

Policy brief

Investing in a just transition in the UK



In partnership with



Headline issues

- Investors in the UK have a strategic opportunity to connect climate action with positive social impact across the country
- Around a fifth of current jobs in the UK have skills for which demand could grow in the green economy or which could require reskilling
- The just transition is starting to move into the policy and market mainstream but the full implications are yet to be worked through

Summary

The just transition is rapidly emerging as an essential element in the successful transition to a resilient zero-carbon economy. It starts from a focus on ensuring that actions to tackle climate change also take account of core social priorities, such as distributional effects and the ways in which decisions are made.

Around a fifth of current jobs (21%) in the UK have skills for which demand could grow in the green economy or could require reskilling – affecting more than 6 million people. Around 10% of workers have skills that could be in more demand, while 10% are more likely to need reskilling – this does not mean these jobs will be lost. The East Midlands, West Midlands, and Yorkshire and the Humber are the three regions with the highest proportions of jobs that could be exposed to the transition.

A coherent policy and market framework is needed to provide clear incentives for investors to support the just transition. The UK has a long-standing climate policy framework, and people and place are key foundations of the Industrial Strategy. The Government has also given emphasis to strengthening green finance and social impact investing. But there is not yet an explicit focus on the just transition in UK national policy. Investors can integrate the just transition into their climate strategies through corporate engagement, capital allocation as well as policy advocacy. Experimentation at scale will be critically important.

Policy briefs provide analysis on topical issues, presenting specific recommendations to inform ongoing policy debates. Drawing on the Grantham Research Institute's expertise, they summarise either our research findings or the state of knowledge about a particular issue.

This policy brief summarises a longer report entitled *Investing in a just transition in the UK: how investors can integrate social impact and place-based financing into climate strategies* (40pp), written by **Nick Robins, Andy Gouldson, William Irwin and Andrew Sudmant**, free to download at www.lse.ac.uk/GranthamInstitute/publication/investing-in-a-just-transition-in-the-uk/

“The just transition means making sure that action on climate change supports an inclusive economy, with a particular focus on workers and communities across the country”

Introduction

The just transition offers investors in the UK a strategic opportunity to connect climate action with positive social impact across the country. In essence, the just transition means making sure that action on climate change supports an inclusive economy, with a particular focus on workers and communities. This brief summarises the initial findings of a project designed to identify how this opportunity can be realised (see Box 1), with a regional focus on Yorkshire and the Humber.

The just transition is rapidly emerging as an essential element in the successful transition to a resilient zero-carbon economy. This rise to prominence was marked at the COP24 climate conference in 2018 by the adoption of a just transition declaration signed by 53 governments, including the UK's. And an investor statement on the

just transition was backed by over 100 institutions with more than US\$6 trillion in assets – more than 20 of which are based in the UK.

Five elements are needed for investors to play their role in the just transition

1. Understanding the just transition

The just transition starts from a focus on ensuring that actions to tackle climate change also take account of core social priorities, such as distributional effects and the ways in which decisions are made. For decision-makers, this translates into the following questions:

- **Who is affected?** The just transition starts with a focus on workers, but also includes spillover implications for communities, consumers and

The Investing in a Just Transition UK project is rooted in a regional case study of the Yorkshire and Humber region (highlighted) – see p7



Box 1. The Investing in a Just Transition UK project

The Grantham Research Institute at LSE and the Sustainability Research Institute at the University of Leeds are leading a process of research and dialogue to identify the specific role that investors can play in linking the environmental and social dimensions of the transition to a zero-carbon and resilient economy in the UK.

The goal is to develop a national roadmap for investing in a just transition, deploying the framework developed in the wider project's international investor guide (Robins et al., 2018). As part of this, we look across the spectrum of tools and mechanisms available to individual and institutional investors including asset owners (such as pension funds, insurance firms and charities), asset managers, and community and digital finance. Our ambition is to provide investors and other stakeholders with a clear sense of 'what good looks like' in terms of the just transition, turning high-level recognition into practical action.

The project will conclude with recommendations for both local and national reforms that would ensure that the goal of a just transition is embedded in the financial system. It will also identify how the regional analytics conducted in Yorkshire and the Humber could be extended nationwide. Our aim is to identify how these institutions can link the just transition with the needs and preferences of their ultimate savers and beneficiaries. We will be launching a separate but related project on the role of banks in the just transition.

citizens (see Figure 1). It has strong connections with the respect for human rights, a priority for investors.

- **What are the thematic priorities?** In the UK, this translates into four thematic priorities, making sure that

first, clean growth is inclusive; second, that decarbonisation is responsible; third, that resilience is delivered with fairness; and fourth, that there is a focus on place-based development, where these priorities come together (see Figure 2).

“The just transition starts with a focus on workers, but also includes spillover implications for communities, consumers and citizens – and it has strong connections with the respect for human rights ”

Figure 1. The human dimensions of the just transition

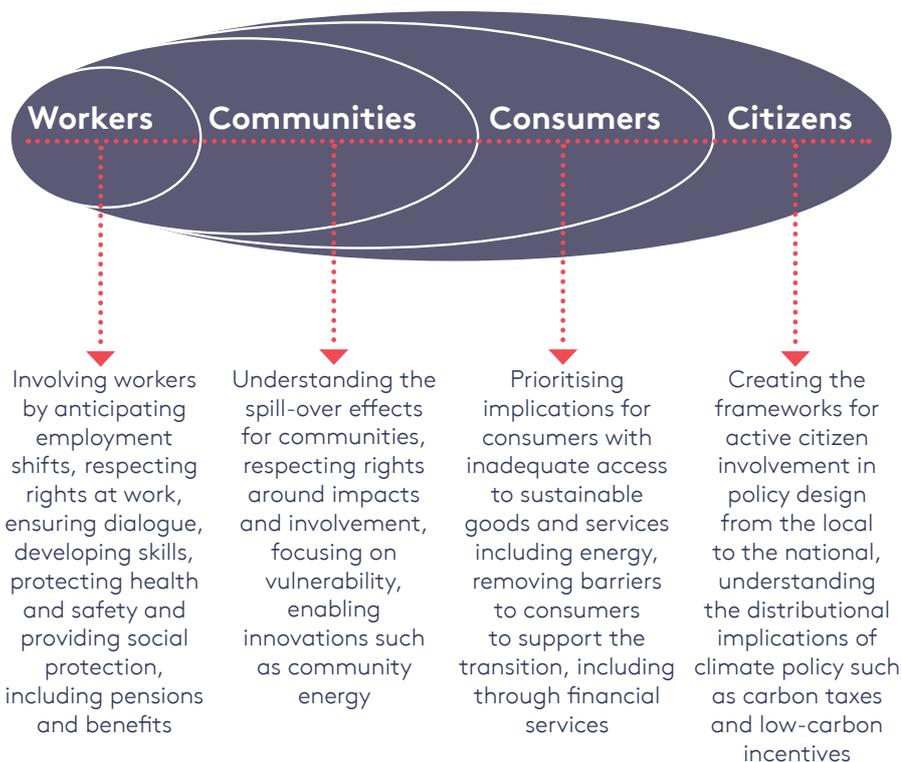


Figure 2. Critical themes of the just transition in the UK



- 1. Inclusive clean growth:** Ensuring high quality jobs in the growing green economy, empowering communities and ensuring fairness for consumers.
- 2. Responsible decarbonisation:** Ensuring workers and communities in high-carbon sectors benefit from the transition and are involved in the change process.
- 3. Equitable resilience:** Ensuring that people and communities are protected from the physical impacts of climate change, with a focus on the most vulnerable.
- 4. Place-based development:** Ensuring that the transition is rooted in the priorities of place and generates balanced development across the country.

“Around 10% of workers have skills that could be in more demand, while 10% are more likely to need reskilling – but this does not mean these jobs will be lost”

- **Why should investors get involved?** The just transition connects the environmental and social dimensions of responsible investment. It provides a better understanding of systemic risk, it is consistent with fiduciary duty, it points to material value drivers, helps to uncover investment opportunities, and enables investors to contribute to societal objectives such as the Paris Agreement on climate change and the Sustainable Development Goals.
- **What are the dilemmas?** It is important to be open about the dilemmas that the just transition raises. These include: will it delay action or add complexity? However, the reality that the just transition is often a tough issue makes it important to take initial steps and build confidence.

2. Sizing the scale of the challenge

Looking at the broad implications for workers (see Box 2 for Methodology), we estimate that around one-fifth of current jobs (21%) in the UK have skills for which demand could grow in the green economy or which could require reskilling. This is equivalent to more than 6 million people (Table 1). The upside and downside levels of exposure are roughly equal, so that 10% of the workforce could derive benefits and new opportunities from the transition (what we call ‘transition aligned’) and a further 10% are more likely to need

reskilling, upskilling or to use skills different to those they currently use in their employment (what we call ‘transition reskill’). Importantly, this does not mean that these jobs will be lost, rather that these are jobs where attention will be needed for reskilling and redeployment.

Construction (30%), transport (26%) and manufacturing (17%) are the sectors that could require greatest reskilling. The East Midlands, West Midlands, and Yorkshire and the Humber are the three regions with the highest proportions of jobs that could be exposed (Table 1; see p7 for more detail on Yorkshire and the Humber).

These estimates offer a first order of magnitude and raise questions for future inquiry in terms of the timing of change, the balance between large and small employers, the age, gender and ethnic dimensions, as well as the spillover implications for communities.

3. Exploring the policy and market context

The UK has a long-standing climate policy framework and clean growth is now one of the ‘grand challenges’ set out in the Government’s Industrial Strategy. The strategy also identifies people and place as key foundations. Alongside this, the Government has given particular emphasis to strengthening the UK’s capabilities in green finance and social impact investing. For the just transition, clear synergies exist between

Box 2. Methodology

We have used a methodology developed by Alex Bowen, Karlygash Kuralbayeva and Eileen Tipoe (Bowen et al., 2018), whose original research examined implications of ‘greening’ the workforce for the United States, based on data from the National Centre for O*Net Development (NCOD, 2018). We applied their approach to data on current employment in the UK (ONS et al., 2017; OECD, 2019).

Table 1. Estimated regional breakdown of transition exposure for employment in the UK

| Region | Transition 'reskill' | Transition aligned | % of transition jobs | Total jobs |
|--------------------------|----------------------|--------------------|----------------------|-------------------|
| North East | 10.0% | 10.5% | 20.5% | 1,059,975 |
| North West | 10.7% | 10.8% | 21.5% | 3,277,080 |
| Yorkshire and the Humber | 10.9% | 11.3% | 22.2% | 2,367,010 |
| East Midlands | 11.2% | 11.9% | 23.1% | 2,071,855 |
| West Midlands | 11.1% | 11.4% | 22.5% | 2,561,240 |
| East of England | 10.9% | 10.7% | 21.6% | 2,735,385 |
| London | 10.1% | 8.9% | 19.0% | 5,135,750 |
| South East | 10.4% | 10.0% | 20.4% | 4,080,100 |
| South West | 10.0% | 10.1% | 20.1% | 2,409,955 |
| Wales | 9.6% | 10.3% | 19.9% | 1,230,460 |
| Scotland | 10.4% | 10.1% | 20.5% | 2,440,150 |
| Northern Ireland | 9.4% | 10.3% | 19.8% | 669,692* |
| Total jobs | 3,151,058 | 3,113,078 | 6,264,136 | 30,038,652 |

these priorities. At the national level, however, there is not yet an explicit focus on the just transition. In Scotland, the government has recently established a Just Transition Commission.

Interest is growing in place-based efforts to mobilise finance for climate action. Key stakeholders are also taking a lead in shaping the agenda, notably trade unions and environmental organisations. Putting in place a coherent policy and market framework is important to provide clear incentives for investors to support the just transition. A particular priority is the need for a national infrastructure bank with an explicit sustainability mandate.

4. Identifying the areas for investor action

For investors in the UK, the new guide for investor action on the just transition (Robins et al., 2018) points to five action areas:

- **Investment strategy:** Investors need to determine how the just transition impacts their

existing policies for responsible investment and climate change. This can be done through three iterative steps: portfolio assessment, stakeholder dialogue and strategic integration.

- **Corporate engagement:** Engagement can be an effective mechanism to generate a better understanding of corporate performance on the just transition and driving improved practices. Initial priorities could include high-carbon sectors (such as utilities) to encourage responsible decarbonisation as well as renewable energy to support inclusive clean growth.
- **Capital allocation:** The just transition can be applied to investment decisions across all asset classes: public equities, fixed income, private equity, infrastructure, real estate and cash. The just transition offers particular opportunities for impact investors seeking to generate positive social and environmental outcomes alongside financial returns.

*Note: Northern Ireland data based on 2013 data (NISRA, 2014). England, Wales and Scotland data based on 2011 data (ONS et al., 2017).

Source: Authors' analysis using ONS et al. (2017), NISRA (2014) and Bowen et al. (2018)

Box 3. Preparing the ground for financing the transition in Leeds

A strong evidence base shows that Leeds (pictured) could save £277m a year and create 4,200 years of extra employment by 2030 through cost-effective investments in low-carbon development through investments that would also deliver crucial cuts in energy use and carbon emissions. But we know that highlighting the opportunities does not mean they will actually secure investment and then be exploited. To address this, Leeds Climate Commission is working to enable investment in low-carbon and, in time, also climate-resilient development in the city.

Currently, the Commission's main focus is on a project development and financing initiative, which will work with organisations from across the city to enable the development of a pipeline of investable low-carbon projects. The programme will enable peer-to-peer learning to support evaluations of project proposals, the preparation of business cases, reviews of business models and financing options, and the development of links to investors. Links to national and regional schemes will then provide technical assistance. The Commission will also be working to ensure that Leeds is recognised as a city that is ready to participate in larger programmes and that has a pipeline of projects ready for investment and an organised, engaged community ready to act.

- **Policy advocacy:** Investors can have an influential role in policymaking and this could now include support for efforts to promote a just transition. The Powering Past Coal Alliance (PPCA), launched in 2017 by Canada and the UK, provides a platform for investors to place coal phase-out in a wider just transition context.
- **Learning and review:** The just transition is a relatively new dimension of the climate change agenda for investors. It will therefore be important to develop experimentation at scale – with investors, policymakers and industry sectors – and have effective monitoring, evaluation and sharing of outcomes.

5. A checklist for further work

In the UK, the just transition is starting to move into the policy and market mainstream. Yet, while the imperative to connect climate action with social inclusion is clear, the full implications have still to be worked through. We have identified at least 10 questions:

Ambition: What could an ambitious just transition look like, for example in 2030?

Foresight: How can we anticipate the social dimensions of the transition?

Frameworks: How can the just transition best be incorporated into policy frameworks?

Skills and capacity-building: Where has the UK made progress in building the skills base for the transition and where are the gaps?

Place-based financing: How can financing strategies be developed that connect the needs for place-led development with national and international pools of capital?

Dialogue and stewardship: What is the role of investors in promoting social dialogue through their stewardship duties as owners and managers of capital?

Entrepreneurship and business models: What are the new business models that are needed that will facilitate the process, within established firms and new entrants?

Financial innovation and impact: What new financial institutions and mechanisms could best channel capital towards a just transition across the country?

System change: What is the balance between incremental improvements and system change to deliver the just transition?

International links: How can UK investors act on the international dimensions of the transition, for example in global supply chains?



Photo: Benjamin Elliott on Unsplash

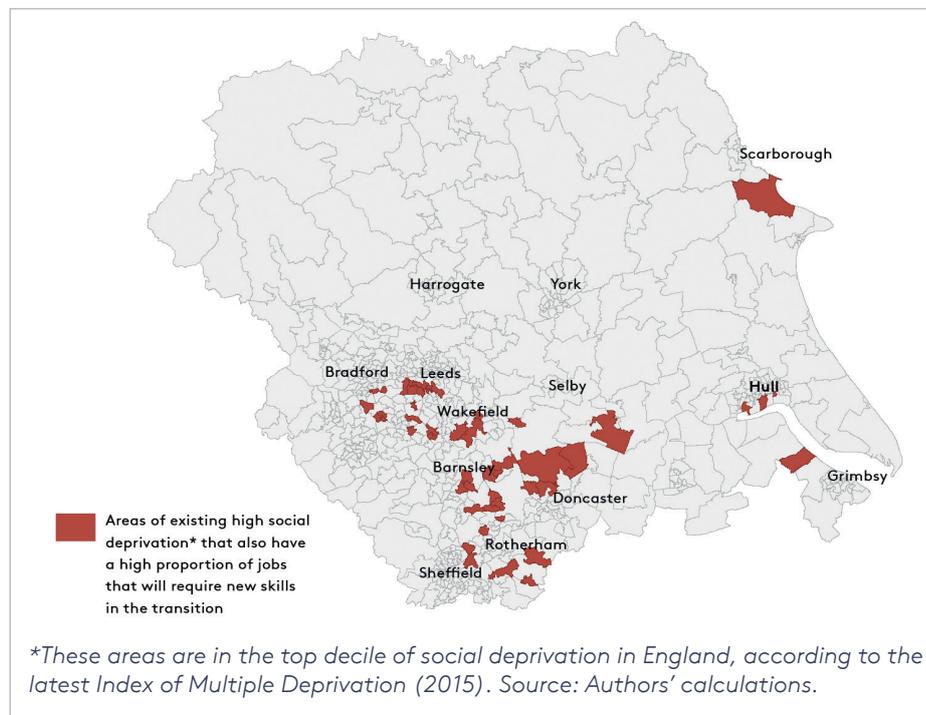
Regional case study: Yorkshire and the Humber: high-carbon legacy, low-carbon future

The Yorkshire and Humber region provides a focus to better understand how investors can support place-based action for a just transition. With a population of 5.3 million, the region accounts for 6.4% of UK GDP and 10% of carbon emissions (BEIS, 2018; OECD, 2019). Once at the heart of the Industrial Revolution, in recent decades the region has experienced immense change, with the decline of the coal, iron and steel industries gathering pace from the 1980s. In some areas, this has brought poverty, lack of opportunity and a sense of communities being left behind. Naturally, there is a strong desire to ensure that any future transitions do not leave a similar legacy.

Quantifying the implications of the transition for jobs

Our analysis (see Box 2 for methodology) indicates that 22.2% of jobs in Yorkshire and the Humber have skills that will experience either an increase or a reduction in demand in the transition. But at 11.3%, the proportion of workers who have skills that match with future jobs in the transition is higher than the national average. This amounts to 267,000 jobs overall, more than the 258,000 workers whose skills could face falling demand in the transition. 48,000 of these are in areas already suffering from multiple types of deprivation, notably in those parts of North East Lincolnshire, Hull and Leeds that are among the 10% of places in the UK facing the highest levels of deprivation (see Figure 3). These areas potentially face a need for reskilling. Making the most of the employment opportunities associated with the transition is

Figure 3. Areas of Yorkshire and the Humber with high levels of deprivation and high proportion of jobs with potential reskilling needs



obviously important, but putting in place measures to address the risks is crucial too.

Evaluating carbon exposure in the region

According to the TUC, the Yorkshire and Humber region probably has the highest concentration of the UK's foundation industries and coal and gas power stations in the UK, including major power plants like Drax, as well as steel, cement and chemical works. Up to 28,000 people work in 26 major plants, and three or four times as many in their supply chains (TUC, 2015). It is critically important to find ways to ensure that the people in those jobs – and the sectors and communities in which they work and live – benefit from the transition.

The regional TUC set up a Low-Carbon Task Force to develop a just transition strategy for the region. One aspect of this could be

transformational technological solutions, potentially including fuel-switching to hydrogen and the deployment of industrial carbon capture and storage.

Seeking opportunities in the transition

A number of initiatives are already underway to seize the opportunities from growth in zero-carbon development. GreenPort in Hull has become a hub for the booming offshore wind industry, attracting Siemens to establish a wind-blade factory. The Leeds Climate Commission has also been established to help the city realise the substantial potential for climate action that delivers job creation and inclusive development (Can-do Cities, 2017; see Box 3, p6). Financial innovation exists in the region too, not least from Ecology Building Society, an early pioneer in green mortgages.

Next steps

In the next phase of the project, we will be looking in more detail at these questions. Our particular priorities will include deepening the analytics of the employment implications of the transition, developing a series of illustrative case studies of how investors can support the just transition using the lens of our focal region of Yorkshire and the Humber, and then exploring the potential for a regional just transition fund. These will all feed into our investor roadmap on the just transition in the UK, to be released later in 2019.

Read the full report at:

www.lse.ac.uk/GranthamInstitute/publication/investing-in-a-just-transition-in-the-uk/



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