

# **Meeting Minutes for the APPG on Environmental, Social and Governance**

**Topic: Ethical Finance, ESG Best Practice and Pensions**

**Date: Wednesday, 21 July, 10am (virtual)**

**Chair:** Alexander Stafford MP (APPG on ESG Chairman)

**Guest Speaker:** Guy Opperman MP, Parliamentary Under-Secretary of State for Pensions and Financial Inclusion

**Parliamentary Attendees:** Paul Bristow, MP for Peterborough; Gareth Davies, MP for Grantham and Stamford; Ben Everitt, MP for Milton Keynes North; Cherylin Mackrory, MP for Truro and Falmouth; Jacob Young, MP for Redcar.

## **Attendees**

Professor Jill Atkins, Chair in Financial Management at Sheffield University; Clive Booth, Director at The ESG Foundation; Emily Bruce, Policy & Public Affairs Advisor at BVRLA; Ewen Cameron, Head of Scottish Enterprise Delivery Plan, COP 26; Piers Claughton, Senior Adviser for Public Affairs at Virgin Money; Emily Davies, Head of Social Impact at Amey; Justine Duggan, Public Affairs Senior Manager at Octopus Group; Robbie Epsom, EMEA Head of ESG at CBRE Global Investors; Daniel Faundez, Associate Director at Osborne Clarke; Melanie Fernandes, External Affairs Manager, KPMG; Yohan Hill, Director of ESG and Responsible Investing at Adams Street Partners; Lynsey Jones, Climate Programme Manager at the Conservative Environment Network; Zac Lamdin, Governance & Engagement Advisor at Environment Agency; Katy Little, Parliamentary and Stakeholder Manager at PLSA; Jemima Lovatt, Founder at Thrive CIC; David Melhuish, Development Director at The Gym Group; Lena Milosevic, Global Diversity, Inclusion and Wellbeing Director at AVEVA/Performance; Fergus Moffatt, Head of UK Policy at ShareAction; Olivia Mooney, Head of Policy, UN Principles of Responsible Investment; Maryan Mussa, ESG Foundation; Rebecca Perlman, EMEA and UK ESG lead at Herbert Smith Freehills; Christopher Reeves, ESG Director at John Laing; Mark Rogers, Executive Director at Collaborate CIC; Diana Rose, ESG Research Director at Insig AI; Emma Varley, Policy Lead at the DWP; Cornelia Woschek, Head of Sustainability at The Gym Group.

## **The meeting starts with the Minister joining at 10.00 am.**

The Minister thanked the APPG for inviting him to the event and said it was an honour and a privilege to be the first Minister to speak to the APPG. He praised the APPG for shedding light on a massively important issue, one which he is passionate about.

The Minister first speaks about why ESG is important. He highlights that it is the single most important defining element which governs pension schemes or companies in the City of London. He emphasised that he could not overstate ESG's importance. ESG is on a journey, and it starts with the work conducted by the Law Commission's report into the 'fiduciary duties of investment intermediaries' and the implementation of the Government's 2018 ESG regulations. The Minister stated that, whilst the Treasury has been slow to catch up on this, he is proud to be in a department implementing transformational ESG practices.

Recently, the focus of ESG has been on both the environmental effort and the governance aspect. The Minister outlined that the salience of women on boards and diversity have gradually seeped into company consciences through published reports having found each to increase company efficacy.

- However, we need to remember ESG's forgotten third child: 'Social'.

The Minister expressed optimism that ESG was becoming increasingly prominent and highlighted that the recommendations by the Taskforce on Climate-Related Financial Disclosure (TCFD) would become UK law in October 2021 - the first time a country has done so.

Finally, the Minister looked ahead to COP26 which he characterised as being the event to consolidate the UK's unquestionable ESG leadership in the world.

Once the Minister finished outlining why ESG was personally important to him, he invited attendees to voice their views. He insisted that his door was both metaphorically and literally open to the opinions of the event's attendees.

## **Question: As Minister, do you have any unique insights into the observable trends being seen in the corporate response to ESG?**

The Minister stated that if he were to ask ten companies what ESG's 'Social' aspect entailed, he would get 10 differing responses. If the Government thinks it knows the answer to a question it would consult with experts but need not be bound by their views. However, when you do not know the answer, but know it needs answering, the Government may establish a 'call for evidence' which is what the Minister says they have done to try and ascertain any trends. As a department, we have postulated that 'Social' could examine supply chains, however, it has other aspects too.

The current trend is that pension providers are typically investing in listed equities, gilts and bonds, but the Minister stated that he is persuading them to think differently. He would want them to adopt a new trend and invest in infrastructure (hydrogen, solar power facilities), and in emerging markets (such as Africa). These alternatives for investing have the potential to generate money for their clients, but also do such social good

**Question: What is your message to pension fund trustees who may regard investment as an ineffective form of change? Secondly, the Chancellor announced that the Long-Term Asset Fund (LTAF) will come forward, so has there been an update?**

The Minister stated that they should transition from a fossil fuel company to a clean energy company through stewardship. Companies need to show they are embarking on an ESG-friendly journey. If they don't then it is clear people may divest from the business and sell their share. 99% of the time divestment is a disaster because people will sell their shares just to have them bought by people who do not care about the planet.

The Government does not have the answer to everything. They cannot create hydrogen or wind farms without the involvement of businesses. The Government needs to incentivise and provide capital. It is the APPG and my department's role to nudge them into that direction. We need to take the opportunity of being a market leader to exhibit ourselves as ESG leaders too.

A sovereign wealth fund is more likely to come to the UK for investment given we are world leaders in ESG. This will create employment opportunities. Illiquids are the sort of investments communities need. Consolidation is needed. The Government needs to help provide alternative products (the department was instrumental in persuading the Treasury to initiate green gilts).

The Bank of England and the Financial Conduct Authority (FCA) are developing an LTAF alongside the Treasury and DWP to make alternative investment products available. The Minister is confident that by COP26 later this year, there should be two vehicles to show investors that the UK can provide opportunities to invest in a long-term, ESG-friendly way.

**Question: What is the role of the Government in facilitating this investment in green technology? How do we utilise the Government in helping green technology off the ground and so it helps the 'little guy'?**

The Minister expressed that the Government's job is to set the framework and direction of travel. Helping the 'little guy' is what the 'S' in ESG is all about. The Minister used an example of a green infrastructure development in Redcar, England which had a significant component sourced through child slave labour in Africa at a cheap price, compared to one sourced through a non-slave labour method in an appropriate, non-exploitative environment. This must be addressed. The Minister stressed that this is not 'British jobs for British workers', but one which encourages companies to invest in responsible and ethical supply chains.

The APPG and the department can play a massive role in setting the tone. The Prime Minister's 10 point plan is a good starting point, and through cooperation by the Department for Business, Energy and Industrial Strategy (BEIS), and other Government departments we could move to the stage where we will now require houses to be built according to clean energy standards. This means a huge investment in heat pumps, upgrading boilers, and more. The green gilt is a very good start, but I envisage the next step would be on a specific project.

The Minister highlighted that nuclear power is an example of the next step. The UK has three or four sites on which to build a facility. The Government is asking corporations to invest in these. The Government could either provide grants to encourage businesses, or partially fund them through a green gilt. The Minister posited that this was much more of an activist government when it comes to investment. A benefit of this is that if the Government invests 20-40% in a nuclear or hydrogen facility it shows a commitment to sharing the load and takes the pressure off businesses. It will also demonstrate that the Government is invested long-term.

**Question: The EU is leading the charge with Sustainable Finance Disclosure Regulation. Will the UK be aligned with the EU?**

The Minister respectfully disagreed that the EU is ahead on anything ESG related, aside from taxonomy. He noted that the EU, alongside the US is catching up to the UK meaning that there are three regimes working on different approaches meaning that for BEIS, DWP and the Treasury harmonising reporting standards is becoming difficult. Brexit has complicated some things and the Prime Minister and Chancellor both acknowledge that whatever reporting standard the UK adopts must work in our favour. Ultimately, this topic is a work in progress.

**Question: Regarding the TCFD, will the UK use an existing ESG framework, or will we develop a proprietary framework?**

The Minister offered his apologies by stating that he couldn't answer the question. He did however mention that the TCFD will be implemented according to the recommendations of former Bank of England Governor Mark Carney. The challenge is that there are different reporting metrics and the UK is evolving in how metrics are reported. The Minister expressed hope that at COP26, a common metrics system will be decided upon as the most practical route forward for climate metric reporting.

**Question: I would be keen to hear how government procurement can better recognise the social or environmental value of infra-development and management - rather than just the cost of development.**

The Minister explained that trying to change and identify the true value in investments is difficult and the Government is still trying to decipher it. The principle of ESG investing is gradually permeating its way into how investments are examined. Of course, price matters, but at the same stage showing how the supply chain is being dealt with (and what ESG benefits will look like) will be increasingly important.

This work, the Minister argues, will require more thought by civil servants and a change in their approaches. 18 months ago this idea was stagnant, so it really is unbelievable that ESG has progressed so significantly so quickly.

The Minister explained that the most important person in Government aside from the Prime Minister is Alok Sharma (President of COP26) who the Minister described as driving change at a scale that is 'off the charts'. The Minister explained that various government departments are now evolving to take on larger tasks. The Minister expressed that at the top of government the willpower is there, but this must trickle down to the ground where investors must be persuaded there is value.

**Question: How do we invest in foreign companies and organisations with different levels?**

British pension funds will not change overnight, and neither will a foreign country. What we can do is identify that there are appropriate recipients of capital which uphold the commitment to fair pay, anti-slavery, and good working conditions. Call it a reward. The Minister said that if you are able to satisfy by fiduciary duty and identify that this may be a good investment, then this will make the company money. Highlighting a company's ethical nature will allow investors to fully commit capital towards it. The Minister theorised that once other, less ESG-friendly companies see the benefits of abiding by good social practice, they too shall fall in line with the hope to gain some of this capital. Ultimately this will cause positive community change.

The Minister recommitted that it was his responsibility to create this regulatory framework, and reassured that if pension schemes adopt this, the subsequent change will be immeasurably impactful.

**Question: Across the economy, many businesses are past the 'why' stage on ESG but are hitting barriers when it comes to inconsistent and complex reporting landscapes for ESG in particular when it comes to science-based GHG reporting for large and listed businesses. Could the APPG be used to drive similar standards to catalyse a reporting landscape that addresses all ESG topics and is fair and transparent?**

The Minister reassured that the APPG can indeed help. He said that whilst you can have the great and good on an APPG roundtable, it is the APPG itself which is a vehicle and architect for change. He praised the APPG for its role in identifying problems and finding solutions, and making the case to MPs, ministers and committees. The Minister stressed that the Government knows it has problems, but that they are short of solutions.

The Minister recommended that the APPG identify three projects or achievable aims, identify what departmental impact you can have and where it can be applied (Treasury, DWP, BEIS), and then see to what extent you can shape that particular department or the opinions of certain ministers.

The Minister expressed hope that the APPG would be able to devise one key ask of the DWP and outline three projects to drive forward with. The Green Technical Advisory Group (GTAG) are looking at problems identified and are seen as the advisory experts on this and report to various departments, but they do not have a monopoly on ideas. The APPG has the potential to shine bright and offer its own expertise on the matter.

**Question: Can we expect to see more ‘Social’ aspects of ESG getting more regulation going forward? It certainly feels as though this area is getting far less air time than the ‘Environmental’ aspects of ESG.**

The Minister stated that if further regulations are required, then further regulations will be pursued. He hoped that this could be achieved through common metrics. He said that a board of middle-aged, old, white men are not best placed to address such problems, but he said he hoped more ‘Social’ changes would take place organically within organisations.

**Question: I find many ESG frameworks and tools take a risk-based approach (with a focus to mitigate), rather than value-added approaches (something the Social Value Act in public procurement is seeking to address). Can this APPG look to consider this, and incorporate it into ESG thinking?**

The Minister stated that the way the Government and commissioners do business needs to be a more values-based approach. He said that they must try to find a way of conducting metrics based on this.

**Question: What role does biodiversity have to play in any future reforms?**

The Minister reassured the attendees that the Prime Minister values biodiversity. It extends from the way we live our lives to river systems and is therefore expansive in its outlook. The Dasgupta Review has been published, and the Treasury have responded to its recommendations. The Minister noted that the Treasury is very busy at the moment and therefore normal time frames are difficult to adhere to. ‘Soon’ is all the Minister could say on next steps, but hopefully before COP26 later this year.

The Chair thanked the Minister for his time, to which the Minister replied by reaffirming his support for the APPG and encouraging attendees to speak with him on their ideas and opinions. The Chair asked that any follow-up questions be directed to the Secretariat to be passed on to the Minister’s office.