HM Government

Government Response to Advisory Group Report on 'Growing a Culture of Social Impact Investing in the UK'

June 2018

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Foreword

Social impact investing is a means of bringing significant commitments of capital to some of the UK's biggest opportunities for social progress, including in places where traditional investment capital does not flow in sufficient quantity. As we consider the country we want to become in the years ahead, we should be thinking imaginatively about how to deploy a wide range of our country's resources in order to maximise the opportunities before us.

Financial innovation offers new ways to spread wealth and economic opportunity, and to help deliver the prosperity we all want for our country and the world. It enables more active participation by individuals in the process of wealth creation, which in turn prompts innovation and growth in the financial services industry. But maximising this potential requires leadership and a clear steer from government.

We are ambitious that delivering social impact should be a widely held concern – that social impact investment should become 'business as usual' for individual and institutional investors. In addition to the primary social benefits of this investment approach, we believe it can give the UK a competitive advantage – better for investors, better for companies and better for our citizens.

Social impact investing is especially suited to providing individuals with opportunities to invest and save in line with their values. People increasingly seek to use their assets – their skills and their money – to create the world they want to live in. Social impact investing creates opportunities for people to embed their values in their saving and investment choices, empowering people to take a greater stake in a stronger, shared society.

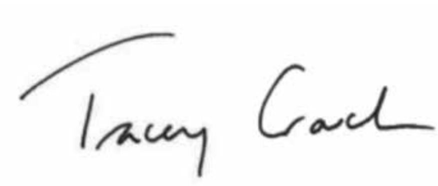
Social impact investing can also contribute to the UK's role as a global leader in financial services. It offers an opportunity for the investment industry to be more sophisticated in taking account of customers' needs, values and aspirations. Together, government and industry are in a strong position to set standards in this emerging area of the market, and to give investors confidence that investments live up to their claims.

As a new and rapidly developing model, social impact investing opens up opportunities for the UK's financial services firms to innovate. Technology is also creating new possibilities for retail investment and redefining the way individuals engage with their investments and savings. In government we are actively supporting the digital transformation of the finance sector, including social impact investment.

For the wider economy, evidence shows that consideration of environmental, social and governance (ESG) factors can help foster long-term value creation for companies and their investors. Government looks forward to seeing how the growth of social impact investing can strengthen the foundation of sustainable economic growth.

Social impact investing is in the early stages of development and has shown significant positive results to date, as evidenced in the report from the Advisory Group on ‘Growing a Culture of Social Impact Investing in the UK’. As the report acknowledges, the challenge for government and for the financial services industry is how to scale up this investment approach in a way that remains true to the purpose of generating social outcomes as well as financial returns.

We welcome the significant contribution of the Advisory Group and thank Elizabeth Corley and her colleagues for their work, which marks an important milestone towards social impact investing becoming part of the mainstream of the UK economy. We look forward to working with all partners, and especially the financial services industry, to make this ambition a reality.



Tracey Crouch MP
Minister for Sport and Civil Society

John Glen MP
Economic Secretary to the Treasury

Introduction

In 2016 government asked Elizabeth Corley, Vice Chair of Allianz Global Investors, to chair an advisory group considering the following question: 'How can the providers of savings, pensions and investments engage with individual investors to enable them to support more easily the things they care about through their savings and investment choices?'

In the foreword to the Advisory Group report, entitled 'Growing a Culture of Social Impact Investing in the UK', ministers welcomed the high level of ambition that the report contained, noting that, while social impact investment "is currently a small part of the big picture", they were keen to grow the market.

"We believe that can change. We know there are large amounts of capital looking for productive investment opportunities. At the same time, there are many areas where generating positive social outcomes needs investment at scale. We want to understand how to bridge that gap and bring social impact investment to the mainstream. This includes investments from company balance sheets, pension schemes and individuals who want to see their savings make a difference as well as provide a financial return."

Six months later good progress is being made. Government maintains that the financial services industry must be the key driver and it is encouraging to see a number of social impact funds launched in the UK since the start of this year. This is a signal of how thinking on social impact is starting to spread through the investment industry. Other positive evidence includes the release of a number of guides from professional bodies and increasing mainstream media attention.

But there are further actions that government can take to promote social impact investing. These were discussed in February when the Prime Minister, the Culture Secretary, the Chief Secretary to the Treasury and other cabinet colleagues met senior executives from the financial services industry alongside social impact investing pioneers. Noting the strong early history of social impact investing in the UK, the Prime Minister said:

"The challenge now is for industry to unlock the capital to boost impact investment even further, finding solutions to some of the burning injustices we face as a society, and helping make sure the country works for everyone."

The Prime Minister asked Elizabeth Corley to lead a follow-up Taskforce to progress recommendations from the report and asked departments to consider what measures government could take to unlock and boost social impact investment. This response to the Advisory Group report sets out current government thinking, following the five themes identified in the original report.

In some areas there are regulatory changes which government is minded to make, for example to ensure environmental, social and governance (ESG) factors are properly considered in pension investments. In other areas, such as companies raising visibility of their social impact, encouraging coalescence around meaningful best practice is more appropriate.

Government will also explore actions to address barriers and unlock investment, which can help tackle issues such as left behind parts of the country, homelessness, and housing for vulnerable people.

Commitments to continue convening and communicating on this theme are fulfilled through initiatives such as the Inclusive Economy Partnership[1] – led by chief executives from a range of businesses and civil society organisations, including National Grid, Nationwide, O2, TechUK, National Council Voluntary Organisations and Big Lottery Fund.

As the Advisory Group report suggests, “there is no ‘silver bullet’, but the areas prioritised are practical, achievable and will accumulate”. Mainstreaming social impact investment in the UK will be a journey that takes time, but one which government believes has huge potential and is making strong progress.

[1] Inclusive Economy Partnership, 2017, https://www.gov.uk/government/news/business-and-civil-society-leaders-form-partnership-to-tackle-challenges-in-society

Government response to the recommendations

This response sets out government's position on each of the **five themes** outlined in the Advisory Group report, and any specific policy work, planned or in progress, that will help drive these areas forward.

Social impact investing – a definition

The Advisory Group noted that confusion over varying definitions can be a significant barrier to adoption. Government agrees with this assessment, and therefore welcomes the working definition it has set out in its report with a view to coming to an agreed understanding across sectors:

'Social impact investment consists of investment in the share or loan capital of those companies and enterprises that not only measure and report their wider impact on society – but also hold themselves accountable for delivering and increasing positive impact.' – Advisory Group, November 2017

This aligns with government's understanding of social impact investing as an investment approach and government has adopted this definition for the purpose of this response.

Five themes set out by the Advisory Group:

1. Improve deal flow and the ability to invest at scale

As the Advisory Group report identifies, there are already examples of successful and innovative investments targeting specific social outcomes that are a policy priority for government. Government has played an important role in building this foundation. Big Society Capital (BSC) was established in 2012 following government's decision on the use of dormant accounts. BSC has committed up to £436m of capital, leveraging over £804m of co-investment into innovative investment models[2]. Government also established the Centre for Social Impact Bonds, the Government Outcomes Lab in partnership with Oxford University, and the £80m Life Chances Fund to help build the evidence base and provide support to develop Social Impact Bonds (SIBs).

Government's priority is now to identify and address barriers to the effective scaling of successful investments and identify new policy areas where government can partner with social impact investors to drive innovation and improve social outcomes. One example is supporting investment into deprived areas and housing, where the Prime Minister has asked the Ministry

[2] Big Society Capital, Figures as at 31 March 2018

of Housing, Communities and Local Government (MHCLG) to explore options to tackle homelessness, housing for vulnerable people, and the regeneration of places at risk of falling behind.

Taxation

Government is committed to growing the social economy by ensuring that the UK has a supportive tax and regulatory environment, and has implemented the world's first Social Investment Tax Relief (SITR). Government recently expanded the scheme, allowing charities and social enterprises to raise up to £1.5m through SITR, helping them to grow and increase their social impact. Further, the Community Investment Tax Relief (CITR) is a long-standing initiative which encourages investment in disadvantaged communities. Since 2002 CITR has raised around £145m in private investment and will continue in parallel with SITR.

HMG Commitments:

- Government has undertaken work to consider what measures it could take to unlock and boost social impact investment. For instance, the Secretary of State for Housing, Communities and Local Government is considering how social impact investment might support left-behind parts of the country, and help tackle homelessness and provide housing for vulnerable people.
- Government will continue to implement the Life Chances Fund and to develop options for the further development of Social Impact Bonds.
- Government has committed to reviewing the Social Investment Tax Relief (SITR) in 2019.

2. Strengthen competence and confidence within the financial services industry

Alongside its role in contributing towards addressing social challenges, social impact investment presents many opportunities for innovation in the financial services sector. It also presents challenges that need to be addressed. This goes hand in hand with other such areas identified by the Green Finance Taskforce[3] and the Patient Capital Review[4].

Professional education

Government recognises that social impact investing is a relatively new yet rapidly developing investment strategy. Therefore, investment professionals need the relevant educational tools and guidance to develop the expertise that allows them to best serve their clients' interests and needs. Government agrees with the Advisory Group that efforts to improve these professional skills should be primarily led by industry, which will ensure that the tools and content accurately reflect practitioners' needs. The Green Finance Taskforce also identified the need for improved education in its report published in March 2018. The Green Finance Taskforce further stressed that investment consultants should have sufficient expertise and competence on environmental, social and governance (ESG) issues, including climate change.

[3] Green Finance Taskforce Report 'Accelerating green finance: Green Finance Taskforce report', 2018, https://www.gov.uk/government/publications/accelerating-green-finance-green-finance-taskforce-report

[4] HM Treasury, Financing growth in innovative firms, 2017, https://www.gov.uk/government/consultations/financing-growth-in-innovative-firms

Government welcomes concrete steps from the financial services industry to improve education in this area. This includes updated tools and guides such as the Personal Finance Society's 'Good Practice Guide on Social Impact Investing'[5] for financial advisers, which was supported by the Department for Digital, Culture, Media and Sport (DCMS) at its launch in April 2018. Government is also pleased to see that the Pensions and Lifetime Savings Association (PLSA) has recently published its educational guide for trustees on 'impact investing'[6].

However, government recognises that more needs to be done. In line with the Advisory Group's recommendations, government encourages other professional bodies and universities to introduce active training and competency building programmes to accelerate professional development around social impact investing, for example through Continuous Professional Development (CPD) and qualifications. Government also stresses the need to ensure these educational initiatives share a common language with guidance for organisations taking on investment. Access[7], The Foundation for Social Investment, and Good Finance[8], a digital information platform on social investment, are examples of government-supported initiatives that increase education, awareness, and access to social finance among organisations that could benefit from social impact investment.

Government fully supports the Advisory Group's recommendations in this area and the initiatives that have already been brought to market, such as the educational guides for financial advisers and pension trustees. Government encourages investment professionals to use these opportunities to develop their competence in social impact investing. Government is working closely with the follow-up Taskforce on social impact investing to identify where it can help to drive relevant initiatives forward in the future and is committed to providing support where appropriate.

Regulation

Furthermore, government's ambition is to ensure that consideration of social and environmental impact becomes part of 'business as usual' in the British economy.

To this end, HM Treasury (HMT), the Department for Digital, Culture, Media and Sport (DCMS), the Department for Business, Energy and Industrial Strategy (BEIS), and the Department for Work and Pensions (DWP) have established a formal dialogue with the Financial Conduct Authority (FCA), The Pensions Regulator (TPR) and the Financial Ombudsman Service (FOS). This dialogue builds on the recent publication of the recommendations from the Green Finance Taskforce to government, and takes into consideration government's upcoming final response to the Law Commission on pension funds and social investment. This is closely aligned with the approach taken by the Department for International Development (DfID) to UK investment in developing countries.

Government welcomes the active engagement from the regulators and statutory bodies within the financial services

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5 Personal Finance Society 'Good Practice Guide: Social Impact Investing', 2018, http://www.thepfs.org/media/9223844/good-practice-guide-social-impact-investing.pdf

6 Pensions and Lifetime Savings Association 'Impact Investing Made Simple', 2018, https://www.plsa.co.uk/Portals/0/Documents/Made-Simple-Guides/2018/7225%20Impact%20Investing%20MS_07_03_18%20FINAL.pdf

7 Access, The Foundation for Social Investment, https://access-socialinvestment.org.uk/

8 Good Finance, https://www.goodfinance.org.uk/

industry. In their responses to the Advisory Group's letter[9] (dated 14 November 2017), which outlined perceived regulatory barriers raised by investment professionals, the FCA (response dated 8 January 2018[10]) and the FOS (response dated 7 December 2017[11]) addressed these points and outlined how they could work with the follow-up Taskforce to reduce the perceived barriers that inhibit the growth of social impact investing in the UK.

The FCA recently established an internal working group to discuss green finance and sustainable finance, and also held a workshop on this in May 2018 that was attended by leading institutions[12]. Government is pleased to see the FCA's proactive engagement with the wider sustainable finance sector. Government would welcome it if the FCA could build on its work on sustainable and green finance to date and consider actions to reduce perceived barriers to the growth of the social impact investment market.

Government also looks forward to working with the FCA and the FOS on their joint proactive communications programme targeted at investment professionals. In its response to the Advisory Group, the FOS has also committed to review and improve its communications to provide clarity around its approach to complaints about social impact investments. This is in response to concerns from industry members of the Advisory Group that there is a lack of clarity in this area, which presents a key challenge for financial advisers. Government is pleased with the FOS' commitment to this, looks forward to the realisation of these efforts in due course, and would welcome coordination with the FCA in this area.

HMG Commitment:

- Government is committed to partnering with and providing support to the financial services industry to help build social impact capabilities among investment professionals. It will work closely with regulators and statutory bodies to ensure that, as relevant to their respective mandates, social impact is considered in regulatory frameworks and understanding.

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9 Advisory Group's Letter to the FCA and FOS, November 2017, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/659059/Advisory_Group_Letter_to_FCA___FOS.pdf

10 Response from the FCA, January 2018, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/680781/FCA_Response.pdf

11 Response from the FOS, December 2017, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/680782/FOS_response.pdf

12 The workshop was attended by a number of external stakeholders, including members of the Green Finance Taskforce, the London School of Economics, the Bank of England, The Pensions Regulator, the Department for Environment, Food and Rural Affairs and HM Treasury. It brought together internal and external expertise to discuss the problems that could arise as a result of climate change in financial services markets, and generated ideas for how the FCA might respond to these. Building on the findings from the workshop, the FCA will use the internal climate change working group to develop its approach in this area.

3. Develop better reporting of non-financial outcomes

Responsible business

Responsible business is a force for good in society. Government champions responsible business, wants to promote more of it, and wants to help improve its visibility and communications to the public. It welcomes the Advisory Group's consideration of these issues in its report.

As outlined in the Industrial Strategy[13], government is prioritising responsible long-term growth for national prosperity.

The UK's leading companies say corporate social responsibility is integral to their business approaches and models for long-term growth, and government welcomes the contribution which businesses make to society and communities. How individual businesses approach their corporate responsibility is fundamentally a matter for them and their shareholders. However, government also has a role to support this. That is why government is backing socially and environmentally responsible businesses widely across policies and regulations, and is supportive of business-led initiatives:

- Government is channelling public expectations in policy and regulation to help set the right frameworks and market conditions for responsible businesses to prosper. For example, it does this by setting the corporate governance framework in which businesses operate; across climate change policies and regulations and the Clean Growth Strategy; through implementing the national action plan on business and human rights, including the Modern Slavery Act[14]; through the Good Work Plan[15] to improve job quality; by backing business action to improve gender balance in corporate leadership and address barriers to ethnic minorities in the workplace; and in the work from DfID to encourage businesses to consider their social and environmental impacts, including with the UN Global Compact.
- Government encourages more businesses to get involved with their communities and in tackling social challenges where they can make a real difference. In 2017 government launched the Inclusive Economy Partnership[16] to encourage business and civil society leaders to partner and stimulate innovation in solutions to social challenges.
- Government supports the increasing numbers of businesses who want to embed social and environmental purpose alongside their profit motive. It has encouraged the business-led development of a new online tool[17] that helps entrepreneurs embed purpose into their core governance documents when they found new companies.

[13] Industrial Strategy: building a Britain fit for the future, 2017, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf

[14] Modern Slavery Act, 2015, https://www.gov.uk/government/collections/modern-slavery-bill

[15] Good Work: A response to the Taylor Review of Modern Work Practices, 2018, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/679765/180206_BEIS_Good_Work_Report.pdf

[16] Inclusive Economy Partnership, 2017, https://www.gov.uk/government/news/business-and-civil-society-leaders-form-partnership-to-tackle-challenges-in-society

[17] Purposely online tool, https://getpurpose.ly/about-us

Communicating corporate social responsibility

Government encourages businesses to communicate what they do for society and the environment as effectively and visibly as possible. There are wide audiences for this, including shareholders, investors, and employees, as well as customers and the general public.

Company reporting is one of several ways in which businesses communicate their social and environmental responsibility. Recent legislative changes were introduced to encourage wider reporting on social and environmental impacts by large companies. In 2016, government amended the Companies Act to implement the EU Directive on Disclosure of Non-Financial and Diversity Information[18]. This introduced additional requirements for the Strategic Reports prepared by large companies to cover their social and environmental impacts. These changes applied to financial years beginning in 2017.

Building on this, government wants to see reporting by companies which is meaningful – i.e. clear, concise and genuinely informative and aligned with management approaches to business planning and risk management, as well as being aligned to investor expectations. "Tick box" compliance, which does not change behaviours, nor of itself lead to real outcomes, should be avoided.

With these objectives in mind, government plans to assess early impacts of these recent changes to company reporting to evaluate the improvements in reporting on social and environmental issues. BEIS will consider with the Financial Reporting Council (FRC) what further action might be necessary. A number of the companies which responded to the FRC's recent public consultation on updating the Corporate Governance Code[19] commented on the importance of social and environmental issues to them.

HMG Commitments:

- Following the transposition of the EU Directive on Disclosure of Non-financial and Diversity Information, BEIS will lead an evaluation of company reporting on social and environmental issues.
- Government, as part of its Corporate Governance Reform package, will introduce changes to the Companies Act requirements (Section 172) to improve businesses' reporting on their impacts on employees and other key stakeholders.

The United Nations Sustainable Development Goals

Government recognises that there is increasing business interest in the United Nations Sustainable Development Goals (SDGs)[20].

The seventeen Sustainable Development Goals set an ambitious challenge for action worldwide, over the period to 2030, to combat the most pressing challenges of our time, including eradicating extreme poverty, ending hunger, protecting the environment and reducing inequalities. The Sustainable Development Goals are now the pre-eminent, comprehensive international framework for sustainable development. Government fully

[18] EU Directive on Disclosure of Non-Financial and Diversity Information, https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en

[19] Responses to FRC Consultation on Corporate Governance Code, https://www.frc.org.uk/consultation-list/2017/consulting-on-a-revised-uk-corporate-governance-co

[20] United Nations Sustainable Development Goals, https://sustainabledevelopment.un.org/?menu=1300

supports their realisation both in the UK and abroad.

Government recognises that many of the UK's leading businesses have started to engage with the Sustainable Development Goals already and are considering how best to use these to frame and communicate their approaches to social and environmental responsibility. Many businesses are prioritising their efforts within the Sustainable Development Goals, for instance, acting to counter climate change, adopting sustainable resource use, guarding against modern slavery in supply chains, or supporting diversity and fairness in the workplace.

In recognition of this, BEIS and the Government Inclusive Economy Unit (GIEU) are exploring how businesses are engaging with the Sustainable Development Goals to see how to respond to this trend. Government is interested to understand how businesses' use of the Sustainable Development Goals to frame their approach to social and environmental responsibility may facilitate comparison, raise standards and stimulate investment. Government is supporting the Business Commission for Sustainable Development and is looking forward to seeing the work of the World Benchmarking Alliance, led by Aviva, which will soon publish a series of league tables ranking company performance against a range of Sustainable Development Goals.

With business approaches to the Sustainable Development Goals still evolving, and large companies responding to the recent changes to cover social and environmental impacts in their Strategic Reports, government does not propose to overlay further Sustainable Development Goals-related reporting requirements in the Companies Act. The FRC's recent consultation on updating the Corporate Governance Code included a question about incorporating the Sustainable Development Goals and other sustainability frameworks, and business respondents showed wide preference for a non-prescriptive approach to these. The FRC is evaluating the responses to its consultation. A new version of the Code, supporting guidance and a feedback statement will be published shortly.

BEIS and the FRC will continue to monitor the evolution of Sustainable Development Goals issues for company reporting. Government wants to keep the UK at the leading edge of international developments in sustainability reporting. Accordingly, BEIS is now represented at the United Nations' Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), which is considering ways to develop company reporting in accordance with the Sustainable Development Goals.

HMG Commitments:

- Government is exploring how businesses are using the Sustainable Development Goals to frame their social and environmental responsibility and communicate this more strongly.
- The Department for Business, Energy and Industrial Strategy (BEIS) will participate in the United Nations' Intergovernmental ISAR Experts Working Group.
- The Department for International Development (DfID) will support the World Benchmarking Alliance to publish league tables ranking company performance against the Sustainable Development Goals.

[21] FRC Consultation on Corporate Governance Code, 2018, https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code

4. Make it easier for people to invest

Consumers are increasingly looking to reflect their values through their spending and saving choices. Research by PricewaterhouseCoopers (PwC) found that 68 percent of 25-34 year olds say it is important that people use their money for the good of society and the wider world[22]. Indeed, this interest goes beyond wanting specific values-based products. Many consumers expect the companies with which they engage to uphold certain social and environmental standards as the norm.

Businesses too are recognising that consideration of environmental, social and governance (ESG) risks and opportunities can improve long-term investment returns[23]. However, uncertainty remains over the extent to which investment managers are able to take such factors into account when considering how to maximise financial returns. Product providers are responding by bringing environmentally and socially responsible products to market to cater to engaged consumers.

Government recognises that changes to structures and behaviours are not easy or quick to make. Government therefore welcomes the work of the Advisory Group in highlighting how industry can help address these barriers and commits to continuing to work with regulators, industry and civil society towards bringing social impact investing to the mainstream.

DCMS will work closely with the follow-up Taskforce to develop a communications campaign to inform consumers about how they can invest in line with their values. It agrees with the Advisory Group that this would be best launched when there is a stronger social impact investment market with which consumers can engage more easily. This could include ministerial speaking engagements at industry events and consumer-facing press activity.

Government notes that the follow-up Taskforce is exploring the scope for innovation in data and technology to bring social impact investing to retail investors and will continue to work closely with the Taskforce to identify where it can help. Technology is revolutionising consumers' engagement with their finances, and Government is committed to nurturing the nascent and flourishing fintech sector in the UK. It is particularly supportive of technology applications that give individual investors direct sight of the social and environmental impacts their investments are having. At the Commonwealth Summit, the UK announced a Digital Finance Champions Group for the development of secure digital finance to drive equitable and inclusive growth. This will facilitate peer-to-peer learning, inform policy design, and leverage expertise from the private sector to address constraints and showcase innovation.

Government is also considering changes to regulation (see below) as well as identifying further actions it can take to help build capacity and increase transparency around social impact investment by pension schemes.

Regulation

Government is considering changes to investment regulation that will help to grow the social impact investment market. These will include changes to pensions

[22] PwC, Social Investment Demand: research findings December 2016. Unpublished. Referenced in ShareAction's report: Pensions for the Next Generation: Communicating What Matters, 2018

[23] E.g. From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (University of Oxford and Arabesque Partners, 2015); and Total Societal Impact: A New Lens for Strategy (Boston Consulting Group, 2017)

regulation to make it easier to invest with an environmental and social impact.

In December 2017, government published its interim response to the Law Commission's report on pensions and social investment[24]. Several of the Law Commission's recommendations were reflected in the Advisory Group's report.

Government's interim response set out the areas in which it is considering taking action, including plans to clarify legislation around consideration of financially material risks (including environmental, social and governance (ESG) factors), pension schemes' ability to consider members' concerns, and stewardship responsibilities. With regards to the consideration of member concerns, this remains subject to the Law Commission's two-part test, which outlines that trustees must have good reason to think scheme members share the concern and there is no risk of significant financial detriment to the fund[25]. Government will shortly publish its final response alongside a consultation on these regulatory changes as well as additional changes aimed at strengthening the Statements of Investment Principles (SIP) to make them more effective.

The changes aim to make it easier for trustees of pension schemes to invest members' savings in assets that can "do good," as well as deliver market returns. Government has worked closely with the regulators and industry on drafting the policy and regulations behind these measures and looks forward to receiving feedback to the consultation.

The FCA is also considering what form of rule changes may be appropriate to address the Law Commission's proposals. As noted above, government would welcome it if the FCA considers actions to reduce perceived barriers to the growth of the social impact investment market.

Furthermore, government is supportive of the aims of the Advisory Group to increase pension trustees' consideration of social impact investments, for example, by encouraging trustees to include specific policies relating to social impact in the SIP, and incorporating social impact investments into default funds, as well as chosen funds (subject to Law Commission guidance around appropriate risk-adjusted financial returns). These recommendations are ultimately for trustees, although the proposed regulatory changes should help provide clarity to trustees and give institutional investors confidence to begin or increase the allocation of capital to investment opportunities such as social impact investment.

There are a number of other initiatives taking place across government, in partnership with a broad range of stakeholders, that support progress of the recommendations of the Law Commission and the Advisory Group. The Green Finance Taskforce's report, 'Accelerating Green Finance'[26], supports the Law Commission recommendations to clarify pensions regulation with regards to environmental, social and governance (ESG) principles. The Patient Capital Review[27] aims to tackle barriers to investment in more illiquid assets, for which there is a Pensions

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[24] Law Commission, 'Pension Funds and Social Investment (Law Comm No 374)', 2017, https://www.lawcom.gov.uk/project/pension-funds-and-social-investment/

[25] According to the Law Commission, trustees retain primacy in investment decisions and, whilst they should not necessarily rule out the ability to take account of members' views, they are never obliged to, and the prime focus is to deliver a return to members

[26] Green Finance Taskforce Report 'Accelerating green finance: Green Finance Taskforce report', 2018, https://www.gov.uk/government/publications/accelerating-green-finance-green-finance-taskforce-report

[27] HM Treasury, Financing growth in innovative firms, 2017, https://www.gov.uk/government/consultations/financing-growth-in-innovative-firms

Investment Taskforce with regulatory and industry representation. With regards to stewardship, DfID has supported the ShareAction Workforce Disclosure Initiative, where investors with more than $10trn in assets under management (including HSBC, Aviva, Legal & General and Schroders) have come together to pressure the companies they invest in to improve the workplace practices in their supply chains.

Finally, work to improve the visibility of business social and environmental responsibility, outlined above in section 3, is meeting the recommendations for more examples of good practice of impact reporting and greater agreement around terminology for social impact investments. Government also supports initiatives such as the Global Impact Investing Network (GIIN) and the Impact Management Project, which work to improve impact measurement and management practices among investors and build market intelligence, such as through the GIIN's Annual Investor Survey.

HMG Commitments:

- Government will consult on changes to regulation in order to:
  - allow for consideration of broader financial risks and opportunities, including those related to environmental, social and governance (ESG) issues;
  - strengthen pension schemes' ability to consider member concerns about investments; and
  - clarify the various ways pension schemes should engage with the firms in which they invest, alongside voting, as an important aspect of stewardship of pension scheme assets.
- Government departments will consider, at ministerial level, what more can be done to increase consideration of the wider impacts of pension investments – environmental and social, as well as financial. Government will focus on ensuring that current work is capitalised upon; on identifying and, where appropriate, proposing the removal of longer-term behavioural and legislative barriers; and on improving investor consideration and communication of impact issues.
- For example, government has an aspiration that pension schemes could, if they chose to, target a minimum percentage allocation towards investments that have an explicit social or environmental purpose, and report on that. Government would also like to see member views much more seriously considered in pension investment decisions. It will work with industry and regulators to explore these ideas, and others, in order to grow the impact of pensions in the UK.

5. Maintain momentum and build cohesion across initiatives

Government backs the significant contribution that social impact investment can make to help address some of the UK's social challenges and drive innovation in the financial services sector. This is why the Prime Minister, alongside Cabinet colleagues from HMT, MHCLG and DCMS, met with Elizabeth Corley and other representatives from the investment industry earlier this year to discuss next steps. Government is committed to moving this work forward, both internally where there are suitable policy levers available, and externally through championing the work of the follow-up Taskforce and the wider investment industry. Government will publish a further short update on progress in winter 2018.

Government has noted that many of the actions expected to promote social impact investment are also positive policy initiatives in their own right. There are numerous links to similar thinking across government, for example in the Green Finance Taskforce[28] and the Patient Capital Review[29], that would stimulate the UK's long-term economic growth and protect the social and environmental health of the UK and the world. There are also links to the international agenda where the UK seeks to support international development through social impact investment overseas.

HMT and DCMS will continue to support the Taskforce and coordinate with the range of departments that have a role in progressing a joined-up government approach. Complex challenges and multi-faceted opportunities require coordinated thinking, and government is committed to providing the necessary resource and support to leverage the significant potential of social impact investment to help shape a society that works for everyone.

[28] Green Finance Taskforce Report 'Accelerating green finance: Green Finance Taskforce report', 2018, https://www.gov.uk/government/publications/accelerating-green-finance-green-finance-taskforce-report

[29] HM Treasury, Financing growth in innovative firms, 2017, https://www.gov.uk/government/consultations/financing-growth-in-innovative-firms