appg Environmental, Social, and Governance

The Department for Work and Pensions' 'Social Factors' Taskforce

Attended by Taskforce members and led by chair, Luba Nikulina, Chief Strategy Officer at IFM Investors

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Introduction

In February 2023, a taskforce made up of 15 investors, businesses, NGOs and membership organisations began developing guidance for pension scheme trustees to enable them to address risks associated with the social pillar of ESG in their investment strategies. The Taskforce was established by the Department for Work Pensions, which supports the development of the new guidance alongside several other Government departments, including HMT, and financial regulators.

Key takeaways

About the taskforce

- A catalyst behind the formation of the Taskforce is that we cannot resolve 'E' without tackling the 'S'. Social is "so far behind" Environmental.
- Pensions are the "ultimate investment owner at the top of the value chain", and the natural starting point, however, the taskforce is looking for "every player in the ecosystem to play their role well", guided by pensions at the top.
- While risk is the primary consideration, social opportunities are also a key factor.
- Programme: The taskforce is currently collating opinions from a range of stakeholders. Recommendations will likely be published late this year.

Taskforce's "three and a half" workstreams

- Fiduciary duty of financial institutions, looking along the value chain and establishing which responsibilities lie with whom.
- Examining metrics and sources of data. A key priority is giving stakeholders a steer on how data should be used as part of the investment process.

- Modern slavery: This workstream also includes data sources, and a broad framework looking at practical steps to facilitate greater transparency, encouraging trustees to assess risks associated with modern slavery. An underlying objective is "activating the value chain" so that awareness and action on the part of trustees cascades downwards. This principle applies to all of the taskforce's work.
- The taskforce is also tracking the ISSB's work on social after the board indicated future research streams will cover human capital and human rights across the value chain.

Disclosures

- "It is easier not to have a discussion about the 'S'". Data is insufficient, particularly with regard to modern slavery. Disclosure frameworks exist, but nothing applies at a global level. Businesses have a disincentive to disclose, and this data is very "manual" to collect.
- The absence of disclosure of impacts largely means that businesses are not undertaking effective risk assessments and due diligence across supply chains. This applies in particular to human rights.
- Disclosures should involve measuring outcomes, not just effort - which is far more common. As a consequence, the social efficiency/efficacy of a given investment is often not clear.
- The taskforce is confronted with the challenge of ensuring its guidance on the 'S' achieves cut through when businesses face a multitude of reporting requirements, representing a "huge burden".

Modern slavery

- Section 54 of the Modern Slavery Act, requiring companies to make a slavery and human trafficking statement does not go further in asking businesses to assess risk and conduct due diligence. Should the Act therefore be strengthened?
- Disclosures should be encouraged, and allied with policies that enable businesses to identify hot spots, triggering further due diligence.
- There needs to be a holistic assessment of what factors are enabling slavery in a given supply chain - e.g. is the marketplace highly competitive with cost pressures being transmitted downwards? In such a scenario, consumers are paying too little, minimum safeguards should be considered. The lack of enforcement of human rights protections will likely be a key enabling factor too.

Issues raised

The 'E' alongside the 'S'

- ESG is very "environment heavy". Businesses dealing in manufactured goods will typically be exposed to human rights-related risks, but compared to the 'E' the tools are lacking - "we don't have a single map to manage the supply chain effectively when it comes to the 'S'". This is problematic for businesses trying to invest responsibly to mitigate risk.
- This kind of tension between the 'E' and the 'S' occurs domestically too - e.g. the digitisation of NHS services, driven by the pandemic, has lowered emissions, but has had a negative social impact - "cohorts of society cannot access these services".
- The underlying imperative is for ESG frameworks to enable businesses to undertake "balanced decision-making".

Long way to go

- The range of datasets being considered (MS, health and safety, living wage, D&I) are limited - e.g. social deprivation is too granular, even though it is an essential factor, particularly in emerging markets.
- Fundamentally, there needs to be a widespread shift in attitudes:
  - In how disclosures are perceived so that they are made more readily.
  - Towards action. When businesses are confronted with human rights abuses in their supply chains they need to do something about it.

Outcomes and future actions

- Given the gap in disclosures, incentives should be introduced to encourage reporting. Companies that do disclose should be rewarded rather than punished.
- Similarly, divestment should be disincentivised, partly at least by encouraging businesses to not only expose poor conditions in their supply chains, but actively improve them.
- The energy transition should not be slowed by social considerations, nevertheless, policymakers and businesses should be focused on delivering a just transition that sets minimum social safeguards on green technologies.
- There needs to be greater clarity on where fiduciary duty meets Government responsibility.

We would also like to thank the members of our Advisory Board for their contributions and continuing support.

To get involved, please contact

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