The Impact Investing Institute's response to the Local Authority Pension Funds APPG call for evidence:
Inquiry into 'Responsible investment for a just transition'

30 April 2021

Introduction

The Impact Investing Institute is an independent, non-profit organisation seeking to mobilise more private sector capital, at scale, to address social and environmental challenges, which have come into even starker relief as a result of the COVID-19 pandemic. We are supported by the UK Government, City of London Corporation and 12 financial services firms, and are the UK member organisation of the Global Steering Group for Impact Investment, a network of more than 30 countries.

Impact investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. This goes beyond responsible investment, which focuses on ESG risk mitigation. We work with investors from across the spectrum of capital – ranging from traditional, 'finance first' investing to philanthropy, and includes pension trustees, asset managers, investment advisors and individual savers. We focus on five key areas of work to drive more impact capital to go where it is needed: raising awareness among investors and individual savers; upskilling investors in impact investing; providing an evidence base for impact investing; developing and encouraging the adoption of high-quality, global reporting standards; and advocating for enabling policies and regulations that support impact investing.

We believe it is mutually important to address both the consequences of climate change and the social impact of a transition to a net-zero carbon economy. Any efforts to tackle the climate emergency, including through the deployment of 'green finance', must carefully consider the impact on people, societies, livelihoods, health and living standards. We seek to mobilise private capital at scale to achieve a just transition globally. We provide detail herein about the range of relevant work we are undertaking.

Thank you for your invitation to give evidence at the third evidence session of the APPG for Local Authority Pension Funds' inquiry into 'Responsible Investment for a Just Transition' on Wednesday 19th May. We look forward to providing further colour on the information contained herein.

Please note: we have highlighted areas specifically relevant to government and/or regulators in red italics.

1. What are the main barriers for investors and companies?

Our research into investors' and companies' ability to engage in a just transition has identified various barriers, albeit some we deem to be perceived rather than actual.

Actual barriers

- **A lack of focus on and difficulties in measuring and reporting social vs climate impact.** There is increasing convergence of methods to measure and report on climate-related impacts, for example, the growing acceptance of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). However, there is no broadly agreed framework of eligibility criteria, KPIs and metrics by which social impact may be measured – this is despite a growing interest in 'social' themed investments, e.g., social bond issuance grew eight-fold in 2020. Moreover, there is no framework or taxonomy which links green finance and social impact, and none with an explicit focus on a just transition. *We welcome DWP's consultation on social factors as an important step forwards in tackling this barrier and include further suggestions for government, regulator, and market action in our answer to Q.3.*

- **A lack of private capital being deployed at scale.** The ability to mobilise large pools of capital, such as those owned and managed by pension funds and other institutional investors, is vital. Addressing barriers to the deployment of capital at scale will in turn require the development of innovative forms of public and private partnerships. There have been a number of recent financial innovations which demonstrate that public and private sector investors are becoming more comfortable with innovative financing approaches that respond to the needs of different types of investors. These often leverage the power of 'catalytic capital', i.e., the use of grant or philanthropic capital as a 'first loss' / concessional layer to 'crowd in' other investors, particularly commercial investors. They also might use other 'blended finance' mechanisms, such as guarantees or risk insurance and technical assistance. However, the deployment of such innovative solutions at scale is held back by a knowledge gap among public and private actors about how vehicles can be most efficiently designed and delivered. Innovations in structures that use blended finance mechanisms remain scarce and underexamined in the context of instruments that seek to finance a just transition while also providing a financial return. *We provide recommendations for government and market action to tackle this barrier in our answers to Q.4, 6 and 7.*

Perceived barriers

- **A misunderstanding that sustainability and impact factors are non-financial considerations and therefore not permissible within a pension scheme's fiduciary duties.** Negative impacts on people and/or the planet are linked to financial, legal, regulatory and policy risks and can threaten returns. For example, pension schemes are going tobacco-free across their investments, even though tobacco still offers strong financial returns, as a prudent response to restrictive regulation and changing societal norms. Equally, there is opportunity for sustainable financial returns in sectors which create a positive impact, which can offer good long-term investment strategies. Our paper, *Fiduciary duty – the legal context*, written by five City law firms and reviewed by the Association of Pension Lawyers, affirms the compatibility of pension trustee fiduciary duty and impact investing. *We provide further detail on how to tackle this barrier and recommendations for government and regulator action in our answer to Q.4.*

- **A perceived lack of investible opportunities.** There are opportunities across sectors with which Local Authority Pension Funds (LAPFs) are familiar, such as real estate, SME finance, clean energy and infrastructure. Bringing opportunities into allocations of funds of broader established asset classes opens the dialogue between investors and fund managers – facilitating a process to establish what could make sense both from a financial perspective and from the perspective of facilitating a just transition and local impact. *We provide recommendations for government and market action to tackle this barrier in our answers to Qs 4, 6 and 7.*

- **The notion that the size of the investor and the investment opportunities is a limiting factor in making private market investments.** There is a commonly held view that only the bigger pension funds – £10- £20 billion plus – have the scale to make a meaningful allocation to private market investments; however, the majority of LAPFs are small, with a median value of £2.2 billion. A five percent allocation of a £2 billion fund amounts to £100 million, which is a reasonable allocation. Many fund managers in relevant sectors, such as real estate, SME finance, clean energy and infrastructure, are looking to raise relatively small funds in the range of £50m-£100m, with minimum investment sizes of £2m-£10m. Therefore, assuming LAPFs can gain access to these funds, there appear to be no barriers purely from an investment allocation and relative exposure perspective. *We provide recommendations for government and market action to tackle this barrier in our answer to Q.4.*

- **Conflicting sustainability agendas.** ESG investment and sustainable investment policies, particularly in relation to climate change, are a top priority for investors and companies, including approaches to analysing carbon footprint. This is diverting attention away from other topics, such as the just transition and local investing. However, sustainable investing, the just transition and local investing are aligned agendas if one takes a place-based impact investing (PBII) approach. LAPFs have an opportunity to fulfil their sustainable investing objectives by increasing allocations to PBII key sectors, including investing in UK renewable energy and UK businesses that are supporting the transition to a net zero carbon economy. PBII strategies can sit within an overarching sustainable investing strategy and align with the fiduciary duty of LAPFs to seek investment outcomes that are in the best interests of scheme participants and provide long-term commercial returns. *We provide further detail on this and recommendations for government and market action to tackle this barrier in our answer to Qs 4, 6 and 7.*

The rest of our submission seeks to explain how these barriers can be overcome to enable LAPFs and other investors to finance a just transition in the UK and globally.

2. 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?

Please refer to our answers to Qs 4 and 6 for our reflections on this question.

3. 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?

Consumers, investors and policymakers increasingly expect organisations to support a just transition, which requires companies to report transparently on their impact on the environment and society ('sustainability/impact reporting'). Currently, the plethora of sustainability reporting standards and metrics makes it difficult for companies to measure and report their impact in a consistent and comparable way. As outlined in our briefing paper, *Reporting of Environmental, Social and Economic Outcomes*, investors will be better enabled to assess and report the level of risk of not considering a just transition if sustainability reporting is strengthened via the following recommendations:

- **Focus on real-world and contextualised outcomes, instead of on companies' outputs.** Traditionally, sustainability reporting has focussed on how an organisation avoids harm, mitigates financial risk and manages its reputation. Disclosures are often related to an organisation's activities or out*puts* – i.e., what an organisation does. That disclosure might simply be that the organisation has in place a policy; for example, on water consumption. This does not provide the means of gauging whether the organisation is taking action, and what results from that action – a much more effective form of measurement for uncovering risks and opportunities; for example, measuring the increase or decrease of water usage.

Regulatory frameworks for sustainability reporting therefore need to focus on measurement, management, reporting and assurance of outcomes, not outputs.

- **Alongside climate, give stronger consideration to broader, interrelated environmental and sustainability factors, especially companies' social impact.** Supporting a just transition requires investors to consider companies' impacts on society, which extend well beyond climate. This is encapsulated by the UN's Sustainable Development Goals, which show that environmental, social and governance factors are not only of equal importance but are often inextricably linked. Furthermore, a growing body of research is rendering visible links between broader environmental and social impacts: the coronavirus pandemic, in particular, has shone a light on the social consequences of biodiversity loss (see this OECD research). We can only measure and manage the impact of the transition to a low carbon economy if we understand its impact on skills and job markets – this reveals the intersection of the climate and the social.

  The government should ensure that future developments in corporate reporting to integrate sustainability-related matters include, and give equal weighting to, wider environmental and social factors alongside climate-related impacts. We recommend government establishes a Social Technical Advisory Group to advise UK Government on a 'social taxonomy', to complement the work it is doing to develop a 'green taxonomy'.

- **Integrate corporate reporting and public interest reporting, because sustainability factors can be financially 'dynamic'– i.e., can move between the realms of non-financial and financial materiality.** Sustainability information which one day seems irrelevant to a business' bottom line can become relevant the next. This is referred to as 'dynamic materiality'. For example, the fashion retailer Boohoo's enterprise value fell by 23% following revelations that one of its suppliers failed to pay its employees a minimum wage. A company's understanding *of all of its significant impacts on people, the planet, and the economy* is a necessary precursor to its ability to identify and report upon those sustainability outcomes that *also* drive creation of enterprise value. This is crucial to effectively reporting on the level of risk of not considering a just transition.

  The FRC's recent consultation on the Future of Corporate Reporting proposes a network of interconnected reports to unbundle existing reporting. We welcomed the FRC's proposal for mandatory disclosure of all environmental, social and economic impacts relevant to how an organisation generates long-term value in accordance with its stated purpose (in the Core Business Report) and the introduction of a Public Interest Report.

  If the FRC confirms its intention to introduce a Public Interest Report, we recommend that they launch a preceding trial initiative. We would be pleased to provide further information about how such an initiative could be run and who, in addition to the Institute, might be well placed to help design and drive it.

- **The convergence of global standards for sustainability reporting; harmonised governance of all types of corporate reporting; and the increased role of technology, including in the creation of public depositories of data.** Sustainability reporting must converge at a global level – supply chains are global, investors and capital flows are global, and issues such as climate change or pandemics can only be tackled globally.

  The UK Government should advocate for global convergence, whilst implementing domestically a comprehensive corporate reporting system which integrates the full spectrum of sustainability impacts. This will require the harmonised governance of all types of corporate reporting, where financial disclosures, sustainability-related disclosures related to enterprise value, and sustainability disclosures that reflect wider impacts on stakeholders are brought together and given equal weighting under one global corporate reporting foundation.

  Finally, technology and data providers need to help validate impact measurement and reporting by gathering evidence and comparing and contrasting it with relevant market data.

  Publicly available depositories, properly governed, will be key to reducing a reporting burden on organisations and should be accessible by and distributable to all. These depositories can be developed and maintained in part using public and/or philanthropic funds, while developed with and owned by market participants to maximise industry participation.

4. How can local authority pension funds, whilst exercising their fiduciary duties, invest in a just transition and the opportunities created? And what role is there for government to create and support new opportunities?

Fiduciary duties

As outlined in our answer to Q.1, there is a commonly held misconception that investing for social and/or environmental impact is incompatible with pension scheme fiduciary duty. Our paper, *Fiduciary duty – the legal context*, written by five City law firms and reviewed by the Association of Pension Lawyers, counters this misconception. It explains how fiduciary duty is in fact an evolving body of duties, and that:

- **The purpose of a pension scheme is to provide pensions for members, which *does not* mean solely focusing on maximising financial returns.** Schemes invest for a range of reasons – they might hold cash to manage liquidity or bonds to match liabilities. Impact investments can meet the needs of an investment portfolio – for example, our research into the financial characteristics of social housing demonstrates that this sector can deliver a competitive return, mitigate risk through diversification, provide income and reduce volatility.

- **Impacts can be relevant risk factors.** Negative impacts on people and/or the planet are linked to financial, legal, regulatory and policy risks and can threaten returns. For example, in 2020 the FT reported US energy stocks continued to sink even as the oil price steadied. The two biggest US energy companies, ExxonMobil and Chevron, experienced a drop. Equally, there is opportunity for sustainable financial returns in sectors that create a positive impact, which can offer good long-term investment strategies. Positive environmental and social impacts can therefore be used as an additional rationale for choosing investments that will deliver financial value – they can contribute positively to asset diversification, lower overall volatility, reduce the effect of negative externalities, and increase the future- fitness, resilience and prospects for long-term capital growth and performance of the fund over time.

- **'Prudence' is not a set concept.** It has changed and continues to change over time, in line with societal norms and knowledge. For example, investing in stocks and shares was considered imprudent until the mid-20th century. A way of thinking about what it means to act prudently in the face of systemic risk and uncertainty is to adopt a 'transitional mindset', considering systemic and forward-looking risks. The transition to a net-zero economy requires a massive reallocation of capital, which in turn offers significant structural opportunities, as some sectors and businesses stand to gain significantly from this transition. However, it also holds significant risks. As Mark Carney warned in his former role as Governor of Bank of England, "If some companies and industries fail to adjust to this new world, they will fail to exist".

We believe that government could tackle the misconception that impact investing and pension scheme fiduciary are incompatible by amending its decision to reference social and environmental impacts as non-financial matters in its consultation, Clarifying and strengthening trustees' investment duties (Sep 2018).

We have also developed four guiding principles for pension schemes that give an accessible, practical insight into the opportunity presented by impact investing and the concrete steps pension schemes can take to pursue an impact investing strategy, which may involve just transition goals. The Principles were designed and tested through consultation across the pensions industry, in partnership with Pensions for Purpose. They offer a good governance framework which tackles the investment process at every stage in the investment chain – from how pension schemes can put in place objectives and set an implementation framework, to how to hold investment consultants and managers to account, and how to report on what is being achieved through a balanced measurement framework. We run an Adopters Forum of pension scheme supporters of our Principles, including South Yorkshire Pensions Authority, Clwyd Pension Fund and Surrey Pension Fund, as well as investment consultants and industry supporters, such as the Investment Consultants Sustainability Working Group the Institute and Faculty of Actuaries.

We welcome enquiries from pension schemes, investment consultants and fiduciary managers, as well as supporters from government and industry bodies looking to be at the forefront of a growing area of investment opportunities.

Investment opportunities

Delivering a just transition will require large-scale investment and innovative collaborative approaches between the public and private sectors to support green growth that tackles the deep-rooted regional inequalities and high levels of poverty in the UK. Place-based approaches are now the norm internationally and they are relatively advanced in the UK. The current government's 'Levelling Up' policies – with their emphasis on decentralised, local stakeholder collaboration – are consistent with a place-based approach. With the costs to the nation of levelling up expected to exceed £1 trillion over the next ten years, public investment will need to be matched by private investment.

We have conducted far-ranging research to explore how a place-based approach, already favoured by public and social investors, can be extended to private investors. Our investor focus is the Local Government Pension Scheme (LGPS): one of the largest pools of institutional capital that also have connections with place-based communities in all areas of the country. As of March 2020, the LGPS had assets with a combined market value of £326 billion. It is locally managed by 98 sub-regional Administering Authorities, meaning it has a place-based administrative and membership geography. The LGPS also has a legacy of local investing to build on – this is recognised in the statutory guidance to the Asset Pool reform, which allows for 5% of LGPS funds to be allocated to local investing:

> *"A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:*
> - *Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment and*
> - *Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment."*

Finally, ESG integration and alignment with the UN Sustainable Development Goals (SDGs) are becoming increasingly important to LGPS investment strategies, reinforcing the potential for this pool of capital to finance the just transition while adhering to fiduciary duties.

Our research focuses on 'place-based impact investing' (PBII): investments made with the intention to yield both commercial financial and social and/or environmental returns with a focus on addressing the needs of specific places to enhance local economic resilience, prosperity and sustainable development.

We have found examples of LGPS funds individually and collectively investing in projects that have a positive local impact and high potential to contribute to a just transition – notably in the sectors of clean energy, infrastructure, regeneration, SME finance and social housing. Our financial performance analysis of these relevant sectors shows that they also possess financial characteristics which are attractive to pension funds, including:

- The cashflow nature of the underlying assets: investments in most of these sectors are generally in real assets, such as housing and infrastructure.
- The diversity "through the cycle": these assets are also often underpinned by revenue streams which are either government guaranteed or contracyclical.
- These assets are generally illiquid which command higher returns.

We conclude that investments in these relevant UK sectors provide stable, high long-term returns and low volatility versus other mainstream asset classes, meaning they appear very well suited to LGPS investment on a purely fiduciary basis.

There are currently relatively low levels of LGPS PBII intent and action. Only six out of the 50 LGPS funds reviewed (12%) have a clear intentionality to make place-based investments as stated in their annual reports. These six LGPS funds are Cambridgeshire, Clwyd, Greater Manchester, Strathclyde, Tyne and Wear and West Midlands. A further 19 pension funds reported investing in these sectors without any place-based intentionality. The total value of LGPS investment in these key sectors is £7.7 billion, which equates to only 2.4% of the total value of LGPS investments, and only £3.2 billion (1% of the LGPS) is invested within the UK. A third of the funds identified have co-investment from the UK Government (e.g., from the British Business Bank) or Europe (European Investment Bank, European Regional Development Fund). The top three largest investors in terms of amounts invested in key sectors in the UK are Strathclyde (£462 million), Greater Manchester (£477 million) and West Yorkshire (£335 million). Greater Manchester has an approved capital allocation to invest up to 5% of its total assets locally.

However, investment into these key sectors is growing. The number of individual investments made, the total value invested, the average size of investments, the number of LGPS funds making such investments, and the number of private market PBII opportunities to invest in have all increased since 2017. Our stakeholder engagement across the LGPS, local authorities, investment consultants and fund managers indicates an increasing interest in place-based – and specifically impact – investing.

If PBII were to lead to more prosperous local economies and communities, local authority revenues would be enhanced. Ideally, PBII would generate a virtuous circle of good pension fund returns and strong local multiplier effects that bring inclusive prosperity and sustainability in the long run.

Recommendations to create and support new opportunities

- **Establish the concept of 'place-based impact investing' by raising awareness and understanding.** Tackle the general lack of consideration of the geography of investments and importance and relevance of just transition factors via targeted engagement activities. The Impact Investing Institute will run a national engagement programme on our research with stakeholders including LGPS, other pension schemes and institutional investors, investment consultants, central government, local authorities, fund managers, banks, public finance institutions and the social sector.

  We welcome interest from central and local government, particularly in engaging with relevant teams and initiatives such as the Infrastructure Projects Authority, Towns Fund, Levelling Up Fund and UK Infrastructure Bank, and with regions and communities across the UK.

- **Increase competency in place-based impact investing by improving access to information.** Address the lack of awareness of place-based impact investing and organisational capacity to identify, appraise and select suitable investments (across LGPS funds and consultants, as well as other stakeholders like local authorities and public finance institutions) by improving access to information. The Impact Investing Institute will be launching a PBII Knowledge Hub to showcase our research – including data and case studies – as well as key resources from elsewhere, in collaboration with project partners and relevant stakeholders.

  We would like actively to collaborate with government and public finance institutions, such as the UK Infrastructure Bank, to ensure that relevant information is included in the PBII Knowledge Hub and that the PBII Knowledge Hub is accessed by and useful for government stakeholders.

- **Drive the development and adoption of reporting on place-based impact investing, including a common, consistent and transparent approach to reporting on just transition outcomes.** We have developed an impact reporting framework with and for LGPS funds which provides the fundamental elements that typically underpin a robust impact investment strategy. There is considerable interest in this initiative and already we are seeing LGPS funds requesting their fund managers to report using the framework. We will be piloting this framework with a group of LGPS funds, fund managers and local authorities over the next year.

  We would like to gauge the interest of MCHLG and/or relevant industry bodies, such as the Pensions & Investment Research Consultants (PIRC), in providing guidance on LGPS reporting that includes geography *and sector. We also welcome interest from LGPS funds, fund managers and local authorities in joining the reporting pilot.*

- **Improve information exchange and origination between investors and place-based opportunities.** Pension funds interested in PBII find it difficult to source quality investible opportunities in their local area that meet commercial investment criteria, or to select among funds in the same sector, e.g., affordable housing. On the other hand, fund managers and project developers face problems accessing finance. Origination platforms can be developed that create better market information flows, reduce search costs and provide investors with access to information about potential investment funds and projects. We will conduct and make available an analysis of existing mechanisms and explore scope for a new platform dedicated to UK PBII.

  We would like to engage with government on their experience of and interest in supporting initiatives that help investors identify local and regional investments, such as the Regeneration Investment Office (RIO), which was set-up as a one-stop-shop for international investors to identify regeneration projects in UK towns and cities.

- **Support and increase the number of place-based impact investing vehicles.** Many fund managers find it hard to raise capital for PBII as it is seen as sub-scale and not on consultants' radar. There is a need and opportunity to increase the number and scale of PBII investment vehicles that have the capability to raise institutional investment and channel it to investments that deliver both place-based impact and appropriate risk-adjusted returns. This includes a role for wholesalers, such as the British Business Bank, public finance institutions, such as the UK Infrastructure Bank, larger asset managers and newcomer wholesalers, to help build scalable propositions that can attract far greater flows of institutional capital.

  Government can play a key role through its levelling up agenda to develop instruments and provide grants and public investment to catalyse private investment. There is an opportunity to aggregate funding currently distributed across a range of government funds (e.g., the Towns Fund, Levelling Up Fund, UK Community Renewal Fund and Community Ownership Fund) to achieve the scale of capital and investment opportunities required to attract institutional investment. There is also opportunity to use grant funding to bolster the investment capability and capacity at local authority and LGPS fund level, as seen at Greater Manchester Combined Authority and Greater Manchester Pension Fund – they used central government grant funding from their 2014 devolution deal to cover the staff costs for an investment team (now 15 person strong) and as risk capital to underwrite early investments.

5. How can investors best engage not only with investee companies but also with stakeholders locally, nationally and internationally about the risks and opportunities?

Please refer to our answers to Qs 3 and 4 for our reflections on this question.

6. 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?

Government and responsible investors can demonstrate the importance of and support the just transition through financing and promoting just transition, or 'green+' (i.e., green and social), financing mechanisms and vehicles. These include green sovereign bonds with social co-benefits, as well as just transition financing vehicles.

Our Green+ Gilt proposal, launched in collaboration with the Green Finance Institute and the London School of Economics' Grantham Research Institute, emphasised the potential of a green sovereign bond with well-defined social and economic benefits. We welcomed the Chancellor's announcement of a series of sovereign green bonds last year and confirmation in the March 2021 Budget that these will include reporting on social co-benefits.

The series of green gilts with social co-benefits can underpin the UK's economic recovery by directing proceeds to the growing net-zero economy, creating jobs and other social benefits. It can address the lack of investment and the productivity gap faced by the UK by upgrading infrastructure, supporting innovation and building skills. It will show the UK as a market leader by developing the green and sustainable capital markets, catalyse green and sustainable finance, and demonstrate UK financial capability, forming a template for further issuance by the private sector and localities, as well as internationally. The series of gilts can also appeal to the deep pool of UK and international green investors increasingly focused on social outcomes and be accessible to pension funds and other pools of savings.

We are pleased to continue to be engaging both with the market and with the Treasury and the Debt Management Office to support the effective implementation of the bonds, with a particular focus on providing an actionable schedule of social co-benefits, starting with jobs and skills, to deliver on the net zero agenda while levelling up across the country.

The Institute is building upon its successful track record of producing market-led and market-endorsed solutions for mobilising capital towards addressing social and environmental challenges. We are exploring the potential for a blueprint for a financing vehicle that delivers just transition outcomes, which could be replicated by public and private actors around the world. This would draw on other efforts in the UK and internationally to create blended finance vehicles, which use grant or philanthropic capital as a "first loss" layer to crowd in private sector investors – particularly pension funds.

The UK's leadership of the G7 and COP26 this year presents a key opportunity for government to lead 'green+' commitments by other countries, i.e., to showcase its innovative inclusion of social co-benefits alongside environmental outcomes in its green sovereign bond framework, and to encourage other countries to follow suit. Government could also pioneer the establishment of a Technical Advisory Group to develop a 'just transition taxonomy', to support the reporting of the social co-benefits of its green gilts and set a precedent for other nations to follow suit.

7. 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 former Green Investment Bank (GIB), new UK Infrastructure Bank and the Levelling Up Fund all provide lessons on supporting people and places through industrial change. Our project on place-based impact investment (PBII) (referenced in answer to Q.4) also contains several findings and recommendations relevant here, particularly around investing in the opportunities presented by the just transition.

The GIB launched in 2012, was relatively small in scale (with an initial capitalisation of £3 billion) and lacked borrowing and lending powers. The GIB also suffered from an insufficient pipeline of investable projects. We are part of an E3G-led working group advising government on its design of the UK Infrastructure Bank. The group recommends that the UK Infrastructure Bank should:

- be an independent institution with full banking and borrowing powers;
- have sufficient capitalisation appropriate to its mission and functions;
- be mission-driven, with a legal mandate to achieve the levelling up agenda and the UK's climate change mitigation and resilience goals; and
- should adopt a future-fit definition of infrastructure to fund a wide variety of projects, in terms of locality, size, and their stage in the pipeline.

This will require the UK Infrastructure Bank's governance and operating structures to reflect the whole of the UK, providing its management team with a deep understanding of the local resources and networks available to support local infrastructure. Meaningful engagement with local authorities will also be required to enable the pipeline of investible projects, an issue which limited the GIB's impact. In alignment with our answers to Qs 3 and 4, we believe the UK Infrastructure Bank should have effective impact modelling from the outset, because infrastructure projects can take years, even decades, to generate measurable impacts. Local authorities do this routinely and provide a good model.

At the March 2021 Budget, the Chancellor announced three new pots of levelling up funding worth a total of £5.17bn: the Levelling Up Fund, the UK Community Renewal Fund and the Community Ownership Fund. As additional to the UK Infrastructure Bank, these pots of funding could be vital sources for investment in *social* infrastructure such as skills training or youth services, which are key to ensuring investment in 'hard' infrastructure benefits people and communities. However, NPC analysis shows that there's a danger that 87% of this funding could go towards hard infrastructure such as transport.

We strongly recommend that the Levelling Up Fund, the UK Community Renewal Fund, and the Community Ownership Fund (as well as other existing funds, such as the Towns Fund) include a significant allocation to social infrastructure (such as skills training and youth services) to complement investment in 'hard' infrastructure (such as transport).

Finally, as outlined in our answer to Q.4, our PBII project makes several recommendations on how LGPFs and other investors can support people and places as their economy has experienced industrial change.