Written evidence from ShareAction (PSC0024)

How should pension schemes contribute to setting COP26 targets and helping to achieve the targets once agreed?

The UK's pension assets total £3.6 trillion, 135% of UK GDP.[1] It is critically important that pension scheme investments are aligned with COP 26 targets, otherwise it is hard to see how they will be met.

The Department for Work and Pensions (DWP) was the first UK Government department to finalise a TCFD reporting regulatory framework, and we understand that it plans to legislate on this over the summer. This is a positive start, assisting financial markets with pricing in climate-related financial risks. It is important for the UK Government to take a clear and joined-up approach to implementing TCFD across the rest of the economy, to ensure pension trustees receive the support they need in their reporting.

However, it is now critical to look beyond individual investor risk and assess how far pension schemes are aligning their investments with UK climate goals. Climate change is a systemic challenge which individual investors will struggle to manage on a portfolio-by-portfolio basis. DWP states that it has explored the methodologies available for measuring the climate impacts of pension fund portfolios but concluded that more work is required before these can be implemented. We would encourage the Work and Pensions Committee to call on the DWP and the pensions industry to accelerate this work in line with the urgency and scale of the climate crisis.

What role should international standards have in supporting pension schemes to assess climate change risks when considering scheme investments?

Not answered.

Are there suitable financial products to enable pension funds to make climate-conscious investments? How should such investment be facilitated and supported?

It is clear that greenwashing is still "rife" within financial services.[2] We would encourage the Work and Pensions Committee to recommend that the Government prioritises its plans for clearer labelling of financial products, via a green taxonomy.

We would also encourage the Work and Pensions Committee to recommend that the Government makes the 'just transition' a priority within the financial system. Otherwise, so-called 'green' financial products may fail to take account of their human impact, effectively creating as many problems as they solve. The term 'just transition' refers to a fair and inclusive process that prioritises the social needs of workers, communities, consumers and citizens impacted by the transition to a net-zero economy. The low-carbon transition poses serious economic and social risks if policymakers do not face them head on. For example:

- The north of England could see approximately 28,000 direct job losses resulting from the closure of coal-fired power plants.[3]

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[1] https://www.thinkingaheadinstitute.org/content/uploads/2021/02/GPAS__2021.pdf

[2] https://www.cityam.com/over-half-of-financial-services-professionals-claim-greenwashing-is-rife-in-the-industry-study-says/

[3] NEF (2019). Trust in Transition, pg.10. https://neweconomics.org/uploads/files/NEF_trust-in-transition.pdf

- The UK Government's new pledge to cut carbon emissions by 78 per cent means that households unable to pay for greener heating may face an increased fuel poverty risk.[4]

However, the move to decarbonise our economy has significant potential to offer exciting opportunities in generating new jobs and reducing inequality, for example:

- Low-carbon industries in the UK could grow from 8 per cent in 2030 to 13 per cent in 2050, iii generating 1.7 million green jobs in the UK from the phasing out of emissions-heavy sectors.[5]
- Energy poverty is already widespread, with 3.4 per cent of households (3.18 million) living in fuel poverty in England[6] and 940 million people globally (13% of the world) living with no access to electricity.[7] However, investment guided by just transition principles could slash energy demand in buildings[8] and provide electricity to rural communities and businesses.[9]

The just transition can be a central part of the UK Government's delivery of its net-zero commitments and levelling up agenda. This work has already begun with the UK Government's *Ten Point Plan for a Green Industrial Revolution*[10] and the *Build Back Better* plan for growth[11] However, we would urge the UK Government to include the just transition as an explicit priority within these strategies, balancing national oversight with regional powers. We would encourage a more joined-up approach to financial regulation, creating a policy environment that will enable the "place-based" investments needed in the real economy.

As discussed in more detail in our briefing for policymakers on the role that institutional investors can play in supporting the just transition (attached to our covering email and due to be published on our website[12] on 23 June 2021), we recommend that the Government:

- mandates human rights due diligence and establish a Council for Investor Due Diligence;

[4] inews (2021). Subsidies needed to encourage people to switch from gas boilers to green heating, campaigners warn. https://inews.co.uk/news/environment/heat-pump-subsidies-gas-boilers-green-heating-1023342

[5] City A.M. (2021). Decarbonisation could create 1.7 million jobs in emissions heavy regions. https://www.cityam.com/decarbonisation-could-create-1-7m-jobs-in-emissions-heavy-regions/

[6] Department for Business, Energy and Industrial Strategy (2021) Annual Fuel Poverty Statistics in England, 2021 (2019 data) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966509/Annual_Fuel_Poverty_Statistics_LILEE_Report_2021__2019_data_.pdf

[7] Our World in Data (2019) Access to Energy https://ourworldindata.org/energy-access

[8] Smith, M. (2021) Can the 'Just Transition' put an end to energy poverty? https://www.fuelpovertyresearch.net/comment/can-the-just-transition-put-an-end-to-energy-poverty/

[9] Sustainable Energy For All (2020) Solar mini-grids set to play critical role in achieving universal electricity access with right policy support https://www.seforall.org/press-releases/solar-mini-grids-set-to-play-critical-role-in-achieving-universal-electricity-access

[10] HM Government (2020) Ten Point Plan for a Green Industrial Revolution https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/936567/10_POINT_PLAN_BOOKLET.pdf

[11] HM Treasury (2021) Build Back Better: our plan for growth https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/968403/PfG_Final_Web_Accessible_Version.pdf

[12] ShareAction (2021) https://shareaction.org/cop26-policy-briefings/

- advances social dialogue practices and strengthen stakeholder engagement among companies and investors, through new FRC guidance and a review of the function of AGMs; and
- creates a national Just Transition Commission tasked with coordinating regional bodies, channelling finance in alignment with local need.

How should the UK seek to share and learn from international best practice?

Not answered.

What regulatory changes or other government action has been most effective in delivering change in the UK; and what changes on the part of Governments elsewhere should the UK learn from?

Not answered.

Do pension schemes have suitable information to assess climate risk, or do there need to be international reforms to financial reporting?

In our recent response to the Department for Business, Energy and Industrial Strategy (BEIS)'s consultation on TCFD reporting,[13] we expressed concern about its proposals to require disclosure in line with the four pillars of the TCFD recommendations as opposed to the 11 recommendations. Reporting against the four pillars is likely to produce vague, inconsistent reporting which may not be useful to investors such as pension schemes. Companies (and especially smaller companies) need clear guidance if they are to produce high-quality reports. Moreover, the model proposed by BEIS would entail changing the language used by the TCFD that sits under the pillars and departing from the FCA's model, which is likely to cause confusion.

We understand that this proposal was made on the basis that the Government is considering aligning reporting requirements with International Financial Reporting Standards (IFRS standards), once published. However, these are likely to be a long way off publication given the IFRS is publishing a roadmap with timings in Sept 2021. We would suggest it would be more sensible to require reporting against the 11 recommendations in the meantime, and move to an IFRS-based reporting requirement in due course if that seems appropriate.

June 2021

[13] https://shareaction.org/wp-content/uploads/2021/05/BEIS-TCFD-consultation-response-May-2021-final.pdf