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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'

## Third Evidence Session

## Wednesday 19th May

**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'.

**2. Evidence session: part one**

**Andy Gouldson, Chair of the Leeds Climate Commission**
Andy Gouldson outlined his role as chair of the Leeds Climate Commission which is an independent body which brings together public sector, private sector and third sector groups at the city scale to support and drive climate action. He is also director of the Yorkshire and Humber Climate Commission which does something similar at the regional scale and one of the leads of PCAN, which is the Place-based Climate Action Network which is convening similar commissions across the UK.

AG noted that the Leeds commission has a net zero road map and a climate emergency target to get to net zero by 2030. AG noted that their net zero road map looks at the things need to meet that target. AG noted that "it's massively challenging, and it's incredibly challenging financially." AG outlined what needed to be done and the financial implications: "looking at everything we can do, and this includes retrofitting homes, improving other public and commercial buildings, improving transport, industry waste, and so on that we may need to invest £11 billion as a city of 800,000 people over the next 10 or 20 years in order to meet our net zero targets. Now, much of that will be economically beneficial." AG noted the cost savings stating "we think that investing 6 billion or £600 million a year through the next decade would generate energy bills savings of £650 million a year from 2030. So, a big opportunity much of which is economically beneficial."

AG turned to financing of projects stating: "the adage we hear too often is that there are multiple projects and programmes we could be doing within the city that need access to finance. And when we speak to pension funds and other institutional investors, they often say we have lots of money to deploy, we just don't have projects and programs to invest it in. So somewhere in the middle of that that kind of micro versus macro conundrum there's a middle layer that's needed to take ideas and projects and programmes, develop them, make them investable and then connect them to different sources of finance."

AG stated that: “the most exciting area of this, at the moment, is around community finance and local finance and re-localising investment. So, in Leeds we understand that these residents have £2 billion sat in their ISAs. Now, if we could mobilise 10% of that for low carbon projects so… local residents invest in a municipal way as was common… we can reconnect people with their community and money with that community to enable us to tackle a massive challenge.”

AG stated that the Commission is “developing a new investment prospectus for the city with the aim of… developing projects, getting them to the point where they're investable, connecting them to different sources of finance.” AG went on to note: “We're working beyond Leeds with other commissions around the UK at the regional scale and, at the moment, I'm involved in a project working to make the economic case for place-based climate finance platforms to Treasury. With the aim that if Treasury could instruct the new infrastructure bank, which will be based in Leeds, to support these kind of platforms that they can develop this pipeline of investable low carbon projects and programmes which can unlock flows of money which would benefit both sides and also deliver on the climate agenda.”

AG stated that “one of the notable absentees in that conversation often is the local authority pension funds. Now, maybe there are barriers preventing them from investing locally.
Maybe the risk management and risk spreading agendas mean that they're wary of investing in local projects, but in other contexts, local authority pension funds are obliged to spend a proportion of their funds on investing projects which would benefit the regions where they exist and thereby ensure their longevity in other ways.”

**Peter Brierley, Lead Organiser, Citizens UK**
Peter Brierley outlined the work of Citizens UK. PB noted that Citizens UK was best known for the living wage campaign, which started in east London by “listening to local communities in the back of mosques and schools and churches and synagogues, asking what were the most serious issues affecting them? And people rightly identified the fact that they didn't have enough money to put food on the table for their kids and rather than set up a food bank, this kind of idea developed into what would a living wage look like.”

PB outlined how the campaign had engaged with listed companies. He noted that one east Londoner was the cleaner for Sir John Bond at HSBC and wasn't getting paid a living wage whereas Sir John and colleagues were receiving large bonuses. PB stated that “Abdul was brave enough. Working with London citizens to tell his story about the impact that that had on him and what he thought needed to happen and… went to a shareholders meeting as London citizens bought shares in HSBC so we could raise this as an issue to see if HSBC would begin to lead the way in being socially responsible in this way.”

PB stated that the living wage campaign has put over a billion pounds into the pockets of some of the poorest communities across the UK over the last decade or so. PB stated that “Community organizing, is about how you put people most affected by the issue at the heart of some of policymaking? Because we believe that those closest to the pain, often, are closest to the solution as well.” PB continued that: “I think that the model also that doing things in this way, for policymakers and others, helps reminds us of the urgency of some of the issues that we face and the importance of being courageous in taking action.”

PB outlined work they had undertaken with IPPR on a just transition and “using this model of community organizing to come up with ideas around what a just transition would look like.” PB stated that: “I suppose for us and the communities that we work with is about putting people most affected by the issues at the heart for thinking, because often it's those that are least responsible for the climate problems that are most affected by the issues. A just transition is understanding that climate policies can't be thought about in isolation, and so often I think we're quite siloed in our thinking. I think we need to understand that climate is connected to housing, health inequalities, poverty and a just transition." PB noted that the danger is that we would "compound social inequality."

PB stated that their approach mattered because: "it puts people in our communities at the heart of the response and it builds the kind of climate coalition beyond the usual suspects. A lot of the people that we worked with had never been part of thinking about climate change as issues before, because they didn't realise that housing and wages and jobs was actually connected to the issue of climate change."

PB stated "a just transition prevents climate policies from deepening existing inequalities." He noted that "It was interesting that some of the people we work with felt that good [green] jobs… might not be for people like them." PB called for investment in good green jobs and to ensure that those in poor communities have access to opportunities. PB noted that when the Olympic Park was being developed there were living wage jobs, but local communities were not initially connected to the job opportunities.

PB noted the potential mutual benefits, when "dealing with the issue of housing and retrofitting you're dealing with the climate issue at the same time as dealing with health inequalities and fuel poverty." PB finished by stating that: "We need to encourage thinking that puts those most affected at the heart… we need to give more powers to elected mayors and local authorities to tackle these issues… some of the regional mayors don't have the powers necessary to do the work that needs to be done. We need to ensure that investors invest in creating good green jobs, which means jobs that are paying the living wage and also where those jobs are going, to those that need them the most and being linked into poor communities."

**Q&A session**

It was asked why it was important for investment to be local? It was also asked what engagement of pension funds had been undertaken regarding provision of investment into schemes.

AG stated that he thought that the connection of people to place and that civic feeling people have to support an area could increase investment. He noted that they wanted to see "the city to become more entrepreneurial but for entrepreneurs to become more civic and that for businesses and organisations to make a clear contribution to life in the city." AG gave an example of putting solar panels on leisure centre roofs funded through a green bond with the green bond potentially opened up to local residents first, which would enable people to swim in the swimming pool that they have heated and, in the process, created jobs.  AG stated "I think you don't get that when there's a distance between the people and the investment, and that's not to say all of it needs to be local, but I think there are huge benefits from some localisation and municipalisation of funding, and it's exactly how local government used to be funded so you know it's a good model that led to all sorts of investment in the past and people are excited about it now in a way that I don't think they are about some of the other opportunities for investment."

AG stated that: "We've spoken to many pension funds about this. I think you see quite a difference in the cultures and the appetite of different funds for this. Some are much more open to the ideas we're proposing… I think we see more interest in other areas in the north of England in doing these kind of schemes and one of the things that's lacking is the scale and the state of development and investability of projects and programmes. And I think that's one of the main barriers here, that somebody has to invest the development time to turn these programmes into investable propositions, which can be considered by pension funds in a meaningful way, and that lack of scale and that lack of investability is a major barrier."

One audience member stated that "our conversations that we've had with predominantly local authority pension funds suggests that although climate tends to be the catalyst that gets them thinking about this issue, what tends to happen is when you start talking about it almost always turns into a more holistic discussion around social impact, economic impact, decent work, and it's a much broader thinking around purpose. And I think if there is a trend that's happening, it is that we're not thinking so much in silos now, and the asset management community is also beginning to respond to that. So now if you want to look at a social impact funds, and that's perhaps investing in affordable housing, you would expect that affordable housing investment to be thinking about climate friendly energy sources for example, and vice versa… I think the industry is changing in its thinking."

The chair noted that for some of the groups PB worked with, climate change was probably not the most important thing in their lives, that they are just trying to get enough income to put food on the table. He asked how we can widen the interest in climate change? He noted the high level of emissions from homes and inefficient homes are often occupied by the poorest so increased bills will fall on them.

PB stated that it was the responsibility of local government and business to listen to organised community groups, but it was also the responsibility of community groups to be organised enough to say they want a seat at the table and when they are there to say they are not there to complain, but think creatively about solutions and what capacity and energy they can bring. PB stated "Talk to people about climate change, they're not going to be necessarily interested, but they will be interested if you're talking about jobs." He noted once that happens then there will be a lot interest and will want to be brought round the table.

An audience member stated that "it's not just a matter of creating new jobs, but it's also about how you manage the transition and what processes you have in place to take people whose jobs are affected along with you on the journey towards net zero. Some jobs may go, others may look very different, but won't disappear." It was asked whether the Leeds Climate Commission made any assessment of the likely scale of the change across the city and the sectors at the greatest risk, whether there is a need for extensive technological change and therefore investment and whether there is a case for saying that trade unions need to be more involved in these processes than they have been so far?

AG stated that in Leeds, they thought that 2,000 jobs could be created, especially in the homes and buildings sector, which at a city scale was significant. AG noted the importance of jobs being good quality but also the need for skills. AG noted that the on the question of jobs and sectors at risk they are being considered at the Yorkshire scale and have been working with the Yorkshire commission, TUC and with UK100. AG noted that for the whole country, "roughly 10% of jobs we think would see demand for their skills go up and roughly the same would see demand for their skills go down. So in Yorkshire that means that roughly 350,000 jobs." AG stated that they were working with TUC to identify those areas, sectors, people and communities who would see demand reduce. AG stated that "there are some key national investments that could make a huge difference to the jobs at risk and the ability of some sectors." AG continued: "Obviously the heavy manufacturing and the energy intensive sectors and the process industries need to make that transition." He noted that carbon capture and storage could play an important opportunity and attract inward investment. AG stated that "if we had that key critical infrastructure, I think we could develop a net zero industrial zone and attract heavy industries to move towards that area in order to connect to the CCS Network." AG noted that there was a role for government but also for institutional investors to back innovative ideas.

It was asked that why money invested in fossil fuels could not be invested in green energy and retrofitting housing which would create jobs?

AG stated that there is a difference between green finance and greening of finance and the latter may have a bigger impact. He noted that divestment is one way alongside screening. He stated that moving the climate agenda into the heart of investment activities was crucial.

It was asked 'why invest locally if you would get a better return elsewhere?'

AG stated that it was not about "pulling up the drawbridge and having barriers to trade between regions… it would make perfect sense for investment funds to invest in schemes elsewhere around the UK or internationally, but I think what that lacks is that reconnection of people." AG stated that it was about linking money to place and the civic element of local investment, noting that where the green bonds have been issued, they have generally been really heavily oversubscribed.

It was asked whether there were barriers to allowing pension funds to investing locally.

AG stated while not an expert, in some places there are obligations for a proportion of a pension fund to be invested locally or regionally which there are not in the UK context. AG noted "I think there are some cultural barriers and some people interpret the rules differently and are more cautious or conservative." AG stated "both sides need to jump together. I think there needs to be investable opportunities that pension funds will be interested in at the local level and often there aren't at the moment… so do you increase the supply of those projects first and then seek to attract the funding? Or do you try to set aside some funding for projects and programmes which may not be quite investable yet, and that's the problem that we're working with. I think it's a bit of a catch 22 to unlock that conundrum."

**3. Evidence session: part two**

**Sarah Teacher, Executive Director, Impact Investing Institute**

ST outlined the role of the Impact Investing Institute, which is an independent organisation seeking to mobilise more private sector capital at scale to address social and environmental challenges. ST stated that impact investing is about investment seeking positive and measure social, environmental change alongside a financial return. It goes beyond responsible investment and ESG risk mitigation and is about investment that shows intention to deliver a social or environmental change, it measures that change and provides additional positive change than would have been achieved through the traditional investment approach. Those involved ranges from pension funds through to charitable trusts.

On the issue of the just transition to net zero, ST stated that "Nowhere is the need to mobilise private capital for public good clearer." ST stated that the scale of the investment needed in achieving net zero is considerable. She noted the Climate Change Committee which stated that investment needed to increase five fold from £10bn to £50bn in 2030 and peaking in 2035. ST stated that: "for moral and practical reasons this investment to reach net zero must have high social impact at its heart. As finance makes major green investments they must do so with a view to correcting longstanding economic disparities and an effort to ensure that the new economic direction is fairer for all. If that opportunity is not taken then those people and communities left behind will resist the major changes that are coming… in the wave of green finance we mustn't forget the S in ESG."

ST stated that the Institute have been involved in the development of the idea of Green + gilt which "emphasised the potential of a green sovereign bond with well-defined social and economic benefits starting with jobs and skills." ST welcomed the chancellor's announcement of a series of those bonds last year, which will include reporting on social co-benefits. ST stated that in their international work they were also developing a blueprint for a just transition vehicle.

ST outlined the work they had been undertaking on place-based impact investing with a focus on the LGPS. Placed based impact investments are made with the intention of yielding financial and social and environmental returns with a focus on addressing the needs of specific places to enhance local economic resilience, prosperity and sustainable development. ST stated that their work was addressing five main sectors: SME finance, social housing, clean energy, infrastructure and regeneration. ST stated that "increasing the flow of LGPS capital into these objectives and sectors will deliver just transition outcomes for local areas around the country."

ST stated that "this place lens is a great fit for how the LGPS is constituted. The LGPS has a place based administrative and membership geography… The LGPS has a legacy of local investing to build on and it is recognised in the statutory guidance to the asset pool reform, which allows for 5% of LGPS funds to be allocated to local investing." ST stated that investment locally provides stable, high long term returns and low volatility and therefore well suited to the LGPS. ST stated that this shift aligns well with ESG integration and the UN sustainable development goals. ST stated that "place-based investing and the LGPS is a perfect match and it should be more prevalent".

ST stated that there was relative low level of place-based impact investing. ST stated that for those LGPS funds that want to achieve a just transition, they should consider: "aligning with impact investing and develop a place based lens to your work". She stated that her Institute had tools and guiding principles for impact investing. ST stated that funds can undertake impact investing that fits fiduciary obligations.  ST stated that only 1% of LGPS is invested within the UK. If all funds allocated the 5% they are able to, that would unlocked £16bn for local investing. ST stated that government should partner with private finance and has a key role through the levelling up agenda through grants and investment. ST stated that a third of the place-based funds they had identified have co-investment from the UK government (for example the British Business Bank) or from Europe (European Investment Bank).

**Colin Baines, Investment Engagement Manager, Friends Provident Foundation**

Colin Baines stated that Friends Provident Foundation was an independent, capitalised charity that seeks to progress a fair and sustainable economy. CB noted that they utilise capital to meet their objectives including via grants, but also social impact investing, asset management engagement and direct shareholder engagement. CB stated that a current priority was a just transition, including engaging utility sector and impact investing in placed-based solutions.

CB stated that Friends Provident Foundation and Royal London Asset Managers with support from Shareholders for Change have been engaging the large UK operating energy utilities. They have been calling for just and net zero strategies with climate science aligned business strategies that incorporate the social dimension and manage the transition risks and seize the opportunities. CB stated that they wanted "formal, publicly available just transition strategies that cover workers, communities, consumer and supply chains." CB stated that their biggest success is SSE and outlined actions of other utility companies.

CB stated: "We're also keen for this agenda to not be limited to workers and, are working with unions on retraining, redeployment, and early retirement, and the provision of good quality green jobs to replace those jobs less lost. That is absolutely imperative. And it's an essential component of any comprehensive just transition strategy. But we believe we need to go further." CB stated that "we also like to see value added to communities that they operate in… and ensure that vulnerable consumers and vulnerable communities are not left behind in transition". CB stated that wealthier communities and households may become less reliant on the grid and there is a danger that those grid costs mount on those least able to afford it.

CB stated they wanted to see action on supply chains. CB stated there was need to maximise local sourcing but also needs action on global supply chains, including concerns about human rights abuses in Chinese PV manufacturing and conflict minerals and child labour in Africa. CB noted that a comprehensive just transition strategy would incorporate all these issues.

CB gave examples of how they were using capital allocation side to meet just transition objectives. CB used an example of community energy stating that it met environmental, social and local economic objectives. He stated that it reduces emissions, it's community owned increases public support and supports regeneration and local resilience. CB stated that it leads to the creation of democratic control of community assets, more value and profits are retained within the community and it creates more local jobs. He stated that it creates income stream for the community and empowers the community to meet its own needs.

CB also noted a project was a wind co-op in South Wales in a coal mining community and the surplus is going to go to a fuel poverty charity. He expected it to generate £3 million over its lifetime and help alleviate fuel poverty in those Welsh valleys. As an investor they were getting a 5% return, which is it started paying out on already. CB gave another project they were financing which was decarbonising the benefit and providing environmental, social and local economic benefits. CB stated that such examples "exemplify what a just transition looks like."

CB ended by stating that these examples show "what any investor, any asset owner or asset manager can do in terms of both shareholder engagement in mainstream markets, but also directing capital into the solutions via impact investing as well."

**Q&A session**

It was noted by an audience member who chairs a pension fund that "we have a local investment fund and we invest locally, but the issue we found is that really we've got more money available than we have investments to invest in." They asked what needs to happen to "increase the flow of investable projects locally so that we can have that high impact and also achieve what we want to do in terms of investing locally and improving social and environmental outcomes."

ST stated that it is an often cited issue alongside traditional mindsets where people just allocate straight to the capital markets, capacity constraints and fears of conflict of interest by local government pension funds and allocating locally. ST stated that they were looking across these obstacles and looking at improving the information and exchange between investors and place based opportunities and looking at whether there is appetite for a platform and increasing the number of place based impact investing vehicles

It was asked whether there were too many organisations and there need to be greater collaboration and also that the need for an investment return should not be overlooked, which is "the thing that's in the forefront of our mind." It was also noted that the 5% figure for local investment when first discussed by government was much higher but was glad wasn't higher given the difficulties reaching that level.

ST stated they were working in partnership with other organisations and their report outlines investment returns of between 4% and 11%.

It was asked how you measure and monitor impact.

CB stated that reporting was tricky and "I don't think there's a standard yet particularly on social issues." He stated that it is straight forward on the financial side, and climate impact can be measured "but then when it comes to the social side it does get more complicated in having a standard reporting framework." CB gave examples around how much money went to a fuel poverty charity and how many houses has a charity retrofitted as a result of the investment. CB noted that "It's tricky, so basically there's a lot of commentary."

An audience member stated that they had established a body with CIPFA to invest in commercial property for small businesses. They stated it was a high performing trust but an adviser to the pension funds decided that equities had a much higher return, and the fund was closed. It was asked how you avoid similar situation and also retain independence from advisors who have a vested interest in putting the money into projects that they manage themselves?

ST noted that there are projects and initiatives of real value locally that create a double win – if the local community thrives then so members of the pension fund do as well. It was stated that before defaulting to a global capital market strategy funds should think about "how can we use this allocation of up to 5%". It was noted that "the intensity of the need for financing around climate change and the recovery from COVID is creating an awareness amongst pension funds that they need to do something locally. They want to respond but they need to do it with a risk adjusted financial return."

It was asked whether it was contradictory to do impact investing while also being invested in arms or fossil fuel companies and whether divestment should also be part of the strategy?

ST stated that their position was to engage rather than divest. CB stated that the divest-engage debate had been raging for years and that if you were doing either, you were doing more than most. CB stated that the engagement has to be meaningful. He stated investors had to "set targets and have open reporting and objectives and regular reappraisals and ultimately divestment has to be left on the table if engagement doesn't succeed."

**3. Conclusions**

The chair noted that it is taking a long time to get the local thinking back into local pension funds. He stated that sometimes there is not the investments their ready to invest into but there needs to be the policy commitment to want to do something and to look for local investment. He noted that this was a point he was making when he was chair of the South Yorkshire Pension Fund in the late 1980s. He stated that whilst we have not got there, there seems to be a positive message coming through.

The chair thanked the speakers and gave a reminder that the next meeting would be taking place on the 14th July.