

# UK Government Green Finance Strategy update

## Expectations from the banking and finance sector

February 2023

UK Finance is the collective voice for the banking and finance industry. We represent over 300 member firms across the industry, and act to enhance competitiveness, support customers and facilitate innovation. The banking and finance sector is playing, and will continue to play, a critical role in the transition to Net Zero and our wider sustainability commitments. This includes investing in and lending to crucial sectors such as low-carbon energy and greening the housing stock, transitioning rapidly away from polluting industries, and financing the green economy in line with the UK's and our global environmental objectives.

In June 2022, we submitted our [response](#) to HM Government's Call for Evidence on the Green Finance Strategy (GFS) update, setting out recommendations for the government to consider. Since then, amid increasing pressure on the UK economy and changes in Government leadership, we have seen delays to some parts of the UK's green finance framework.

**We are sharing this note to reiterate some of our key asks from our original response to the Call for Evidence, and to set out specific areas where we would urgently welcome greater clarity in the GFS update.**

### Green finance regulation

The UK has led the world in using regulatory tools to enable the financial services sector to address its sustainability risks and impacts, with two primary examples being the requirement on firms to report against Taskforce on Climate-Related Financial Disclosure (TCFD) recommendations and the Bank of England's climate stress tests. This leadership was set to continue when the Government released its strategy document, *Greening Finance: A Roadmap to Sustainable Investing*, in October 2021. However, the implementation of some commitments in the roadmap has now slowed, and some milestones have shifted.

We call on the Government to use the GFS update to **set out revised timelines for implementation of planned sustainable finance regulation**, including the following key priorities:

#### 1. Corporate disclosure of risk, impacts and transition plans

Data is central to managing sustainability risks and impacts. In our 2022 response we highlighted that the Government should require disclosure of sustainability-related risks, impacts and transition plans by corporates, as this is critical to measuring banking and finance exposure.

The implementation of TCFD-based reporting – with **corporates required to report before financial firms** – was an example of good practice that helped maximise the data available to financial firms before their own reporting cycle started. As the Government and regulators widen disclosure to cover non-climate sustainability issues, they should apply the same sequencing logic.

We welcome that the Government has chosen to base its disclosure rules on international and/or industry initiatives like the International Sustainability Standards Board (ISSB) and Transition Plan Taskforce (TPT), and appreciate that these initiatives need time to come to conclusion before regulation is enacted. However, we call on the Government to support those bodies to set out their recommendations as soon as reasonable, and **in the meantime for the Government to set out refreshed, indicative timelines for implementation of new regulations.**

## 2. International alignment

Divergent sustainability-related risk reporting obligations and expectations are a major burden for many firms with multinational operations. We therefore ask the Government to maintain its vocal support for a **standardised, globally coherent green finance regulatory framework** and for the **ISSB** in particular. The Government should use its international leverage, including in fora such as the G7 and G20, to maximise the ISSB's adoption as the global baseline, which we believe is still not guaranteed. It should also deploy senior resourcing to work through other groups, such as the **International Platform on Sustainable Finance**, to maximise alignment of other reporting frameworks like green taxonomies and transition plan guidance.

## 3. UK Green Taxonomy

The Greening Finance Roadmap majored on the importance of “defining what counts as green”, recognising that a lack of common definitions makes it difficult for firms to understand the environmental impact of their decisions which can lead to consumer harms.

We support the Government in taking the appropriate time to get the Taxonomy right. However, at present there is no shared understanding of when we can expect these common definitions. Following the Economic Secretary to the Treasury's (EST's) announcement of a delay to the Taxonomy in December 2022, we call on the Government to set out in the GFS update a **clear timeline for delivery of any mechanism to define “green”, including consultation with industry.**

This mechanism should be interoperable with its international equivalents — recognising that many UK firms already report against the EU Taxonomy — and should complement other regimes such as the Financial Conduct Authority's Sustainability Disclosure Requirements and Product Labelling Regime, and should enable rather than duplicate the role of climate transition plans.

## Financing the real economy transition

Beyond the green finance regulatory regime, the banking and finance sector is at the forefront of financing the “real economy” transition to Net Zero. Large sums of global capital stand ready to support the transition, with the collective members of the Glasgow Financial Alliance for Net Zero (GFANZ) representing \$66tn in November 2022. While this is increasingly being deployed to where it is needed, the mobilisation of the required capital is inhibited by an absence of investable activity — which in turn can only materialise with the right supporting Government action.

### 1. Plans for financing Net Zero

We are now one-third of the way through the “Decade of Action”. But as the Climate Change Committee noted in its 2022 Progress Report, the UK faces policy gaps which risk us missing our climate goals.

**This is a global race, and the UK is not guaranteed success.** Packages of legislation in the US and EU — including the US’s 2022 Inflation Reduction Act, CHIPS and Science Act and Bipartisan Infrastructure Law, as well as the EU’s 2023 draft Green Deal Industrial Plan and 2022 Critical Raw Materials Act — will turbocharge climate action in those jurisdictions. The UK risks being left behind.

The Skidmore Review, *Mission Zero*, released in January this year, reiterates the need for Government to lead the global race to green growth. We call on Government to implement the Review’s recommendations by setting out clear, sector-by-sector Net Zero transition plans, in areas such as energy, housing, agriculture and transport, which will allow the whole economy to better align with the Government’s objectives, and crowd in private investment. **The GFS update should include a commitment, with timelines, to setting out these plans.**

The Government should consider the **development of a “Net Zero Investment Plan”** supported by independent tracking of financial flows, so that policymakers and industry can benchmark progress and crowd in private sector support by building certainty and confidence. It can also go much further, following the example of the US and EU packages. Strategic use of public financing, including through the UK Infrastructure Bank, and changes to the UK’s permitting and regulatory frameworks, could help to **unblock investment bottlenecks** in growing industries like green steel and carbon capture. This should also support a **just transition** — including through investing in the **UK’s skills base**, which would have the dual effect of supporting growth across the country and helping to mobilise private financing.

## **2. Net Zero Homes**

For the UK banking and finance sector, the UK buildings sector is a prime example where clearer policy direction and support is needed to achieve our Net Zero goals. While the cost-of-living crisis has made some ambitious policy changes more difficult to enact, we must also take advantage of opportunities to cut consumer costs while simultaneously cutting our emissions.

Drawing on the expertise of the UK mortgages industry, UK Finance released its report, [Net Zero Homes: Time for a Reset](#), in November 2022. Its ten recommendations offer a sensitive proposal for greening of the housing stock while supporting the most vulnerable households in the country. The absence of clear and workable policy otherwise risks leaving large swathes of households behind, and may place homeowners in mortgage traps linked to homes that cannot be retrofitted. Clarity is particularly needed at present on the anticipated requirements for **buy-to-let landlords** to improve the energy efficiency of properties in their portfolios — and what additional **support** will be available from Government (for example by way of tax incentives or grants) to help facilitate the necessary changes within the required deadlines.

We call on the Government to set out **specific plans for supporting the greening of the housing stock** in the GFS update, including through regulatory, consumer awareness, data and fiscal measures.

If you have any questions relating to this note, please contact Ian Bhullar, Principal, Strategic and Sustainability Policy, on [ian.bhullar@ukfinance.org.uk](mailto:ian.bhullar@ukfinance.org.uk).