UKSIF
UK Sustainable Investment
and Finance Association

Dear Sir/Madam,

We are responding to the Environmental Audit Committee's inquiry on sustainability and HM Treasury.

UKSIF is the membership network for sustainable and responsible financial services in the UK. We promote and support sustainable and responsible investment (SRI) and other forms of finance that advance sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments. UKSIF was created in 1991 to bring together the different strands of sustainable and responsible finance nationally and to act as a focus and a voice for the industry. We have around 240 members and affiliates including financial advisers, institutional and retail fund managers, pension funds, banks, research providers, consultants and NGOs. For more info about UKSIF, please visit www.uksif.org.

Our submission focuses on the third section of the EAC's terms of reference, 'HM Treasury and "Green Growth"'.

What is HM Treasury's understanding of the relationship between environmental policy and growth? Is HM Treasury receptive to new evidence on this?

In its report the IPCC found that it is extremely likely that the cause of climate change is anthropogenic.[1] It is a result of the greatest market failure the world has ever seen.[2] It is our view that the relationship between environmental policy and growth has been misunderstood by the Treasury. The Stern Review highlighted overwhelming risks from inaction or delayed action and pressed rich countries to take the lead in combatting climate change.[3] While the UK was a global leader for many years, its ambition in addressing climate change has steadily waned, a significant part of which has been due to a lack of understanding of the potential for growth and opportunities inherent in coherent environmental policy.

The Treasury has become too "short-termist" in its failure to properly consider the risks arising from climate change. In comparison with other financial institutions that are taking climate impacts extremely seriously the Treasury has become a laggard. These include:

- First, the Bank of England's work[4] on climate-related risks and specifically risks arising from stranded assets.[5] In a speech in September the Governor of the Bank of England, Mark Carney, said "the combination of the weight of scientific evidence and the dynamics of the

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[1] Available at http://www.ipcc.ch/

[2] Stern Review Report on the Economics of Climate Change, available at: http://webarchive.nationalarchives.gov.uk/20100407172811/http://www.hm-treasury.gov.uk/stern_review_report.htm

[3] Ibid.

[4] http://www.bankofengland.co.uk/pra/Documents/supervision/activities/pradefra0915.pdf

[5] Carbon Tracker, *Unburnable carbon 2013: Wasted capital and stranded assets*, available at http://www.carbontracker.org/report/wasted-capital-and-stranded-assets

financial system suggest that, in the fullness of time, climate change will threaten financial resilience and longer-term prosperity".[6]

- Second, the Financial Stability Board which seeks to co-ordinate the actions of national financial authorities amongst others, has since announced it is setting up a Task Force to consider climate-related financial risks.[7] By 2017 it is expected to have published recommendations on best practice for corporate voluntary disclosure.
- Third, the French Government has introduced new rules which require asset owners and fund managers to report on how they how they integrate environmental, social and governance factors into their investment processes and how they contribute to financing a low-carbon economy.

These developments are clear indicators that risks stemming from climate change can no longer be ignored by the Treasury. There is a clear role for environmental policy to play, but it must be integrated throughout government. COP21 committed the international community to keep global average temperatures 'well below' 2°C and the role of policy makers should be to help facilitate the transition to a net-zero carbon economy if this is to be achieved. It is not clear this message has permeated through into the Treasury which is a huge concern since it is a key player in accelerating that process.

To what extent has HM Treasury evaluated the business case for increasing investment in environmental and low-carbon goods and services in the UK? Is its approach consistent with other Government departments?

The extent to which the Treasury has evaluated the business case for increasing investment in environmental goods and services in the UK is unclear; if the business case for doing so has been fully evaluated and the Treasury has made a conscious decision not to help facilitate an increase in investment then this is extremely worrying. What is clear, however, is that the Treasury's financial outlook remains too short-term.

We have known for some time that the cheapest way to transition to a low-carbon economy for businesses, investors and the UK as a whole is to do it as early as possible.[8] Yet various Government decisions have either acted as a brake on the transition or a direct obstacle. These have included:

- Attempts to remove the requirement on listed companies to publish information on energy use and emissions.[9] UKSIF's issued a joint response with CDP and IIGCC[10] which made clear that not only was this information extremely valuable to investors, who are able to assess the carbon footprint of their portfolios, it is also very useful to businesses who can measure

[6] Mark Carney speech at Lloyd's of London, September 2015 available at http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx
[7] More info available at: http://www.fsb.org/2016/01/fsb-announces-membership-of-task-force-on-climate-related-financial-disclosures/
[8] The Parliamentary library issued a briefing note in 2008, available at: http://www.parliament.uk/documents/post/postpn318.pdf
[9]Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/464304/PU1853_business_energy.pdf
[10] Available at: http://uksif.org/wp-content/uploads/2015/11/CDP-IIGCC-UKSIF-business-taxation-consultation-response-Nov-2015.pdf

and therefore manage energy and emission use and therefore lower their own costs. This attempt by the Treasury to deregulate the sector seemed strange given that 95% of FTSE 100 companies already go *beyond* the legal minimum as set out by the regulation in reporting to CDP. The contrast with the new rules in France which we have already mentioned is stark.

- Failing to implement the Law Commission's recommendations[11] to help clarify that investors *should* take into account financially material factors including ESG factors. DWP's failure to provide clarity on this issue has meant continued confusion on what factors pension fund trustees should and may take into account. This was inconsistent with the approach taken by DCLG in its proposals for LGPS fund investment governance which will require administering authorities to have clear policies in place with regards to ESG and stewardship.
- Connected to this is the potential for losses linked to a lack of a long-term energy strategy beyond 2020 to enable the UK to meet domestic and international targets. Siemens' Matthew Knight, director of energy strategy said at a select committee meeting, 'this is no way to run the strategic energy policy of the country'.[12] The EU's financial watchdog has also recently called for governments to consider imposing asset disclosures on industry and stress tests on banks to guard against the economic crisis that could be caused by an emergency switchover to clean energy.[13]

These examples are all evidence that the Treasury must seriously evaluate the business case for increased investment in environmental and low-carbon goods and services. It should set up a stakeholder forum to liaise with experts from industry and establish a long-term energy strategy which includes details on how it plans to transition to a net-zero carbon economy. This plan should then be integrated throughout all government departments and policies devised to reflect it.

We trust the above information is clear, although if you require any further information or have any questions please do not hesitate to contact us via fergus.moffatt@uksif.org.

Yours sincerely,

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[11] Law Commission, Fiduciary Duties of Investment Intermediaries, p. 239 available here: http://www.lawcom.gov.uk/wp-content/uploads/2015/03/lc350_fiduciary_duties.pdf

[12] Article available at: http://www.bloomberg.com/news/articles/2016-02-02/siemens-says-u-k-energy-plans-no-way-to-run-strategic-policy

[13] Available at: https://www.esrb.europa.eu/pub/pdf/asc/Reports_ASC_6_1602.pdf?829a1b407eb1e9d82ef45228a4884536