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Darren Jones MP
Chair; Business, Energy and Industrial Strategy Select Committee
House of Commons
London
SW1A 0AA

28th August 2020

Dear Mr Jones,

Response to Post-pandemic economic growth inquiry

I am writing to respond to the Post-pandemic economic growth inquiry on behalf of ShareAction, a registered charity established to promote transparency and responsible investment practices by pension funds and other institutional investors. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters. Among other activities, we work with the financial services sector to promote integration of sustainability factors in investment decisions, long-term stewardship of assets and the consideration of the view of clients, beneficiaries and pension scheme members.

What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?

The Government should prioritise in its recovery package the principles of resilience, security and sustainability. We need to build an economy that can better withstand shocks by improving the economic security of those on lower incomes and requiring companies to consider the long-term impact and risks of their business strategies.

The COVID-19 crisis has revealed the fragility and inequality of our economy, after it was hit by the worst contraction in 41 years (2.2% between January and March 2020). A recent YouGov poll found that only 6% of the British public want to return to the way the economy was run before the pandemic, with 49% of people believing the crisis has made inequality worse.[1] This is borne out in the evidence available, which shows that workers on lower incomes have been more likely to have to go into a workplace during lockdown, less likely to receive a decent level of sick pay and more likely to die from the virus. For example:

- Most middle-class workers have been able to work from home during lockdown, while only one in five can do so in working-class jobs.[2] For example, 14% of workers in the accommodation and food sectors were working from home during lockdown, whereas 87% of those in the information and communication sector did so.[3]
- Key workers putting their health on the line include supermarket workers, delivery drivers and healthcare workers. A third of key worker employees – and 71% of those in the food sector – earn £10 an hour or less.
- Many lower-paid workers have no access to adequate sick pay. 26% of employees (7 million) are only eligible for the statutory minimum which, at £96 a week, is not enough to live on. Many workers are not eligible even for this (1.8 million because they do not earn

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enough and a further 5 million because they are self-employed).[4] This means that many have faced a difficult choice: go to work with what may be coronavirus, or suffer an unaffordable drop in income.

- ONS data on the rate of deaths per 100,000 people by occupation groups clearly indicates that people in low-paid jobs are more likely to die from COVID-19. A man working in an 'elementary occupation' is over twice as likely to have died from coronavirus than the average male worker, and over four times as likely as a man working in 'professional occupations'.[5]

In addition to this, the economic and social disruption caused by COVID-19 pales in comparison with what will come if we fail to avert the coming climate crisis. We need to ensure that we are taking urgent action to engineer an orderly just transition or we will see far worse consequences.

The UK economy was sluggish even before the COVID-19 crisis hit. We have seen a long tail to the post-2008 financial crisis, which has increased (already high) levels of income inequality and job insecurity.[7] A vast gulf has opened up between executive remuneration and the salary of the average worker, meaning that improving productivity will not increase the lowest wages.[1] This has had a significant impact on the resilience of the economy as a whole. As Anuradha Seth of the UNDP's Bureau for Development Policy Poverty Practice, has commented, "Income inequality reduces the purchasing power of middle- and low-income households, reducing total demand, while the search for high-return investments by those who benefit from inequality leads to the emergence of asset bubbles."[8] We need to take strong action to tackle inequality, poverty and environmental degradation, recognising that we will be more resilient if we 'build back better'.

What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?

In many cases, businesses will need financial support at a time of low consumer demand and/or logistical difficulties preventing them from trading as normal. However, support from public finance should only ever be made available when we can be assured that it is in the wider public interest - economically, environmentally and socially as well. 63% of the UK public said in a July 2020 poll that large corporations should only receive bailouts if they agree to protect jobs and cut emissions, and only 5% thought that no conditions should be attached.[9] The editorial view of the Financial Times is that a bailout should be tied to "a moratorium on dividends payments and share buybacks", with excessive executive pay also being curbed.[10]

We were dismayed to see reports that companies bailed out with public money have paid shareholders dividends while cutting jobs, due to the minimal conditions imposed by the Government on the financial assistance it has offered companies. This is despite public commitments by the Prime Minister[2] and the Governor of the Bank of England[3] to a sustainable recovery that tackles the UK's "great unresolved challenges". An investigative article found that 30% (21) of the companies currently accessing emergency funds through this facility have paid out an estimated total of £11.5 billion in dividends to shareholders and investors. 6 companies receiving financial assistance through the CCFF have cut jobs or announced plans to make lay-offs, totalling at least 42,848 UK jobs. Of the companies issuing dividends during this period, three have also announced redundancies totalling around 6,000 jobs.[11]

For example, on 20 March, EasyJet paid out £174 million in dividends to its shareholders, including £60 million to its founder, billionaire Stelios Haji-Ioannou. A day previously, it had been reported that the company was considering a freeze on planned pay-rises and asking staff to take three months of unpaid leave as it struggled to weather the profound economic impact of the

[1] Resolution Foundation (January 2012). "Decoupling of Wage Growth and Productivity Growth?: Myth and Reality". Available online at: https://www.resolutionfoundation.org/app/uploads/2014/08/Decoupling-of-wages-and-productivity.pdf [accessed 28 August 2020].

[2] BBC News (30 June 2020). "Coronavirus: Boris Johnson pledges 'new deal' to build post-virus". Available online at: https://www.bbc.co.uk/news/uk-politics-53226906 [accessed 28 August 2020].

[3] https://www.theguardian.com/commentisfree/2020/jun/05/world-climate-breakdown-pandemic

pandemic. In April, EasyJet accessed £600 million of financial support from the Government. In July, it was reported that the company was using sickness records to determine job cuts of up to 4,500.[12]
Paying dividends is supposed to be a show of confidence in a company's future prospects, indicating that the board believes the company will perform well in future and increase its value. The message this sends is likely to increase demand for the company's shares, boosting its share price. However, the persistent short-termism in capital markets appears to create an Alice-in-Wonderland logic in executive decision-making, prompting companies to issue dividends **in order to** boost their share price, rather than because they expect the value of the company to increase over time. Ironically, this reduces the amount of capital available for investing in areas that **are** likely to increase the long-term value of the company, such as workforce skills and pay, or research and development. Professor Mazzucato commented in the oral evidence session for this enquiry: "The culture of the dividends and share buyback mode of focusing on quarterly returns is not unrelated to the lack of investments that are made in that productive capacity", citing a recent report which found that "the 100 largest non-financial UK firms, so the ones in the real economy, paid out £400 billion in dividends and £61 billion in share buybacks between 2011 and 2018. That is equivalent to 68% of their total net profits."[13]

The Government must take two critical steps to re-build consumer confidence and stimulate sustainable growth. Firstly, it should make any future financial support for business conditional on 'building back better'. As set out in an open letter from Positive Money and other civil society groups,[14] the Government should require corporations receiving public financing to:

- Adopt near-term climate targets in line with the Paris Agreement and clear, transparent plans to meet them, without reliance on offsetting;
- Prioritise job retention;
- End artificial tax avoidance arrangements and tax haven structures, publicly disclose where profits are made and who benefits, and publish their tax policy;
- Implement a moratorium on dividend payouts and share buybacks for the duration of the coronavirus crisis;
- Make a commitment to fair pay and restrict the gap between the least and the most paid; and
- Ensure pay auditing processes include ethnicity pay gap reporting.

Secondly, the Government should explore steps for addressing the short-term focus of financial markets. This short-termism means companies are failing to create sustainable growth over the long term or help contribute to the society to which they are indebted (through the infrastructure and workers on which they depend to make a profit). The policy debate around short-termism has been rumbling on since the Kay review in 2010, but significantly more progress needs to be made. We would suggest the Committee makes the following recommendations to BEIS:

- The introduction of mandatory corporate reporting under the Task Force on Climate-related Financial Disclosure (TCFD) framework. TCFD reporting is currently being implemented in a piecemeal fashion – BEIS is currently considering implementation, DWP has given itself powers to enforce mandatory reporting for pension schemes, and the FCA are only considering its application to premium listed companies. For other sizeable sections of our economy, in particular banks and asset management firms, there is comparatively little action. For TCFD reporting to be effective, it must apply to all sectors, and this requires a consistent and joined-up approach from Government and regulators.
- The introduction of mandatory reporting for **all** market participants that requires them to disclose how their business or investment strategies will be aligned with the Paris Agreement. Reporting climate-related financial information is merely a first step towards meeting our climate commitments: necessary but not sufficient. It is reassuring to see that DWP soon plans to consult on requiring pension funds to report on how they are aligning their portfolios with the Paris agreement.
- Ensuring the FRC's successor is well-resourced and placed on a statutory footing. Corporate governance and investor stewardship are key to a resilient, secure and

sustainable recovery. In particular, BEIS should ensure the new FRC board is equipped to continue to strengthen ARGA's stewardship capacity, and the regulator itself should consult on the framework it will use to hold Stewardship Code signatories to account regarding the 'outcomes and effectiveness' of their stewardship activities. The Code is new, and it is right the focus should be to drive up signatories, but it is equally important firms do not use it as a marketing exercise. The Government and ARGA should therefore consider how ARGA undertakes oversight of Code reporting and the extent to which non-compliance with its principles should result in sanctions.

- Company directors should publish a new resilience statement. The Brydon review recommended that company directors should be required to publish an annual Resilience Statement. This would incorporate a going concern opinion for the short-term, a statement of resilience in the medium-term and a consideration of the risks to resilience in the long-term. Brydon also notes the long-term component would provide an opportunity for directors to set out how they intend to position the business strategically to address 'potential existential threats'. This is even more pertinent in the context of COVID-19 and would strengthen corporate resilience and enable investors to better understand their exposure to such risks. This boost to corporate transparency would shine a light on social issues while giving shareholders and other stakeholders an opportunity to drive them up boards' agendas.
- Company directors should publish an annual Public Interest Statement. Brydon also recommended directors explain their view of the company's view of its obligations to the public interest, 'whether arising from statutory, self-determined or other obligations' and how the company had sought to meet that public interest over the previous 12 months. Companies themselves outlining their obligations to the public interest is an excellent way to communicate perceived social issues, both as they impact on a company as well as the impact of the company on society. This should represent the beginning of a wider conversation about the role of business in society and better enable all stakeholders to understand the positive and negative impact of companies on society and help to enhance or mitigate these as appropriate.

Whether the government should give a higher priority to environmental goals in future support?

In light of the above, we were disappointed to see that the Governor of the Bank of England has defended delaying a review into implementing climate stipulations in Bank of England financing, saying, "In such a grave emergency affecting this country, we have focused on the immediate priority of supporting the jobs and livelihoods of the people of this country."[15] It appears that the Bank of England has also failed to focus on supporting jobs and livelihoods since the only step it has taken "came months after the scheme had already launched, in the form of a single condition requesting long-term borrowers show restraint on senior pay and the payment of dividends to shareholders".[16] Positive Money has commented that this condition was "insufficient and poorly designed", citing chemicals company BASF which went ahead with a £3 billion dividends pay-out to shareholders, after having drawn £1 billion of public money from the Government's financial support scheme.[17]

Regardless, it is a huge missed opportunity for the Bank of England and the Treasury to fail to attach climate conditions to public financing for some of our biggest polluters. It is vital that the Government gives higher priority to environmental goals in all future corporate support, or risk increasingly significant societal and economic disruption. As described above, companies receiving public funding should be required to report on how they will align their business strategies with the Paris Agreement. The Government may object that it does not want to put additional pressures on companies at this time. It is not necessary for these requirements to be brought into force in the immediate short term, but it is absolutely necessary that they are made.

What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the 'levelling up' agenda? What should the Government do to ensure that delivering

on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?

It is imperative that the work driving towards net zero focuses on climate justice, both in the global context and the local context. We must address the unequal historic contribution of emissions globally and the effects of energy production on communities in global south (air pollution, deforestation etc). We must also look at mapping areas of high unemployment risk and upskilling workforce for new industries, ensuring new jobs of good quality, consulting workers and communities, and ensuring access to affordable sustainable energy.

The Government should provide clarity for financial actors on how a focus on low-carbon products and services should always be coupled with best practice workplace and community standards: for example, engaging with companies to ensure high-quality job creation with good pay, training and benefits. We consider investor reporting against voluntary initiatives such as the new 2020 Stewardship Code to be best practice and an ideal place to publish such information.

More broadly, the Government should set targets alongside its Paris Agreement targets for delivering a just transition by 2050 and integrate these within its public financing. The Grantham Institute has developed a well evidenced investor roadmap[18] for delivering the just transition (with UK case studies), focusing on actions investors can take to embed the just transition within their investment strategy, engagement, capital allocation and policy engagement.

What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises)?

The Joint Research Centre at the European Commission has published a series of research papers since the financial crisis looking at what makes a nation state resilient to economic shocks. This research has found that countries which are able to absorb economic shocks without suffering significant impact have had high levels of pre-crisis expenditure on social security.

Countries which recover well over the medium term following the crisis tend to have higher levels of political stability, a stronger perception that wages are linked to productivity, and lower levels of financial sector liabilities (such as bank deposits and debt securities).

While some of these areas are somewhat outside our area of expertise, they generally tally with what we have seen in the course of engaging with the financial sector on broader societal issues. Therefore, we would encourage the Government to explore means of continuing to provide (and increasing) public spending on social security, establishing greater political security, addressing wage inequality, and reducing private sector and household debt.

However, we would argue that some shocks are not a matter of resilience but prevention. Therefore, the Government should look ahead to likely future crises, such as the climate emergency, and take robust steps (as discussed above) to ensure that both public and private sector spending are aligned with averting and mitigating the effects of these crises before they occur.

What role might Government play as a shareholder or investor in businesses post-pandemic and how this should be governed, actioned and held to account?

The Government should engage with discussions around the new Stewardship Code. It should report on its own stewardship activities as a shareholder, in line with the requirements of the Code.

Yours sincerely,

Rachel Haworth

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