Comments on the HM Treasury Net Zero Cost Review – Interim Report

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Sent to: NZRengagement@hmtreasury.gov.uk

UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation. In early 2020 the UK Finance Board agreed to make sustainability one of our six strategic priorities, and to establish a senior Sustainability Committee.

Summary

i. We agree with the tone and tenor of the Interim Report, and welcome the move towards providing greater clarity in a number of key areas.
ii. We urge a continued focus on international cooperation to ensure the financial services industry can maximise the opportunities for the UK to become a global hub for sustainable finance, as set out in the Prime Minister's 10 Point Plan.
iii. We agree that public support for net zero must be grown, to ensure the ongoing democratic legitimacy of the UK's direction of travel. This has important implications for various policy areas, including carbon pricing and the decarbonisation of housing.
iv. We urge a reflection in the final report of the important costs to inaction.
v. We agree that there is an essential role in facilitating the UK's transition into a net zero economy for private capital, and in order to maximise its role we make specific recommendations regarding how the industry works with Government, carbon pricing, and the decarbonisation of housing.

Overarching comments

1. UK Finance and the UK financial services industry as a whole **fully support the Government's net zero goal**, which we agree is the only "pro-growth strategy for the longer term". Taking net zero by 2050 as a given, the questions the Review seeks to answer – around how the significant changes for households, businesses and government that net zero requires can be managed; how to maximise the economic opportunities from the transition to net zero; how the costs associated with the transition should be met, including how public revenues will need to adapt; and how to ensure an equitable balance of costs and benefits across different parts of society – are the right ones.

2. We welcome and agree with the Interim Report's multiple references to the **need for policy certainty and clear political direction**, and we eagerly await the upcoming Industrial Decarbonisation Strategy, Hydrogen Strategy, and in particular the Heat and Buildings Strategy. We also agree with the Interim Report on the need to ensure that **Covid-19 stimulus aligns with net zero** objectives.

3. We concur with the Interim Report regarding the **importance of international coordination** on net zero, and the historic opportunity provided by the UK's presidency of COP26 and the G7 this year. Sustainable finance is an area where the optimal approach entails sitting firmly within a global framework, strategically aligned with leading practices in other jurisdictions; this will be essential to realise the ambition for the City of London to become a global hub for sustainable finance, as set out in the Prime Minister's 10 Point Plan. Former Bank of England Governor Carney's work in this area was ground-breaking, and we fully endorse the Government's position regarding the recent proposal for the IFRS Foundation, however this must draw on the leading extant standards, such as PCAF, and would benefit greatly from the active participation of the US – something we would encourage HM Treasury and the FCDO to advocate wherever possible. Similarly the Chancellor's announcement during the November 2020 Green Horizon Summit that the UK would develop a taxonomy taking the scientific metrics in the EU taxonomy as its basis was welcome, and we would urge deviations only where clear improvements can be made. Further clarity from Government on its approach in this area would be highly beneficial. We have already drawn to the attention of the PRA, FCA, HMT and BEIS the relevance of an EBF / UNEP FI report on the practical application of the taxonomy to banking, which will be published in the coming days.

4. We share the position set out in the Interim Report that a lack of **public support for net zero** presents risks both to the stability of the financial services industry (as set out in paragraph 2.33) and to the achievement of net zero more broadly. The Interim Report rightly notes the importance of the Energy White Paper's references to keeping bills affordable, which will help ensure support for net zero from both households and businesses is not undermined. This will help to ensure a Just Transition.

5. We disagree with one of the core interim conclusions, that the combined effect of UK and global climate action on UK economic growth is likely to be relatively small, as this fails to account for the **costs of inaction**. Runaway climate change would do enormous economic damage in the medium and long-term, costing at least 5% and potentially over 20% of global GDP, every year in perpetuity, according to the Stern Review. This principle, that inaction entails the costs of untrammelled climate change, should be reflected in the final report.

Mobilising private capital

6. The Interim Report rightly notes the importance of **private capital in financing much of the net zero transition**, and the ways in which public spending should aim to crowd in private finance, as set out in paragraphs 2.19 and 2.20. The recent announcement of a National Infrastructure Bank was a very positive step forward, and it is essential that this is designed to crowd in private finance. We and our members would be happy to work with Government to ensure this happens.

7. The Interim Report makes multiple references to **carbon pricing**. This is a critical policy lever in the journey to net zero and we hope for significant detail and ambition regarding carbon pricing to be set out in the final Report. A strong carbon price would be a powerful signal to the markets that the Government is serious about meeting its carbon budgets and reaching net zero, and would complement the TCFD mandate and benefit the financial services industry by helping provide clear guidance on this issue. We endorse and urge the Government to consider the recommendations of the recent Zero Carbon Commission report on carbon pricing. As well as requiring emitters to internalise the social cost of their activities, a carbon price at this minimum level would

help address the question of how public revenues will need to adapt to a net zero trajectory.

8. The Interim Report rightly notes the importance and challenge of **data**, which remains patchy, inconsistent, and a barrier to scaling sustainable finance. This presents an opportunity for the UK to be a leader in harvesting, analysing and sharing climate-related financial risk data, building on the UK's capabilities both in sustainable finance and more broadly in data and technology. We note that the PRA and FCA-convened Climate Financial Risk Forum will rightly consider this issue as a key focal point this year, which is a positive step.

9. Specifically in the area of **housing**, which is among the highest emitting sectors in Chart 1.C is of greatest relevance to the financial services industry due to its role in mortgage lending, we recommend:

    a. That government schemes to support owners improve their properties (e.g. Green Homes Grant) must be available and accessible to homeowners in the mid- to longer-term. Short-lived schemes and interventions do not support longer-term planning for improvements by owners.
    b. That the Government must work with the financial services industry to develop new innovative funding approaches, including blended public-private finance to retrofit homes for improved energy and environmental performance. In addition, a robust quality-based supply chain and independent advice for consumers must be prerequisites to any regulated/mandated EPC standards.
    c. That the Government ensures any new regulatory requirements for energy performance in owner-occupied homes do not cause market distortion or unintended consequences that might trap owners in poorer performing properties.

If you have any questions relating to this response, please contact Ben Rattenbury, Manager, Sustainability (ben.rattenbury@ukfinance.org.uk).