The Impact Investing Institute and UK Sustainable Investment and Finance Association's response to the Labour Party's National Policy Forum Commission: A green and digital future – Delivering growth

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1. ABOUT US

The Impact Investing Institute exists to accelerate the growth and improve the effectiveness of the impact investing market in the UK and internationally. Our aim is for capital markets to be fairer and work better for people and the planet to deliver sustainable and inclusive economic growth. We are a non-profit with cross-sector expertise and reach, regularly providing advice to regulators, government taskforces, select committees and other policymakers. We have influenced many recent advances in impact investing, from the UK's innovative green gilts with social co-benefits, to uniting global financial institutions with over £4tn of assets and assets under management (AUM) to support a just transition to net zero.

The UK Sustainable Investment and Finance Association (UKSIF) is the UK's leading membership organisation for sustainable finance, committed to promoting a financial system that works for the benefit of the environment, society, and us all. UKSIF represents a diverse range of financial services firms committed to these aims, and our nearly 300 members, representing over £19trn of global AUM includes investment managers, pension funds, banks, financial advisers, ESG data and research providers, NGOs, among others.

2. INTRODUCTION

We welcome the Labour Party's commitment to growth, including its pledge to spend £28 billion a year until 2030 to tackle the climate crisis, while delivering secure, green jobs and supporting the most vulnerable. We also recognise Labour's renewed focus on working with businesses, large and small, as well as the financial services sector, to improve productivity, increase living standards and spread growth more equitably across the UK. Central to this is a **just transition to net zero, delivered in partnership with, and for the benefit of people across the UK**. This goes beyond just fossil fuel and green technology jobs – it means, for example, mitigating disruptions in transport, general access to clean energy, and tackling fuel poverty as carbon becomes more expensive. Alongside being the right thing to do, it is fundamental to maintaining public support for net zero. Labour's recent policy paper on growth rightly recognises this, committing to "harness the talent and efforts of working people in all parts of the country to generate growth".

In response to changes in the policy landscape, consumer preferences, and the growing risk posed by social and environmental factors, investors are increasingly seeking to deliver positive social and/or environmental impact alongside a financial return. Impact investing and other sustainable investment approaches can play a crucial role in delivering Labour's economic objectives, by bringing investors, companies, and policymakers together behind a shared vision for a greener and more prosperous UK. Our response provides detail on the below recommendations for how a Labour government could maximise the potential of the capital markets:

- **Linking proposed real economy change to a long-term, sustainable finance strategy.** This would include tracking green finance flows, introducing carbon pricing, and introducing 'clean investment roadmaps' for priority sectors – starting with those sectors that can contribute most to the UK's economic, social and climate goals and for which policy clarity is at present particularly less developed.

- **Committing to regulatory advances, including those already in train,** to facilitate an increase in private capital flows towards green growth. These include re-booting the work on a Green Taxonomy and introducing clarifications to pension scheme fiduciary duties, as well as maintaining commitment to the FCA's proposed investment labels and mandatory transition plans.

- **Supporting the expansion of place-based impact investing**, enabling local authorities to articulate clear development priorities, engage with private sector partners, and ensure the involvement of local people.

- **Providing blended finance and catalytic capital** to enable private finance to fully participate in funding projects led by local authorities and businesses to drive forward growth.

We would welcome the opportunity to meet with Labour's policy team and/or shadow cabinet members to discuss our recommendations in more detail and explore how we can further support the Party's policy development going forwards.

3. WHAT POLICIES CAN HELP DELIVER LABOUR'S EXISTING PLEDGES ON GREEN GROWTH, PARTICULARLY THE GREEN PROSPERITY PLAN?

Blended finance and catalytic capital to crowd in private finance

We welcome Labour's recognition that sustained economic growth can be facilitated via the provision of catalytic public investment that crowds in private sector investment, to make Britain the best place to start and grow a business, with improved access to capital, markets and opportunities.

A future Labour government could **achieve this through further support for blended finance structures**, such as subordinated capital, guarantees, tax reliefs and development grants. Blended finance structures play a vital role in enabling institutional investors to move in and are increasingly being used in the UK to finance transition activities, including green infrastructure and development of the labour market in response to the transition. The Greater Manchester Combined Authority and Greater Manchester Pension Fund serve as an inspiring case study of what can be achieved when technical support and blended finance are used in combination.

There is also a **significant opportunity for financial institutions accountable to government, like the British Business Bank and UK Infrastructure Bank, to expand their use of blended finance**. A key reform would be to put capital mobilisation at the core of the mandate, targets, and remuneration structures of these institutions, which could be achieved by amending their objectives to make capital mobilisation an objective of equal weight as balance sheet investment, and have that balance reflected in the remuneration of key executives.

With regards to the social sector, it is also vital that the next tranche of Dormant Assets – money left dormant in financial products such as bank accounts – maintains its commitment to social investment, to support enterprises with a social purpose in underserved places and communities.

Regulatory reform

The Labour Party could also commit to a series of high-ambition regulatory advances to facilitate an increase in private capital flows towards green growth. We believe that UK sustainable finance regulation should be guided by the following principles: (i) reflect market best practice; (ii) lead by evidence-based environmental, social and governance goals; (iii) seek international alignment or interoperability as far as possible; and (iv) ensure that each piece forms part of an articulated, long-term, and integrated regulatory strategy. Given this, we recommend the following:

- Support for the Financial Conduct Authority's **Sustainability Disclosure Requirements and investment labels**, which will enhance consumer trust in sustainability products through more reliable product descriptions. **Proposals for an Impact label should be amended** to make it possible for all asset classes to be eligible (reflecting the direction of travel in the market). While the proposals differ from the EU's Sustainable Finance Disclosure Regulation (SFDR), the FCA should continue to engage with policymakers in the EU and elsewhere to seek to promote and **demonstrate interoperability between regimes**.

- More broadly, **continued support for the International Sustainability Standards Board (ISSB) sustainability related and climate-related standards** across the UK's economy. This would help to provide investors with the sustainability disclosures and information required to better support growth opportunities and help drive the transition to net zero. The convergence towards the ISSB's common 'baseline' could help UK issuers attract investment from abroad, with global investors increasingly seeking to allocate capital to companies that have transparent and comparable disclosures in place, including regarding carbon emissions and transition plans.

- The **Green Taxonomy should urgently be completed and implemented, led by science**, with natural gas excluded. Companies and investors are increasingly required to report on climate-related disclosures, and an important part of the UK taxonomy's implementation in future will be, in time, mandatory reporting on taxonomy-aligned activities (EU reporting requirements on the climate mitigation and climate adaptation objectives of the taxonomy are already in force). The Green Taxonomy would provide a framework for identifying which economic activity is green, and which isn't. The taxonomy would demonstrate UK leadership in target setting to address climate change and the net zero transition, and would also help promote long-term investment certainty for investors and businesses, helping to promote growth across the country. UKSIF has been advising Treasury on the UK's taxonomy through the Green Technical Advisory Group (GTAG), whose recommendations on interoperability and development should be adopted by the government. In parallel, there should be an **increased focus on the development of social metrics**. Both UKSIF and the Impact Investing Institute are members of the Department for Work and Pensions' Taskforce on Social Factors, which is providing important and timely leadership on this subject.

- Support for **mandatory transition plans that integrate just transition considerations – e.g., the protection and creation of well-paid, secure jobs**. They should also include guidance on embedding nature considerations, and be extended to large unlisted companies, to help level the playing field between public and unlisted companies. We would like to see confirmation of transition plans being put on a mandatory footing across the wider economy, fulfilling one of the UK's core pledges made at COP26. The Impact Investing Institute sits on the Transition Plan Taskforce (TPT)'s Delivery Group, developing the gold standard for companies' climate transition plans, and co-leads the TPT's Just Transition Working Group.

- **Clarifications to pension scheme fiduciary duties**, to help unlock the £7trn in pension funds in the UK. Pension funds present a huge opportunity to mobilise patient capital at scale for investment in industries that drive both economic growth and environmental and social impact. For example, the recent adoption by government of the Impact Investing Institute's recommendation for a **5% local investment target for the Local Government Pension Scheme could deliver £16bn to invest across the UK**. However, uncertainty persists amongst many schemes, investment consultants and asset managers about whether / when they can take into account sustainability factors. Clarifications to fiduciary duties could not only address present confusion but would **introduce regulatory consistency, by bringing pension duties in line with company director obligations**, which require they "have regard to the impact of the company's operations on society and the environment" (Section 172d of the Companies Act, 2006). One possible avenue for change could be consideration by policymakers of detailed statutory, or non-statutory, guidance to be issued for UK occupational pension schemes from relevant government departments, including DWP, and financial regulators such as FCA and TPR. This guidance could clarify that trustees should have regard to, and consider, the impacts of their investments on the environment and society without undermining their ability to act in the financial interests of members.

4. WHAT POLICIES CAN HELP CONTRIBUTE TO THE FOUR MISSIONS OUTLINED IN LABOUR'S INDUSTRIAL STRATEGY?

Impact investing and other sustainable investment approaches could particularly help to achieve two of Labour's Industrial Strategy missions: delivering clean power by 2030 and building a more resilient economy.

Delivering clean power by 2030

Alongside the availability of public and private capital, transitioning to clean power by 2030 would require **easing planning restrictions on renewables** (Labour's commitment to which is very welcome); **removing grid connection delays**; and **developing construction skills** – for example, addressing the huge labour shortage of welders in the UK. Such measures are particularly important in the context of the US Inflation Reduction Act and the expected EU response, as global competition to attract green investment increases. We would very much welcome an incoming Labour government having a comprehensive, prepared response to the IRA, which could be rolled out at pace.

Building a more resilient economy

We welcome Labour's Industrial Strategy, alongside its commitment to £28bn/year of public investment towards green growth, including £6bn/year to retrofit 19m homes, as well as its proposed £8bn national wealth fund to attract private investment into climate infrastructure. More detail of these plans – including on expanding high-growth firms' access to finance, the role of the proposed Industrial Strategy Council, and on the target sectors a Labour government would prioritise – will assist private investment decisions and ultimately channel more private capital, at pace, in support of these ambitions.

In addition to the regulatory reform suggested above, the Labour Party can lay the foundations for a more resilient economy, supported by significant flows of private capital, by linking proposed real economy change to **a long-term, sustainable finance strategy**. This could include:

- **Tracking green finance flows** to show where private capital is going and enable government to amend policy incentives if necessary. The Net Zero Strategy should be revised to include a 'Net Zero

Investment Plan', containing detail on credible decarbonisation roadmaps for sectors, underpinned by near-time actions to shift financial flows, which will complement company-level transition plans and support a 'whole of economy' transition. This would help determine how the required levels of investment for each sector can be met in the most effective and fiscally efficient way.

- Clarifying how Labour's **Net-Zero and Nature Test for government spending** would work in practice – for example, spending could be tagged against the Green Taxonomy (once implemented).

- **Introduce carbon pricing** which rapidly drives economic activity towards net zero while supporting a Just Transition. The UK's Emissions Trading System could be expanded to cover more of the economy and in the longer term adopt a more comprehensive carbon pricing system. This requires careful design to avoid penalising low-income households and SMEs. Redistribution of proceeds could be one solution – for example, Canada's carbon pricing redistributes revenue via income tax rebates.

- **Develop 'clean investment roadmaps' for priority sectors of the economy** to drive forward their decarbonisation at a faster pace. Clear transition pathways for sectors, underpinned by targets, milestones, and actions to shift financial flows towards net zero, will be key in tackling barriers to companies publishing and making progress towards their transition plans. Government should prioritise high emitting industries where transition risks are most apparent for investors, and where policy clarity is particularly lacking – for example, heat and buildings, and food and agriculture. Other priority sectors could be heavy and hard-to-abate industries.

- **Provide a comprehensive package of energy efficiency measures** at the earliest opportunity. Given that home energy usage accounts for >14% of the UK's greenhouse gas emissions, the UK's energy efficiency targets for homes should be raised, including upgrading fuel-poor homes to Energy Performance Certificate (EPC) Band C by 2030, and all homes by 2035. Steps to achieve these targets could include: further financial incentives for homeowners to make energy efficiency improvements; a national education campaign involving banks to deliver messages on energy usage; and a clearer decarbonisation roadmap for the UK's housing stock.

5. WHAT CONSIDERATION WOULD NEED TO BE GIVEN TO POLICY PROPOSALS IN THIS AREA WHEN COLLABORATING WITH DEVOLVED ADMINISTRATIONS AND LOCAL GOVERNMENTS IN ENGLAND, SCOTLAND, WALES AND NORTHERN IRELAND?

There is significant scope for places and financial institutions to work together in new ways towards sustaining thriving places in all parts of Britain – involving places moving away from an over-reliance on grants. The Impact Investing Institute's place-based impact investing (PBII) programme facilitates mutually reinforcing opportunities: for financial institutions, new markets for commercially viable investments generating social and environmental benefits; and for places, access to capital for transformational local growth.

Several of the priorities in Labour's proposed 'take back control' bill speak to the opportunities, including employment support, transport, energy, climate change, housing and culture. Our work demonstrates what can happen when, on the one hand, **local authorities are supported to articulate clear development priorities, commit resources to engaging with private sector partners, and ensure the involvement of local people**; and, on the other hand, **investors develop relationships with local authorities whereby they**

understand and can feed into their priorities, and are provided with guidance as to how to engage meaningfully with communities.

We are piloting this approach in Wakefield, supporting Wakefield Council to identify and review projects with the potential to attract private impact investment, building the capacity of the Wakefield senior team to build partnerships with providers of private finance, before directly facilitating this engagement. We are also partnering with Involve (a leading UK public participation charity) to develop a framework that will inform how investors can best engage with local communities when making investments. In addition to the recommendations on blended finance outlined above, a future Labour government could support place-based impact investing by **resourcing local authorities – either directly or via an intermediary, such as the UK Infrastructure Bank – to improve their ability to attract investment**, with regards to information, capital, capacity, and skills.