MOBILISING CAPITAL FOR THE NET ZERO TRANSITION

October 2023

UK Finance

UK Finance is the collective voice for the banking and finance industry. Representing more than 300 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

We work for and on behalf of our members to promote a safe, transparent and innovative banking and finance industry. We offer research, policy expertise, thought leadership and advocacy in support of our work. We provide a single voice for a diverse and competitive industry. Our operational activity enhances members' own services in situations where collective industry action adds value.

TABLE OF CONTENTS

Background **4**

1. Setting a clear direction of travel **6**

1.1 Net Zero Investment Plan and improved sector-by-sector Net Zero investment roadmaps 6

1.2 Progress commitments on financial regulation and data and promote international interoperability 8

2. Blended finance and targeted tax incentives **9**

2.1 Targeted adjustments to design of financing programmes 9

2.2 Expand and utilise funding pools more effectively to de-risk private lending and investment 10

2.3 Consider targeted green tax adjustments to better incentivise decarbonisation at all levels 11

3. Infrastructure and planning **12**

3.1 Implement urgent reforms to the planning process 12

3.2 Accelerate electricity infrastructure development and connection 12

3.3 Expedite development of low-emissions transport infrastructure 13

3.4 Retain or provide an adequate replacement measure for the infrastructure supporting factor 13

4. Skills and building the workforce **14**

4.1 Commit to a long-term plan for skills building 14

Contacts **15**

Acknowledgements **15**

BACKGROUND

In April 2023, we **welcomed** the Government's package of measures to move forward the UK's transition. In September, the Prime Minister announced changes to some of the medium-term targets in specific green industries. Following this and in line with the vision to keep to our goals while maintaining public consent, policymakers must now offer far greater detail to secure the private investment and lending needed so that we can all enjoy the benefits of a Net Zero economy and ensure the UK plays its part in mitigating climate change. Businesses and investors need commitment, policy and regulatory certainty in order to make long-term investment decisions. It is vital the policy goalposts do not continually deviate, as this could undermine new and existing investment decisions.

The urgency to do this is constantly growing. Globally, we risk a 2.1-2.9°C temperature rise by the end of the century, and the window is closing to reduce this to the 1.5°C goal of the Paris agreement[1]. Climate change poses a risk to global economic stability, and therefore threatens the resilience of the financial system. An orderly and just transition also requires financial services firms to prioritise meaningful decarbonisation in the economy through support to their clients — avoiding paper decarbonisation by simply divesting from or terminating lending to sectors that most need to transition[2].

The transition offers vast opportunities: playing a leading role in the greatest energy shift of our century will underpin UK economic growth. At present, we are at serious risk of falling behind other countries; we will miss out on these opportunities to our global counterparts if we do not compete effectively. Government, the private sector and wider society must work together to address this challenge and secure the opportunity.

The PM has stressed the importance of maintaining public support for these initiatives. To do this, politicians across parties must be united. One of the great strengths of UK industrial policy has been its cross-party consensus on the need for decarbonised growth, which offers certainty to investors. Any politicisation of climate policy will undermine this. Political unity is in the interests of all people and parties: in addition to the clear societal and economic benefits, green policy features favourably in public opinion, with three quarters of voters across varied demographics supporting the UK's 2050 Net Zero target, and more than half saying the Government can do more[3].

The UK risks seeing its efforts to reach Net Zero by 2050 made more difficult as global competition sees funding going to jurisdictions offering advantageous subsidies and public funding mechanisms. The Government needs to address this risk and where it cannot reciprocate, the UK needs to ensure it provides a stable policy environment that encourages investment.

The paper

This paper provides a set of policy recommendations from the financial services industry, drawing on a recent series of workshops and interviews with experts within the sector, run by our partners, **Management Solutions**.

We identified several examples where pools of capital are underused because of gaps in the policy environment. Our recommendations, focusing on cross-cutting policy enablers, can help to drive up demand and incentivise the allocation of capital toward Net Zero objectives. Whilst this note focuses on measures that can be deployed quickly, in recognition of a tightening political timetable with a general election looming, it also seeks to highlight cost-effective measures that the financial services sector strongly supports over the long-term and ambitious climate policy that ultimately can only be secured through wide scale, systemic buy-in from government alongside adequate public funding.

1 See for instance the United Nations Framework Convention on Climate Change's United Nations Environment Programme's **Global Stocktake Synthesis Report,** September 2023.

2 We welcomed the announcement of a market-led review on Transition Finance in the new Green Finance Strategy.

3 See for instance a study by the Energy and Climate Intelligence Unit: **Local elections poll: what voters thought about climate/net zero**, May 2023.

We are calling for

Cross-cutting enabler	Key ask	Action
1. Setting a clear direction of travel	1.1 Net Zero Investment Plan and improved sector-by-sector Net Zero investment roadmaps	▶ Low-cost action: Re-issue relevant sector Net Zero roadmaps, working closely with industry, to maximise clarity for investors and lenders.
		▶ Low-cost action: Empower an independent body to analyse financial flows on an ongoing basis.
		▶ Higher-cost action: Fulfil the recommendations of UK Finance's Net Zero Homes report.
	1.2 Progress commitments on financial regulation and data	▶ Low-cost action: Fulfil existing commitments in the 2023 Green Finance Strategy, including consulting and engaging meaningfully with the private sector to ensure that measures are proportionate and achieve their stated objectives.
		▶ Low-cost action: Continue to support global sustainability regulatory coherence. This includes ensuring that there is the right level of expertise at forums like the ISSB and the International Platform on Sustainable Finance
2. Blended Finance and Targeted Tax Incentives	2.1 Targeted adjustments to design of financing programmes	▶ Low-cost action: Government and regulators should revisit design of financing programmes where issues are reported, for example simplifying complex funding programmes.
	2.2 Expand and utilise funding pools more effectively to derisk private lending and investment	▶ Low-cost action: Improve UKIB's risk-taking capacity by implementing targeted adjustments to its strategy, institutional design or mandate.
		▶ Higher-cost action: Over the medium term, increase other sources of public financing including through CfDs, and consider increasing the UKIB loan-book, to maximise its ability to derisk lending and investment across the whole economy.
	2.3 Consider targeted green tax adjustments to better incentivise decarbonisation at all levels	▶ Low-cost action: Consider targeted changes to taxes, including "green levies" and Stamp Duty to incentivise sustainable behaviours.
3. Infrastructure and planning	3.1 Implement urgent reforms to the planning process	▶ Low-cost action: Deliver on recommendations to streamline planning processes for NSIPs, and consider widening these recommendations to other, non-NSIP sectors.
	3.2 Accelerate electricity infrastructure development and connection	▶ Low-cost action: Undertake policy measures needed to scale up and accelerate grid connections, such as those set out in Ofgem's May 2023 open letter.
		▶ Higher-cost action: Fulfil the recommendations of the Electricity Networks Commissioner to enable the accelerated expansion of the electricity network, and provide adequate resource to enable this.
	3.3 Expedite development of low-emissions transport infrastructure	▶ Higher-cost action: Deliver on commitments in the Decarbonising Transport plan, and provide long-term clarity on the process to achieve outcomes like the phase-out of diesel and petrol cars.
	3.4 Retain or provide an adequate replacement measure for the ISF	▶ High-cost action: Retain or provide an adequate alternative for the Infrastructure Supporting Factor after the discontinuation of CRR2 501a.
4. Skills and building the workforce	4.1 Commit to a long-term plan for skills building	▶ Low-cost action: Issue the planned Net Zero and Nature Workforce Action Plan, as committed for 2024 in the March 2023 Powering Up Britain publication. Set out targeted investments to rapidly drive up the UK skills-base.
		▶ Low-cost action: Reform the Apprenticeships Levy to allow unutilised funds to be used by firms rather than returned to government without being allocated for specific purposes.
		▶ Low-cost action: Fulfil the commitments made in Build Back Greener, and work with local bodies, employers and local communities to establish clear targets for the net zero workforce.
		▶ Low-cost action: Update the National Career Service page to include and increase awareness around green skills and green career opportunities.

1. SETTING A CLEAR DIRECTION OF TRAVEL

1.1 NET ZERO INVESTMENT PLAN AND IMPROVED SECTOR-BY-SECTOR NET ZERO INVESTMENT ROADMAPS

The Government has confirmed its commitment to the UK's Net Zero target. It should complement its high-level strategy for hitting Net Zero with improved sector financing roadmaps, which set out specific policy, spending and regulatory interventions to incentivise private investment and lending. These should cover major economic and industrial sectors on top of existing technology-specific plans, as well as other non-industrial enablers such as nature preservation. The roadmaps should also precisely cost the investment gaps and offer a coherent set of incentives that the Government will put in place[4].

If done with the right level of detail, these will help crowd in private finance by providing a comprehensive understanding of and confidence in the policy pipeline needed by investors.

While the Government has produced many sector-specific and technology-specific roadmaps in the recent past, these do not set out specifically how the Government will incentivise the requisite amount of private finance to achieve the targets set out in the Net Zero Strategy. We recommend the following elements:

A. A credible and regularly updated view of the investment gap in each key sector to realise the Net Zero Strategy, including interim targets, allowing Government to show and justify where it is choosing to prioritise intervention.

B. A coherent set of incentives that the Government will put in place (policy, regulation, public spending) to overcome barriers to the flow of private finance, in a way that demonstrates how much finance the Government expects to unlock.

C. A consistent sectoral view of financing plans, rather than just a technology-specific view which does not give a good overall sense of the financing strategy.

Such policy frameworks must provide certainty over the long term, setting out expectations well into the future and changing as little as possible. Frequent policy variability has been a key factor disincentivising investment and lending to UK green industries.

For small and medium-sized enterprises, it is only with long-term policy certainty that time-constrained management can be expected to understand and implement the changes they will be expected to make. For instance, one bank conducted in-depth interviews and quantitative research into their SME portfolio, which identified legal and regulatory uncertainty as the main barrier to investing in Net Zero, particularly in the construction and manufacturing sector[5]. The survey identified a lack of knowledge amongst SMEs about existing Net Zero targets and the potential measures they needed to take[6]. Government should consider communications efforts as part of its wider policy agenda[7].

Independent financial flows tracking

To achieve the above, the Government should improve tracking of public and private financial flows, on an independent basis, to provide the market and policymakers with access to regular, high-quality data on where private finance is being leveraged. Given that much of the Government's plans to achieve Net Zero rest on private

4 See for instance WWF and E3G's briefing **Unlocking the economic opportunity of the 21st century through private finance**, September 2023.

5. The bank found that 59% of their SME clients in the construction sector cited a lack of clarity, or the introduction and subsequent removal of regulation, as one of the barriers to action on net zero. The SMEs surveyed had turnovers between £300k and £5m, with an average of 10 to 15 employees.

6 54% in manufacturing and 35% in construction were not clear on the UK Net Zero target. Amongst those who were aware of the targets, few had an understanding of the actions needed to be undertaken.

7 UK Finance is currently writing a report on SMEs and the transition to net zero, expected early 2024.

investment and lending, the Government will need more effective tracking to identify gaps and ensure that planned investments are secured efficiently.

We recognise that such planning will be challenging and require dedicated financial and policymaking expertise. We therefore support proposals to consider giving responsibility for ongoing tracking and planning to be placed in the hands of an independent body like the Office for Budgetary Responsibility (OBR) or the Committee on Climate Change (CCC).

For further detail on these proposals and rationale, including where existing roadmaps have fallen short, we refer to the "**Net Zero Investment Plan**" proposal set out by WWF and E3G.

Net Zero Homes

For large parts of the banking sector offering mortgage products, achievement of decarbonisation targets will hinge upon the greening of the UK housing stock. This is a prime example in which clear, detailed, and long-term planning is needed, because it is only with government direction and support that all actors in the system can converge on the right solutions.

We agree with the message in the Prime Minister's September speech that good climate policy must not force people to make changes at unacceptable personal cost. That is why UK Finance, in November 2022, released 10 recommendations that seek to expedite improvements to the energy efficiency of homes and help unlock the power of banking sector to support, while offering the right incentives to homeowners. You can find our full *Net Zero Homes report* **here**, and the recommendations of this report below.

Low-cost action: Re-issue relevant sector Net Zero roadmaps, working closely with industry, to maximise clarity for investors and lenders.

Low-cost action: Empower an independent body to analyse financial flows on an ongoing basis.

Higher-cost action: Fulfil the recommendations of UK Finance's Net Zero Homes report.

Our recommendations to green the UK housing stock

INSPIRE ACTION	▶ Establish a government-led body to drive collaboration across key stakeholders ▶ Create an advisory service to provide homeowners with independent retrofitting advice ▶ Provide certainty for firms involved in retrofitting with long-term public policies
DELIVER FUNDING	▶ Prioritise public funding to improve energy efficiency in social housing ▶ Support vulnerable people with the costs of energy efficiency improvements ▶ Use Stamp Duty to incentivise retrofitting measures ▶ Provide grants and subsidies to upskill tradespeople
REDEFINE STANDARDS	▶ Ensure energy performance methodologies for buildings are fit for purpose ▶ Implement minimum energy efficiency requirements for homes ▶ Consider mandating hydrogen-ready boilers when a natural gas boiler needs replacing

1.2 PROGRESS COMMITMENTS ON FINANCIAL REGULATION AND DATA AND PROMOTE INTERNATIONAL INTEROPERABILITY

The 2023 Green Finance Strategy[8] sets a course for sustainable finance regulation and transparency, which will help the financial services sector to align with Net Zero and our wider sustainability imperatives. A coherent disclosure regime will help the sector access the information it needs to make informed financing decisions.

The Government needs to provide clarity on its plans in a timely and thoughtful manner, and in doing so, continue to engage with the banking and finance sector, and the whole business community, through adequate consultation. Reporting requirements should be proportionate and avoid unnecessary burden, while generating decision-useful data to cover the value chain of financial services firms.

To limit the burden on firms caused by different regimes in different jurisdictions, the banking and finance sector also calls for the Government to continue to support global sustainability regulatory coherence and interoperability. This includes using diplomatic and trade levers to encourage others to adopt and align too.

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

The above-mentioned measures have the potential to form a coherent and comprehensive green finance regulation regime, if considered carefully and balanced against the ultimate need to decarbonise the whole economy. We are engaging closely with relevant authorities to feed back in granular detail on the sector's needs.

Low-cost action: Progress existing commitments in the 2023 Green Finance Strategy, including consulting and engaging meaningfully with the private sector to ensure that measures are proportionate and achieve their stated objectives.

Low-cost action: Continue to support global sustainability regulatory coherence. This includes ensuring that there is the right level of expertise at forums like the ISSB and the International Platform on Sustainable Finance.

8 See for instance the Government's strategy on Mobilising Green Investment, March 2023.

2. BLENDED FINANCE AND TARGETED TAX INCENTIVES

2.1 TARGETED ADJUSTMENTS TO DESIGN OF FINANCING PROGRAMMES

Global banks with some $74tn in assets[9] – many of which are headquartered or operate in the UK – have committed to aligning their portfolios with the Net Zero economy. However, many projects are too risky for banking firms whose primary legal responsibility is delivery of shareholder value. Blended finance mechanisms leverage public funds to attract private investments, effectively channelling resources toward environmentally sustainable projects that might otherwise face funding challenges. Blended finance helps to de-risk investments, making them more attractive to private investors, and accelerating the deployment of clean technologies and practices.

The Government's ambition to use private finance to achieve the UK's decarbonisation goals will require large sums of public finance to mitigate risks associated with early-stage technologies, large projects, nascent supply chains or weaker demand signals. Targeted blended finance tools help lower risk and crowd in lending and investment.

We welcome the range of blended finance programmes already deployed by the Government. However, we have identified several examples where redesign of funding programmes could help unlock additional private capital at minimal public cost. These include:

- **Simplifying funding programmes in the same sector:** Complex chains of incentives in the same sector often make investments and lending opportunities more challenging to implement, leading banks and investors to step away from the schemes. As an example, the UK programme to support waste-to-energy with carbon capture projects offers different funding incentives for different participants in an interconnected value chain. These incentives (e.g. contracts for difference and grants), are not designed in a streamlined fashion across downstream and upstream activities: for example, incentives differ for the waste management company providing inputs for incineration, from those for the transportation and storage company off-taking the carbon dioxide captured. This increases "interface" risk through reliance on an extended chain of actors. Simplifying these funding models will significantly lower risk and cost, and thereby increase the appetite of lenders to participate in the schemes. The government should seek to recreate successful schemes, such as the Transportation and Storage Network for carbon capture[10], in other areas.
- **Introducing post-completion tariff adjustment mechanisms for infrastructure projects:** Long financing periods are increasingly expensive and risky for bank lenders. In the UK, contracts often require financing for the entire lifecycle of a project even before factors like a grid connection are secured. Examples in overseas markets, for example the UAE, allow for tariff adjustment at refinancing (post-completion) stage to absorb variations in rates that have occurred during the construction period. This allows the recycling of bank funding, which is optimal for construction funding, by refinancing in the bond market and shifting the long-dated (but relatively de-risked) funding to institutional investors. This helps to make financing of large infrastructure projects more appealing.
- **Adjusting bidding requirements to avoid exclusion of financing instruments:** The current system for developing offshore transmission assets in the UK presents challenges for bond financing. In the UK, offshore wind farm developers are required to construct and sell transmission assets, which are then auctioned off and overseen by Ofgem. While these assets are typically low risk and have long-term

9 See list of Net Zero Banking Alliance Member Banks by United Nations and targets set by respective banks.

10 See for instance the Department for Energy Security & Net Zero's update on the Business Model for Transport and Storage, June 2023.

contracts, making them suitable for bond financing, the existing process poses several barriers.
Firstly, Ofgem requires long-term financing commitments at the point of bid submission, but bonds are typically priced immediately prior to issuance. This misalignment in timing makes bond financing impractical, as it doesn't allow for the flexibility needed in bond pricing.

Secondly, the bidding process for ownership of offshore transmission assets requires prices to be held for long periods before contracts are awarded and the financing is closed. This is challenging for institutional investors, is unsuitable for bond financing, and also increasingly challenging for banks in a volatile economic environment. Whilst bonds may be utilised for offshore transmission assets, the way the programme is designed does not incentivise their use, which is a missed opportunity, considering that all previous bonds issued in this sector enjoyed a positive reception, as well as maintaining interest by investors to fund renewable assets. One firm estimates investor appetite in excess of £1 billion per annum, potentially increasing over time if a steady pipeline of new bonds can be delivered, drawing more investors to understand the asset class. As a result, some banks are now declining to participate in these bidding processes and choosing to deploy this capital elsewhere.

- **Contracts for difference (CfDs) reform:** CfDs are a proven example of good practice, which since 2014 have successfully facilitated investments in 29.4GW of renewable and low-emissions energy generation, with 6.4GW currently operational. In 2022, projects managed under CfDs generated enough energy to power 7 million homes and mitigated close to 6mn tCO2e emissions[11]. The UK's successful utilisation of CfDs in offshore wind has positioned it as a leader. The government's commitment to CfDs is exemplified by its exploration of application to areas like Carbon Capture, Utilisation and Storage (CCUS). CfDs instil investor confidence, prompting calls for swift rollouts to meet private financing demand[12]. However, the recent failure of the fifth CfD allocation round to attract any offshore wind farm bids highlights gaps in the process which will need to be addressed to guarantee future success. Risks arise where strike prices are not calculated accurately, which can impact the value of the investment for participants.

Low-cost action: Government and regulators should revisit design of financing programmes where issues are reported, for example simplifying complex funding programmes.

2.2 EXPAND AND UTILISE FUNDING POOLS MORE EFFECTIVELY TO DE-RISK PRIVATE LENDING AND INVESTMENT

Section 2.1 sets out short-term, low-cost adjustments to the existing blended finance architecture that will help unlock underused pools of capital. Over the longer term, it will be necessary to expand sources of blended finance, to incentivise investment into underdeveloped sectors currently less well met by public funding schemes, for example in the expansion of green hydrogen technology. This is particularly the case in light of international competition in this area, where the current UK regime is not matching international peers that provide incentives to better attract and mobilise capital[13]. There are early signs of this competitive advantage playing against the UK's appeal for innovation, businesses and investment[14]. Where it cannot intervene to similar levels in terms of grants and subsidies though, the UK should use blended finance institutions to their full potential.

The UK's public investment bank, the UK Infrastructure Bank (UKIB), has a mandate alongside other UK development banks to lower risk for conventional investors and lenders in decarbonisation projects. However, its ability to fulfil this mandate has been hampered by institutional design and capacity issues, as **highlighted** by the Public Accounts Committee earlier this year. For example, UKIB initially struggled to clearly define its priority areas for investment and to recruit its full 270-strong staff capacity, with the PAC suggesting that its early investments had included financing for relatively common projects such as broadband and solar farms [15].

To effectively achieve the government's ambitious goals and broader objectives, UKIB needs to move beyond these "safe" investments to demonstrate how its investments complement each other; and to venture into making greater direct equity investments, instead of focusing on investing through funds. UKIB and the other public financing bodies will need to consider their activities strategically in the context of the UK's Net Zero Strategy and key investment gaps. Firms have noted that public funding is lacking in areas with high technological readiness but lower deployment levels, for example in agriculture. UKIB will need to give increasing attention to such sectors.

We therefore welcome UKIB's Strategy Update published in September 2023, which seeks to answer many of these issues, and are keen to support the Bank in delivering these plans.

11 As highlighted by the **Low Carbon Contracts Company regarding the successful use of CfDs in facilitating investments in renewable energy generation in the UK**

12 See for instance the **Consultation for Future Rounds of the Contracts for Difference Scheme of the Department of Business, Energy & Industrial Strategy**

13 For instance, on hydrogen specifically, the Inflation Reduction Act (2023) provides for a 10-year incentive tax credit for green hydrogen of up to 3USD per Kg of low carbon hydrogen. See "**Financial Incentives for Hydrogen and Fuel Cell Projects**", US Office of Energy Efficiency & Renewable Energy, consulted on 5 October 2023. The European Union introduced the €250bn (£213bn) **Green Deal Industrial Plan** in early 2023.

14 We welcome the announcement of the upcoming **Lord Harrington review** on Foreign Direct Investment, which will look into Green Industries amongst other sectors and will help consolidate evidence in this area.

15 See for reference the House of Commons Committee of Public Accounts' report on **The Creation of the UK Infrastructure Bank**.

Separately, the current capitalisation of UKIB and other national development banks in the UK leaves a shortfall compared with historic funds from the European Investment Bank (EIB).

For example, UKIB and other development banks collectively invested £2.4bn in 2022 compared with the EIB's UK investment of £7.5bn in 2016. The EIB had supported major projects like the Channel Tunnel and windfarms, while the new UK institutions, including UKIB, have invested only a third of the average amount invested by the EIB[16]. While recognising differences in the EIB's and UKIB's mandates, we would nevertheless strongly support an uplift in the UKIB capitalisation to build its capacity to unlock greater sums of private capital.

Low-cost action: Improve UKIB's risk-taking capacity by implementing targeted adjustments to its strategy, institutional design or mandate.

Higher-cost action: Over the medium term, increase other sources of public financing including through CfDs, and consider increasing the UKIB loan-book, to maximise its ability to de-risk lending and investment across the whole economy.

2.3 CONSIDER TARGETED GREEN TAX ADJUSTMENTS TO BETTER INCENTIVISE DECARBONISATION AT ALL LEVELS

Recent analysis has indicated that some revenue-neutral tweaks to green taxes could reduce perverse incentives for households and help drive more sustainable behaviours. For example, taking "green levies" out of customers' electricity bills and moving them into general taxation or gas use could help increase homeowners' appetites to replace gas boilers over the long term[17].

Our **Net Zero Homes** report (see section 1.1) also recommends targeted adjustments to Stamp Duty to incentivise home retrofit. We continue to support this in light of the Government's latest plans on support for home retrofit, announced by the Prime Minister in September.

Low-cost action: Consider targeted changes to taxes, including "green levies" and Stamp Duty to incentivise sustainable behaviours.

16 See for reference **UK in a Changing Europe, The Investment Gap: The UK's efforts to replace the European Investment Bank**.

17 See for reference the report of the **Green Alliance on what should happen to green levies**.

3. INFRASTRUCTURE AND PLANNING

3.1 IMPLEMENT URGENT REFORMS TO THE PLANNING PROCESS

The rapid transformation of our energy, transport and industrial systems will require responsive and flexible planning processes. Since lenders and investors need to know that returns on their capital outlay will be delivered on time and without delay, this will mean delivering accelerated and lighter-touch planning procedures as part of a regime that offers legal and regulatory certainty, strengthened with sufficient capacity among planning decision-makers.

The planning process should be made simpler and quicker by considering alternative options such as approvals based on reaching certain predetermined conditions. Government should introduce public and accountable planning approval target times. We welcome the Government's recent work in this regard, including its Nationally Significant Infrastructure Project (NSIP) **action plan** and proposals to establish fast-track approval routes. However, flexibility and acceleration are needed for decarbonisation in a far wider range of non-NSIP sectors.

Low-cost action: Deliver on recommendations to streamline planning processes for NSIPs, and consider widening these recommendations to other, non-NSIP sectors.

3.2 ACCELERATE ELECTRICITY INFRASTRUCTURE DEVELOPMENT AND CONNECTION

The greening of the electricity transmission network will be a critical enabler for UK decarbonisation, and therefore for the decarbonisation of UK financial services portfolios, as demand rises for the delivery of clean power.

At a more local level, financial services firms cite inability to secure grid connections as a key risk when assessing the viability of projects for lending and investment. Financial services firms have highlighted complications with the current planning process for securing such connections. For example, firms tell us that planning approvals for the connection of a new transformer station to the grid can take up to three years. Developers are turning to alternative solutions like installing electrolysers to cover the costs incurred by these delays.

We welcome the **recommendations** of the Electricity Networks Commissioner to enable the accelerated expansion of the transmission network; and Ofgem's **policy review** on reforming the electricity connections system.

Low-cost action: Undertake policy measures needed to scale up and accelerate grid connections, such as those set out in Ofgem's May 2024 open letter.

Higher-cost action: Fulfil the recommendations of the Electricity Networks Commissioner to enable the accelerated expansion of the electricity network, and provide adequate resource to enable this.

3.3 EXPEDITE DEVELOPMENT OF LOW-EMISSIONS TRANSPORT INFRASTRUCTURE

Incomplete infrastructure for electric vehicles (EVs), including charging points, remains a barrier to uptake and deployment of electric vehicles, and poses a risk for lenders and investors in the sector as well as sectors reliant on electrified vehicle fleets. Other countries are ahead of the UK when it comes to EV charging, with Norway a frequently cited positive example.

The planned ban on petrol and diesel cars was an oft-cited example of good policy clarity by the UK Government, offering long-term certainty to help crowd investment and lending into the automotive industry and associated infrastructure. BMW has recently announced that it will invest £600m in its UK plants to take some of their brands all-electric by 2030[18]. Ford said it had already invested £430m in its UK facilities and had been planning further investments to fit with the 2030 timeline[19] and Jaguar Land Rover confirmed in Q3 2023 that it would invest more than £4bn to build their new gigafactory in Somerset, creating 9,000 additional jobs within a sustainable commutable distance for local residents[20]. The investments made by these manufacturers will create thousands of jobs.

While we agree with many of these companies that the Government's September delay of this ban to 2035 generates uncertainty, which will impact future investment, we also urge the Government to ensure this delay does not slow down important policy clarity and public investment in charging infrastructure. A coherent strategy is still needed on charging points; EV take-up is only set to rise exponentially as prices reach parity with diesel and petrol cars, and the UK must be prepared[21].

There are many ways the UK can further develop its preparedness to widespread EV take-up. One example is providing support for drivers with no access to off-street parking. The CBI[22] has called for aligning public charge point VAT with that of at-home charging prices to further incentivise the switch to EVs, accommodating for a wider range of drivers to access charging points.

As well as decarbonising private vehicles, there is a need to increase the share of journeys taken by non-private modes of transport. Improved public transit infrastructure is critical to supporting the decarbonisation of the transport sector, as more people rely on public transit instead of private vehicles.

We consider investment in low-emissions transport to be a critical enabler of wider decarbonisation, as it will facilitate the movement of labour and parts for other infrastructure developments and sectors.

Higher-cost action: Deliver on commitments in the **Decarbonising Transport plan**, and provide long-term clarity on process to achieve outcomes like the phase-out of diesel and petrol cars.

3.4 RETAIN OR PROVIDE AN ADEQUATE REPLACEMENT MEASURE FOR THE INFRASTRUCTURE SUPPORTING FACTOR

The proposition by the Prudential Regulation Authority to remove the infrastructure supporting factor (ISF) in the Capital Requirements Regulation's Article 501a (CRR2 501a) without a replacement will raise costs of capital for UK banks for green project finance compared to EU peers. We recommend the retention of the ISF[23], in order to stimulate investment in this important market and ensure UK banks are not disadvantaged compared to international competitors.

If this cannot be retained, we recommend that a transitional period is introduced, where the treatment on existing exposures is grandfathered, in recognition of the long lead times to lend, the long-term nature of infrastructure contracts and the complex, strict and narrow application criteria that firms must meet to benefit.

The ISF has enabled banks to support green and sustainable financing where they would not usually, as these transactions often have a lower return and would not meet internal thresholds for new business. Increasing capital requirements on such exposures would mean banks may not be able to support strategically important sustainable infrastructure transactions and clients. Lower pricing requirements by market participants on robustly structured infrastructure finance facilities demonstrate the lower inherent risk of these exposures compared to a like-for-like corporate benchmark.

We do not agree that the differential risk weights for high quality project finance exposures in the operating phase fully replicate or have the same effect as the infrastructure support factor. The removal of the support factor will disadvantage UK banks; the main competitors in the sector are European banks. Since European parent institutions would still benefit from the infrastructure support factor, they would be able to permit their UK subsidiaries to run with lower capital buffers to absorb the UK adoption of the support factors which they benefit from at a parent level. This in turn would limit UK banks' ability to efficiently target important infrastructure lending which can support the key environmental objectives specified in the ISF criteria including climate change mitigation, sustainability and energy transition.

High-cost action: Retain or provide an adequate alternative for after the discontinuation of CRR2 501a.

18 As highlighted by **Reuters** on BMW to invest $750 million in UK plants to take Mini fully electric, September 2023.

19 As highlighted by **Automotive News Europe** regarding 'Ford, BMW, JLR call for 'clarity' amid U.K. plan to relax 2030 ICE ban', September 2023.

20 See for reference, **North Somerset Council publication on opportunities presented by the creation of new giga factory**, July 2023.

21 As highlighted by **Transport & Environment, regarding the adoption of Electric Cars**.

22 Please refer to **CBI's Autumn Statement 2023 Submission**.

23 See also: UK Finance's response to the PRA's Consultation Paper 16/22 on the Implementation of the Basel 3.1 Standards, Chapter 3 "Credit Risk", available **here**.

4. SKILLS AND BUILDING THE WORKFORCE

4.1 COMMIT TO A LONG-TERM PLAN FOR SKILLS BUILDING

Improving workforce skills and capacity is essential to delivering the transition. Data in some sectors suggest that the workforce exists for the Net Zero transition but will need to be up-skilled. This will partly arise as a response to greater policy certainty (recommendation 1). However, targeted investment and a long-term plan to kick-start skills development will be critical.

In Net Zero Strategy: Build Back Greener[24], the Government committed to building and supporting a skilled green workforce that would help deliver Net Zero and put UK supply chains at the forefront of global markets. This included working with local bodies, employers and local communities to ensure an effective transition and to assess how local areas are working to support workers and communities with the Net Zero transition across England.

There is a need for impartial, lifelong careers advice and guidance available to the population regardless of age, circumstances, or background as highlighted in the Department for Education's "Skills for Jobs: Lifelong Learning for Opportunity and Growth"[25]. There is currently no Government-backed portal that provides comprehensive information on green careers. By establishing a central point in which green careers and skills are centralised, the Government can raise awareness for these careers, establish clarity and reduce confusion surrounding progression amongst prospective workers. By further utilising the existing National Careers Service, Government can update the portal to create a dedicated page for green careers, highlighting their significance to the UK's net zero targets.

Low-cost action: Issue the planned Net Zero and Nature Workforce Action Plan, as committed for 2024 in the March 2023 Powering Up Britain publication. Set out targeted investments to rapidly drive up the UK skills-base.

Low-cost action: Reform the Apprenticeships Levy to allow unutilised funds to be used by firms rather than returned to government without being allocated for specific purposes.

Low-cost action: Fulfil the commitments made in Build Back Greener, and work with local bodies, employers and local communities to establish clear targets for the net zero workforce.

Low-cost action: Update the National Career Service page to include and increase awareness around green skills and green career opportunities.

24 See for reference the report on Net Zero Strategy: Build Back Greener of the Department for Energy Security and Net Zero and Department for Business

25 Please refer to the report on Skills for Jobs: Lifelong Learning for Opportunity and Growth of the Department for Education

CONTACTS

If you have any questions relating to this note, please contact:

Ian Bhullar, Principal, Strategic and Sustainability Policy
ian.bhullar@ukfinance.org.uk

Agathe Duchiron, Manager, Strategic and Sustainability Policy
agathe.duchiron@ukfinance.org.uk

ACKNOWLEDGEMENTS

This paper was written jointly with Management Solutions (**www.managementsolutions.com**), with thanks to Felix Ramirez Backhaus (Partner, **felix.ramirez@msunitedkingdom.com**) and Celia Escudero Gonzalez (Senior Manager, **celia.escudero.gonzalez@msunitedkingdom.com**).

UK Finance thanks all members involved, including those who took an active part in developing the asks in this paper and shared their experience and relevant evidence in this domain.

UK Finance also thanks E3G, WWF, the Aldersgate Group and the Confederation of British Industry for their input and collaboration.