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What’s in a name: ESG principles and UK local authorities

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This article asks whether the relatively recent corporate interest in ‘ESG’ puts local authorities and local government behind their corporate counterparts when it comes to sustainable, socially responsible and ethical practices.

What is ESG?

The 'E' relates to environmental criteria; how a company performs as a steward of the environment, focusing on issues like carbon emissions, waste management, nature conservation and sustainable use of resources.

The 'S' relates to social criteria; how an entity manages its relationships with employees, suppliers, customers, and the communities where it operates including labour practices, diversity, social mobility and community engagement.

Finally, the 'G' relates to Governance; the leadership structure, ethical practices, and transparency of an organisation, including how an organisation guides, controls and leads its supply chains.

In combination these elements provide a holistic view of a company’s commitment to environmentally and socially responsible and ethical business practices.

There is an increasing requirement on companies to reveal details of their ESG standards and approaches either as a result of official regulation (“climate-related financial disclosures” under the Companies Act 2006 or the Corporate Sustainability Reporting Directive in Europe for example) or as a result of societal or investor pressure. ESG ratings agencies now exist which give a company an ‘ESG score’ investors can take account of, these are soon to be regulated by the Financial Services Authority (FSA), an indication of their increasing influence.

Despite the increasing prevalence of ESG (a simple web search for “ESG advice” will turn up myriad agencies, consultants and articles) many people have varying interpretations of what it entails. For some it may primarily signify environmental sustainability, while others might focus on the social justice or corporate governance issues.

This article considers ESG (as it is described above) in the context of English public bodies with a particular focus on local authorities and local government.

It concludes that far from being left behind by the new-found corporate interest in ‘all things ESG’, local government has for quite some time been at the cutting edge.

The critical role local authorities play in implementing ESG initiatives at the community level

Local government play an increasingly crucial role in implementing Environmental, Social, and Governance (ESG) initiatives at the community level as they are a bridge between national policies in this area and local needs. As they directly impact the lives of the people they serve they are incredibly well placed to encourage and normalise ESG strategies.

The October 2021 Net Zero Strategy published by the previous government made this point repeatedly. Earlier this year the LGA carried out a survey of local authority strategies and support for net zero and found that 72% (of respondents) had set their own targets despite there being no legal obligation to do so.

With over 70% of local authorities having declared climate emergencies (the first being in 2018), many of them developing programs that promote sustainable practices such as waste reduction, energy efficiency, and green infrastructure local authorities and local government have the E of ESG very much on their radar. The Environment Act 2021 strengthens local authorities' duty to conserve and enhance biodiversity, first set out in the Natural Environment and Rural Communities (NERC) Act of 2006.

Moreover, local authorities are significant employers and service providers, which positions them to lead by example in social aspects of ESG. The Public Sector Equality Duty (PSED) requires local authorities to have due regard to equality considerations when exercising their functions and local authorities may comply with this duty by implementing diversity and inclusion initiatives, providing social services, and ensuring transparent governance practices that reflect community values.

Local authorities are supported in these endeavours by the LGA which provides a comprehensive sustainability program that includes tools and resources to help councils enhance their sustainability efforts. This includes guidance on climate adaptation and achieving net-zero targets.

Their sustainability support network supports local government officers working in sustainability roles, facilitating discussions on emerging trends, policies, and practices, allowing members to share best practices and collaborate on sustainability initiatives.

Green finance initiatives

Whilst many local authorities have significant ambitions in this area after a protracted period of austerity and the more recent economic shocks of covid and the cost of living crisis there may be difficulty financing these ambitions. Many local authorities operate under tight budgets, making it difficult to allocate resources for ESG initiatives. The need for upfront investment can be a barrier, especially for projects with long-term benefits.

The LGA has also developed resources to help councils finance their green ambitions effectively offering practical advice and examples of good practices for funding sustainability projects.

Central Government grant funding may be available for certain projects. These can cover areas like renewable energy, energy efficiency, and sustainable transport. Specific funding may also be available in the future from the Local Investment in Natural Capital (LINC) Programme and the Local Electric Vehicle Infrastructure (LEVI) fund.

The UK Infrastructure Bank (UKIB) can provide financing for infrastructure projects that contribute to net-zero goals; including loans and equity investments for green projects.

ESG Bonds have been available for use by local authorities since 2021. This capability was established under a framework approved by the UK Municipal Bond Agency (MBA) and are a vital tool for financing sustainable projects. These bonds enable councils to raise funds specifically for initiatives that address climate change, promote social equity, and enhance governance practices. By issuing ESG bonds, local authorities can attract investment from environmentally conscious investors, thereby supporting their commitments to net-zero targets.

The planning system now requires developers to deliver biodiversity net gain at local level [and the achievement of nutrient neutrality], offering a route for local authorities to channel investment in nature conservation and the sustainable use of natural resources.

By actively involving community stakeholders in decision-making processes, local authorities can co-create solutions that address pressing social issues, such as housing and public health. This collaborative approach not only strengthens community ties but also enhances the effectiveness of ESG initiatives, ensuring they are relevant and impactful. Ultimately, local authorities are essential in driving the ESG agenda forward, making sustainability a shared responsibility within the community.

Challenges and opportunities

Challenges

Navigating the regulatory landscape can be daunting. Local authorities already comply with various environmental regulations and standards, which can be complex and time-consuming. Whilst there is no legal duty on local authorities that requires them to report specifically on corporate ESG metrics they, like their counterpart large organisations in the private sector, are coming under increasing pressure to do so voluntarily. It seems likely that in order to fully leverage the contribution local authorities can make to the net zero targets under the Climate Change Act 2008 regulation by central government is inevitable.

Collecting, managing and presenting data related to ESG metrics can also be challenging. Authorities often lack the necessary infrastructure or expertise to effectively track and report on their ESG performance. Whilst this may be improved once the UK Green Taxonomy (currently out for consultation with a return date of February 2025) is in place and adopted, local authorities are likely to find, as have their private counterparts, that preparing for these regulations in advance of their in force date is vital. It is highly likely that local authorities will find that in many cases reporting aligned with an ESG metric will involve repurposing existing data rather than creating a while new process.

Linked to the above ensuring that ESG initiatives align with community needs and values requires effective communication and engagement strategies. This can be difficult, especially in diverse communities with varying priorities and is likely to be particularly difficult in areas with significant agricultural communities and significant urban conglomerations.

Finally, there will be a need for skilled personnel who are familiar with the subject matter and methodologies in order to ensure ESG projects and initiatives are conducted as effectively as possible. Significant numbers or respondents to a relatively recent Office of National Statistics survey confirmed that lack of skill and capacity was a moderate or significant barrier to tackling climate change. The Green Jobs Taskforce has played a crucial role in shaping the conversation around sustainable employment in the UK, pushing for actionable steps that can lead to a greener economy and it is hoped therefore that these crucial roles can be created and staffed.

Opportunities

As set out above there are increasing funding opportunities, such as ESG bonds and government grants, specifically aimed at supporting sustainable projects. This can help local authorities finance their ESG initiatives which may in turn provide local economic boosts and locally based green jobs.

This area is ripe for collaboration with private sector entities, NGOs, and community organisations who can enhance resource sharing and expertise, leading to more effective ESG strategies.

Embracing new technologies and innovative practices can improve service delivery and operational efficiency. For example, digital tools can streamline processes and enhance transparency in ESG reporting or local energy projects can impact reliability and, perhaps in time, reduce cost to local users.

There is growing public interest in sustainability and social equity. Local authorities can leverage this momentum to engage communities in ESG initiatives, fostering a sense of ownership and participation and strengthening communities.

Finally, by investing in sustainable practices, local authorities can enhance their resilience to climate change and other socio-economic challenges, ultimately leading to better outcomes for the communities they serve. By increasingly incorporating ESG criteria into public procurement processes local authorities are able to evaluate suppliers based on their environmental impact, social responsibility, and governance practices. This doesn’t only promote sustainable practices among vendors but also encourages local businesses to adopt ESG standards to remain competitive.

Conclusion

ESG is increasingly prominent in both private and public discussions surrounding climate change, sustainability, social matters, and governance. This heightened focus reflects a broader societal shift towards accountability and transparency in organisational practices. Numerous new initiatives, particularly in funding, have emerged to support these objectives, yet it is essential to recognise that these concepts are not entirely new for local authorities.

For many years, local authorities have actively tackled a variety of social issues, for example waste management, pollution control, and air quality improvement. These responsibilities have been integral to their operations, even if they were not explicitly categorised as ESG. The pressing challenges of urbanisation, environmental degradation, and social inequality have for many years compelled local government to implement policies and programs that align closely with ESG principles.

While ESG may appear to be a novel initiative for local authorities, they will likely find that much of their existing work already resonates with these principles, albeit not always under the ESG label. Initiatives aimed at enhancing public health, fostering community engagement, and promoting environmental stewardship have long been part of local governance. This existing framework provides a robust foundation for integrating ESG more formally into their operations.

A significant shift on the horizon is the increasing emphasis on reporting outcomes. Currently, there is no regulatory framework mandating ESG reporting, and the Greening Government initiative remains voluntary. However, as stakeholders — including citizens, investors, and advocacy groups — demand greater accountability, local authorities must adapt. Preparing for and voluntarily reporting within the anticipated parameters of future regulations would be a strategic move. By doing so, local authorities can not only demonstrate their commitment to ESG principles but also enhance their credibility and foster public trust.

This proactive approach could ultimately save time and resources in the long run. By establishing clear metrics and reporting mechanisms now, local authorities can streamline their processes and avoid the last-minute scramble to comply with future regulations. Moreover, effective reporting can yield valuable insights into the impact of their initiatives, enabling data-driven decisions that better serve their communities.

We would encourage local authorities to engage in the consultation on UK Green Taxonomy and anything similar in order to ensure that new ESG related measures take a balanced approach when it comes to the way they deal with public and private concerns and to consider taking the steps set out above to prepare.

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