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All-Party Parliamentary Group for Local Authority Pension Funds

All-Party Parliamentary Group

Co-Chairs Clive Betts MP
Vice-Chairs Baroness Altmann, Lord Kerslake and Lord Goddard of Stockport
Secretary Cllr David Simmons MP

DRAFT MINUTES

APPG Inquiry: 'Responsible Investment for a Just Transition'
Launch and First Evidence Session

Wednesday 20th January

1. **Introductions and welcome – Clive Betts MP, APPG Chair**

   Clive Betts MP welcomed all attendees and speakers and outlined the context for the APPG's inquiry into 'responsible investment for a just transition'. Clive Betts stated that six select committees commissioned a citizens' assembly to discuss climate change and how to make sure how it is addressed is fair, and that select committees will be looking at these issues in parallel to the APPG's inquiry.

2. **The context for the new inquiry – Cllr Doug McMurdo, Chair, LAPFF**
   Cllr Doug McMurdo (DM) gave an overview of why the inquiry was important to LAPFF, its members and other investors. He noted that funds, government, companies and communities are all required to work together to decarbonise the economy with sustainable outcomes.

   DM noted that while progress is being made to decarbonise the economy there had been little discussion about the social impact. DM noted that there was considerable opportunities but "As a Forum we have seen that new jobs too frequently have lower standards, risking the health and safety of workers." DM stated in regard to the transition net zero that "At an aggregate level, the net economic and employment impact may be positive. However, this does not mean the benefits will be evenly distributed between different workers or different communities."

   He stated that the process needs to involve workers and communities and "Ignoring these issues in a blinkered pursuit of net zero, risks achieving the goal of decarbonising our global economy."

   DM concluded by focusing on the implications for pension funds and why the inquiry was important, noting that "All these challenges have material implications for pension funds, not only financial. Failure to decarbonise is a systemic economic risk. While failure of individual companies to achieve a just transition carries reputational, legal, regulatory and human capital risks, all of which impact shareholder value."

3. **Evidence session: part one**

Katerina Szwarc, Policy Fellow, Grantham Research Institute on Climate Change and the Environment

Katerina Szwarc (KS) stated that "a just transition is about combining environmental and social objectives. It is about seeing the human dimension behind the big changes in the way that our economy works in order to achieve climate neutrality."

KS quoted Lord Deben who had stated "that we won't win and we can't win if we don't do this and adjust in a fair way. We need a just transition." The just transition is needed because if it is not fair, and seen to be fair, communities and workers will try to stop it.

KS stated that in practice the just transition is about maximising the social benefits of the transition, including high quality green jobs. It is about mitigating the social risks to avoid stranded workers and communities. It is about empowering those affected by change (through effective participation of local communities). A just transition would anticipate future shifts to address issues up front and plan for an economy-wide reskilling. It would also involve mobilising investment from the public and private sectors, including the role of banks and customers and communities. Within the recent context it is about building back better after Coivd-19.

KS then drew attention to the Financing a Just Transition Alliance which includes over 40 financial sector institutions working together in the run up to COP 26. The work would seek to improve implementation of advice for banks and investors, whilst identifying concrete steps to finance climate action with positive social impact, developing prototypes of innovative instruments and profiling promising examples to share lessons learned. She noted that they wanted to examine solutions such as municipal bonds, financing SMEs and improving their access to capital at a low and finally about infrastructure and buildings. She stated that: "we see local authority pension funds as anchor institutions" across three levels: place, business and policy. Business is about metrics and expectations and translating framework into action on the ground including through corporate bonds and shareholder engagement. Policy is about improving instruments such as sovereign bonds and "creating the institutions so needed to make the transition work."

KS outlined how the Green+ Gilt could support a just transition and social co-benefits. She outlined the strategic objectives that could be covered:

- Clean infrastructure – is not just about renewable energy installations, it's about creating new jobs and ensuring these are good quality.
- Energy efficiency & green buildings
- Climate adaptation and natural capital
- Green jobs
- And Green Development Finance.

Alison Tate, Director of Economic and Social Policy, International Trade Union Confederation

Alison Tate (AT) stated when it came to a just transition it was best to refer back to the Paris Agreement, and noted that trade unions have been advocating "to see the social impacts and social needs taken account when climate change is being dealt with and climate change policy is being developed". Outside the Paris agreement there are a set of agreements made at the ILO by trade unions, employers and government.

AT noted that "It is not about reinventing the wheel. It is not sending men and women to the moon. It is totally doable. But it depends on the quality of engagement and social dialogue. It depends on the space for real dialogue on the following terms. Between workers, represented by their trades unions, employers and government at all levels. It is actually about both anticipating change and planning for that change. So very simply a just transition plan is an employment plan and a climate plan together."

AT stated that a just transition needs to take into account the early assessment of the social and economic consequence of climate change and responses to it, the promotion of substantial public investment in low or zero carbon sectors and technologies, in the implementation of active policies for the restructuring and the diversification of the economy, at local, region and national levels. It was also training and retraining and the social protection systems.

AT stated with regard to social dialogue that: "We are talking about more than involving stakeholders. We are actually talking about engaging and creating plans with stakeholders." AT noted what failing to do so meant and that "You know well in the UK that previous transitions have destroyed jobs and destroyed hope."

AT stated that the transition would affect all sectors, that means there needs to be company-wide and economy-wide commitments and the role of investors is critical. AT stated that: "Investors have long used matrices around ESG. What we know is that the sustainability part of the E, of environment, is often understood but not the social sustainability, of the labour part of that framework."

From a trade union perspective, the priorities are about stabilising the planet, addressing climate change and investing in climate friendly jobs. Climate plans at a governmental level should involve industrial strategies, economic recovery plans and it is extremely important in this time that recovery from COVID-19 is being taken into account in terms of investment. Just transition brings plans from a national level, regional development plan and underpinning that are labour rights and delivering social dialogue. Part of that plan needs to be a conversation about hours of work, living wages, freedom of association and collective bargaining. And that job quality needs to be taken seriously. AT stated that new jobs in renewables are often not quality jobs, often not secure jobs. This meant deeper engagement with companies going beyond the number of jobs tom the types of jobs.

Q&A

The chair asked what could be learnt from the real changes of the past to make sure we do not replicate the very unjust changes that occurred.

KS shared experience from the Polish mining sector and transition away from coal mines and the government was now on its fourth attempt. KS noted that the reason for previously failed attempts was that it: “Was so focused on what the efficient economic model is and what the knowledge about climate change means… that we completely forgot about people, about workers, but not only miners. It was also about their families, about their local communities and the fact that mines were not only their source of employment and money… but also a source of pride.” KS stated that viable alternatives need to be provided rather than just outright saying the industry has no future.

A question was asked about how easy it is in reality to retrain and even if people are they do not re-enter work the same level, meaning there is a permanent impairment of human capital. This issue of labour mobility was raised in relation to affordable housing. It was asked what the policy mechanisms, such as a universal basic income, were to offset this loss. It was also asked how it can be ensured that new jobs are as well paid and replacement jobs are not all in call centres.

AT stated that what we want to see is quality jobs that contribute to society. That it was the hours and pay but also the dignity of work. AT noted that some workers they represent have good secure jobs but others would welcome a transition. AT noted that we needed to go beyond social security: “If we can provide enough for people to live on that is great but we should be much more ambitious than that.” She commented that new industries are often where unions don’t have access and there is a race to the bottom on standards.

AT noted that we need to learn from past but have to engage people. “Workers have an incredible rich resource of ideas.” She highlighted experience in industries where jobs are being phased out where workers know that this needs to happen but want certainty. AT noted that some mine workers have been told their job is sustainable for five years and six months later they were out of a job.

It was asked what the role for pension funds is in ensuring a just transition.

KS stated that money is not a problem and the benefits will outweigh the costs of transition. KS went to say: “The trick is matching the money with the right projects and making sure that when the money is being invested it does the right thing… For that we need to provide the investment community, including pensions funds, with the right tools such as expectations and such as metrics for them to say I am now committed to a just transition… so how do I make sure my portfolio companies do the right thing and how do I evaluate that they deliver.”

It was asked what the vision should be as we transition to a net zero economy.

AT stated that: “The vision is a planet that is safe and a transformed workforce where jobs are decent.” She noted that there was a chance to reset the economy, including for gender pay and diversity. AT stated that this required using levers including looking at procurement policies and engagement with companies.

4. Evidence session: part two

Rachel McEwen, Director of Sustainability, SSE PLC & Member of the Scottish Just Transition Commission

Rachel McEwen (RM) outlined the work of the Scottish Just Transition Commission. It had been set up two years ago by Scottish ministers and has 10 commissioners including industrialists, trade unionists, environmentalists and farming leaders. Final report due in March This sought to maximise the economic and social opportunities of moving to net zero, build on Scotland's existing strengths and understand and mitigate risks that could arise, including regional cohesion, equalities and poverty.

RM stated that their definition of 'just' "was about the fair distribution of climate goods and climate bads". This meant people are not left out of the good things associated with climate action, such as access to clean air and new jobs and skills. But also the costs such as the financial costs of paying for the new systems where fairly distributed. The Commission had thus stated that: "The imperative of a just transition is that Governments design policies in a way that ensures the benefits of climate change action are shared widely, while the costs do not unfairly burden those least able to pay, or whose livelihoods are directly or indirectly at risk as the economy shifts and changes."

Rachel McEwen stated that it was important for the transition to be planned and that there needed to be sector by sector plans to avoid injustice. She emphasised the point that an orderly transition to net zero is needed to deliver fairness.

It was stated that the pandemic had sped up the transition in some areas, such as the North Sea oil and gas sector and had increased the likelihood of a problematic, disorderly transition.

RM noted that in her role in SSE that its "business strategy is defined by their response to climate change and we require public legitimacy and consent to fulfil that strategy".

SSE is two thirds in its way to the strategy of net zero in terms of carbon emissions not time taken. It had made significant investment low carbon energy structure in the UK and Ireland and has Paris aligned targets.

RM stated that "SSE is not starting with a blank sheet of paper. Neither is Scotland nor is the UK. We are transitioning from one state to another. A high carbon one to a low carbon one".

RM stated that SSE has published its just transition strategy with 20 principles to guide them. These sat under two main themes – transitioning to net zero world and out of high carbon world. Under the first are a set of principles as investment is made to the new world to ensure a just transition for workers (such as living wage and continued opportunity for progression) consumers and for communities. Under the second theme, repurposing assets including the skills of the workforce, training and providing notice, and respect and support the role of local communities.

RM finished by stating that SSE had an action plan and would be reporting against progress.

Tom Harrington, Assistant Director (Investments) of the Greater Manchester Pension Fund and member of the LAPFF executive

Tom Harrington noted that we had been through energy transitions before stating that "the challenge is to do it in a much more just way and it is much bigger in its scope".

TH outlined why it was important to GMPF and the Northern Pool, he noted they have a regional dimension in their responsible investment policy. He also noted that they were particularly strong on the social aspects of ESG, and referenced the ILO, trade union representation and outsourcing in their policy approach.

TH stated that the next step was how to implement the policy commitment to the just transition. He identified four areas where investors can take action.

The first of these was engagement. He noted that the Northern LGPS pool had spoken to Drax last year and included the transition in its engagement and highlighted the work of LAPFF. He stated the just transition was not an explicit focus in some engagements but was a common theme and implicit in questions asked of companies.

TH noted that "sometimes engagement is not enough." The second area was therefore filing resolutions and using shareholder votes. TH highlighted a resolution at Barclays that referenced a just transition.

The third area was ensuring external fund managers are pursuing a just transition.

The fourth area was low carbon investments. In direct investments they seek board seats which enables them to push for social improvements. TH stated that they had: "twin aims - to generate a return to pay pensions but secondly can we deliver a positive local impact."

TH outlined their impact portfolio which had a number of themes including SME lending, social impacts bonds, and renewable infrastructure.

TH concluded by saying that the challenge was building on these themes, making them more mainstream and improving the metrics.

Q&A

The chair asked about fiduciary duties and how funds can take action when they are seeking to maximise returns.

TH stated that "investments were always about commercial returns". TH stated when investing directly they would always invest with third parties so it cannot be soft money or seen as grants but are showing that these are commercial investments.

RM stated that there "is a false choice between long-term economic, social and environmental sustainability and having a short-term return". She noted that: "The legal duties of the pension funds and the trustees is to manage risk on behalf of their members and social risk and climate risk are as important as anything else."

Questions were asked about smaller pension funds and how they can support a just transition, the role of stakeholder forums and input and the role of worker directors on company boards.

With regard to smaller funds, TH stated that over 80 funds were part of LAPFF which was a way to participate in the agenda. He also noted that asset managers have a role and making sure they are focused on a just transition.

RM stated that SSE has undertaken a lot of stakeholder reviews and the regulated utilities have obligations to listen to their stakeholders. When there is a business plan that has been consulted on there is a legitimacy for the actions taken.

RM stated that there was not a mature model for having employees on the board in the UK and while having a NED with responsibility for employees is a step forward if it is unlikely to be the last.

Questions were asked about how to persuade trustees about the importance of the issue and whether we can link pension funds and local authorities together.

TH stated that it is difficult from a practical perspective for pension funds and local authorities to work together.

RM stated that members often demand that pension funds reflect their values and to adapt to being more climate friendly.

5. Conclusions

DM made concluding remarks, noting the enthusiasm of those in the meeting even if achieving a just transition was not easy. He emphasised the material implications of the just transition and the long-term nature of pensions. DM invited people to submit evidence.

The chair closed the meeting and thanked the speakers and audience.