

UK Government “Powering Up Britain” and “Mobilising Green Investment” package

Response from the banking and finance sector

April 2023

UK Finance is the collective voice for the banking and finance industry. We represent over 300 member firms across the sector, and act to enhance competitiveness, support customers and facilitate innovation.

On 30 March, the government made a series of announcements on sustainable finance as part of its “Powering Up Britain” and “Mobilising Green Investment” package. In this document we outline our response to those measures and the action that is needed to meet our Net Zero targets.

As part of our response to the 2022 Green Finance Strategy (GFS) call for evidence we called on government to take the following actions on regulation and financing. We recognise the progress and steps that have been made on many crucial issues. However, we are concerned that slower-than-necessary government action in some areas will hinder the delivery of the Net Zero economy.

We are calling for:

Green finance regulation

- 1. the Government to fulfil its commitments to consult on and extend green finance tools**, including the adoption of International Sustainability Standards Board (ISSB) aligned disclosure for a wide range of firms. The Government should take the time to design a coherent approach, but further delays should be avoided as far as possible.
- 2. the Government to continue to support global sustainability regulatory coherence**. This includes ensuring that it has the right level of expertise at forums like the ISSB and the International Platform on Sustainable Finance.
- 3. non-financial corporate firms to be required to implement sustainability disclosure in advance of financial firms**, to ensure the right data is available to make reporting as accurate as possible.

Financing the real economy transition

- 4. tax and spend measures to unlock and de-risk private lending for the transition across the economy, and protect the most vulnerable**. This should include targeted financial support for tradespeople and supply chains, and stamp duty reform to incentivise homeowners to retrofit their properties.
- 5. detailed sector-by-sector Net Zero transition pathways to alleviate barriers to investment**. The Government has made commitments to delivering these, but they will need to offer policy clarity and timelines, and contain the required policy measures to unblock private finance. The banking and finance sector stands ready to support the Government in developing these plans.
- 6. a coherent package of measures for the greening of the UK housing stock**, including improving consumer awareness of the options available and increasing the effectiveness of energy efficiency methodologies.

Below we set out in detail our views on the updated Green Finance Strategy and the announcements made on 30th March as part of the Government's "Powering Up Britain" package.

Green finance regulation

We welcomed the recognition in the refreshed Green Finance Strategy, "Mobilising Green Investment", of the critical role that finance must play in the transition. Data, generated through proportionate reporting requirements, is central to maximising the value of that role. Improving green finance regulation will enable the sector to channel capital to where it is needed. We therefore welcomed the commitments to:

- consult on a **UK Green Taxonomy** in autumn with the assurance any future reporting requirements will be proportionate;
- assess the suitability of the **International Sustainability Standards Board (ISSB) standards** for adoption in the UK in consultation with industry;
- consult on **Scope 3 greenhouse gas emissions reporting** in Q3 2023; and
- consult on extending reporting on **transition plans** to the UK's largest non-listed companies in Q4 2023.

The Government must deliver on these commitments and consultations at pace, while designing a coherent policy framework to mitigate against the risk of retrospective shifts in what it is trying to achieve. In particular, we call for specific attention and resourcing in the following areas:

International regulatory alignment and UK leadership

We welcome the Government continuing to champion alignment of the global financial system with our sustainability goals, and it has the support of the sector to step up its commitment to the ISSB standards. **This includes using diplomatic and trade levers to encourage others to adopt and align too.**

The UK is one of the largest economies with an in-principle commitment to adopting the ISSB standards, but risks being set adrift if efforts do not continue to reduce frictions with others, like the European Sustainability Reporting Standards or US Securities and Exchange Commission rules.

For transition plan reporting and taxonomies, there is currently no process or appropriate forum to design an international baseline. We therefore welcome the Government's commitment to promoting transition planning through forums like the G7, G20 and Coalition of Finance Ministers for Climate Action, as well as to "strengthen" engagement in the International Platform for Sustainable Finance (IPSF). As noted by the Green Taxonomy Advisory Group, the Government has the opportunity to play a greater world-leading role. Government should **ensure its representatives are empowered to promote the creation of international baselines and encourage alternative processes if existing ones are not contributing to interoperability.**

In less well-developed areas, like **reporting on nature- and biodiversity-related risks and exposures**, there is an even greater chance to shape policy. The Government should proactively work to form the international mechanisms needed for harmonisation from the outset, avoiding having to correct them later on.

We appreciate the challenges involved in promoting a global baseline, and will continue to assist Government by raising the need for coherent and interoperable frameworks in our international

engagement. This includes through dialogue and knowledge-sharing with our international counterparts at the European and International Banking Federations.

Sequencing of financial and non-financial reporting

The implementation of TCFD-based reporting – with **corporates required to report before financial firms** – was an example of good practice that helped maximise data available to financial firms before their own reporting cycle started, allowing them to produce more accurate reporting. As the Government and regulators widen disclosure to cover non-climate sustainability issues, transition plans and sustainability impacts, they should apply the same approach to sequencing. It is important that non-financial corporates and private companies face the same requirements to disclose their emissions as banking and finance firms — otherwise they will not have the data needed to form their own disclosures, transition plans or risk-management practices.

Financing the real economy transition

The scientific community reinforced again last month that the world is running out of time to avert the worst effects of rapid temperature rises.¹ The current decade needs to be used to quickly bring down emissions associated with fossil fuels and land use, and to put in place the financial and physical infrastructure for the Net Zero economy. While financial services firms continue to play a leading role in supporting the low-carbon future, UK Finance has consistently stated that the sector cannot play its full part in the transition without the appropriate policy levers in place. **We believe that the package of measures released on 30 March needs to go further and offer policy clarity and financial support to enable the changes needed in the real economy to achieve Net Zero.** The Government's own figures suggest that the scale of capital investment needed (£50-60 billion each year through the late 2020s and 2030s²) will not be attained under current plans, which appear to leverage only £100 billion of private investment³. We are pleased that the Government has committed to making further policy and funding commitments later in the year, and stand ready to support.

We also welcome the Government's vision to extend the policy landscape beyond Net Zero transition to include nature, adaptation and resilience. In our February note, we called on Government to implement the conclusions from the Mission Zero report (published in January) and are pleased that 23 out of 25 key recommends are being either partly or fully implemented. Nevertheless, we are calling for greater ambition, specific attention or dedicated resourcing in the following areas:

Public Financing

Financing the transition requires strategic use of public funds to de-risk and crowd in private finance, as well as support the most vulnerable on the path to Net Zero. Although the 30th March package helpfully sets out the various levers and funding available, **further public funding is required, especially when looking at other jurisdictions' commitments.** While we recognise that the UK has played a leading role on climate policy, including delivering public funding, the large injections of public finance in other countries (particularly the US⁴) will help make them more attractive for

¹ IPCC Synthesis Report for the Sixth Assessment Report: <https://www.ipcc.ch/report/sixth-assessment-report-cycle/>

² *Mobilising Green Investment: 2023 Green Finance Strategy*, p. 73

³ *Mobilising Green Investment: 2023 Green Finance Strategy*, p. 69

⁴ See our note ahead of the Green Finance Strategy update, referencing the US 2022 Inflation Reduction Act and related legislation.

investment. We therefore **support the Government’s commitment to delivering further measures at the autumn Budget later this year.** To aid this, through forums like the new Energy Efficiency Taskforce, we are keen to help identify areas where public finance could unlock additional private capital. Additional public funding commitments could include, for example, **an uplift in the financial capacity of the UK Infrastructure Bank and British Business Bank.**⁵

The Government’s commitment of £1 billion of funding to carbon capture, usage and storage (CCUS) demonstrates its continued ambition to underpin innovative technologies and the role they can play in the transition. However, it is important to mitigate the risk that over-reliance on CCUS will incentivise greater development of new fossil fuel reserves at a time when they need to be wound down.

Investment roadmaps

We welcome the Government’s commitment to revise existing Net Zero investment roadmaps for some sectors (CCUS and hydrogen), as well as develop new plans for others. We have called on Government to set out clear decarbonisation plans in certain high-emitting sectors (e.g. transport) where the need is pressing, in order to create the certainty needed to encourage lending.

However, our experience of these plans to-date suggests that they can often lack the required detail and necessary policy measures. **Sector transition plans should set out the scale of the investment needed, clearly identifying any barriers to that investment, as well as mapping out timelines and required policy decisions to achieve Net Zero.** These should be outlined both at the level of whole sectors (e.g. decarbonisation of buildings) and specific technologies or products where appropriate (e.g. heat pumps). More engagement with investors and lenders, and with the relevant sectors and industries, will be key to producing better quality plans and ensuring uptake. The banking and finance sector is keen to offer its support in developing these plans.

We urge Government to dedicate more resource to developing these roadmaps as quickly as possible, given that they are crucial for investors and lenders to enable the transition in innovative sectors and technologies, and without which the transition to Net Zero is likely to be more challenging.

The Nature Markets Framework is a good example in which Government has offered more policy clarity, by aligning with the [Environmental Improvement Plan](#), which will help investment flow towards protecting biodiversity and the natural environment.

Net Zero Homes

The UK built environment is a key sector where clearer policy direction and support is needed to achieve banking and finance firms’ Net Zero goals. 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 sensible proposal for greening of the housing stock while supporting the most vulnerable households in the country.

We strongly welcome the creation of the Energy Efficiency Taskforce, which UK Finance and some of our members are actively taking part in. Through UK Finance’s engagement in the Taskforce, we

⁵ In our response to the Green Finance Strategy update call for evidence, we noted: “It is a concern for the UK banking and finance sector that the UKIB currently has only £12bn in debt equity and £10bn in guarantees at its disposal, which is small in comparison to some of the opportunities it may be approached with and challenges it needs to resolve. Accounting for expected mobilisation rates, this £12bn will allow it to mobilise only a portion of the much-needed finance for the transition. A key aim for UKIB should be to set very specific objectives on how to deploy the funds at its disposal and how it intends to maximise its impact.”

are supporting Government to drive progress, particularly around the areas detailed within our report recommendations.

Overall, improvements in energy efficiency within the UK's housing stock will require significant public and private financing, particularly to ensure that low-income and vulnerable households are protected in the transition. While the banking and finance sector is offering new financing products to help play its part, large sums of public finance will also be needed, both to de-risk private capital and to support households where banks do not currently have a role (e.g. homes without mortgages or social housing). **We would like to see further action on this issue at the autumn Budget later this year.**

Although there are promising signs of our recommendations being listened to, we believe that further action is required in the following areas:

- The **expansion and promotion of retrofitting advisory services**, which will be critical to help homeowners navigate the currently confusing landscape of options when considering retrofitting.
- The need to **improve consumer awareness** of existing and new retrofitting schemes, including informing homeowners, building owners, tenants and others of any new measures they will need to comply with (e.g. energy ratings), and what tools and help is available to them.
- The need to review **energy efficiency methodologies**, such as the Energy Performance Certification system, so that it is fit for purpose and effective for measuring emissions performance.
- The need to **clarify minimum energy standards** and what the Government's expectations are.
- The use of **stamp duty** concessions to promote retrofitting in properties.
- The need to properly address the **retrofitting skills and labour shortage** for this agenda.

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The banking and finance sector will continue to play a critical role in the transition to Net Zero and its wider sustainability commitments. This includes through investing in and lending to crucial areas of the economy (such as low-carbon energy and greening the housing stock), transitioning rapidly away from polluting industries, and financing the green economy in line with both the UK's and our global environmental objectives.

We urge Government to act quickly and decisively on the matters laid out above, and commit to helping drive the necessary policy changes and supporting Government and policy makers as needed.

If you have any questions relating to this note, please contact Ian Bhullar, Principal, Strategic and Sustainability Policy at ian.bhullar@ukfinance.org.uk, and Agathe Duchiron, Manager, Strategic and Sustainability Policy at agathe.duchiron@ukfinance.org.uk.