

All-Party Parliamentary Group on Socially Responsible Investment

Review of Activities 1998/99

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1. Purpose

The purpose of the All-Party Parliamentary Group on Socially Responsible Investment is

to promote debate and understanding about socially responsible investment and to ensure that socially responsible investment issues are considered wherever relevant during the framing of legislation.

(Statement of purpose agreed at inaugural AGM, 14 January 1998)

2. Officers and Secretariat

Officers:

Tony Colman MP (Lab) Chair

Peter Bottomley MP (Con) Vice-Chair

Tom Brake MP (LD) Vice-Chair

Secretariat:

Laura Noble Parliamentary Officer
UK Social Investment Forum

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3. Meetings

14 January 1998:

Inaugural Annual General Meeting

The All Party Parliamentary Group on Socially Responsible Investment was formed on 14 January 1998, with a membership of 52 MPs.

The inaugural Annual General Meeting was addressed by Susan Jenkins, Chair, UK Social Investment Forum who gave an overview of socially responsible investment in the UK.

The following officers were appointed:

- Tony Colman MP (Chair; Labour)
- Peter Bottomley MP (Vice-Chair, Conservative)
- Tom Brake MP (Vice-Chair, Liberal Democrat)

The UK Social Investment Forum accepted the Group's invitation to provide its secretariat.

3 March 1998:

Changes to Legislation to Increase the Impact of Socially Responsible Investment

The first meeting of the group discussed legislative changes to increase the impact of socially responsible investment. The speakers were Penny Shepherd (Executive Director, UK Social Investment Forum), Ed Mayo (Executive Director, New Economics Foundation) and Peter Webster (Executive Director, Ethical Investment Research Service).

Legislative changes can enable the consumer, harness investment to achieve public policy aims, build community finance capability and bring social responsibility into the mainstream of investment behaviour.

Current areas of public policy debate relevant to socially responsible investment include:

- Pensions Review and Stakeholder Pensions
- Company Law Review
- Creation of the Financial Services Authority Charities Tax review and other taxation issues

Further legislative issues are allowing credit unions to fulfil their potential and enabling people on benefits to participate fully in LETS schemes.

The Group discussed the "ethical question", ie. whether financial advisers should ask clients about their social concerns in gathering information to provide the best financial advice, and supported the need for guidance. They instructed the Chair to write on their behalf to Helen Liddell MP and John Denham MP supporting such guidance in the forthcoming FSA handbook. The Group also supported an amendment to the FSA bill as a potential action to promote this requirement.

The Group discussed the appropriateness of disclosure of community reinvestment information by banks, as required by the Community Reinvestment Act in the United States.

6 April 1998:

Socially Responsible Investment by Local Authority Pension Funds

In the run-up to the May local council elections, the second meeting of the group heard from Keith Neale, County Treasurer of Essex County Council and a member of the UK Steering Committee on Local Authority Pension Funds (UKSC) and the CIPFA Pensions Panel. The meeting heard about the size and legal status of local authority pension funds and the degree to which they take ethical concerns into consideration in their investment policies.

The Local Government Pension Scheme (LGPS) is a funded scheme with £60bn under management. It represents 10% of all UK pension funds under management. As well as covering local government officers, it includes "civilians" within the police and fire services. It does not cover teachers or other police or fire service staff. There are 98 administering authorities and 1.15m contributors, ie. 5% of the UK workforce. There are 1.6m current and deferred pensioners. Assets are generally externally managed.

Keith Neale defined Socially Responsible Investment (SRI) to include:

- Avoiding certain investment areas (eg. tobacco, alcohol, pubs, gambling, nuclear power, weapons, overseas companies paying low wages).

- Buying shares to improve a company
- Buying shares in companies that perform well against specific criteria (eg. employment policies, whether environmentally sensitive, corporate governance).
- Supporting corporate governance
- Targeting the local economy

Fund managers report that, among all their clients, local authorities are the most interested in ethical investment, corporate governance and voting their shares. An NAPF survey of voting policies found that 87% of all Local Authority and Public Pension schemes have a voting policy, compared to 29% of Private Schemes.

In 1997, CIPFA conducted a survey among local authority officers responsible for pensions investment. Responses were received from 52 of the 98 administering authorities. The survey found that 70% of authorities have considered ethical investment, 20% have an ethical investment policy, 6% prohibit investment in certain areas and 8% use a specific portfolio approach towards ethical investment (including investment in specialist unit trusts).

Discussion considered the need for clarity on the legal position and appropriate criteria for local authority ethical investment policies.

16 June 1998:

Transnational Bribery and Ethical Business: The Case for Action by the UK

The group was addressed by Hugh Bayley MP, chair of the All Party Group on Overseas Development (APGOOD), and Laurence Cockcroft of Transparency International UK on transnational bribery and ethical business. This meeting was organised in association with APGOOD.

It considered the case for additional action by the UK to address transnational bribery, taking account of the context of socially responsible investment and emerging standards for ethical business. The UK is committed to incorporating the OECD convention outlawing transnational bribery into domestic legislation by end 1998. The speakers highlighted that if the aim was to prevent international bribery by UK companies then the law must be clarified.

The meeting decided to set up a small taskforce to progress this issue, with the aim of ensuring that the OECD Convention outlawing transnational bribery was incorporated effectively into domestic law.

9 November 1998

Community Reinvestment Disclosure: How far can disclosure promote improved servicing by banks of Britain's poorest neighbourhoods?

Following Tony Colman MP's introduction of a Community Reinvestment Disclosure Bill in July (see [Appendix 1](#)), this meeting on 9 November 1998 considered the case for such disclosure. The speakers were Ed Mayo of the New Economics Foundation (replacing Tony Colman who was unwell) and Gordon Pell, Group Director of UK Retail Banking for Lloyds TSB Group plc.

Ed Mayo argued for the disclosure of community reinvestment by banks. In the UK, we don't know the true picture about the provision of financial services in the poorest communities because banks are not required to disclose the statistics. In contrast, in the USA, the Community Reinvestment Act had been a powerful lever for funding into poorer areas.

Gordon Pell, Lloyds TSB Group Director of UK Retail Banking, said his bank was doing a lot already for such communities and he did not believe a Community Reinvestment Act was the best route for the UK because of the different banking environment. But he did say that perhaps Lloyds TSB should be considering establishing a social enterprise unit.

4. Parliamentary Questions

9 July 1998:

Pension Funds (Ethical Investment)

Mr Ken Purchase: Asked the Secretary of State for Social Security what steps she will take to ensure that members of pension schemes know the policies of their trustees on ethical investment; and if she will make a statement. [50367]

John Denham (Parliamentary Under-Secretary of State for Social Security): Replied that the Government are minded, subject to the normal consultation requirements, to introduce regulations which would require occupational pension fund trustees to set out in their Statement of Investment Principles to what extent, if any, ethical and social considerations are taken into account in their investment strategy.

4 February 1999:

Financial Services Authority

Mr Tom Brake: Asked the Chancellor of the Exchequer what plans he has to include promoting sustainable development among the objectives of the Financial Services Authority. [68597]

Barbara Roche (Financial Secretary): The proposed objectives of the FSA are market confidence, public awareness, the protection of consumers and the reduction of financial crime.

5. Other Activities by Group Members

Support for Green and Ethical Consumers

Following their March 1998 meeting, Tony Colman MP wrote on behalf of the Group to Economic Secretary Helen Liddell MP and Pensions Minister John Denham MP in support of the "ethical question", ie. that financial advisers should receive guidance that they should ask clients as to whether they had ethical/social/environmental concerns which they wished to have taken into account in the financial advice they received.

On 18 November 1998, Tony Colman MP presented the Financial Services (Ethical, &c. Considerations) Bill, which would require the financial services regulator to issue such guidance (See [Appendix 1](#)).

Ethical Investment Disclosure by Occupational Pension Funds

Following the announcement by Pensions Minister John Denham MP that the government was "minded, subject to the normal consultation requirements, to introduce regulations which would require occupational pension fund trustees to set out in their Statement of Investment Principles to what extent, if any, ethical and social considerations are taken into account in their investment strategy", Tony Colman MP spoke at a number of seminars and conferences on socially responsible investment by occupational pension funds.

The government proposals were subsequently included in the Pensions Green Paper and a draft regulation has been proposed in the consultation document "Strengthening the Pensions Framework".

Community Finance

On 15 July 1998, Tony Colman MP presented a 10 minute rule bill on Community Reinvestment Disclosure (see [Appendix 1](#)). He has subsequently held a number of meetings with financial institutions and other bodies to take the issue forward.

On 20 January 1999, Gareth R Thomas MP initiated an adjournment debate on social enterprise, including the role of community finance in support of social enterprise (see [Appendix 2](#)).

Government action on community finance has included setting up a task force of banks and credit unions, to see how they could work together to combat financial exclusion, and policy action teams on neighbourhood renewal, including two on access to finance. The government has consulted on changes to the 1979 Credit Unions Act.

Appendix 1

Private Members Bills

The following private members' bills have been put forward by Group members in 1998/9:

- Community Reinvestment Disclosure Bill
- Financial Services (Ethical, &c. Considerations) Bill

Community Reinvestment Disclosure Bill

15 July 1998

Proposing Speech - Mr. Tony Colman (Putney):

I beg to move,

That leave be given to bring in a Bill to require financial institutions to maintain and to publish details of their lending and financial services to individuals, businesses and organisations by postcode; to ensure that redlining of neighbourhoods does not take place; and to ensure that regeneration objectives are met through a public-private partnership of the financial institutions together with central and local government.

In seeking support for the Bill, I have spoken to several financial institutions, including banks, the Bank of England and the Financial Services Authority. I pay tribute to the research and advocacy of the New Economics Foundation and its executive director, Ed Mayo. I pay particular tribute to the inspirational leadership of the Citizen's bank in New England in the United States, by Larry Fish and Scott Kisting, who first drew my attention to the great opportunities that lie in community reinvestment disclosure. None the less, I must make it clear that the views that I now express are mine alone.

I believe that there is a real economic injustice in the United Kingdom at the moment, whereby, simply because of where they live and work, individuals, businesses and organisations cannot access credit or other financial services.

The evidence is patchy and anecdotal, but the Office of Fair Trading review of financial services for vulnerable consumers, due in the autumn, will add to our knowledge of the problem. Individual financial institutions have told me about other financial institutions "red-lining". Nobody knows the full situation, only that it exists. That is why I am bringing forward my proposal for disclosure.

The concept of the Bill is built on the success in the United States of the Community Reinvestment Act and the associated Home Mortgage Disclosure Act. The United States Treasury estimates that because of those two Acts, US retail banks have committed about \$300 billion to low or moderate-income neighbourhoods, and discovered that such lending can be profitable.

Those two Acts have within them the sanction of withdrawal of the US banking charter should the American regulator not be satisfied with the performance of individual banks in fulfilling the requirements of the Acts. I do not propose such a power for any regulator in the United Kingdom. However, my research leads me to believe that banks and financial institutions want a legal framework to require them to disclose any red-lining--that is, any areas where they have chosen not to offer loans and other financial instruments. I envisage self-certification with a light touch of regulation or investigation by the FSA on an exception basis.

There are practical options for developing disclosure so that it is affordable--for example, by covering only a selected range of key financial products--and appropriate, which may mean, for example, enabling creative and responsible partnerships to emerge, which can promote reinvestment and regeneration. It should also be fair, and apply on a self-certification basis to all relevant financial institutions.

Like the American Act, the Bill proposes that any lending or other financial instruments so offered be "within prudential requirements". I do not suggest that those who cannot afford it be given such credit. We are talking about under-served markets. We are not asking banks to act as charities, simply not to discriminate in their activity as banks.

My concern is to ensure that people who can afford credit are not deemed unworthy simply because of where they live. The closure of bank branches has been justified on the basis of cost and the alternative availability of telephone banking, but that has meant that people in disadvantaged neighbourhoods have lost their local knowledgeable managers, who knew to whom to give credit. Instead, they have been given, in telephone banking, a system whose first question is, "What is your address and postcode?" If people answer that question "wrongly", the conversation is terminated, whatever their financial situation may be. I believe that credit scoring by area is also rife in banking circles.

I know the difficulty that people in my constituency have in obtaining a mortgage on former council properties in certain areas. Over the past 10 years, the proportion of low-income households in the United Kingdom able to obtain home contents insurance has dropped from 70 to 40 per cent.

However, if we scratch the surface of any low-income community in the United Kingdom, we find a surprising level of economic activity. Low-income households patch together income from a variety of sources. They can make good use of credit and financial services. Indeed, there is increasing evidence from groups such as the New Economics Foundation that low-income communities have demonstrated the capacity to create jobs and economic activity. The withdrawal of financial services is therefore detrimental to all the efforts of the Government, as well as of the people themselves, to promote economic opportunity for employment and regeneration.

Excellent models exist of community finance initiatives, ranging from credit unions to community loan funds, operating in low-income areas. Yet, even with regulatory change, those are small in relation to the need, and, in any case, can often develop only in partnership with outside financiers. The Bill would improve the prospect of that happening, to the benefit of the people whom such initiatives serve.

I do not know the full extent of red-lining in the United Kingdom. I believe that it is in the interests of the United Kingdom economy that we should know. There is a commitment to private-public partnerships to regenerate disadvantaged areas. Here is a way in which banks and financial institutions can play their part in ensuring that regeneration takes place, and is not held up because of a flaw in the market availability of credit and financial instruments.

Yesterday, my right hon. Friend the Chancellor of the Exchequer announced the £800 million new deal for communities. As part of the public-private partnership for those communities, I hope that the Bill will go forward with the support of the banks and financial institutions of the UK. At this point in the parliamentary Session, a miracle would be needed for the Bill to be passed into law. I hope that the considerable support that the Bill has could lead to the Government taking the matter forward. If not, I will be back next Session.

I commend the Bill to the House.

Question put and agreed to.

Bill ordered to be brought in by Mr. Tony Colman, Mr. Giles Radice, Mr. Malcolm Bruce, Sir Peter Lloyd, Sir Michael Spicer, Mr. Charles Clarke, Ms Ruth Kelly, Ms Hazel Blears, Dr. Alan Whitehead and Mr. Chris Mullin.

Financial Services (Ethical, &c. Considerations) Bill

18 November 1998

Presented by Tony Colman MP

Draft of a Bill to

Require the Financial Services Authority to issue guidance to persons authorised to provide financial services regarding advice to be given to clients.

Be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows;

(Duty of Financial Services Authority to issue guidance)

1.- (1) It shall be the duty of the Financial Services Authority ("the Authority") to issue guidance to each authorised person on the procedures he should adopt to determine the

views of clients as to what account they wish to be taken of any concerns they might have regarding the likely ethical, social or environmental impact of an investment.

(2) Guidance under subsection (1) above shall be issued not later than twelve months after the passing of this Act.

(Interpretation)

2. In this Act -

"authorised person" means a person authorised by the Authority to give financial advice;

"client" means a person who seeks advice as to how he should invest money; and

"ethical, social or environmental impact" includes the direct or indirect effect of an investment on any person or animal or on any of the media of land, air or water.

(Short title and extent)

3. - (1) This Act may be cited as the Financial Services (Ethical, &c. Considerations) Act 1998.

(2) This Act extends to Northern Ireland.

Appendix 2 - Debates

20 Jan 1999

Excerpts from Adjournment Debate on Social Enterprise

Mr. Gareth R. Thomas (Harrow, West):

Social enterprises have increased skills, confidence and economic activity in the communities in which they operate. However, rigorous analysis and support across Government, the financial services industry and regional and local agencies is absolutely essential if the social enterprise sector is to develop and fulfil its potential for regeneration.

Social enterprises often do not sit comfortably within the boundaries of more traditional definitions. They may have charitable status, yet still operate a range of highly commercial services. They may be a limited company, under whose auspices various not-for-profit services are offered. They often have highly diverse funding streams, ranging from statutory body grant income, members' savings and lottery funding, to commercial bank loans and equity and rental income.

The growth of telephone banking, the centralisation of bank lending and the consequent tide of bank branch closures has made capital and support much harder to access for social

enterprises, particularly in areas of deprivation. The social enterprise sector has consistently highlighted the reluctance of many mainstream bankers to understand and fund an enterprise, even when hard-headed evidence has been provided of an initiative's profit potential. The inability to access private sector finance is a significant block on development of the social enterprise sector. The Charities Aid Foundation estimates that, in the run-up to the millennium, the sector needs more than £250 million investment over and above current grant-based income.

The problem is not only one of finance. Many training and enterprise councils do not do enough to support social entrepreneurs. One council that I spoke to, for example, has successfully provided support, technical assistance and seed-corn finance to social entrepreneurs. However, it admitted that such help is not standard and was no longer available in most of its area.

In response to the problems faced by the sector, some social entrepreneurs have attempted to develop strategic responses to the lack of finance and support. The New Economics Foundation recently highlighted the growing number of imaginative but relatively small community finance initiatives, which also offer technical assistance for social enterprises ranging from mutual guarantee schemes and reinvestment trusts to community loan funds.

The Aston reinvestment trust, for example, specialises in providing loan finance at commercial rates to small businesses and third sector projects in Birmingham that were unable to secure loans from banks. The projects that it funds are viable, but not bankable. Access, not the cost of the loan, has been the key problem.

Many of the projects were unable to secure loan finance because they lacked a track record or were unable to provide accounts over a sufficiently long period, although they were able to demonstrate their ability to repay a loan. Moreover, many of the loans that the Aston trust has made so far originated with banks bringing projects to the trust for part-financing. The consequent financial package has therefore often included a partnership between the bank and the trust--and sometimes Birmingham city council--to provide the necessary loan finance that the banks felt unable to provide on their own.

Since establishment of the council's social investment fund, in June 1997, £740,000 has been raised from individuals, companies and housing associations. A further £850,000 has been levered in from the banking sector by using the type of joint financing that I mentioned.

Successful community finance initiatives, as in the Aston example, are usually partnerships between the voluntary, private and public sectors--collaborating, for example, with banks for equity and borrowed capital or secondments, and with providers of technical assistance, such as local authority enterprise agencies or business links. They have developed considerable understanding of financing in their specific areas and provide a range of services, from commercial and micro-loans to grants, savings arrangements, assistance with training and help in developing effective business plans.

As research by the New Economics Foundation has highlighted, there is still a considerable gap between the potential of social enterprise and the capacity of current community finance initiatives to respond to it. Only five localities in the United Kingdom, for example,

have dedicated local community loan funds. Recent growth in credit unions has been in workplace credit unions and not community credit unions. According to the bodies Industrial Common Ownership Movement--ICOM--and Industrial Common Ownership Finance--ICOF, the number of established co-operative development agencies, which are some of the more established support mechanisms for social enterprises, has declined from over 100 in the mid-1980s to only 30.

Research by Kingston university which was highlighted by the New Economics Foundation reveals that over one fifth of the loan funds that it had identified in the early 1990s as being accessible to social enterprise had closed within just 12 months. The majority of current loan funds and mutual guarantee schemes for social enterprises have been established within the past five years.

Fundamental in developing opportunities for social entrepreneurs and supporting development of social enterprises must be further change in attitudes within the financial services industry. My hon. Friend the Member for Putney (Mr. Colman), in a ten-minute Bill, rightly highlighted the success of America's Community Reinvestment Act--which, with related legislation, has ensured that £300 billion to £400 billion has been allocated by mainstream banks to meet community lending needs. The banks have subsequently found that considerable profits can be made in the process.

Crucial to the legislation's success has been development of effective partnerships between banks and community finance initiatives. Those involved in the initiatives have been able, because of their existing relationships with potential customers and knowledge of the local economy, to break down the barriers between banks and social enterprises.

The picture in Britain is not entirely bleak. Some parts of the financial services industry are responding to the need to provide investment funding and support for social enterprises, as the example of the Aston trust demonstrates. Unity bank, the Triodos bank and the Co-operative bank have support programmes. One of the major clearing banks, for example, has just announced a package of measures to help credit unions. Although those moves are welcome, the level of support, understanding and access to finance provided by the financial services industry has nowhere near reached its potential.

Action is now needed further to stimulate private sector involvement in the social enterprise sector. The Government, too, have to improve the access of social enterprises to basic help, training and technical aid. Fledgling pure commercial enterprises can turn to training and enterprise councils and business links and, through them, are able to access myriad training schemes and specialist support, as well as ideas for sources of finance. The remit of TECs should be specifically extended to require them to develop and support social entrepreneurs and social enterprises.

The guidance published for the regional development agencies rightly refers to the importance of community businesses and community enterprise. RDAs should be specifically required to draw up strategies to promote social enterprise, to ensure that the range of necessary technical expertise is available and to identify the needs of social enterprises in their regions.

RDAs should be supporting and stimulating the growth of community finance initiatives that are able to fund and provide the development finance for social enterprise. Indeed, RDAs should be the stimulus to partnership between community finance initiatives and the banking sector, using their resources to help to lever in private sector finance.

At macro level, Government action to stimulate social investment is crucial. One model, to which I have referred in other debates in the House, is the tax relief system for green investment funds operating in the Netherlands, which has levered almost £200 million of private finance into environmental projects since the establishment of the funds in 1995.

The funds are offered to the public by banks and are regulated through the Dutch central bank, with projects that are to be funded licensed by the Ministry of Housing, Spatial Planning and the Environment. The interest or dividends generated by the green investment funds are exempt from income tax, which allows the bank to pass on favourable terms to the project being financed. The certificates of the first such funds, to the value of £150 million, were sold out in only nine days. Similar funding streams backed by tax relief have been developed in America and elsewhere.

Social investment funds in this country have already supported social enterprise. Without Government action to stimulate them, however, such funds will remain at comparatively low levels. The evidence from the successful, but small scale, funding initiatives taken by bodies such as ICOM, ICOF or, indeed, the Aston reinvestment trust, is that there is strong latent desire among the public to be able to invest their savings in social enterprises while still receiving an acceptable rate of return.

The Aston reinvestment trust is keen to begin paying interest to the investors in its social investment fund, which would ensure that they receive some return and would help to attract more investors. A system of carefully regulated tax relief on such investment funds would undoubtedly help to spur that process and lever much larger sums of private finance into the social enterprise sector.

The Government, too, should consider how else they can support access to finance for the social enterprise sector. Loan guarantees mirroring the small firms loan guarantee scheme, or the deployment of part of the RDA budgets for community loan funds, have also been highlighted as options for encouraging private sector finance to invest in social enterprise.

Social enterprises and, indeed, social entrepreneurs are powerful forces for regeneration, community empowerment and increased employment. I hope that this debate, even though it is brief, will serve further to promote these enterprises and entrepreneurs, who do not get the recognition that they deserve.