Keeping the pace on green growth

First steps for a new government, from the UK financial services sector

July | 2024

The UK has made significant progress in decarbonising over recent decades. But policy needs to go further and faster to reach the government's goal of greening the power grid by 2030 and to fulfil our legal Net Zero commitments. UK Finance, the voice of the financial services sector, sets out the actions government should take in its first few months, broken into three key areas: (1) financing the real economy transition; (2) green finance regulation; and (3) global leadership.

---

1. Financing the real economy transition

Large sums of global capital stand ready to support the transition to a low-carbon, nature-positive economy, with the collective members of the Glasgow Financial Alliance for Net Zero (GFANZ) representing at least $57tn in December 2023. UK Finance represents around 50 members of the Net Zero Banking Alliance – GFANZ's banking arm – including most of the UK's largest banks, as well as a range of other firms who have made their own environmental commitments and are providing capital for the transition. But to enable this capital to flow at scale, firms need the right supporting government action.

UK Finance is the collective voice for the financial services industry. Representing over 300 member firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation. The financial services 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 away from polluting industries, and financing the green economy in line with the UK's and global environmental objectives.

Net Zero Homes

Recommendation: Gov should take four low-cost steps to drive up demand for home retrofit.

The buildings sector contributes some 40% of UK emissions and often more than 90% of financed emissions for UK banks and building societies, but firms have few levers to encourage homeowners to reduce their energy use. Strong policy direction is crucial — and, done right, government action can generate the co-benefits of warmer homes and lower bills. The sector offers a range of mortgage and lending products that can support homeowners on this journey.

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 the housing stock while supporting the most vulnerable households. Over the medium term, government needs a full, detailed plan, with financial support for those unable to afford retrofit measures.

In the short term, we recognise the government's limited fiscal headroom. This should not prevent lower-cost steps, which could be quickly implemented and boost demand for retrofit in a share of UK homes while the government devises its longer-term strategy. Our members have suggested four actions which can help stimulate demand for home energy efficiency improvements:

Four initial steps to stimulate retrofit demand

- **Communicate:** Deliver a public-facing, gov-led campaign to provide customer education. Previous efforts suffered from minimal promotion.
- **Advise:** Create a gov-backed, independent Retrofit Advisory Service – a 'one stop shop' for free, impartial retrofitting advice, modelled on similar services in Scotland and Ireland.
- **Train:** Train skilled retrofitters to green the housing stock through a new apprenticeship scheme and boost nascent supply chains. This must work in tandem with wider initiatives to grow construction industry capacity.
- **Update:** Improve energy efficiency and emissions performance metrics so they are fit for purpose, e.g. expediting EPC reform or offering new carbon performance measures.

Our recommendations are set out in more detail in the annex pp.8-11.

We would welcome the opportunity to convene senior lending executives with ministers and officials to provide detail on our recommendations.

Decarbonising small business

Recommendation: Gov and industry should relaunch the UK Business Climate Hub with improved content and greater publicity.

Small- and medium-sized enterprises (SMEs) make up more than 99% of UK businesses and contribute around half of emissions. But many are ill-equipped to contribute and adjust to the low-carbon economy. In May 2024, we published ***Unlocking the SME Net Zero Transition***, with survey- and focus group-based research while revealed that only 19% of SMEs were planning to take steps to reduce their carbon footprints.

Businesses owners told us that they often lacked the time and information needed to develop plans. They also wanted a clearer and more stable policy environment. While some of these issues will take longer to solve, we believe government could quickly improve the communications offer to SMEs, to help them understand the actions they can and should take to reduce their environmental impacts. This should offer sector-specific information, and be designed in collaboration with relevant sectoral experts. The existing UK Business Climate Hub offers an ideal starting point for this.

Sectoral plans for financing Net Zero

Recommendation: Gov should set out a timeline for delivering sectoral Net Zero investment roadmaps.

Since the 2022 introduction in the US of the Inflation Reduction Act and the EU's 2023 Green Deal Industrial Plan, firms have reported that they are at a disadvantage in attracting low-carbon investment to the UK. We cannot out-compete the US on public spend, but we can offer a stable and attractive policy environment, coupled with strategic public financing, to strengthen investment in specific industries.

Over the medium term, government will need to develop sectoral investment roadmaps, coupled with and recalibrated in response to tracking of financial flows, so that policymakers can benchmark progress and crowd in private sector support by building certainty and confidence. We set out some of our recommendations for policy certainty and blended finance in our 2023 paper, ***Mobilising Capital for the Net Zero Transition***.

In the short term, government should set out a timeline for delivering these investment roadmaps, and ensure that industry has the opportunity to offer their expertise in their development.

2. Green finance regulation

A well-designed green finance regulatory environment will allow the UK to have significant influence in cutting global emissions, by leveraging London as a global financial centre, and its role in mobilising capital for low-carbon innovation around the world. The government should adopt an evidence-led approach to ensure that interventions maximise the flow of finance.

A global baseline for sustainability reporting

Recommendation: Gov should re-affirm the existing process for endorsing International Sustainability Standards Board (ISSB) reporting standards.

Data and disclosure are crucial for managing sustainability risks and opportunities. UK Finance has long supported proportionate rules mandating the disclosure of sustainability risks, impacts and transition plans by corporates, as this is critical to managing financial services sector exposures. We supported the previous government's stated intention to endorse and implement the recommendations of the International Sustainability Standards Board (ISSB), which represent a global baseline for reporting. Further detail on our position is here.

The government should reaffirm its commitment to the existing process for endorsement, taking its advice from the UK Sustainability Disclosure Standards Technical Advisory Committee, which has already started work. Any change to this process will generate unnecessary delay.

Transition planning

Recommendation: Gov should require transition plan reporting for corporates as part of ISSB requirements, but undertake an open public consultation before implementing more detailed expectations.

Transition plan reporting forms an important part of wider disclosure expectations. We support the expectation that firms with decarbonisation commitments should substantiate those commitments with robust transition plans. Many financial services firms have produced world-leading transition plans, and are users of other companies' plans. We support transition plan requirements as set out in the ISSB standards.

Nevertheless, regulatory expectations for transition plans must be designed carefully, to avoid creating perverse expectations and undermining ambition. The delivery of financial services transition plans relies on behaviour change by clients and policymakers, and can create liability risks for firms if external actors do not fulfil their own commitments. It is therefore imperative that the government consult on any intention to go beyond the ISSB requirements, e.g. by imposing regulatory supervision of financial transition plans, or requiring that plans are aligned with a 1.5˚C maximum temperature rise, before these concepts progress further. Otherwise, those requirements may inadvertently hinder ambition.

We are currently working with members to develop more detailed recommendations for transition plan regulation. We set out our emerging views in pp.3-6 here.

UK green taxonomy

Recommendation: Gov should undertake an open public consultation, with an extended response window, before implementing any UK green taxonomy.

UK Finance members have a wide variety of views on the development of a UK green taxonomy. While some firms favour the policy clarity that taxonomies can offer, as a definition of green vs non-green activity, many firms have raised questions about whether taxonomies will help them drive capital into low-carbon assets. These include:

- whether there is sufficient evidence that taxonomies mobilise low-carbon capital;
- whether taxonomies offer any value beyond the data that transition plans can already provide;
- whether agreeing a taxonomy will take up too much legislative time, distracting from more substantive government interventions such as clear sectoral pathways; and
- whether binary taxonomies are well suited to enabling transition finance, which involves providing capital for the decarbonisation of high-emitting sectors.

Many financial services firms have significant experience of reporting against the EU taxonomy, where some design features such as the green asset ratio (GAR) have been widely criticised. It is important for policymakers to monitor the progress of other jurisdictions as they consider developing taxonomies.

We understand that the government intends to consult on a green taxonomy early in its tenure. It is imperative that government take an open and evidence-based approach, taking account of industry experience. We will offer more detailed views in response.

3. Global leadership

Recommendation: Gov should agree ambitious negotiating mandates for the COP29 climate negotiations in Baku, with a focus on enabling private finance to scale up.

Capping temperature rises and harnessing the full range of economic opportunities available in the transition will require ambitious global climate commitments. At the 29th Conference of the Parties (COP29) in Azerbaijan in November, national negotiators will seek to agree a new framework for providing climate finance to developing countries, and to increase the ambition of national climate targets.

Amid elections elsewhere in the world, the UK could be one of the few developed nations championing an ambitious outcome from the negotiations. There is a particular opportunity to provide the private sector with the right signals to scale up lending and investment, including by encouraging the use of concessional finance, guarantees and other blended finance tools to de-risk capital flows for emerging and developing economies (EMDEs). We stand ready to back the UK government in pushing for strong outcomes from the negotiations.

The government should also seek to leverage the UK's financial services expertise to play a leading international role in mobilising transition finance, following the work of the Transition Finance Market Review (TFMR). UK Finance and its members have developed a rich understanding of the challenges and opportunities of channelling finance to enable the decarbonisation of high-emitting sectors. We can support the UK government in building knowledge in this area. See for instance our work with the Rocky Mountain Institute (RMI) which helped to build a transition finance resource hub for banks.

To discuss this paper, please contact:

Ian Bhullar, Head of Sustainability Policy, ian.bhullar@ukfinance.org.uk

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

Yaa Ofori-Ansah, Green Finance Manager, yaa.ofori-ansah@ukfinance.org.uk

Annex: Net Zero Homes

The transition to a Net Zero economy remains a key priority for UK Finance and its members. We believe a mission to make Britain a clean energy superpower should include a plan for warmer homes. This could deliver benefits to households and is crucial for the country to meet its climate targets. The financial services sector is committed to working with you, in collaboration with other sectors, to address the challenge of helping homeowners, housing associations, and landlords make their homes more energy efficient.

UK homes remain among the least energy efficient in Europe, and account for around 20 per cent of UK greenhouse gas emissions.[1] In 2022 our ***Net Zero Homes: Time for a Reset*** report estimated it will cost UK homeowners around £300 billion to reach the government's required Energy Performance Certificate (EPC) ratings.

We recognise the difficult economic environment facing the government, and the implications for public spending on climate policy. Despite this, limited fiscal headroom should not prevent lower-cost steps, which could be quickly implemented and boost the energy efficiency of a share of UK homes while the government devises its longer-term strategy.

The Government and other industries such as energy suppliers and the home renovation sector will be central to addressing the energy efficiency challenge. Our industry is also playing, and will continue to play, a key part in facilitating this transition. Since as early as 2006, mortgage lenders have offered a range of products aimed at incentivising homeowners to improve the energy efficiency of their homes.

The Green Finance Institute, which tracks the range of green mortgage products available, now lists some 60 available products.[2] These have, so far had limited take-up due to a lack of consumer awareness, understanding, or reluctance due to costs. But we are keen for demand to rise, to enable the rapid decarbonisation of the built environment.

The financial services industry can also play a role in financing the industries and firms that enable the transition, such as the multitude of SMEs that will be required to retrofit properties. This will be important to ensuring our supply chains are adequate, and sufficient skilled tradespeople exist to address retrofitting challenges.

---

[1] Climate Change Committee, **Homeowner support for policies to decarbonise UK homes**
[2] Green Finance Institute, **UK Green Mortgage Products**

The Opportunity is Clear:

Upgrading our most energy-inefficient homes presents a huge opportunity. We estimate this would deliver almost £40 billion of cumulative benefits by 2030, including £24 billion in consumer bill savings.[3] However, several obstacles hinder progress:

Homeowner confidence and awareness: First, many homeowners and landlords lack the confidence and knowledge to embark on retrofitting projects. Only around a third feel financially prepared to make significant changes to their homes which would improve their energy efficiency, and outdated EPC ratings add to the confusion. A large-scale government-led awareness and information sharing campaign is needed to address these issues.

The banking sector has a wealth of knowledge and research to demonstrate how this lack of confidence and awareness is hampering take-up. Households report that high upfront costs act as a disincentive, but that they are unwilling to take on debt for the necessary improvements (NatWest January 2024). Homeowner action is being blocked by confusion around what "retrofitting" is, with almost a third of homeowners saying they have never heard the term (Santander September 2023); as well as "not knowing where to start" and the inconvenience of building work (Lloyds November 2023). Homeowners tend to overestimate the time and cost of retrofit (Barclays / Ipsos Mori July 2023). And in 2022 only 12 percent of landlords polled would use net additional borrowing to fund EPC improvements (OSB 2022). Homeowners need guidance to navigate the market.

Skills and supply chains: Second, the UK lacks the skills and supply chains to deliver more energy efficient homes. More skilled workers are needed to deliver home improvements, which can be achieved through joint action from government, employers and workers. Grants and subsidies are needed to upskill the many thousands of tradespeople needed to deliver these improvements

Measurement: Third, mechanisms for measuring and demonstrating improvements to home efficiency are not fit for purpose. Many homes do not have an EPC rating. For those that do, they are sometimes many years out of date and don't reflect upgrades homeowners or landlords may have made over the years. This only adds to the confusion experienced by homeowners about what they need to do to make their properties more energy efficient.

[3] UK Finance, A Financial Services Manifesto for the UK

A Plan for Progress:

We can only achieve the shift we need with clear government policies that set medium- and long-term expectations so that homeowners can prepare. This includes targets in the future by which certain groups of homeowners should aim to retrofit their homes.

UK Finance and our members propose positive measures to help homeowners meet those targets and unlock this potential. We have focused on low-cost measures that could be implemented quickly to catalyse demand for energy efficiency improvements:

- **Communicate:** Deliver a public-facing, government-led campaign involving all stakeholders – public and private – in the housing market driven forward by the government to provide customer education. Previous efforts suffered from a lack of depth in the advice provided and minimal promotion. It is important that such a campaign is endorsed by the energy sector.
- **Advise:** Create a government-backed, independent Retrofit Advisory Service – a 'one stop shop' for free, impartial retrofitting advice, modelled on similar services in Scotland and Ireland.
- **Train:** Train skilled retrofitters to green the housing stock through a new apprenticeship scheme and boost nascent supply chains. Action taken to raise industry capacity for the greening of the housing stock must work in tandem with wider initiatives to grow the capacity of the construction industry.
- **Update:** Implement improvements to the monitoring of home energy efficiency and emissions performance so that it is fit for purpose. This could include, for example, expediting the long-awaited reform of the EPC system, or offering new mechanisms for demonstrating the carbon performance of homes.

If and as fiscal headroom improves, government should deploy further measures to drive action, including introducing a Stamp Duty rebate scheme to incentivise homeowners to upgrade the energy efficiency of the property they move in to; and continuing and expanding the existing package of funding for those communities unable to pay.

Learning from the lessons of the Energy Efficiency Taskforce, we believe government should also create a forum with the private sector to accelerate energy efficiency improvements to homes and businesses.

Unlocking the Potential:

We need to be clear about the banking sector's limits on this agenda. Even where they are taken up, mortgage products and loans will only form a part of the financing package – lending will not be the right or preferred option for some homeowners. While large sums of finance are available, as demonstrated by the range of concessionary lending products, not all homeowners will be willing or able to borrow more, due to affordability and cost-of-living challenges. That is why, in the medium-to-long-term, government needs to incentivise and deploy other forms of financing to reach all households. The banking sector is keen to play its part.

By working together on these crucial initiatives, we can empower homeowners, support vulnerable groups, and build a skilled workforce. This will unlock the immense potential of home retrofitting, leading to a more sustainable, affordable, and energy-efficient housing market for all.

We would welcome the opportunity to convene our members at a workshop with ministers and officials to provide more detail on our recommendations.