

Briefing on the update to the Green Finance Strategy FEBRUARY 2022

THE UPDATE TO THE GREEN FINANCE STRATEGY: SUMMARY

The UK is a global leader in green finance, with London ranked as the top financial centre above Amsterdam, New York, Singapore, and others.¹ Building on this leadership, and setting out a comprehensive policy and regulatory framework for green finance, would help the UK capture even greater economic benefits:

- 1) As the world's top net exporter of financial services,² green finance offers the UK significant potential for green growth. **Low-carbon financial services could generate an export opportunity of up to £7.5 billion per year in 2030, increasing to £17 billion by 2050.**³
- 2) Steering private investment into emerging green markets and sectors of the economy will create jobs and level up the UK regions. **The Climate Change Committee (CCC) estimates that low carbon investment must scale to £50 billion each year from 2030 to deliver Net Zero.**⁴ The bulk of this finance will primarily come from the private sector.

In 2019, the UK Government published the Green Finance Strategy with two central aims: align private sector financial flows with net zero and strengthen the competitiveness of the UK financial services sector. The Government has since committed to publish an update to the strategy in early 2023.⁵ This will take stock of progress made to date and set out how the financial sector can further support energy security, climate, and environmental goals.

The Aldersgate Group supports the recommendation of the Independent Review of Net Zero that the update to the Green Finance Strategy should “set out a **clear, robust and ambitious approach to disclosure, standard setting, and scaling up green finance**”.

WHY BUSINESS NEEDS A COMPREHENSIVE FINANCING PLAN FOR NET ZERO

There exists a strong business appetite for net zero, but political and economic instability is inhibiting businesses' ability to plan and invest. UK business confidence has fallen to its lowest level since the global financial crisis, due to high inflation, steadily rising interest rates, and falling consumer demand.⁶

Eighty-two per cent of UK large business leaders think government policies are necessary to bring about economy-wide change.⁷ The update to the Green Finance Strategy, therefore, is a significant opportunity to set out a stable and long-term policy and regulatory framework for the finance sector. This will be key to reducing the risk of investment in low-carbon options and ensuring that market confidence in low carbon sectors is not undermined.

Aldersgate Group sets out its key recommendations for the update below.

¹ Z/Yen (2022) *The Global Green Finance Index 10*

² TheCityUK (2023) *Key facts about the UK as an international financial centre 2022*

³ SMF (2022) *Financial Services and net zero: seizing the opportunity*

⁴ CCC (2022) *The Sixth Carbon Budget: The UK's path to Net Zero*

⁵ UK Government (December 2022) *Financial Services: The Edinburgh Reforms*

⁶ Bloomberg UK (January 2023) *UK business confidence drops to lowest since financial crisis*

⁷ University of Cambridge Institute for Sustainable Leadership (September 2022) *Net Zero Survey*

Develop a comprehensive regulatory framework for greening finance

Following a series of welcome announcements, including the new Sustainability Disclosures Requirement (SDR) framework,⁸ mandatory net zero transition plans,⁹ and the development of the UK Green Taxonomy,¹⁰ it is crucial that the Government addresses the confusion in the market about the timing and practicalities of compliance and concerns around undue reporting burden. In particular, it will be important to:

Complete regulatory reforms on disclosure and reporting

- **Outline the Government's vision of what reporting against the SDR framework will look like**, including guidance and rollout requirements, so businesses can begin to prepare for the regime change. This should detail how SDR will integrate with transition plans and the UK Green Taxonomy and confirm where this will be put in secondary legislation.
- **Reaffirm the commitment to publishing a UK Green Taxonomy.** The Government did not fulfil its legal obligation to put the climate element of the green taxonomy in law by the end of 2022, and it has said it will review the approach to the taxonomy development. The taxonomy should be science-based, reported against by firms as part of their mandatory disclosure reporting, and achieve a degree of interoperability with the EU's Green Taxonomy.

Tackle issues of systemic risk

- **Review of the role of financial regulations.** The Government should review the mandates of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) to ensure they are providing guidance for complying with new green finance regulation and are sufficiently resources to support businesses in implementing net zero transition plans. This will facilitate the take-up of new disclosure and reporting requirements and maximise the effectiveness of the proposed new SDR.

Track private financial flows into the net zero economy

The Net Zero Strategy announced that the Government would begin tracking financial flows, to complement the measurement of carbon and ensure the UK is on track to meet the investment challenge for decarbonising the economy. This data will help foster competitiveness within the private sector, identify areas with large investment gaps, and will enable Government to track progress aligning financial flows with net zero.

To begin fulfilling this commitment, Government should **ensure that the UK Green Taxonomy is used as a benchmark to track private financial flows into the net zero economy.** The Taxonomy can be used as a tool to support organisation-level identification of funding of sustainable activities, but also by the Government to assess overall financial flows across the UK economy. Using the Taxonomy will ensure that investment is categorised based on scientifically credible definitions of what is and is not a sustainable investment. This is vital to ensuring credibility of tracking flows and preventing greenwash.

⁸ SDR will be an integrated reporting requirement including: a new framework for climate-related financial disclosures, create net zero transition plans, reporting against global baseline sustainability reporting standards, and using the Green Taxonomy.

⁹ A net zero transition plan sets out how an organisation will adapt as the world transitions towards a low carbon economy.

¹⁰ The Green Taxonomy is a dictionary for what constitutes a green or sustainable investment.

Use public financing tools to attract private finance

Existing and new reporting regimes must be supported by policies that mobilise private finance. For example, through regulatory reforms and market mechanisms that ‘crowd-in’ private finance for net zero and nature. The update to the Green Finance Strategy is a critical opportunity to review areas of public policy, regulation, and finance where this approach is missing, and to update accordingly. Consequently, it will be vital to:

- **Use public financial institutions to de-risk climate-related investments and crowd-in private finance** to infrastructure, technologies and markets needed to accelerate the low carbon transition. Strategically allocating capital available through the UK Infrastructure Bank, the British Business Bank, and UK Export Finance and others will grow new markets and address market failures, such as building retrofits and natural capital markets.
- **Issue an additional round for the UK’s Green Gilt.** The second round of issuance was oversubscribed by 12 times,¹¹ indicating the interest from private investors to provide support for government-backed low carbon and nature projects.

Provide policy clarity to the real economy

The update to the Green Finance Strategy is just one part of ensuring investment is supporting the rapid decarbonisation of the economy. Another key driver of change is providing stable and long-term policy frameworks on a sectoral basis to attract private investment at the necessary pace and scale.

Implementing the Net Zero Strategy (2021) will be critical to driving finance to decarbonise the real economy. Addressing the policy gaps remaining in sectors which most urgently need to decarbonise (such as power, buildings, industrial decarbonisation, transport, and agriculture) is critical. Examples of public policy levers which can plug these gaps include:

- **Regulation to create private sector demand**, such as setting Minimum Energy Efficiency Standards (MEES) for privately rented domestic buildings and for commercial properties to achieve Energy Performance Certificate band C by 2035.
- **Tax changes to incentive sustainable behaviour**, such as an Environmental Investment Tax Relief to encourage individual taxpayer investment into nature or introducing tax rebates for the uptake of electric vehicles.

ABOUT US

The Aldersgate Group is an alliance of major businesses, professional institutes, and civil society organisations driving action for a sustainable, competitive economy. Our members, with a collective turnover in excess of £550bn, believe that ambitious and stable low-carbon and environmental policies make clear economic sense for the UK. They have operations across the UK economy and include companies such as Associated British Ports, AVIVA Investors, Bank of America, BT, CEMEX, the Green Investment Group, the John Lewis Partnership, Johnson Matthey, Legal & General Investment Management, Lloyds, Michelin, National Grid, Orsted, Ramboll, Scottish Power, Siemens, SUEZ, Tesco, Triodos Bank, Vestas and Willmott Dixon.

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¹¹ HM Treasury (21 October 2021) “Second UK Green Gilt raises further £6bn for green projects”