Briefing

Update to the Green Finance Strategy

August 2022

Summary

The Green Finance Strategy, published July 2019, set out three main objectives:

- Align the financial system with net zero.
- Mobilise private finance towards climate and nature.
- Capture the opportunities for the UK and its financial services sector.

In October 2021, the government pledged to update the strategy to both reflect progress made so far and set out how the UK can better ensure the financial sector is supporting the UK's climate and environmental objectives. The *Update to the Green Finance Strategy: call for evidence* (12 May 2022) indicated that the planned publication date is late 2022.

The government should:

- **publish the update this autumn to work alongside the Financial Services and Markets Bill;**
- **deploy public policy and funding to leverage private finance;**
- **empower regulators to hold businesses accountable.**

Unlock private investment

On net zero, Conservative leadership candidate Liz Truss said, at the Conservative hustings in Cheltenham, 11 August 2022:

"I want to do it in a way that harnesses capital, that harnesses investment, that harnesses the City of London to actually invest in green technologies."

Since the government published its Green Finance Strategy, just five British banks (Barclays, HSBC, NatWest, Lloyds, and Standard Chartered) have, between them, provided £112 billion in fossil fuel financing.

Clearly, a more active approach is needed to shift financial flows towards cheaper, low carbon energy. To unlock private investment, the government must help to create the right environment for investors, financial institutions and businesses.

Tighten reporting and disclosure standards

Half of businesses in the financial sector believe at least some competitors are deliberately greenwashing to mislead customers. To tackle this, inform investor decision making and boost confidence in green markets, the update must:

- ensure climate and nature-related financial information is standardised and verifiable so that data is consistent, comparable, and credible;
- set high, science-based targets for standards, such as net zero transition plans or climate related financial disclosure; these must be put on a statutory footing;
- require mandatory disclosure of scope 3 emissions by large, listed companies from 2024, including goods and services; value chain emissions are 11.4 times higher than direct operational emissions and excluding them obscures the level of climate related risks an investor may face;
- close loopholes in reporting standards by setting out a clear roadmap to increase the coverage of climate related and transition plan disclosures to include non-listed companies that make up a sizeable proportion of the economy, and to businesses with fewer employees.

Set out the public sector's role in green market growth

Building new markets will offer British businesses new opportunities and help keep the UK's financial sector competitive. Limited and targeted public funding should be deployed to derisk and crowd in private investment to emerging or underdeveloped green markets.

- **Use public financial institutions to provide early stage capital to crowd in private investment.** The UK Investment Bank (UKIB), for example, should deploy its £22 billion of financial capacity to develop new green markets (such as offshore wind infrastructure) which require large initial capital investment. UKIB will also be vital in preparing opportunities for others to invest in, and, therefore, must be judged not just on the money it gets out the door.
- **Derisk private investment in green technology and infrastructure.** This can be achieved through mechanisms, such as low interest rate loans, extending grace periods, debt issuance and below market government backed credit ratings. Existing schemes, such as a feed-in tariff or contracts for difference auctions, have attracted private investment into renewable energy generation by guaranteeing an above market price for companies.
- **Adjust capital requirements to encourage long term project finance.** This would work by allowing financial institutions that make investments with low climate risk, such as renewable energy, to hold less capital in reserve.

Ensure accountability and enforcement

Relying on investor behaviour and voluntary business practice will not move the dial alone. To be effective, standards must be embedded within a robust regulatory and legal framework to drive accountability and implementation.

- **The update must set out clear roles and expectations for regulators.** Regulators should press financial institutions and firms to publish good quality disclosures and ensure meaningful progress is made against transition plans.
- **An independent public body should be tasked with mapping financial flows.** The Office for Budget Responsibility (OBR), the Climate Change Committee (CCC) or another independent public body should carry out regular mapping of private and public financial flows. Financial flows should be mapped against the UK's Green Taxonomy to determine whether or not they are 'green', as well as the CCC's net zero investment target of £50 billion per year from 2030 to 2050.
- **Establish an Office for Carbon Removal.** This would regulate the credibility and integrity of greenhouse gas removals, ensuring the private market is functioning and that offsetting does not slow down progress in reducing actual emissions.

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