

<b>Committee(s):</b> Public Relations & Economic Development Sub-Committee – For decision Policy & Resources Committee – For decision	<b>Date(s):</b> 5 February 2019  21 February 2019
<b>Subject:</b> Refocusing elements of Economic Development Office's Responsible Business activity using an Environmental, Social and Governance (ESG) approach	<b>Public</b>
<b>Report of:</b> Director of Economic Development	<b>For Decision</b>
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### Summary

Financial and Professional Services (FPS) competitiveness is a central pillar of the Economic Development Office (EDO) strategy. A key part of that competitiveness is that FPS must not only finance growth, but growth that is responsible, sustainable and inclusive, in line with our corporate strategy.

This paper proposes that EDO change the approach it takes to achieving these specific outcomes by evolving the work of the Innovation, Inclusion and Growth (IIG) team from corporate social responsibility, a corporate reputation metric, to an Environment, Social and Governance (ESG) approach, an investment metric that channels finance to more sustainable businesses. This would lead to the work of IIG having greater impact, more closely aligning with the rest of EDO's work supporting FPS and be of greater relevance to our business stakeholders. Crucially it would strengthen our contribution to the Corporate Plan aim to 'Support a thriving economy', specifically the outcome 'Businesses are trusted and socially and environmentally responsible'.

### Recommendations

Members are asked to:

- Approve the proposed change in approach within EDO to 'Support a thriving economy' by encouraging growth that is responsible, sustainable and inclusive. This would be via a new programme of work based on an Environment, Social and Governance (ESG) methodology, building on our Green Finance work and achieved by reprioritising current resource.
- Note that any staffing or HR implications of the proposed change in approach would be brought to the Establishment Committee as soon as possible.

## **Main Report**

### **Background**

1. The past three years have seen a major transformation in the focus, scale and reach of work across EDO, coalescing coherently on the central priority of competitiveness of financial and professional services (FPS). The impact of our work on trade policy, promotion, international engagement, supporting innovation and research has improved and increased demonstrably since recommendations of a major review were implemented in 2016.
2. However, while there have been some changes to other elements of EDO's work in the responsible business space, that workstream has not transformed in a similar way and is now notably less aligned with EDO's central focus on FPS competitiveness.

### **Current Position**

3. In line with EDO's enhanced focus on areas with the greatest impact to support the Corporate Plan, elements of its work in the responsible business space have ceased in the past couple of years as we sought to move away from an activity-based approach to one that is more strategic and policy focused.
4. Some activity such as the Lord Mayor's Dragon Awards continue as discrete activities. And the Corporation as a whole has never been doing more in CSR, be it through Heart of the City, CBT or its own CSR work. This provides an opportunity to review how EDO supports growth which is responsible, sustainable and inclusive in the most impactful way, both by clearly supporting of FPS success and mirroring the lessons learned in transforming EDO's other workstreams.
5. This paper proposes that such a change should involve a clear pivot from an approach based on championing corporate social responsibility (CSR) - with its inherent focus on individual corporate reputation as a driver for change, and which continues to be championed by Heart of the City - towards one based on Environment, Social, Governance (ESG), a set of metrics targeting positive impacts in the investment chain with increased potential for systemic change across FPS in the way that it channels finance to foster more sustainable, responsible business outcomes.

### **Proposals**

6. Adoption of an ESG approach for EDO's work in the responsible business space would refocus activity away from discrete programmes which target the outcomes of individual corporates based on reputation (the CSR approach) and towards wider system change based on standards for a company's operation used by socially conscious investors to screen potential investments. This would eliminate any duplication with the activities of Heart of the City and CBT.

7. This would involve taking the broad model of successful work already undertaken in the environmental space through the development of and support for the Green Finance Initiative (GFI) and using that to develop similar approaches – likely involving key players in FPS and government – to the social and governance elements.
8. The strengths of the GFI work have been in bringing both the public and private sector together. In particular, we have used public policy and regulation to drive more commercial investment opportunities. We have therefore avoided simply urging private investors to commit more capital to green opportunities because it is the right thing to do, but rather enabled them to deliver both sustainable outcomes and commercial returns. The same approach can and should be deployed for other social and governance outcomes.
9. There is considerable evidence to support the case for an ESG methodology leading to both greater impact and wider systemic change compared to approaches driven primarily by reputation. For example, a recent study from asset manager Amundi identified ESG investing as a source of outperformance in the US and Europe from 2014-17.
10. But the context is one where there is a huge amount of work to be done to ensure that we create a positive feedback loop, where better corporate behaviour leads to more investment at lower cost, and which in turn drives better – and more sustainable - corporate outcomes. For example, a recent PWC study found that 9 out of 10 investors are not being given corporate information that helps them compare one with another on ESG factors.
11. This is the central challenge but also the opportunity for further engagement. We know that companies taking an ESG approach can perform better but are currently not rewarded financially. Recalibrating incentives and behaviour has proved effective in green finance and can be effective across all of the ESG measures.
12. An illustration of the benefits of adopting a change in approach to focus on ESG as compared to CSR are outlined at Appendix One.
13. It should be noted that much of the skills activity led by EDO, notably activity to support a skilled FPS workforce – including work to flow from the Financial Services Skills Taskforce, chaired by Mark Hoban, once it reports in the summer - and elements of work promoting inclusion and diversity within FPS, maps well to the proposed ESG approach.
14. A shift in approach along the lines proposed would involve some changes to staffing structures within EDO. Subject to your Committee's approval of the proposed change, a report detailing changes to the team structure would be brought to the Establishment Committee as soon as possible.

## **Corporate & Strategic Implications**

15. While a shift to the proposed ESG focus would alter the nature of work undertaken in EDO to support the responsible business agenda, it would also strengthen our contribution to the Corporate Plan aim to 'Support a thriving economy', specifically the outcome 'Businesses are trusted and socially and environmentally responsible'.

## **Implications**

16. Subject to your Committee's approval of a shift to the broad ESG approach, a report setting out any proposed restructure and staffing implications will be brought to the Establishment Committee as soon as possible.

## **Conclusion**

17. The proposal outlined above to adopt a new approach to achieving lasting, system wide change in FPS would achieve a coherence of purpose across EDO's activities to support FPS competitiveness. It would also enhance the City Corporation's impact in the responsible business space in the widest sense.

## **Appendices**

- Appendix 1 – Benefits of changing from a CSR to an ESG approach




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## Appendix One – Benefits of changing from a CSR to an ESG approach

			
WHY?	Reputation is weak lever	Financial Incentives affect bottom line	Greater responsiveness
WHAT?	Campaigns, events, PR	Policy, strategy, alignment	Approach aligns with broader EDO priorities
WHO?	Individual Corporates	FPS ecosystem	Core constituents for EDO, wider reach
OUTCOMES	Some behaviour change at individual corporates	New approach embedded for investors and corporates	Permanent, system wide change