A JUST TRANSITION

ENSURING RESPONSIBLE INVESTMENT FOR A JUST TRANSITION TO NET ZERO

Final report from the APPG for Local Authority Pension Funds inquiry on 'Responsible investment in a just transition' 2021

OCTOBER 2021

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ALL-PARTY PARLIAMENTARY GROUP FOR LOCAL AUTHORITY PENSION FUNDS

All-Party Parliamentary Group
Chaired by Clive Betts MP

All-Party Parliamentary Group on Local Authority Pension Funds and status of the report

The All-Party Group was established to discuss the issues and concerns of local authority pension funds and the work of the Local Authority Pension Fund Forum. The chair is Clive Betts MP and the Vice Chairs are: Baroness Altmann, Lord Kerslake, Lord Goddard. The Secretary is David Simmonds MP.

This report by the Group is based on the written and oral evidence gathered during the course of the inquiry into 'Responsible investment for a just transition'. The views expressed in the report are those of officers of the APPG acting in a personal capacity. It is not an official publication of the House of Commons or the House of Lords and has not been approved by either House or its Committees.

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In January 2021 the All-Party Parliamentary Group for Local Authority Pension Funds launched an inquiry into 'Responsible investment for a just transition'. This report is based on evidence sessions and written submissions to that inquiry from investors, industry, academics, community groups, trade unions, and other non-government organisations.

The inquiry report seeks to inform politicians, policymakers, stakeholders and the public on the roles and responsibilities that investors can play, with the support of their members and government, in enabling a just transition to net zero carbon emissions.

What is a just transition?

A just transition is broadly interpreted as a policy approach to climate action which seeks to ensure that the benefits of a shift to net zero are shared, while supporting those most impacted by the change.

The following components of a just transition to a net zero carbon economy were described to the inquiry:

- It is about moving to a net zero carbon economy in a just way for society – and thus combines environmental and social considerations.

- It is about the fair distribution of climate 'goods' (such as new jobs and cleaner air) and climate 'bads' (such as higher costs associated with decarbonisation and job losses in certain sectors and places).

- It is about both maximising the opportunities of a green economy and mitigating the risks.

- The social dimension is about workers, consumers, supply chains and communities.

- It is about both the process and the outcome: engaging and involving stakeholders to ensure that all social groups have support and opportunities in transitioning to a net zero carbon economy.

- It involves a planned and orderly transition.

- It is a global issue, affecting UK and international communities and supply chains.

The financial materiality of a just transition

The inquiry concluded that not fully considering a just transition poses a material risk to investors. It also considered that the implementation of binding carbon reduction targets at all levels and by all actors requires a clear recognition and effective policy response to the social costs and consequences of such a transition.

Without action, climate change is set to be an environmental and human catastrophe. It is widely accepted by economic policymakers, investors and companies as posing significant material risks.

However, it was also clear from the inquiry that the costs and benefits of climate action will inevitably be uneven for countries, workers, communities, consumers and supply chains. The social and economic impacts will also be

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spatially different and affect the vulnerable and least protected the most.

There was also a clear view in the inquiry from investors, including from Local Government Pension Scheme (LGPS) funds, that responding to climate change did not - and could not - mean ignoring their fiduciary duty. This response did not preclude green investment and efforts to secure a just transition, but stressed that any steps taken "had to make financial sense". However, as discussed later in the report, a common view stated in both the oral and written evidence was that part of a pension fund's fiduciary duty meant considering the financial implications of climate change and with it the need for a just transition.

As such, taking a long-term view, the risks to investors from unanticipated or sudden acceleration in climate deterioration needs to be assumed and nobody can be sure when the worst effects will bite. Therefore, there are risk reduction reasons to ensure that all long-term investors are including the move to a just transition in their portfolio construction and investment selection decisions. Just focussing on performance over the next year, may mean sub-optimal long-term outcomes.

What can investors do?

Many investors are actively supporting the shift to net zero and keen to decrease their exposure to carbon risk. However, investors alone cannot meet national carbon reduction targets and ensure a just transition.

Nevertheless, there was consensus in the evidence to the inquiry that investors have an important role in supporting a just transition to net zero, and, because of the financial implications, an obligation to consider just transition issues.

To mitigate the financially material risks of an unjust transition, the following action points were recommended to the inquiry:

- **Recognise the just transition challenge**: Investors should include reference to a just transition in their policy statements. Part of recognising the challenge should include setting aside adequate resources to manage these risks (alongside broader environmental, social and governance - ESG - issues), including scrutinising external investment managers on their approach.

- **Understand the risks and opportunities**: Funds should understand the material risks. This includes risks around climate change and the social implications of reaching net zero. An appropriate analysis could include which sectors are most likely to experience change (and the associated spatial dimensions) with implications for consumers, communities, workers, and supply chains. Understanding these risks and opportunities involves developing metrics around the scale of change and fully understanding the views and concerns of stakeholders.

- **Set expectations**: Funds should set clear expectations of companies and how they can address just transition concerns. There are several international legal frameworks (such as international human rights law and international labour law) which set out legal obligations for states as well as voluntary frameworks that provide investor guides on expectations for specific sectors. Expectations are likely to include having a strategy to effectively manage the risks and opportunities, approaches to engaging and supporting the main affected stakeholders (workers, supply chains, consumers and communities), their engagement with policymakers, and reporting their current position and progress against targets.

- **Engage companies**: Funds and/or their managers should engage companies on just transition risks. This engagement is likely to be focused on those companies identified when funds seek to understand where material risks are greatest, and engagement based on the fund's set of expectations. Where external managers and ESG engagement advisers are used, funds should hold these external parties to account for progress against expectations. Similarly, funds should ensure that collaborative engagements on climate change include a just transition as a central theme for discussion.

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- **Capital allocation**: Funds need to give due weight to just transition risks in their capital allocation. Policy statements should be used to guide investment decisions, including those of fund managers. There are also opportunities for investing in a just transition. Membership organisations should seek to establish a knowledge hub to support funds in doing so, and funds and pools could consider establishing specific just transition funds to overcome issues around scale.

- **Reporting impact**: Funds should report on the just transition risks and outline to beneficiaries where and why they matter. Funds should have measurable just transition objectives and report against them. Funds (and collaborative initiatives and organisations) should consider how Task Force on Climate-Related Financial Disclosures (TCFD) reporting can be extended to include reporting on just transition risks.

- **Engaging policymakers**: Investors have a role in engaging policymakers to ensure measures to secure the transition to net zero consider the social dimension. This engagement includes pushing for reforms which will support investors' ability to consider a just transition (company disclosures for example) and create incentives to invest in a just transition.

What can government do?

The inquiry found that investors are willing to support a just transition to net zero but want a much clearer position from government on just transition plans. Pension funds are seeking government support to ensure social considerations are factored into an energy transition. It was generally felt that government had yet to embrace the idea of a just transition and had failed to embed concrete actions to deliver it in national policies and plans.

The main findings of the inquiry for government are:

- **Need for a clear and comprehensive just transition commitment**: Government should explicitly recognise and articulate a high-level commitment to a just transition.

- **A just transition plan**: A clear strategy and plan for reaching net zero carbon emissions in a just way (shaped by the views of stakeholders and integrated with existing climate change policies) would help support investment in a just transition and enable investors to engage companies on their just transition plans.

- **Company disclosure regulations**: Government should consider what disclosures on social risks should be mandatory for companies. Such mandatory disclosures would help ensure just transition risks are acknowledged and better understood by companies and investors and just transition plans can be formulated with stakeholders. As part of this exercise government should consider widening TCFD requirements to include just transition factors.

- **Identifying investment opportunities**: To support investment which may often be too small for institutional investors, central and local government should consider identifying opportunities for investors that will support a just transition and maximise the social benefits. Government should use its Green Sovereign Bond programme to support the just transition by reporting on the social co-benefits of investments.

- **Crowding in private finance**: The investment needed to achieve a transition will require gap funding, incentives, and guarantees from government. Such support should be contingent on meeting just transition objectives.

- **Just Transition Commission**: Government should establish a national (UK-wide) just transition commission, which seeks to outline how the just transition can be delivered and roles of different stakeholders, including investors. This could be complemented by sub-national and sector bodies.

The evidence to the inquiry made plain that if the transition to a net zero carbon economy is viewed as unfair and unjust – as imposed and ill-considered - there will be public resistance and a lack of co-operation, which is likely to

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impede the implementation of many of the practical measures (and life-style changes) necessary to reduce carbon emissions.

Throughout the inquiry, witnesses stressed the need for capacity building, co-operation, shared learning and social dialogue between all those impacted by a just transition. It was said that pension funds – and the investment community as a whole - should be part of the COP26 mission to:

> **“accelerate action to tackle the climate crisis through collaboration between governments, businesses and civil society.”[1]**

[1] Un Climate Change Conference UK 2021, COP26 Goals - https://ukcop26.org/cop26-goals/

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Climate change has been described by President Biden as "the existential crisis of our time".[2] The 26th Climate Change Conference of the Parties (COP26) President, Alok Sharma MP, told the UN's Climate Ambition Summit that: "This is a fight for the very survival of our fragile planet. We are facing a scale of human tragedy and natural devastation the world has never seen".[3] As the world prepares to gather for COP26 scientists are warning governments and business leaders that a failure to act and change course will have devasting results.

Increased greenhouse gas emissions are already affecting weather and climate extremes across the globe. We are witnessing more frequent extreme warming, heavy precipitation, flooding and agricultural droughts[4], all of which have significant environmental, social and economic consequences. Without a planned transition to net zero every sector of society will be diminished.

There is a worldwide consensus on the need to reduce greenhouse gas emission, especially carbon emissions. Governments across the globe have outlined plans for meeting their obligations under the 2015 Paris Climate Agreement to limit global average temperature rise to at least below 2 degrees Celsius compared to pre-industrial levels (a 45% reduction in global net carbon dioxide emissions between 2010-30). The UK government is calling for radical action and has pledged to reduce UK emissions to net zero by 2050.[5]

More ambitious carbon reduction targets, tougher regulations and new incentives have been introduced – and more are anticipated - to encourage businesses and the public and voluntary sectors to take comprehensive and systemic action to combat climate change.

Investors worldwide are also being incentivised to act. Most recognise the financial implications of inaction and are seeking to reduce climate risk in their portfolios and encourage countries and companies to cut their emissions.

However, the changes required to limit emissions and achieve net zero will transform the economy and society. Achieving long term targets to reduce climate change risk will be costly and disruptive, and nations and industries that fail to decarbonise will be at a competitive disadvantage. But the longer it takes to combat global warming and reach the accepted targets, the more costly and disruptive it will be.

Strategies and solutions are available to reduce emissions and support sustainable activities that are carbon neutral, albeit shaped by the varying capabilities of rich and poor countries. But the reduction targets and consequent policy actions in all nations require the consent and co-operation of consumers, workers and communities. This need for co-operation and 'buy in' to climate action from societal actors is critical and necessary for a fair and just

[2]Remarks by President Biden at the Virtual Leaders' Summit on Climate Opening Session (White House, 22 April 2021)
[3]Sharma, A "COP26 President's closing remarks at Climate Ambition Summit 2020", Department for Business, Energy & Industrial Strategy, 12 December 2020
[4]IPCC, Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (2021)
[5]The Climate Change Act, as amended in 2019, commits the UK to 'net zero' by 2050

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transition.

International treaties and government statements calling for stronger climate action on the scale needed may grab the headlines but their implementation is far from a given. Public consent remains fragile and could become more so as a consequence of the uneven economic impacts of the global Covid pandemic. The recent populist 'Gilets Jaunes' protests in France and the fuel protests in the UK in the early 2000s, for example, act as warnings to politicians, policymakers and investors of implementing reforms to tackle climate change without fully engaging the public. Indeed, top-down actions by governments and policies which fail to consider the social implications and ignore the need for citizen consent risk becoming counter-productive.

Achieving climate change targets – locally, nationally and internationally – rests on the willingness of people to understand and support what will be major transformations in society, not least in the world of work. As governments plan for net zero and speed-up the move away from carbon-intensive growth, workers and employers – and their communities - will want to know where the burden and costs fall, what will be done to make the changes fair and affordable, and how to protect the most vulnerable.

The case for a 'just transition' to a low carbon economy has become more widely acknowledged by the international community and by governments. The concept is mentioned, for example, in the Paris Agreement, the UN's Sustainable Development Goals and the ILO's 'Climate Action for Jobs' initiative (2019).

The European Union has been at the forefront of advocating a just transition and has introduced a Just Transition Mechanism as "a key tool to ensure that the transition towards a climate-neutral economy happens in a fair way, leaving no one behind". It provides targeted support to help mobilise €100bn over the period 2021-2027 in the most affected regions, to alleviate the socio-economic impact of the transition and support investment in new eco-industries.

Some governments (and local authorities) have established their own just transition agencies or commissions. The Scottish government, for example, set up its Just Transition Commission in 2019. The chair of the Commission, Professor Jim Skea, stated:

> **"We are in no doubt that climate action can bring multiple benefits, including quality green jobs and improved social inclusion. But past experience leaves us in no doubt that for these benefits to be realised, we must plan and be prepared to take decisive action…Taking sustained action at pace depends on consensus, and it must be underpinned by basic principles of fairness."[6]**

Achieving a just transition - and thereby helping close the gap between climate ambition and effective and sustainable policy implementation - will require governments to work closely with all stakeholders. An important partner will be the investment community and particularly pension funds, including Local Government Pension Scheme (LGPS) funds – which have combined assets of over £300bn.

LGPS funds are aware that climate change is not only an environmental and social risk but also a significant and urgent financial risk. Public pension fund investors are therefore seeking to invest – and gain returns – from new industries, green infrastructure and other assets. Government commitment and support for such zero-carbon investment opportunities is critical. However, the scale and pace of that shift in investment away from carbon-intensive industries is shaped not only by national climate policies, but also by social factors and social policies predicated on the need to consider the wider societal impacts of a move to net zero.

Local authority pension funds are also particularly sensitive to the local and regional dimension of net zero, not least because they are defined by their administrative areas and have first-hand knowledge of the impact that both climate-related events (such as flooding linked to climate change) and unjust transitions can have on workers and local communities.

The Local Authority Pension Fund Forum (LAPFF) – which represents the majority of local government pension scheme funds in the UK

[6] Just Transition Commission, A national mission for a fairer, greener Scotland, 2021

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- states that to safeguard the investments of its members and the pensions of their beneficiaries, its main engagement objectives are for companies to align their business models with a 1.5 °C reduction scenario and to push for an orderly net zero carbon transition.

However, LAPFF also states that meeting these objectives requires a planned just transition and believes that "social risk is every bit as important as environment and governance risk when it comes to long term shareholder returns".[7] It is the question as to how to best achieve these multiple objectives which the APPG inquiry on 'Responsible investment in a just transition' sought to address.

About the inquiry

The inquiry into a 'Responsible Investment for a just transition', established in January 2021 under the guidance of the APPG members, set out to understand how investors could help achieve a just transition and what support might be needed from central government.

The inquiry asked the following questions:

- **What are the main barriers to a just transition for investors and companies?**
- **How might government and those responsible investors signed up to a just transition raise awareness and stress the importance of a just shift to net zero, including throughout the investment community and across government?**
- **How can investors assess and report the level of risk of not considering a just transition? And what support and regulations are needed from government?**
- **How can local authority pension funds, whilst exercising their fiduciary duties, invest in a just transition, noting both the risks and opportunities created? And what role is there for government to mitigate risk and create and support new opportunities?**
- **How can investors best engage not only with investee companies but also with stakeholders locally, nationally and internationally about the risks and opportunities?**
- **What role is there for government to support a just transition (skills, active labour market policies, economic development, infrastructure investment, investment in communities) and how could investors be part of that process?**
- **What lessons can be learnt (both successes and failures) from the UK and abroad about previous initiatives to support people and places as their economy has experienced industrial change? And what initiatives are already underway that can be drawn on?**

The inquiry received 18 written submissions from a range of stakeholders including LGPS funds and investment advisers. Oral evidence was taken from: Katerina Szwarc (Grantham Research Institute on Climate Change and the Environment, LSE); Rachel McEwen (SSE PLC & Scottish Just Transition Commission); Tom Harrington (GMPF and LAPFF executive); Lord Deben, Chair of the Climate Change Committee; Polly Billington (Director of UK100); Colin Baines (Investment Engagement Manager, Friends Provident Foundation); Sarah Teacher (CEO, Impact Investing Institute); Andy Gouldson (Chair of the Leeds Climate Commission) and Peter Brierley (Lead Organiser, Citizens UK). The inquiry also received input from a range of stakeholders who participated in the APPG evidence sessions, including a number of LAPFF members.

The APPG would like to thank all those that took the time to give evidence. It would also like to thank LAPFF for supporting the inquiry and the Smith Institute for providing secretariat support.

[7] See: https://lapfforum.org/about/themes/

WHAT IS A JUST TRANSITION?

This section draws on the evidence to the inquiry to set the broader context for a just transition to net zero: what are the core elements and themes and how do they relate to pension funds?

Context for a Just Transition

The environmental and financial implications of climate change are well understood. In 2018, the UN-endorsed International Panel on Climate Change (IPCC) special report starkly outlined the catastrophic risks to natural and human systems of global warming in excess of 1.5 degrees. These impacts include extreme heat, drought in some regions and heavy rain in others, and rising sea levels resulting in species loss and for humans increased "climate-related risks to health, livelihoods, food security, water supply, human security, and economic growth."[8]

Knowledge of climate threats are not new, and the societal implications of climate change are recognised by governments in international treaties and national laws and regulations. The UK government, for example, is committed to reaching net zero emissions by 2050, with a 2035 target to reduce emissions by 78% over 1990 levels. The Treasury has been clear on the economic implications, stating that: "Global action to mitigate climate change is essential

The Paris Agreement and net zero

The UN Climate Change 2015 Paris Agreement committed 190 states and the EU to limiting global temperature rise to well below 2 degrees above pre-industrial levels, and pursue a target of 1.5 degrees. The Paris Agreement makes reference to a just transition: "Taking into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities."[9]

Since the publication of the IPCC report in 2018, the focus of many has been on reaching 1.5 degrees. To have a reasonable chance of meeting this target the report stated emissions would need to decline by 45% from 2010 levels by 2030 and reach net zero by around 2050.[10]

The 2021 Intergovernmental Panel on Climate Change PCC report found, there has already been 1.1 degrees increase in temperatures since the 1850-1900 period. It estimated that 500bn tonnes more of carbon emissions from human activity would leave only a 50% chance of staying under 1.5 degrees. At present 40bn tonnes are emitted worldwide by humans every year. At this rate, the carbon budget that gives the highest chance (83%) of remaining within 1.3 degrees of warming, would be used up by 2027.[11]

[8]IPCC, Summary for Policymakers. In: Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty (2018)

[9]Paris Agreement (United Nations, 2015) IPCC, Summary for Policymakers. In: Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty (2018)

[10]IPCC, Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (2021)

[11]HM Treasury Net Zero Review: Interim report (2020)

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to long term prosperity."[12] The Office for Budget Responsibility described the costs of getting to net zero as likely to be "significant, but they are not exceptional" and claims they will be much higher if action is delayed.[13]

Achieving net zero in under 30 years, and a nearly 80% reduction in less than 15 years, is undoubtedly challenging. The government's ten-point plan for a green industrial revolution, for instance, demonstrates the extent to which change is needed - covering major shifts in renewable energy, in transportation and electric vehicles and greening homes and buildings.

The scope of the change and wide-ranging implications was a theme of the inquiry. As Rachel McEwen from SSE (the FTSE energy company) and a member of the Scottish Just Transition Commission, commented to the inquiry:

> **"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".**

The transition to a low carbon future will have significant implications for those working in energy intensive industries, and affected local communities. It will clearly not always be possible for new green industries to replace old industries place by place. Some renewable energy sources, like wind power, are location specific. Others demand specific skills or infrastructure which may not be readily available.

Witnesses to the inquiry consistently stressed that transition has significant opportunities as well as considerable risks including the social dislocation associated with previous energy transitions. As Tom Harrington, Assistant Director (Investments) of the Greater Manchester Pension Fund and member of the LAPFF executive, noted:

> **"The challenge is to do it in a much more just way, and it is much bigger in its scope".**

The Treasury's recent Net Zero Interim Review has outlined some of the social implications, not least in regard to income inequalities.[14] It found, for example, that highest income households emit more than twice as much carbon as lowest income households. However, the highest income households have an income eight times greater, which means they are much more able to absorb the cost effects – although wealthier households may be just as opposed to sudden price hikes or regulatory changes.

The Treasury also found that the five industries that contribute two thirds of industrial greenhouse gases only employ a fifth of workers. And those working in sectors with the highest emissions are lower skilled (although adjustment may not be regressive as higher income households are more likely to be in work).[15] This situation presents obvious challenges in up-skilling the labour force – locally and regionally – to improve capacity and capability to support a green economy.

Academics from the LSE and Leeds University estimated that one fifth of jobs could be affected by the transition. As they note, this does not mean all these jobs will be lost, with around 10% in more demand and a similar number requiring reskilling. They find that construction, transport and manufacturing could be the areas where reskilling is needed and specific regions such as East and West Midlands and Yorkshire and the Humber are most likely to see change in their labour markets. They also found that within their case study region (in the Yorkshire and the Humber) that areas of high deprivation also have a high proportion of jobs that will require new skills in the transition.[16]

The chair of the Local Authority Pension Fund Forum, Cllr Doug McMurdo, remarked that there was a danger that the focus was all on the need to decarbonise and these social implications could be overlooked. He noted both the potential positives but also the dangers:

[12] HM Treasury Net Zero Review: Interim report (2020)
[13] OBR, Fiscal Risks Report, July 2021
[15] HM Treasury Net Zero Review: Interim report (2020)
[16] Robins, N et al Investing in a just transition in the UK: How investors can integrate social impact and place-based financing (2019) into climate strategies

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> **"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."**

Just transition definition and themes

According to the Scottish Just Transition Commission, the definition of 'just' "was about the fair distribution of climate goods and climate bads." These goods included new jobs but also cleaner air, while 'bads' included higher costs associated with decarbonisation and potential job losses in certain industries or sectors.

Katerina Szwarc, Policy Fellow, Grantham Research Institute on Climate Change and the Environment, told the inquiry 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."**

Szwarc picked out a number of themes which characterise a just transition, noting that in practice the just transition is about maximising the social benefits of the transition, including high quality green jobs, as well as mitigating the social risks to avoid stranded workers and communities and empowering those affected by change (through effective participation). She noted that a just transition would anticipate future shifts to address issues up front and plan for an economy-wide reskilling.

Echoing Szwarc's contribution, several witnesses commented that investing in a just transition should be integral to the government's 'levelling up' and 'building back better' policies. It was pointed out that some of the themes are captured in the UN's International Labour Organization's guidelines for a just transition. The guidelines incorporate the ILO's Decent Work Agenda and include nine key policy areas associated with a just transition, including macroeconomic and growth policies, skills development, industrial and sectoral policies and welfare protection.[17]

It was said that investors were very aware that transition to net zero was a global issue, which concerned international supply chains and international finance. Climate actions in other countries could impact both negatively and positively on the UK, and this needed to be taken on board. LGPS Central stated:

> **"We are of the opinion that the just transition must be recognised as a global challenge as communities that stand to be impacted the most by climate change are often situated in developing countries. We consider that COVID-19 illustrates that global challenges require global solutions if they are to be addressed permanently."**

Just transition definition and main themes

Inquiry heard evidence around a several themes which defined a just transition, these included:

- **A just transition is about transitioning to a low carbon economy in a just way for society – and thus combines the environmental and social.**
- **It is about the fair distribution of climate 'goods' (such as new jobs and cleaner air) and climate 'bads' (such as higher costs associated with decarbonisation and job losses in certain sectors and places).**
- **It is about both maximising the opportunities of a green economy and the mitigating the risks – locally, nationally and internationally.**
- **The social dimension is primarily about employees, consumers, supply chains and communities.**
- **It is about both the process and the outcome: engagement and involvement of stakeholders is critical.**
- **It involves a planned and orderly transition**

[17] ILO, Guidelines for a just transition towards environmentally sustainable economies and societies for all (2015)

WHAT IS A JUST TRANSITION?

Despite concerns about the need for urgent worldwide action and the negative risks, there was a sense of optimism about achieving a just transition. As Alison Tate, Director of Economic and Social Policy at the International Trade Union Confederation, remarked:

> **"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 trade 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."**

WHY A JUST TRANSITION MATTERS TO INVESTORS

This section explores the risks surrounding a shift to net zero and discusses why ensuring a just transition matters to investors.

Witnesses to the inquiry were clear that climate change poses both significant investment threats and opportunities. The value at risk to global financial assets from climate change has been estimated at $2.5 trillion.[18] However, the costs will increase the longer appropriate action is delayed, and the risks are unevenly spread by sector and region.

The inquiry was told that there has predictably been a particular focus on stranded assets of energy companies, such as oil that cannot be extracted because of governmental taxes and limits on carbon emissions.[19] On the other side of the equation, there are also considerable investment opportunities regarding fast growing green infrastructure, industry and technology. For example, the annual global investment in renewable energy is said to need to grow from around $330bn to $740bn.[20]

There was consensus that investors needed to consider these implications. As Lord Deben, Chair of the Climate Change Committee, told the inquiry:

> **"I don't' think that pension trustees now can do anything other than recognise that part of their fiduciary duty is to take into account, in a very serious way, the risks presented by climate change."**

This view was repeated in the written submissions. As Hampshire Pension Fund noted:

> **"Climate Change is a systemic risk and thus, a material long-term financial risk for any investor that must meet long-term obligations."**

Similarly, the Environment Agency Pension Fund stated:

> **"The transition to a low carbon economy is vital. We need all investors to see the risks and opportunities that this can provide."**

The changes necessary to achieve net zero carbon emissions are significant and extensive - covering moving power generation from coal and gas to renewables; moving transport from oil to electric or hydrogen; and moving from gas to renewables and heat pumps. This will require significant investment. According to the Climate Change Committee, achieving net zero carbon emissions will require investment in the UK to grow fivefold over the decade to £50bn and remain around that level until 2050.[21] In total, that amounts to around £1 trillion over the next 30 years.

Businesses will play a critical role delivering these structural changes and several witnesses stressed the need for closer links between finance and industry. As the Grantham Research

[18] Dietz, S Climate value at risk of global financial assets, LSE, 2016
[19] Local authority Pension Fund Forum and Carbon Tracker, Engaging for a Low Carbon Transition (2016)
[20] International Renewable Energy Agency, 10 Years Progress to Action (2020)
[21] Climate Change Committee, The Sixth Caron Budget: The UK's path to Net Zero (2020)

WHY A JUST TRANSITION MATTERS TO INVESTORS

Fiduciary duties and a just transition

Throughout the inquiry the issue of the fiduciary duty of pension funds was raised. As was noted, pension fund trustees have a legal, fiduciary duty to act in the best financial interests of pension beneficiaries. This means that funds cannot choose to invest or divest for social or environmental reasons if they believe it delivers a lower financial return.

However, a common view stated in oral and written evidence was that part of a fund's fiduciary duty meant considering the financial implications of climate change and with it the need for a just transition. As evidence to the inquiry from CIPFA noted about local authority pension funds:

"Ultimately, LGPS funds have fiduciary duty to their scheme members and employers to achieve sufficient funding levels and liquidity to pay pensions when they are due and manage risk to the fund. As part of this fiduciary duty Administering Authorities should have a process to identify and assess climate-related risks; have a process to effectively manage climate-related risks; and integrate these into their overall risk management of the scheme, to exercise their fiduciary duty to the scheme members and employers."

There was also a clear view, emphasised by funds, that responding to climate change did not and could not mean ignoring their fiduciary duty. This did not preclude green investment and efforts to secure a just transition, but they had to make financial sense. As Tom Harrington from Greater Manchester Pension Fund told the inquiry when questioned about the fund's investment approach and the just transition: "Investments are always about commercial returns."

Institute stated in their written submission:

> **"Relationships between finance and business are a powerful tool both in terms of encouraging companies to adopt high standards and providing the financing mechanisms which enable business to make their transition fair and inclusive. To achieve increased just transition action, it is essential to define clear expectations for business efforts, scale up existing levers for change including shareholder engagement, and develop innovative financing strategies that channel funding to SMEs."**

There was a view expressed that while investors have a role in ensuring the transition is just, they should not be seen as the primary focus. Instead, companies would need to deliver a just transition working within the legal and regulatory frameworks, and with the right incentives set by governments. Nevertheless, there was frequent mention during the inquiry of the need for partnership working. For example, LGPS Central in their submission stated:

> **"There was a perception amongst some investors that the Just Transition was an issue for governments to address rather than investors. However, COVID19 provided a further illustration of the important role that investors need to play in ensuring that management of corporations take a long-term view of their businesses."**

Achieving net zero may involve major changes to people's lifestyle, including limits to travel and potential changes to diets. Such wide-ranging changes will impact not only business models but also on the world of work and family life. Such changes may not materialise and the ability – and public trust – in governments to enforce them is unknown. However, the inquiry was told that a failure to ensure a just transition risks making climate action more difficult to deliver, thus creating climate risks for investors.

It was noted that responsible investors should thus not only seek to ensure that such

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changes required of businesses are aligned with meeting climate change targets but consider the wider social implications.

It was said that the failure to understand both the social and economic dimensions to net zero risked a political backlash. Reference was made to the Gilets Jaunes protests in France and to other public protests, such as opposition to the closure of coal mines in Poland and the fuel protests in the UK.

The inquiry heard several times that in the absence of a just transition there could be resistance to climate action. As Lord Deben, Chair of Climate Change Committee, told the inquiry:

> **"We are not going to do the transition if it isn't just, because society won't accept it."**

The chair of Local Authority Pension Fund Forum, Cllr Doug McMurdo, similarly stressed the social implications of climate change action:

> **"Ignoring these issues in a blinkered pursuit of net zero, risks achieving the goal of decarbonising our global economy."**

He went on to note:

> **"All these challenges have material implications for pension funds. 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."**

This strategic recognition that the just transition is a critical enabling factor for climate success has gained ground not only among institutional investors, but also banks and other financial institutions. In November 2020, the Financing the Just Transition Alliance was established to help translate this imperative into operational practice. LAPFF was a founding member of the Alliance and this report shares many of the key findings and recommendations of the Alliance's Just Zero report.[22]

[22] See, LSE, Just Zero: the report of the Financing the Just Transition Alliance, October 2021.

RECOGNISING THE CHALLENGES AND OPPORTUNITIES

This section refers to the evidence concerning the major challenges and opportunities surrounding a just transition to net zero.

A consistent view from the evidence was there needed to be both a recognition of the implications of an unjust transition and a commitment to integrating social dimension into measures to address climate change. These considerations applied to both government and investors.

Government's role

It was said that the government needed to adopt a much clearer position on a just transition. This was not only required to achieve net zero, but important to give a signal to companies and investors. As one investor told the inquiry:

> **"The government has a key role to play in using legislative powers and guidance to steer companies and capital allocation towards a just transition."**

It was mentioned that government at times seemed too distant and needed to engage the public much more on the implications of what moving to a low carbon economy would mean – who would be impacted and how can the transition be achieved in a just and fair way?

It was said that the political realities of net zero – especially at the local level – are difficult and problematic. However, it was observed that there were references to elements of a just transition in government documents. For example, the Prime Minister's foreword to the government's ten-point plan makes reference to the wider social benefits of a green recovery:

> **"Now is the time to plan for a green recovery – with high-skilled high-paid jobs that offer the extra satisfaction of helping to make our nation cleaner, greener and more beautiful."**

The Chancellor has meanwhile updated the remit of the Bank of England's Monetary Policy Committee's to reflect the government's economic strategy for growth to make it consistent with the transition to net zero. Details of that economic strategy include:

> **"Structural reform to level up opportunity in all parts of the UK and to transition to an environmentally sustainable and resilient net zero economy, including through regulation, and an ambitious programme of investment in skills, infrastructure and innovation, in order to sustain high employment, raise productivity and improve living standards."**[23]

The government has also pledged to support 2 million green jobs by 2030 and the recent report from its specially convened Green Jobs Taskforce (see below) states that achieving net zero requires:

> **"an all nations effort to ensure widespread access to high-quality training opportunities linked to good**

[23] Sunak, R "Remit for the Monetary Policy Committee (MPC)" Letter to Andrew Bailey 3 March 2021

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quality green jobs, and a just transition for all.' [24]

However, despite advice from the Taskforce – and from others such as the TUC – on aspects of a just transition (notably around skills and social dialogue) the government has yet to set any clear definition of a just transition or a vision or strategy for action. This is in stark contrast to Scotland, which has a minister for a just transition and a Just Transition Commission which has outlined what a just transition means and provided advice and recommendations for climate policymaking in Scotland – see the final section: 'Taking action: the role of government and just transition commissions'.

Greater recognition of the climate challenges from government and public agencies and clearer policies on a just transition were mentioned in the inquiry as important for raising awareness amongst investors. An investment adviser told the inquiry:

"The myth that climate friendly investment leads to lower growth opportunities or higher costs needs to be robustly dispelled."

It was mentioned that mortgage lending and personal savings would be impacted if homes are to be retrofitted and made 'zero carbon ready' from 2025. Reference was made to the cost of compliance with the government's Future Homes Standard and the costs of switching from boilers to new heat pumps. The inquiry was told that the recent media backlash over the cost and disruption of decarbonising homes was a warning to politicians as to the public's ambiguity concerning net zero measures.

It was said that consumer issues such as replacing boilers encapsulated the wider just transition agenda, especially on concerns around ability to pay. As the Treasury's interim net zero report noted: 'higher-income households have more room within their budgets to absorb the costs of decarbonisation.'

It was suggested that government could provide case studies across industries and geographies to highlight the positive and negative impacts, and measures that could seek to address them. Better transparency and better reporting depended on robust evidence and awareness of government's intentions and plans.

It was brought to the inquiry's attention that government and regulators were requiring companies and investors to report on climate change. It was said that extending such requirements to incorporate social implications of climate change and action could help ensure greater recognition of the risks and opportunities. The South Yorkshire Pension Fund stated:

Green Jobs Taskforce

The Green Jobs Taskforce was commissioned in November 2020 by Department for Business, Energy and Industrial Strategy and the Department for Education and forms part of the government's Ten Point Plan for a Green Industrial Revolution. The taskforce was comprised of members from industry, trade unions and the skills sector. It was tasked with looking at what new skills would be needed to reach net zero, ensuring green jobs are good jobs and how workers in high carbon sectors can transition to a new green economy.

The final report was based around three themes. The first, was having a comprehensive plan for investment across the country to achieve net zero, create quality green jobs and drive investment in skills. The second, was building pathways into good green careers, which would entail government, industry, unions, and the education sector working together to identify and address skills gaps. The third theme was ensuring a just transition for workers in high carbon economy. The taskforce recommended that: no one should be left behind in the training system; businesses should engage their workers and supply chains in transition plans; and government should support business in this change alongside support for local economies.
The taskforce called on government to introduce specific measures to aid a just transition, including for industries which receive government funding to support decarbonisation to agree with their workforce or relevant recognised union, mandatory Just Transition agreements that outline principles and practices of the workforce transition.[25]

[24] [25] Green Jobs Taskforce: Report to Government, Industry and the Skills Sector (2021)

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"Government specifically can either through regulation or guidance encourage investors, and particularly asset owners such as pension funds, to pay more than lip service to climate change and the wider responsible investment agenda."

Investors' role

It was commented by several witnesses that the challenge of net zero is not the sole domain of government - investors also have an essential role. It was said that recognition of a just transition was the first step towards action, within pension funds but also amongst companies and beyond. There needed to be a common acceptance of the net zero challenge and what the social and economic consequences might be.

According to Tom Harrington from the Greater Manchester Pension Fund Forum the first step investors can take is integrating just transition into investment policies. He told the inquiry how the Northern LGPS policy included a regional dimension and a thematic approach to investment, covering climate change and a just transition (including guidance on employment standards and human capital).

Other evidence to the commission pointed to the growing use of the UN's Sustainable Development Goals (SDGs) as a framework for funds to use to develop their approach to a just transition. It was suggested that as the SDGs are becoming more widely adopted they would not be alien to investors and are aligned with other work on ESG standards. The South Yorkshire Pension Fund stated:

"The increasing use of the UN Sustainable Development Goals (SDGs) as a framework for understanding the wider impact of investments is potentially a key lever in changing understanding and gaining support for the Just Transition."

Sharing best practice among investors was said to be a useful way forward. Pensions for Purpose (which helps pension funds mitigate negative impacts by understanding what they invest in and market opportunities) set out how they were seeking to facilitate this through information sharing, peer-to-peer meetings, and training. They said that this helped funds articulate their investment beliefs, undertake baseline assessments (such as carbon footprint or SDG mapping) and agree where action should be taken. There was scepticism whether new organisations needed to be established. It was suggested that a stronger focus should be on the role of existing membership organisations and collaborative investor initiatives. Organisations such as LAPFF were mentioned as having an important role in raising awareness amongst members and providing information.

It was also noted that pension funds have a role themselves in raising awareness beyond the investment community. It was noted in the evidence that engagement and reporting with beneficiaries would be important to both explaining the challenges but also ensuring scheme members supported the funds approach.

Recommendation 1: Government should explicitly recognise and articulate a high-level commitment to a just transition. Policies for a just transition should be cross-governmental and firmly embedded in government strategy and plans to achieve net zero.

Recommendation 2: Investors should include a commitment to a just transition in their investment policies and seek to raise awareness of the issue through collaborative initiatives and membership organisations.

UNDERSTANDING THE CHALLENGES AND OPPORTUNITIES

This section examines how government and investors can understand and evaluate the just transition challenges and opportunities.

The inquiry heard about the importance that investors give to understanding the challenges that a just transition presents to analyse risk and then to take action. Several witnesses stressed how that task could be greatly assisted if government were to outline the challenge and its longer-term plans. Such understanding of longer-term plans was not only viewed as critical given the time horizons over which institutional investors operate, but also because it was as an essential component of ensuring an orderly, and therefore a just, transition.

It was also stressed to the inquiry that to fully understand and evaluate the risks, investors needed to engage as best they could with a wide range of actors, not least those stakeholders directly impacted by a shift to net zero. Reference was made to the value of social dialogue and how setting out roadmaps to a just transition required meaningful consultation and agreement.

The scale and breadth of the just transition is daunting and differs by sector and place and covers large parts of the economy and, therefore, a range of investment portfolios. However, it was said that investors were able to focus on key sectors where there are known employment effects.

Nick Robins from the Grantham Research Institute at LSE and colleagues have estimated that one in five jobs are likely to be impacted by the transition to a net zero carbon economy.[27]

The Institute highlighted to the inquiry five sectors which would be most affected:

- **Construction:** the largest employer in terms of carbon exposed sectors and critical in terms of new buildings and retrofit, with major social issues as laid out in the draft National Retrofit Strategy including job creation, job quality as well as social value for households.

- **Transport:** the largest source of carbon emissions with significant employment clusters across automotive and aviation manufacturing, as well as aviation, logistics, public transport, and shipping.

- **Energy:** beyond the power sector, North Sea oil and gas has clearly been heavily impacted by the COVID crisis with 43% of workers made redundant or furloughed since March 2020.

- **Industry**: this includes a number of foundation sectors such as cement, chemicals, and metals, where fundamental process changes are needed for net-zero, potentially along with carbon capture and storage clusters, which could sustain and potentially attract new jobs. The UK also hosts international mining companies with profound just transition challenges.

- **Food and Agriculture:** farming and food production will also need a just transition as part of the wider rural economy.

[27] Robins, N et al Investing in a just transition in the UK: How investors can integrate social impact and place-based financing (2019)

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The inquiry was told that there would be implications beyond these sectors, including for the way the banking system operates - notably the provision of finance for SMEs to decarbonise and mortgage finance.

Unequal decarbonisation effects also extend to places. Mention was made in the evidence sessions, for example, to coal mining communities affected in previous unjust transitions. Evidence was given on how carbon-intensive jobs are clustered in specific areas, many of which are comparatively deprived.[28] It was widely agreed that how companies and government plan to manage transition in such places will be a measure of their commitment to a just transition. The inquiry was made aware that industrial transition programmes for the coal industry in German and Canada, for example, demanded long term planning with the involvement of the social partners and firm financial commitments from government. Reference was also made to the EU's Just Transition Fund to support the territories most affected by the transition towards climate neutrality.

Government plans and policies

It was said to the inquiry that, as the just transition was state mandated, there was an opportunity for governments in the UK and abroad to set clear roadmaps to achieving the transition in an orderly and fair way. The inquiry heard a consistent message from investors that a clear policy lead from government would enable them to plan for the transition to net zero. However, whilst Whitehall had made more effort to understand the scope and scale of the challenge and ministers had set ambitious carbon reduction targets there was little guidance about how the objectives were to be met, especially in key sectors such as energy. The view of several witnesses was that without greater coordination and strategic planning it was difficult to evaluate the likely economic or social impacts. As the Environment Agency Pension Fund stated:

"Investors need to understand what the economy and society will look like post transition and the roadmap of how we will get there. This will allow investors, asset managers and companies to assess the likely impact on people and implement steps to avoid potential injustices."

Reference was made to the recent Public Accounts Committee report on net zero which highlighted that as much as 60% of emissions reduction will rely on individual choices and behaviours, from day-to-day choices to one-off purchases of cars and boilers.[29] Without greater clarity and buy-in from the public, levels of uncertainty for investors will remain high and present a barrier to achieving a just transition.

It was said that the need for planning is urgent as many changes to the economy mandated by government are already occurring. These include ending use of coal fired power stations by 2024,[30] the intention to shift away from traditional boilers in new build homes by 2025[31] and ending the sales of new petrol and diesel cars by 2030.[32]

In the case of coal fired power stations, it was noted to the inquiry that there was no just transition plan for the sector and the closure of each power station was treated as a unique event. Equally, the government has yet to outline and quantify the likely impact for communities, workers and consumers of the transition by sector and geography. This naturally makes it much harder for investors to map out the investment risks and opportunities.

Recommendation 3: The government must fast track publishing its net zero plans and consult on how they can be achieved in a just way. Delay risks a public backlash and falling short of the UK's carbon reduction targets.

[28] Robins, N et al Investing in a just transition in the UK: How investors can integrate social impact and place-based financing (2019)
[29] Public Accounts Committee, Achieving Net Zero, (House of Commons, 2021)
[30] Department for Business, Energy and Industrial Strategy, End to coal power brought forward to October 2024, 30 June 2021
[31] MHCLG, The Future Homes Standard: 2019 Consultation on changes to Part L (conservation of fuel and power) and Part F (ventilation) of the Building Regulations for new dwellings, January 2021
[32] Department for Transport, Government takes historic step towards net-zero with end of sale of new petrol and diesel cars by 2030, 18 November 2020

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Investors and a just transition

While government seeks to outline the legal, regulatory, fiscal and public investment environment for achieving net zero, investors will themselves need to understand the implications of the just transition. Evidence to the inquiry covered what investors can do, including requesting appropriate disclosures from companies, the right metrics to understand the challenges, and engagement with stakeholders to understand their concerns.

The evidence to the inquiry highlighted the difficulties of having appropriate measures, the need for agreed measures and standards and for the investment community to have the right skills (and willingness) to analyse the information.

Financial disclosure for a just transition

It was said that companies need to be clear about their approaches to climate change and need to provide adequate disclosure. This disclosure expectation included reference to the internationally recognised Task Force on Climate-Related Financial Disclosures, which has developed a framework to help companies (and investors) more effectively disclose climate-related risks and opportunities through their reporting processes.

There was also broad consensus among witnesses that measures and metrics on carbon emissions were in place. It was acknowledged that there were technical difficulties in capturing some of the information, especially around Scope 3 emissions (such as emissions from a product produced and sold by a company) and beyond listed companies into private equity, derivatives and infrastructure. Nevertheless, there was agreement that measures are fairly advanced and that companies are being asked by investors to disclose such emissions alongside their plans for being 'Paris aligned' (something which the inquiry was told can be validated by the Science Based Targets Initiative).[33]

However, the inquiry was told that there were no widely accepted standard metrics or disclosures on a just transition and that more information, as well as a common framework for reporting risks, were needed. This would

Just Transition Indicators

World Benchmarking Alliance: The WBA represents organisations working at global, regional and local levels and seeks to measure and incentivise business impact towards greater sustainability. It has produced a draft methodology for assessing and benchmarking companies on the just transition agenda and seeks to serve as a roadmap for companies. The methodology includes just transition indicators and is set to be used to assess 180 high emitting companies by November 2021 and a total of 450 by 2023. The proposed areas cover six topics, including workers and human rights, social dialogue, job creation, skills, social protection and policy advocacy. [34]

Climate Action 100+: This is an investor-led initiative comprised of investors responsible for $52 trillion of assets and focused on the largest corporate emitters taking action on climate change. CA100+ has launched its Net Zero Company Benchmark, which includes 10 indicators. One of these indicators is on a just transition and whether "The company considers the impacts from transitioning to a lower-carbon business model on its workers and communities." The indicator is in development and in 2021 companies were not assessed against it in the benchmark.[35]

Just Transition for Climate Fund: Alongside benchmarks of company performance, the French-based asset manager, Amundi, was the first to establish a just transition fund. The fund, originally established in 2015 after COP21, has been relaunched with the aim of supporting the energy transition in a socially responsible way. The fixed income fund has a negative screen based on carbon emissions, ESG scores and a just transition score, which incorporates impacts on consumers, workers, and communities.[36]

[33] The Science Based Targets initiative (SBTi) states that it 'drives ambitious climate action in the private sector by enabling companies to set science-based emissions reduction targets'.
[34] World Benchmarking Alliance, Assessing a just transition: measuring the decarbonisation and energy transformation that leaves no one behind (2021)
[35] Climate Action 100+, Climate Action 100+ Net Zero Company Benchmark
[36] Institutional Asset Manager, Amundi launches first Just Transition for Climate strategy, 8 April 2021

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not only give a picture of a company's current position but offer a forward view of how it intended to achieve a just transition to net zero.

According to Alison Tate, at the ITUC:

> **"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."**

However, it was said that it is often difficult to capture just transition risks appropriately. According to the Environment Agency Pension Fund:

> **"It is not in pension funds' interest to invest in an unjust transition. There is currently no easy way to assess risk at a strategic level. We need to work with asset managers to understand the risk."**

According to the Pensions Policy Institute investors need more clarity. The Institute noted that research they had undertaken found that a quarter of investors surveyed felt that there was too much information, and one in five found conflicting information a challenge. They called for more accessible information so that investors could make better judgements about risk.

However, the inquiry was informed that some work was being undertaken on just transition indicators, mostly building on ESG metrics – see box above.

It was noted that calls for greater disclosures around human capital management were not new. The Kingsmill review,[37] 'Accounting for People', for instance, had set out 10 core measures, although almost two decades on consistent and comparable information was still not readily disclosed by companies. The inquiry was told that there have been new initiatives, such as the Workforce Disclosure Initiative, but requirements for companies remains limited. According to LAPFF:

Task Force on Climate-Related Financial Disclosures (TCFD)

TCFD was established by the Financial Stability Board (FSB) the international body that monitors and makes recommendations on the financial system, to develop recommendations for more effective disclosures to inform investment, credit and insurance underwriting decisions and ensure stakeholders better understand climate-related financial risks. The task force was commissioned by then chair of the FSB Mark Carney and the task force was led by Michael Bloomberg.

Its final report was released in 2017 and recommended organisations make disclosures structured around four areas:

- **Governance:** The organization's governance around climate-related risks and opportunities
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning
- **Risk Management:** The processes used by the organization to identify, assess, and manage climate-related risks
- **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities." [38]

Companies and investors have started to report on TCFD lines. The government through a cross departmental initiative has sought to integrate the recommendations into regulations, with the largest organisations starting to be expected to report in line with TCFD.[39]

[37] Kingsmill Review, Accounting for People (2003)
[38]TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures (2017)
[39]See UK joint regulator and government TCFD Taskforce: Interim Report and Roadmap, November 2020 - https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcfd-taskforce-interim-report-and-roadmap

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"Search through policy documents and annual reports and there is little discussion of the social implications of decarbonisation."

TCFD guidance on reporting the financial impacts of climate change was seen as an internationally accepted way for companies (and investors) to set out their approach to climate risk. It currently focuses on the environmental aspects of transition, but the inquiry was told it could be extended to include a just transition for company reporting.

It was said that integrating just transition risks into TCFD would be a useful single approach which would avoid creating another standard for investors to grapple with. Furthermore, given the financial implications of the social benefits and risks associated with the transition, it was felt that TCFD could be strengthened by including the social dimension of climate action.

Such an approach would clearly have implications for investors. At present TCFD is increasingly being required of companies and private pension funds. It was noted in the evidence sessions that LGPS funds were likely to face similar regulations as private funds. As such, local authority funds will likely need to prepare for such reporting and could take a lead by including just transition within their TCFD reporting (see later section on 'Reporting impact').

Understanding and integrating just transition risks into pension fund policies and practices will certainly require extra resources. It was noted that cost is often a barrier to integrating ESG factors into a pension fund's investment approach, including both in-house time but also external expertise. CIPFA's submission to the inquiry, for example, stated that:

"The government could also provide specific ring-fenced funding to Administering Authorities to recruit resources to develop policies at a local level and allow assessment of asset allocations to contribute to ESG targets and achieving sustainable development goals."

Education and Training

The inquiry was told that education and training on a just transition – and on tackling the employment and social dimensions of sustainable development in general – are in their infancy.

Submissions to the inquiry stressed the importance of offering LGPS trustees and officers the opportunity to increase knowledge and skills around the just transition agenda. It was also noted that this should extend beyond funds to advisors and managers and include increasing expertise and training more widely. As the Pensions Policy Institute commented:

"Although knowledge and understanding of ESG issues have grown across the industry, there is still a need to improve some scheme decision-makers' knowledge in this area, especially around the more practical aspects such as the implications of different investment approaches."

However, it was said that there were few training courses for investors on social issues and a just transition and that the knowledge gap was holding back efforts to integrate social factors into investment strategy and to make requests of their managers on the issue.

It was said that a comprehensive guidance note on a just transition would be beneficial as an educational tool. It was also remarked there was a role for asset managers to share knowledge and improve standards – see section on 'Taking action – the role of investors'.

Engaging affected stakeholders

While company disclosures are essential, they are not sufficient. Engaging with stakeholders was also viewed by those the inquiry heard from as a way of understanding the risks investors face. Engagement with stakeholders is also a core component of the just transition itself. Thus, expectations of companies by investors seeking to achieve a just transition should be shaped by those likely to be affected by the transition if those expectations are to be just.

According to Peter Brierly from Citizens UK:

UNDERSTANDING THE CHALLENGES AND OPPORTUNITIES

> **"It is about putting people most affected by the issues at the heart of 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."**

This view was shared by Alison Tate from the ITUC who made the case for companies to engage stakeholders on just transition plans. Tate highlighted experience in industries where jobs are being phased out and where workers know what needs to happen. However, employees are often not given an opportunity to give their view about what should happen or know about future plans.

In his evidence Cllr Doug McMurdo noted that in LAPFF's engagement work with mining companies failing to listen to concerns of communities had fatal consequences. He noted that the tailing dam disasters in Brazil, for example, were a human tragedy which also had a material impact for investors with companies facing large costs to rectify problems and compensate communities. McMurdo commented that:

> **"For both the process and the outcome to be just, stakeholders have to be involved. In engagement work I have been part of with mining companies, I have seen at first-hand the tragic consequences of ignoring communities concerns about safety."**

The inquiry was told that investors need to ensure that a social dialogue on a just transition is taking place in a meaningful way and is genuine. According to LAPFF, without hearing the views of stakeholders, investors risk being overly reliant on company disclosures and may underestimate material risks around the just transition. LAPFF observed that companies tend to focus on second party, or business-related, risks rather than human rights and climate, or third-party risks in undertaking human rights and environmental risk assessments.[40] However, in LAPFF's experience, failing to assess third party risks compromises companies' and investors' abilities to assess second party risks.

The inquiry was told that engagement work is resource-intensive, and that investors will not be able to meet with all community groups and workers. However, it will be important that investors and managers either individually or collaboratively seek engagement with representative employee, community, and consumer groups to the greatest extent possible and particularly where there are serious ESG concerns.

Recommendation 4: Investors should consider undertaking a baseline assessment of the just transition risks they face - this should include both quantitative metrics and qualitive information, informed in part by affected stakeholders.

Recommendation 5: The investor community should seek to establish a set of common and acceptable measures of a just transition.

Recommendation 6: Government should explore what disclosures on social risks should be mandatory for companies to ensure just transition risks are mitigated. As part of this exercise, they should consider widening the remit of the Taskforce on Climate-Related Financial Disclosures reporting requirements to include the just transition agenda.

40 The latter approach to risk assessment is espoused in the UN Guiding Principles on Business and Human Rights

TAKING ACTION: THE ROLE OF INVESTORS

This section considers the range of actions that investors are taking – and could take – on a just transition.

The inquiry heard how, after identifying and understanding just transition implications, funds could seek to mitigate the risks and make the most of the opportunities from a just transition. Some of the evidence spoke to how investors could set expectations for companies and engage with business leaders to ensure they were planning effectively for a transition to net zero. The inquiry was also given evidence on how funds' capital allocations can mitigate risks and how direct investment can support a transition to net zero which supports positive social outcomes.

INVESTOR EXPECTATIONS

A growing number of investors and companies recognise the social implications of the transition to a low carbon economy. Some are also seeking to set expectations of companies, which can then form the basis for engagement with companies and could also be used for capital allocation decisions.

The inquiry heard that frameworks already exist and that just transition was not about 'reinventing the wheel' but combining social and environmental standards (including legal and regulatory standards and frameworks and voluntary codes and expectations). The inquiry heard from Northern LGPS, for example, who explicitly mentions ILO labour standards in their investor statement. Other international frameworks referenced to the inquiry include the UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises. There is also a growing series of human rights laws that are being introduced via legislation (such as the Modern Slavery Act and human rights and environmental due diligence legislation in a number of countries) and case law.

As mentioned, the ILO has also set out broad guidelines to governments for a just transition.[41] Some of these policy areas could inform investor expectations of both governments and

[41] ILO, Guidelines for a just transition towards environmentally sustainable economies and societies for all (2015). These are: Macroeconomic and growth policies; Industrial and sectoral policies; Enterprise policies; Skills development; Occupational safety and health; Social protection; Active labour market policies; Rights; and Social dialogue and tripartism.

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companies. The inquiry was informed that the ILO guidelines already form part of a 'Just Transition and Decent Jobs Pledge' agreed between the ITUC's Just Transition Centre and the B Team worldwide corporate leadership group. The pledge, taken by 27 global energy companies and encompassing contractors, is based on a series of standards for a just transition, including respect for human and gender rights, social dialogue, planning for the transition, social protection, retraining and redeployment and advocacy.[42]

For investors, there are several initiatives which seek to capture companies' approaches to social issues. ShareAction's Workforce Disclosure Initiative, for example, has sought for companies to disclose information on employment practices. Originally supported by the Department for International Development and investors with $7.5 trillion assets under management, the survey asks 131 questions of corporates and in 2020 had 141 participating companies.[43] The Corporate Human Rights Benchmark meanwhile measures 230 companies on their human rights performance. The inquiry heard that such initiatives can help funds inform their expectations of companies and asset managers acting on their behalf.

Some investors have started to set out their own expectations. The inquiry heard from Friends Provident Foundation who with Royal London Asset Management have outlined expectations for the utilities sector.[44] They set out ten expectations covering workers, community, supply chains and consumers. Other examples of documents highlighted to the inquiry include: 'A just energy transition: impacts on European power producers' by New York-based ESG analysts, Candriam, which examines best practice case studies[45]; and 'Investor expectations on just transition' by the Initiative for Responsible Investment which sets out expectations around governance and transition plans.

The inquiry also heard evidence from SSE about its just transition strategy, which covers 20 principles around transitioning to net zero.[46] These include good, green jobs, consumer fairness, supply chains, retraining and redeployment, repurposing existing physical assets, consultation, and supporting industrial development in communities.

It was said that such initiatives give investors a framework for setting expectations of companies. Evidence from the Grantham Institute set out seven themes that emerge from existing standards, conventions and guidelines about what investors can expect of large businesses. These are viewed as qualitative measures alongside more quantitative metrics.

The inquiry heard how such expectations are likely to be tailored to specific sectors. For instance, it was noted that the utilities sector is heavily regulated from a consumer perspective and therefore will have its own set of requirements around consultation with consumers.

How these expectations are used in practice will differ. The majority of LGPS funds contract investment managers to manage their portfolios. Nevertheless, having a set of expectations of companies enables asset owners to set expectations of fund managers on considering just transition risks and strategies for mitigating them. Furthermore, it was stated to the inquiry that outsourcing investment functions does not absolve funds of their human rights and environmental responsibilities (as set out in UN Guiding Principles 13 and 17, with principle 19 stipulating that business enterprises should seek to gain leverage to mitigate adverse impacts).[47]

Recommendation 7: Investors should make the clear case to government for policies which support a just transition.

Recommendation 8: Investors and their asset managers should set out their expectations of companies on a just transition.

[42] Just Transition Centre and B Team Just Transition: A business guide from the just transition centre and the B Team (2018). And B Team website for latest details on the 'Just Transition Pledge'
[43] Workforce Disclosure Initiative, Workforce Disclosure in 2020: Trends and Insights (2021)
[44] For more information see: Royal London Asset Managers, Expectations for energy utilities' Just Transition strategies - https://www.rlam.co.uk/institutional-investors/our-views/2020/expectations-for-energy-utilities-just-transition-strategies/
[45] Candriam, A Just Energy Transition: Impacts on European Power Producers (2020)
[46] SSE, Supporting a Just Transition (2020)
[47] UN, Guiding Principles on Business and Human Rights: Implementing the Unite Nations "Protect, Respect and Remedy" Framework (2011)

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Just transition: an investor's expectations framework

Strategy
- Establish a company strategy and plan for the just transition in the context of delivering net-zero and resilience goals, to be adopted at the Board level with clear Board oversight.
- Incorporate the just transition in remuneration, planning, risk management, scenario exercises and capital investment as well as acquisitions and restructuring. This strategy should be based on established international frameworks and standards (including from the United Nations, International Labour Organization [ILO] and Organisation for Economic Co-operation and Development [OECD]) and should cover themes 2–7 below.
- Ensure social dialogue and representation of workers and trade unions in company-level climate decision-making and implementation.

Workers
- Deliver good jobs and decent work in the transition and respect for worker and human rights (including, for example, pay and benefits, job formality and contract length, skills development and training, health and wellbeing, diversity and inclusion, freedom of association and collective bargaining).
- Promote and provide reskilling and retraining, redeployment, or retirement support.
- Take a comprehensive approach beyond direct employees (for example, including living wages for all contractors).

Supply chain
- Support suppliers (including SMEs) so that they can prosper in the just transition through access to skills, finance and technology; this could include a place-based emphasis on suppliers and services.
- Apply labour, human rights and environmental due diligence and policies along the supply chain, particularly in developing countries. Labour, human rights and sustainability standards that businesses commit to for their own operations should extend to the supply chain.

Communities
- Engage with local communities to address the social risks of transitions to regional economies and promote local wellbeing. This inclusion of community voice needs to be firmly rooted from project planning onwards and include a particular focus on vulnerable communities as well as wider sustainability considerations (such as biodiversity).
- Partner with local communities to share value in net-zero and resilience investments (including community engagement and respect for Indigenous communities).

Consumers
- Support consumers, including vulnerable groups, in terms of improving access to key goods and services in the transition and ensuring they are affordable.
- Enable consumers to participate actively in the transition.

Policy and Partnerships
- Advocate for the just transition within the context of supporting Paris-compliant decarbonisation targets in industry associations and in lobbying of government.
- Support partnerships for the just transition to net-zero at the local, sectoral, national and global levels.

Transparency and disclosure:
- Report on just transition policies and performance, including on the six themes above, including through Task Force on Climate-related Financial Disclosures (TCFD) reporting.

Evidence from the Grantham Research Institute [48]

[48] For further information on investor expectations on just transition, see LSE, From the Grand to the Granular: Translating Just Transition Ambitions into Investor Action https://www.lse.ac.uk/granthaminstitute/publication from-the-grand-to-the-granular-translating-just-transition-ambitions-into-investor-action/

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COMPANY ENGAGEMENT

Engagement was viewed as the next step after setting out expectations of companies. However, the transition to net zero carbon emissions will impact some sectors (and places) more than others.

The work of Climate Action 100+ focuses on the largest global CO2 emitters and the 'Say on Climate' initiative asks for every company to set out a plan to achieve zero carbon and to make annual provision for shareholders to vote on such plans. While engagement will be most impactful if targeted at those companies most affected, the range will be wide. As was noted to the inquiry the sectors include energy and extractive industries but extend beyond that to manufacturing, agriculture, construction and transport. It was therefore suggested that investors will need to focus engagement programmes on those with the largest just transition risks.

Resources for engagement

Evidence to the inquiry also placed an emphasis on funds dedicating resources to engagement and stewardship. This funding was viewed as important to ensuring action is taken and that outcomes are being measured and monitored. Alongside resources, it was stated to the inquiry that funds need to develop a process for engagement and stewardship, focusing on how best to use the dedicated resources and where responsibility and accountability lie for implementing the funds' approaches and expectations.

Asset managers

The way in which investors will engage companies varies according to size and approach. English and Welsh LGPS funds are part of investment pools, which will invest through asset managers and many will use ESG advisers. The majority of LGPS funds are members of LAPFF, and pools and individual funds will be part of collaborative initiatives, such as Climate Action 100+. Meanwhile, some of the larger funds will undertake engagement directly themselves. As such, there is a rich mix of organisations undertaking engagement work.

In the evidence to the inquiry, the relationship with asset managers was stressed. Many funds have investment managers who manage the fund's portfolio in alignment with the fund's policies. It was remarked that setting out both just transition expectations of companies and including the just transition in responsible investment policies were an essential step to integrating ESG and just transition into investment decisions and engagement activity. It was also noted that just transition and the social implications need to be a prominent feature of discussions, including with asset managers. LGPS Central remarked that:

> **"It is also important that any conversation between investors and corporations around climate change are holistic and recognise the social implications of the transition to a low carbon economy."**

Evidence to the inquiry highlighted the action that funds could take to ensure that asset managers were engaging on companies on a just transition. First, funds should establish a policy which explicitly sets out the fund's position. Second, funds' due diligence and criteria when selecting asset managers includes the managers' approach to meeting the funds' responsible investment policies and

Investor and trade union just transition agreement

The inquiry heard from IFM, an investor-owned fund manager, who had signed a Memorandum of Understanding with the International Trade Union Confederation (ITUC). Although not focused explicitly on a just transition, the MoU set out IFM's commitments on labour rights. The eight-point plan covers health and safety, fair wages, diversity, freedom of association, collective bargaining and human rights. The IFM is using the MoU as the basis for setting specific measurable targets and states that this approach will have commercial benefits.

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understanding of issues such as a just transition. Third, once selected, funds need to set high-level objectives for managers. Fourth, funds need to regularly monitor and measure managers' performance. And fifth, funds need to scrutinise and hold their managers to account.

The inquiry heard that if the specific ESG considerations of funds were to be acted upon where activities are delegated, this process must be properly managed. The Pensions Policy Institute reported that:

> **"Schemes do not always have the internal expertise or governance resources to fully understand or assess activity undertaken on their behalf, and are heavily reliant."**

It was noted that larger funds were more likely to have internal policies whereas many smaller funds have yet to incorporate these considerations into how they delegate investment decisions. Regulatory changes though may shift some behaviour. Implementation statements require trustees and providers to have a sufficient level of knowledge to provide challenge to external managers. This will require resources and specific support, especially around social risks which may be less understood than governance risks and, to a lesser extent, environmental risks. It was suggested that there was a need for neutral guidance on the issue.

It was noted that there has been considerable focus on social risks in the wake of the pandemic.[49] The Department for Work and Pensions (DWP), for example, recently consulted on how occupational pension schemes understand "social" factors and how they seek to integrate considerations of financially material social factors into their investment and stewardship activities.[50] The Minister for Pensions introduction to the consultation stated that:

> **"It has never been my intention that climate change should be trustees' sole ESG consideration - not least because action on climate change is often linked to action on wider social factors. Equally, poor governance in a company may contribute to poor performance on environmental and social considerations. Whilst we have an understanding of what good governance entails, as set out in the Corporate Governance Code, I am concerned that social factors are not well understood".**

It was said engagement on social and climatic issues should include just transition risks, and that asset managers in general need to be proactive on the issue. According to the Environment Agency Fund:

> **"Asset managers are key in engaging with investee companies. In our experience, there needs to be far more engagement on a just transition although we are starting to see more interest."**

Such interest was highlighted in the engagement work that Royal London Asset Managers and Friends Provident Foundation undertook with the utilities sector. The action of SSE to formulate a just transition strategy was viewed as evidence of the success that engagement with companies can have.

Collective engagement

Collaborative engagements were viewed as giving investors a larger voice and greater leverage in discussions with companies. The South Yorkshire Pension Fund commented:

> **"From the investee company point of view engagement is likely to be more productive if undertaken collectively with a significant weight of shareholder funds behind any engagement."**

The impact of Climate Action 100+, which brings together over 600 institutional investors, was seen as an important vehicle in delivering company action on climate change. However, there was a sense from some of the submissions that the initiative could do more on a just transition and ensure conversations they have with companies consistently include wider social

[49] For example see: Mooney, A Coronavirus forces investor rethink on social issues, Financial Times, 30 April 2020
[50] DWP, Consideration of social risks and opportunities by occupational pension schemes (2021)

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impacts of climate action.

LAPFF was seen as important way for local authority pension funds to have a louder voice and to engage companies on a just transition. It was said that the Forum enabled smaller funds with fewer resources to participate and be involved in engagements at a senior level with companies. It was noted that LAPFF had frequently opened dialogues between investors and local communities and employees to understand the perspective of other stakeholders (an essential component of engaging companies on a just transition).

Escalation

Engagement may take time to have an impact. As such, perseverance was viewed as essential in delivering change to reduce risks that investee companies face. However, the inquiry heard that where there was little evidence of progress or was seen as too slow, investors should seek to escalate their engagement activity. According to Tom Harrington, Greater Manchester Pension Fund and member of the LAPFF executive committee:

> **"Sometimes engagement is not enough."**

Shareholder resolutions

It was said to the inquiry that Annual General Meetings gave investors a chance to have their say about the board's approach to climate change and a just transition. ShareAction also said to the inquiry that there was a case for involving stakeholders at AGMs.[51]

AGM voting by shareholders was viewed as enabling investors to ramp up efforts to deliver change. One way of escalating engagement is filing resolutions at company AGMs. The inquiry heard about a specific climate change resolution at the 2020 Barclays' AGM which mentioned the need for the company to consider the social dimension of the transition:

> **"Investors encourage the bank to consider the just transition when developing phase-out targets. Tackling climate change will require the transformation of sectors and economies, with important implications for the global workforce. The Paris Agreement is clear about the need to "[take] into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities".**[52]

This is believed to be the first supporting statement to include a just transition ask. The proposal led by ShareAction and with the support of LGPS funds and pools gained the support of over a quarter of shareholders (and over a third of those not abstaining).[53]

Voting

It was stated that shareholder resolutions were not the only way to show dissatisfaction or seek change. Investors could also vote against the report and accounts, specific directors or the chair. Even where resolutions do not pass, if there are significant votes against the board's position, the company should explain when reporting the results what action it will take and how it will consult shareholders.[54] This information in turn gives greater engagement opportunities and leverage with the company board.

It was also noted that companies could appoint employee directors to the board as part of their approach to ensuring a just transition. The UK Corporate Governance Code sets out three options for companies on employee engagement: a director appointed from the workforce; a formal workforce advisory panel or a designated non-executive director. Many companies have chosen to have a designated non-executive. However, funds may wish to push for a director appointed from the workforce where there are considerable just

[51] For more information see ShareAction, Fit-for-purpose? The future of the AGM (2021)
[52] Barclays PLC, Notice of Annual General Meeting 2020 (2020)
[53] ShareAction, 24% of shareholders voice dissent at Barclays' current fossil fuel support - https://shareaction.org/24-of-shareholders-voice-dissent-at-barclays-current-fossil-fuel-support/
[54] Financial Reporting Council, The UK Corporate Governance Code, July 2018

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transition risks or where progress on just transition concerns is deemed to be too slow.

Recommendation 9: Investors should engage (directly, through advisers and in partnership with other investors) companies identified as facing the biggest just transition risks and opportunities.

Recommendation 10: Funds should ensure that collaborative initiatives and membership organisations have a consistent focus on a just transition in engagements.

Recommendation 11: Funds should dedicate resources to ensuring that those engaging on their behalf are meeting expectations on a just transition.

Recommendation 12: Funds should have an escalation strategy where progress is not being made, including filing shareholder resolutions, voting at AGMs, and pushing for employee directors.

Lessons from previous transitions

Throughout the inquiry, reference was made to previous transitions. In particular, the process of de-industrialisation and job losses in shipbuilding, textiles, steel and coal was raised. The way this process was managed was criticised, especially the lack of a coherent approach to ensure an orderly transition which led to few opportunities for workers to retrain and find new work.

To ensure that mistakes of the past were not remade, it was stated that companies and government needed to be clear about what industries and sites will need to change and ultimately might need to be closed to achieve net zero. Some sites can be repurposed for a reconfigured business model, but this might not be available in all places. In the past, unplanned factory and mine closures led to uneven economic development and spatial inequalities. It was stated that it should be government's role to have a regional economic strategy with adequate support and that the process should be planned to give time for people, places and supply chains to adjust. It was noted to the inquiry that efforts to address the fall-out from the closures of mines were too late.

It was said that past transitions were too top-down, and that workers and communities who have a stake in the transition to net zero needed to be actively involved in decisions that affect them.

It was noted that the ambition should not be about managed decline or mitigating the effects of change, as was the case during de-industrialisation. It should mean setting out a positive vision of a more sustainable future and focusing on job quality rather than simply job numbers.

It was also suggested that there needed to be a more coordinated approach than in previous industrial transitions. It was said that there needed to be joined up responses to individual places facing change and involving state and non-state actors.

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CAPITAL ALLOCATION AND DIRECT INVESTMENT IN A JUST TRANSITION

Pension funds are seen by themselves and others as important actors in financing the shift to a low carbon economy and ensuring that it is undertaken in a just way. Capital will be required to create new industries, transform existing ones, and finance green infrastructure projects. As Polly Billington, chief executive of UK100 (the network of local government leaders) stated:

> **"What we realised was that simply having more public money on its own was not enough. What they wanted was to have access to private finance because they wanted to do things at scale."**

It was noted that pension funds have a role in greening finance (ensuring their existing investments are low carbon) and in green finance (directly investing in green projects). Such projects were said to have a specific relevance for local authorities, not least because of the need to deliver infrastructure changes and ensure a just transition within communities. Despite the potential importance that direct investment could have in delivering new industries, it was stated to the inquiry that because of the scale of investments involved, the greening of finance may have a bigger impact.

As outlined in the previous section, a fund's investment policies should document the fund's ESG and responsible investment beliefs. The inquiry heard that this should include a policy statement outlining individual principles on tackling climate risk and ensuring a just transition. The scale of the change required means that climate change and the associated social changes pose a systemic risk which needs to be acknowledged.

It was said that some funds will have clear positions on climate change and positions on social issues, but they need to be brought together rather than viewed in silos. An unambiguous and joined-up statement should be used not only for engagement purposes but would also help shape investment decisions and capital allocation. This was also said to apply to investment pools. It was stated that pools should look to ensure that they have clear statements on a just transition to guide investment decisions and government could have a role to play in encouraging pools to do so.

Having such positions was also important to ensure asset managers were also considering just transition implications when allocating capital. CIPFA's evidence to the inquiry stated that, after setting out their principles, administering authorities should have a process to effectively manage climate-related risks and integrate these into their overall risk management of the scheme to exercise their fiduciary duty to the scheme members and employers. These should shape the evaluation of managers as well as the investment opportunities available to form a strategic plan of the balance between strategic asset allocation against the ESG or responsible investment beliefs of the fund. Separately it was noted that those mandates given to investment managers should be reviewed regularly to remove obstacles to the flow of capital into the new and appropriate opportunities.

Nevertheless, asset managers can be viewed as a brake on ESG integration into investment decisions. The Pensions Policy Institute provided evidence to the inquiry showing that a quarter of the schemes surveyed stated that having a platform or asset manager was a barrier to implementing their strategy. They commented that funds can be too accepting of the status quo and needed to do more to push for innovation rather than off-the-shelf products. While smaller schemes may have less power, larger schemes were said to have the potential to shift standards and availability for all. Furthermore, there may be potential opportunities for their pools to play such a role.

It was reported to the inquiry that pension committees have an important role to play in ensuring that these set out principles are

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applied. It was said that committees should be engaged in the process and understand the principles relating to identification, assessment, and management of risks. This required adequate training for trustees around responsible investment risks. It was also noted committees need to have expertise and advice available to them to ensure that responsible investments are being made properly. It was said that there was a case for the industry itself to be upskilled.

Divestment

The issue of divestment was raised during the inquiry. Friends of the Earth made the case for divesting from fossil fuels to protect beneficiaries' pensions from the financially damaging effects of climate change. They pointed to some local authorities which have committed to shifting some of their assets away from coal and oil and gas industries and stated that this could support investment in green infrastructure. Questions were raised about the effectiveness of engagement in changing company practices.

The inquiry heard from Lord Deben on the issue. He noted that gas was still going to be needed well into the next decade. However, funds would need to make decisions made on whether companies are seeking to transition. His response observed both different trajectories for coal, oil and gas and the differences between company positions. Lord Deben remarked:

> **"Are they investing in the transition or are they investing in the old way, is how to make the distinction between certain energy companies."**

He went on to note

> **"As far as fossil fuels are concerned, it is rather important to keep your investments in those companies that are genuinely moving from being fossil fuel companies to providing the energy that we will need from alternative sources that are not damaging to the environment. And one should make a distinction between those companies that are seeking to do that and those not doing so and then using our financial muscle."**

It was noted that there were risks around properly accounting for the climate risks that companies face. This meant ensuring that company valuations properly reflect the impact of the move away from a carbon-based economy. This would support funds to make appropriate assessments of value and risk adjusted returns.

It was said that stores of capital within oil and gas majors are needed to make the transition. It was also mentioned that there needed to be realism around timescales. In an ideal world, carbon-intensive industries could be 'switched off' and replaced with low or zero carbon alternatives. However, it was said the alternatives do not exist at scale and the impact would more likely be similar to those seen in the coal industry with withdrawal of employers from local communities. Instead, companies require time, but in return there needs to be a transparent commitment and plan to transition with consultation of the shareholders and affected communities.

Investors could therefore seek to engage companies, seek commitments about their plans to decarbonise and measure if progress is being made. Failure to make progress carries significant risks, including around stranded assets. As Colin Baines, Friends Provident, commented:

> **"[investors should] 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."**

Viable opportunities

A major barrier of investing in a just transition was viable opportunities. It was emphasised throughout the inquiry that pension funds have fiduciary duties to maximise returns. This set of duties meant taking into account the climate-related risks, but also ensuring alternative investments would deliver the same or greater returns.

Submissions from several funds highlighted

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the lack of suitable green investment products which provide the right investment requirements. The issue of scale was also mentioned: some funds, for example, highlighted the mismatch between large pension funds and small projects. This mismatch meant that the sums involved did not justify the due diligence costs.

It was mentioned that asset managers were increasingly providing opportunities to invest in projects in private markets and pools were providing smaller funds access to them. However, it was noted there were limits to how much could be tied up in illiquid private markets, that increased interest in climate related projects were driving down returns, and investment fees could be high. It was also stated that financing the climate transition was not the only theme within portfolios.

Nevertheless, the inquiry heard that there was room for expanding green funds. It was felt that the LGPS could have a role in commissioning specific funds, especially at a large scale. Pools were felt to have the opportunity to overcome some of the barriers facing smaller funds, including around direct lending.

Place-based Investing

It was also stated to the inquiry that there needed to be platforms or aggregators to create investments of scale and also highlight viable opportunities. When considering local investment needs to deliver green infrastructure, there was also an obligation on places to identify and target opportunities. The inquiry heard from Andy Gouldson from the Leeds Climate Change Commission which he said 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.”**

He noted that they were looking beyond Leeds and making the case to Treasury for place-based climate finance platforms. This approach would help develop:

> **“a 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”**

The inquiry also heard about the role the Green Finance Institute, which was established to specifically to bridge the gap between the amount of investment capital that is available and the projects that are available are too small and less investible than they would need to be.

It was noted that local authority pension funds were often absent in discussions about local investment. It was said that in other countries public funds are obliged to invest a proportion of their assets locally. Evidence from Tom Harrington from the Greater Manchester Pension Fund noted that direct investment was a way to deliver a just transition, noting that it had:

> **“twin aims - to generate a return to pay pensions but secondly can we deliver a positive local impact.”**

The inquiry also heard from Sarah Teacher of the Impact Investing Institute about the potential for funds to undertake place-based impact investing. Teacher stated that the Institute’s research suggested that funds can yield financial and social and environmental returns with a focus on addressing the needs

Investing in a just transition – a case study from a Welsh windfarm coop

Colin Baines Friends Provident Foundation provided examples of projects that support a just transition which provide climatic, social and local economic benefits. One included a windfarm co-op in South Wales in a coal mining community with the surplus going to a fuel poverty charity. He expected it to generate £3 million over its lifetime and help alleviate fuel poverty in those Welsh valleys. For an investor, it would generate a 5% return and it had started paying out already. He noted that such examples “exemplify what a just transition looks like.”

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of specific places to enhance local economic resilience, prosperity and sustainable development. She said that:

> **"This place lens is a great fit for how the LGPS is constituted. The LGPS has a place based administrative and membership geography"**

Teacher went on to identify four main sectors: SME finance, social housing, clean energy, infrastructure and stated that:

> **"Increasing the flow of LGPS capital into these objectives and sectors will deliver just transition outcomes for local areas around the country."**

It was put to the inquiry that funds had complex risk management considerations. However, it was noted that some funds were able to invest locally and the LGPS regulations allow for up 5% to be allocated for local investing. It was noted that a greater focus on local investment could support the government's levelling up agenda.

Cross cutting themes and investment culture

It was reported by a fund adviser that climate change is a catalyst for looking at wider ESG issues because discussions often widen to areas around social and economic impact and looking beyond silos when considering impact. For example, if a fund was investing in affordable housing, it would be considering the affordable element but also climate impact. This was a point made to the inquiry from evidence from Sizewell C:

> **"Investors should carefully consider as part of their criteria the positive broader impact their investments have on stakeholders – beyond achieving net zero, it achieves a transition that locals can buy into: a 'just' transition."**

Direct investment was also viewed as a way to shape the culture of projects and private enterprises. It was stated that funds could seek to have a board seat(s) to push for social improvements, thereby granting more direct control and allowing funds to push management to take a longer-term perspective.

Despite it being noted that there has been a change within the industry, it was said that the mindset of some funds and managers remains a barrier. It was stated that some funds see investing in a just transition as providing sub-optimal returns or that place-based investing may run counter to their fiduciary duties. One fund noted that if investors are positive in their approach for looking for opportunities and which deliver the required return and risk characteristics, they will find them. It was said that fiduciary duty is often used as an excuse for not seeking to find the right opportunities.

The differences between funds were also remarked on by Andy Gouldson's evidence to the inquiry:

> **"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."**

It was mentioned that sharing good practice between funds and greater resources through LGPS pool companies could help overcome this mindset. Discussions between funds could also help overcome some of the concerns around investing directly in a just transition. In evidence to the inquiry, Sarah Teacher stated that her Institute had tools and guiding principles for impact investing. She also noted that they found there was a need for an information sharing hub to support funds and share experience. This information pool was seen as potentially valuable from funds and pools, who emphasised to inquiry the value of practical blueprints and examples of what investors and companies can do.

Recommendation 13: Funds should ensure that adequate training and external resources are available for trustees to ensure they understand the risks and can scrutinise information given.

Recommendation 14: Funds should ensure that the just transition risks and opportunities are integrated into investment decisions.

Recommendation 15: Funds should consider whether there are opportunities to establish specific just transition funds and aggregators.

Recommendation 16: Funds should consider how they can invest locally to support a just transition.

Recommendation 17: Government, combined authorities and local authorities should consider identifying opportunities for investors that will support a just transition.

Recommendation 18: A knowledge hub should be established to provide information and guides on how funds can invest in a just transition.

REPORTING IMPACT

The importance of reporting positive impact and how the funds are mitigating just transition risks were viewed as important to driving change and bringing stakeholders with them. As South Yorkshire Pension Fund noted to the inquiry:

> **"It is incredibly important that as the stewards of their pension fund we explain to them why we regard climate risk as the most significant risk we face in terms of the Fund's investments, and why managing a Just Transition from a 'brown' to a 'green' economy is central to our thinking."**

It was stated to the inquiry that reporting objectives, the impact of investments and how targets are being met or not was critical to achieving change. As mentioned, TCFD reporting was being expected of companies and a cross department initiative is seeking to introduce mandatory TCFD reporting for companies, banks and pension funds.[55] It was observed that this was not yet a requirement of LGPS funds but was being introduced for larger private schemes. LGPS regulations tend to mirror those of funds regulated by the DWP and it was expected that larger LGPS funds would soon have to report. It was suggested that such plans should be accelerated for the LGPS especially as some funds are already reporting on TCFD lines. It was noted by CIPFA that funding for ensuring alignment with TCFD reporting might be needed.

The Financial Reporting Council's 'UK Stewardship Code' (2020) was seen as encouraging asset owners to report wider social impact of funds. It states, for example, that:

'Environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship'. However, the

[55] HM Treasury, A Roadmap towards mandatory climate-related disclosures (2020)

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Code is indirectly related to the just transition and adoption is not mandatory.'

The inquiry also heard that there was not a set standard for reporting social risks because they are often more complicated. As Colin Baines of the Friends Provident Foundation stated to the inquiry:

> **"I don't think there's a standard yet particularly on social issues… It's tricky, so basically there's a lot of commentary."**

It was noted that as with companies, there was a case for extending future TCFD reporting to include just transition issues. If introduced by government it could provide funds with guidance around how to report just transition risks, opportunities and action taken by funds. There is of course nothing to stop funds doing so without being mandated by government. As Polly Billington remarked:

> **"Local pension funds need to build public consent and support in a local community for the kind of transformation that is required. Because the people who are benefiting from the pension funding and paying in will want to know it is working in a good way for the local community… People want to know that their money is being invested in a way that is not going to risk their community."**

Recommendation 19: Funds should report the just transition risks they face as a fund, their approach to tackling them and whether they have been successful in doing so.

Recommendation 20: Funds should consider reporting just transition issues as part of TCFD disclosures.

TAKING ACTION: THE ROLE OF GOVERNMENT AND JUST TRANSITION COMMISSIONS

This section considers the range of actions government could take to support investors efforts around a just transition. It also comments on the role just transition commissions have played.

THE ROLE OF GOVERNMENT

Ensuring a just transition inherently involves working partnerships. As defined, it requires social partners building consensus and being part of the shift to net zero. The role that government plays was often viewed as the most critical element, including bringing social partners together. Government was also seen as having a critical role in setting out a plan, creating the institutions for a just transition and providing the regulation and funding for making it happen. Although this role applied to a much wider canvas than the investment community, those funds the inquiry heard from outlined how government policy was vital to their actions in supporting a just transition.

Throughout the inquiry it was stated that the first thing government could do was to have a clear plan about its approach to decarbonising sectors and to ensuring a just transition. Lord Deben, Climate Change Committee remarked:

> **"This is not just a matter for Government. It is a matter primarily for government setting the circumstances in which private industry can deliver the goods."**

There was clearly a frustration among investors around changes to strategic policy frameworks which take time to understand and are the basis on which decisions are made. For example, it was reported to the inquiry that the UK's Industrial Strategy was abruptly changed to a new 'Plan for Growth'. The Public Accounts Committee meanwhile have emphasised the need for a clear path from government on the energy transition. It was stressed to the inquiry on several occasions that without a clear and consistent plan, investing in a just transition is much harder. It was said that such plans and assessments need to include the impact of changes that are likely to fall on ordinary people: their jobs, communities and lifestyles. These plans should give industry and investors a clear signal with time frames around the transition to low carbon technologies.

Tax incentives

Alongside regulatory changes, the tax system was viewed as an important way of shifting market behaviour and helping to deliver a just transition. Ensuring the externality costs and benefits around pollution were properly priced in was stated as an important step in shaping investment decisions - penalising emitters (and removing existing subsidies) and supporting those investing in new technology. As LGPS central noted:

> **"Government can stimulate innovation and create incentives through the removal of subsidies from high emitting sectors and subsidising innovation in low carbon**

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technologies to spread the risk associated with unproven innovation."

Carbon taxes are part of the government's toolkit in tackling climate change and armoury in shifting to net zero. Changes to carbon taxes will have distributional impacts for consumers, but also for the employees, supply chains and communities where the taxes will affect production. These will need to be considered carefully in any plan for achieving net zero.

Investing in infrastructure and green+ gilts

The inquiry also heard how government could support greater investment in green infrastructure. It was noted that private finance would need to be incentivised, including through fiscal policies, grants, gap funding and guarantees. It was said that government had a role in identifying projects that can be invested in, as well as a role in specifically identifying those places at risk and where subsidy would be needed because the market would not deliver on its own. It was noted by ShareAction to the inquiry that this extended beyond support within the UK. BEIS is funding projects through the £70m UK PACT (Partnering for Accelerated Climate Transitions) although this was focused on climate action rather than explicitly the just transition.

Another way government can provide support is through the bond market. Specifically, green gilts were seen as a way for governments to raise capital to deliver the transition to net zero.

Both regarding the financing infrastructure and gilts, the inquiry heard about the opportunities to ensure they factor in the social implications of climate change and maximise social value. In particular, it was said how important it was to evaluate jobs benefits. It was said that the employment benefits were often over-stated and that not all green investments are labour-intensive. It was said, for example, that wind farms – whilst an important renewable energy source – can deliver relatively few local jobs.

The new UK Green Sovereign Bond programme was also raised to the inquiry as an opportunity to channel proceeds to activities that drive environmental improvements and social renewal. In 2020, the Green+ Gilt proposal set out how the government could deliver this.[56] The Government's Green Finance Framework

EU Just Transition Mechanism

In December 2019, the European Commission adopted a communication on the European Green Deal, which aims to make the EU climate neutral by 2050. To do so in a just and fair way the European Commission proposed the creation of a Just Transition Mechanism.[56] It was said that the Just Transition Mechanism would focus on regions and sectors that will be most affected by the transition, including coal, peat and oil and heavy emitting industries.

The mechanism has three pillars:

- The Just Transition Fund
- A dedicated scheme under the InvestEU programme
- A public sector loan facility provided by the European Investment Bank to mobilise additional investments in the regions concerned.

The fund primarily provides grants, the InvestEu transition scheme seeks to crowd in private finance and the EIB aims to leverage public financing. The €17.5 billion (2021-27) fund is focused on economic diversification of most affected areas as well on reskilling and active labour market policies. InvestEU supports investment through an EU budget guarantee. The just transition scheme is aiming to mobilise €45 billion, including for decarbonisation, regional economic diversification, energy, transport and social infrastructure projects. The public loan facility aims to support €25-30 billion of public sector investment, including in infrastructure. Overall, the mechanism seeks to mobilise €100 billion in investment over 2021-27.

The EU states that the mechanism is more than just funding. It notes that it will provide technical assistance to member states, regions and investors. It also states that it will ensure affected communities, local authorities, social partners and NGOs are involved in the process. It is envisaged that the platform will facilitate exchanges about experiences and best practices.

[56] European Commission, The European Green Deal Investment Plan and Just Transition Mechanism explained, 14 January 2020 and European Parliament, Just Transition Fund, 2021

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which underpins the first £10bn sovereign issuance is a world first in that it will focus spending on a suite of environmental priorities and will also report on the associated social co-benefits as part of the just transition.[57] There is an important opportunity to use the green sovereign issuance to encourage further green+ approaches in corporate and local issuance.

It was mentioned that the UK could learn from the EU's Green Deal initiative that includes a 'Just Transition Mechanism' aimed at supporting places and industries most impacted by the shift to net zero – see box above.

Recommendation 21: Government should provide the enabling framework for investment, including guarantees and gap funding to crowd in investment. Such government support for green projects should be contingent on meeting just transition objectives.

Recommendation 22: Fiscal policy will shape the investment decisions of companies and investors and could facilitate the shift to net zero. Changes to carbon taxes should consider just transition implications, not only for consumers but also for employees, supply chains and communities.

JUST TRANSITION COMMISSIONS

The inquiry also heard about the need for a wider set of government policies that sit beyond the investment world. These included employment rights, investment in (re)training and skills, social protection and fiscal policies that ensure fairness for households, communities and consumers. Although beyond the scope of the report, these would provide investors with an understanding of the risks and what companies can and need to do to ensure a just transition.

This broader perspective of the challenges, by place, employee and consumer, the need for coordination, and the requirement to build consensus around a fair transition has led some to call for a just transition commission. As mentioned, the main concern was that government seemed to lack a plan. It was observed that where in the past there had been successful transitions, government had worked with sectors and places to build consensus, set out a plan and then deliver it over a number of years.

The inquiry heard from Rachel McEwen about the work of the Scottish Just Transition Commission. The Commission is comprised of different representatives from industry, employees, academia, consumer and environmental groups. It was formed to seek to build consensus around a just transition and maximise the economic and social benefits and mitigate the risks of the move to net zero. The work of the Commission is then fed into government with a minister responsible for the just transition.

Similarly, the inquiry heard from Andy Gouldson of the Leeds Climate Commission. He outlined how it had sought to set out a roadmap to net zero, including what was needed to locally retrofit homes and improve transport. The Commission has outlined the costs and benefits and sought to understand what skills might be needed. At a Yorkshire scale, he noted

57 Grantham Research Institute on Climate Change, Green Finance Institute and Impact Investing Institute, The Green+ Gilt: How the UK could issue sovereign bonds that deliver climate action and social renewal (2020)

58 UK Government, Green Financing Framework. 2021 https://www.gov.uk/government/publications/uk-government-green-financing

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work he had been doing with the TUC and UK100 noting that that:

> **"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 roughly 350,000 jobs."**

He noted that the Leeds Climate Commission was working with the TUC to identify those areas, sectors, people and communities who would see demand reduce and who will need public and private investment.

Such commissions therefore help to identify the risks and opportunities and where the focus might need to be regarding public intervention but also private investment. They were also viewed as being important to building consent. It was noted that future changes would need to incorporate developing and maintaining the trust of stakeholders. A labour market expert suggested that commissions helped to formalise and legitimise the process:

> **"We have to build the institutions and the social consensus around that"**

As such, commissions were viewed as a way to meet the requirements of a just transition: to plan for an organised transition, to involve stakeholders, to build consensus around fair distribution of climate 'goods' and 'bads', and to identify economic and social risks and opportunities. It was noted that this process would heighten awareness around the social implications and could involve both sector and spatial dimensions. It was also said that investors should be represented on a commission.

This process could then feed into a government action. It would help investors understand the operating environment and how they can support a just transition. This concept is often referred to as an enabling environment. As was

Scottish Just Transition Commission

The inquiry heard about the Scottish Just Transition Commission's approach. The Commission has set out what a just transition means and provided high-level advice to the Scottish government. In its final report[59] it set out four areas around orderly, managed transition; equipping people with skills for the transition; empowering and invigorating communities and local economies; and sharing the benefits and costs of climate action.

"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 livelihood are directly or indirectly at risk as the economy shifts and changes."

The Commission called for just transition plans to be developed for high emitting sectors with clear milestones. It gave expectations that public funding for climate action should be conditional on fair work terms and stated that additional costs for consumers should be associated with emissions reductions.

The Commission recommended that 'the power of public sector pension funds and business support funding must be directed towards ensuring companies align with the just transition to net-zero.' It also recommended that 'New methods for funding the transition should be developed that mobilise finance towards local projects.'

The Commission also set out the process for achieving the transition beyond the life of the Commission, stating that:

"We have focused our thinking on the functions and enablers that might be needed to continue momentum and drive progress. Our view is that the required functions fall into three areas: scrutiny, advice and awareness raising/campaigning. We believe that the following three actions will put in place clear lines of accountability for delivery, maintain focus behind this agenda, and help build momentum across society towards the delivery of this national ambition."

[59] Just Transition Commission, A national mission for a fairer, greener Scotland (2021)

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noted by South Yorkshire Pension Authority to the inquiry:

> **"Probably the most important role for Government, though, is the atmosphere it creates. If government solely focuses on the transition regardless of the consequences then we will see a situation analogous to the decline of coal in the 80s."**

Canadian Just Transition Taskforce

The Taskforce on Just Transition for Canadian Coal Power Workers and Communities was established in 2018. The Canadian government established this body following a decision in 2016 to eliminate all coal fired electricity generation by 2030. Co-chaired by a trade unionist and environmentalist it identified seven principles which reflect the ILO's just transition framework.[60] It stressed the importance of a national framework, responsibilities of stakeholders and the idea that practical action should be implemented at the lowest or most local level. The policy recommendations focused on the quality of labour market information, better matching of people to jobs and continuing support for affected communities beyond the date of the closure.[61]

Recommendation 23: Government should establish a just transition commission, which seeks to outline how the just transition can be delivered and set out the roles of different stakeholders, including investors. This could be complemented by sub-national and sector initiatives.

[60] ILO Guidelines for a Just Transition (2015)
[61] For more details see Coats, D A Just Transition: Managing the challenges of technology, trade, climate change and COVID-19 (Alex Ferry Foundation, Community, Prospect, 2021)

CONCLUSION AND RECOMMENDATIONS

Climate change presents investors with significant and financially material risks (both to individual investee companies and across their portfolios if economic growth slows due to climate impacts). The interventions needed to decarbonise the economy are considerable and will require the consent of consumers, workers and communities. This consent will in part be dependent on the actions of companies and investors alongside government policies, programmes and fiscal measures. Those actions will need to be convincing and effective. They will also need to be affordable and fair and include a robust plan for a just transition to achieve net zero. The evidence to the inquiry was unequivocal in this regard.

The roles of investors and government in ensuring a just transition are distinct but complementary. Investors have fiduciary duties and do not have regulatory or fiscal powers. Equally, government alone will not be able to drive desired behaviours or finance the transition to net zero. Despite the different roles, there are some main themes from the inquiry which apply both to investors and government. These include:

- Making a firm, long term commitment to a just transition and the principles of a just transition.
- Understanding the scale of the challenge to plan for a different future, and managing the transition in an orderly and fair way.
- Setting expectations about how the risks around the just transition can be mitigated and the opportunities maximised.
- Having plans, shaped by stakeholders, to achieve just transition objectives and targets.
- Measuring and reporting the impact of just transition efforts.

Having a just transition commission for the UK could support the delivery of these themes and help government meet its objectives of achieving net zero and 'levelling up'. It could ensure that consumers, workers and communities have a say in the shape of the transition and set out a plan. This approach would help investors shape their own plans for a just transition and could help address the barriers pension funds face in investing in a just transition.

Action by investors is not solely reliant on government taking a lead. Evidence to the inquiry has highlighted how funds large and small can address risks and make the most of opportunities be it directly, through their advisers and managers and, for LGPS funds, their pools. It has also revealed the scope for greater collaboration by sharing information, working together on just transition engagements, and the potential to create funds to directly invest in a just transition.

Partnership working lies at the heart of what a just transition means. The scale of the climate crisis globally and within the UK also demands such an approach if the worst effects of climate breakdown are to be avoided.

CONCLUSION AND RECOMMENDATIONS

List of recommendations

The following recommendations are based on the evidence and advice presented to the inquiry and on an evaluation of current policies and practices.

Recommendation 1: Government should explicitly recognise and articulate a high-level commitment to a just transition. Policies for a just transition should be cross-governmental and firmly embedded in government strategy and plans to achieve net zero.

Recommendation 2: Investors should include a commitment to a just transition in their investment policies and seek to raise awareness of the issue through collaborative initiatives and membership organisations.

Recommendation 3: The government must fast track publishing its net zero plans and consult on how they can be achieved in a just way. Delay risks a public backlash and falling short of the UK's carbon reduction targets.

Recommendation 4: Investors should consider undertaking a baseline assessment of the just transition risks they face - this should include both quantitative metrics and qualitive information, informed in part by affected stakeholders.

Recommendation 5: The investor community should seek to establish a set of common and acceptable measures of a just transition.

Recommendation 6: Government should explore what disclosures on social risks should be mandatory for companies to ensure just transition risks are mitigated. As part of this exercise, they should consider widening the remit of the Taskforce on Climate-Related Financial Disclosures reporting requirements to include the just transition agenda.

Recommendation 7: Investors should make the clear case to government for policies which support a just transition.

Recommendation 8: Investors and their asset managers should set out their expectations of companies on a just transition.

Recommendation 9: Investors should engage (directly, through advisers and in partnership with other investors) companies identified as facing the biggest just transition risks and opportunities.

Recommendation 10: Funds should ensure that collaborative initiatives and membership organisations have a consistent focus on a just transition in engagements.

Recommendation 11: Funds should dedicate resources to ensuring that those engaging on their behalf are meeting expectations on a just transition.

Recommendation 12: Funds should have an escalation strategy where progress is not being made, including filing shareholder resolutions, voting at AGMs, and pushing for employee directors.

Recommendation 13: Funds should ensure that adequate training and external resources are available for trustees to ensure they understand the risks and can scrutinise information given.

Recommendation 14: Funds should ensure that the just transition risks and opportunities are integrated into investment decisions.

Recommendation 15: Funds should consider whether there are opportunities to establish specific just transition funds and aggregators.

Recommendation 16: Funds should consider how they can invest locally to support a just transition.

Recommendation 17: Government, combined authorities and local authorities should consider identifying opportunities for investors that will support a just transition.

Recommendation 18: A knowledge hub should be established to provide information and guides on how funds can invest in a just transition.

CONCLUSION AND RECOMMENDATIONS

Recommendation 19: Funds should report the just transition risks they face as a fund, their approach to tackling them and whether they have been successful in doing so.

Recommendation 20: Funds should consider reporting just transition issues as part of TCFD disclosures.

Recommendation 21: Government should provide the enabling framework for investment, including guarantees and gap funding to crowd in investment. Such government support for green projects should be contingent on meeting just transition objectives.

Recommendation 22: Fiscal policy will shape the investment decisions of companies and investors and could facilitate the shift to net zero. Changes to carbon taxes should consider just transition implications, not only for consumers but also for employees, supply chains and communities.

Recommendation 23: Government should establish a just transition commission, which seeks to outline how the just transition can be delivered and set out the roles of different stakeholders, including investors. This could be complemented by sub-national and sector initiatives.

Final report from the APPG for Local Authority Pension Funds inquiry on 'Responsible investment in a just transition' 2021

OCTOBER 2021

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