (either positive or negative) in terms of altering these ESG risks.
- d. The Council should consider how the funds it utilises approach this assessment process, to ensure that this aligns with its own views.
- e. The regulatory backdrop is evolving as the use of ESG metrics becomes more commonplace. Key to the changes is to prevent "greenwashing", increasing transparency and understanding over assessment processes of providers to allow investors to make more informed decisions. The changes cover both ESG data and rating providers, as well as product providers, such as fund managers. Some changes have already been implemented, while others will materialise in the future.
- f. Due to the evolving regulatory background coupled with a lack of widespread demand, Link does not currently provide direct access to ESG metrics to clients as a service. This will likely change, but in the meantime, the Council can access a limited number of data points from providers without cost. Note, that the credit ratings provided by Link do already incorporate ESG factors in their assessments. As such, the Council is already using ESG factors as part of investment decision-making process.
- g. In addition, ESG can be incorporated in a more specific way into how the Council outlines its investment framework and in its day-to-day investment decisions, without directly conflicting with the base tenets of local authority investing – Security and Liquidity. Yield is always a by-product of these but should also not be unduly affected.
- h. The Council includes two Ethical "statements" in its reports. There are some discrepancies between these so some modest adjustments may be required. More wholesale changes could be made if the Council wishes to take a more definitive approach to incorporating ESG into its investment processes. However, this requires due care to ensure it does not conflict with Security and Liquidity considerations.

### 3.3 The approved Treasury Management Strategy Statement (TMSS) 2024/25 is attached at Appendix B for reference. At paragraph 1.3 of the Statement, changes to the CIPFA Treasury Management Code include addressing Environmental, Social and Governance (ESG) issues within the Council's treasury management

policies and practices (TMP1).

- 3.4 TMP1 is set out at Appendix 3 of the TMSS and includes an Ethical Investment Statement, which addresses the changes to the CIPFA code and ensures the key findings from the ESG review are included.
- 3.5 The report explains that this is an evolving area of investments and therefore the approach should form part of the annual review of the Treasury Management Strategy Statement.

#### **4. Other Options Considered**

- 4.1 No other options were considered.

#### **5. Reasons for the Recommendations**

- 5.1 The Committee requested that an independent review be undertaken of the Council's Treasury Management activities. This report summarises the findings of that review.

#### **6. Appendices**

- 6.1 Appendix A – South Kesteven ESG Review Report
- 6.2 Appendix B – Treasury Management Strategy Statement