UKSIF Response: BEIS Committee Call for Evidence, Net Zero Governance

Introduction

The UK Sustainable Investment and Finance Association (UKSIF) is the membership organisation for those in financial services committed to the growth of sustainable and responsible finance in the UK. We look to promote a more sustainable and inclusive financial system that works for the benefit of the environment and wider society. UKSIF represents a very diverse range of financial services firms committed to these aims, and our 270+ members include investment managers, pension funds, banks, financial advisers, research providers, NGOs, among others.

UKSIF and our members have played a prominent role in helping to more fully embed sustainability in UK policymaking over recent years. We were pleased to work closely in recent months with government over the design of the UK's National Infrastructure Bank, including through a coalition group led by climate change think-tank E3G, and were delighted to see a drive to net-zero put at the core of the Bank's mandate. Most recently, UKSIF was appointed a representative of the UK's Green Technical Advisory Group (GTAG) to advise on the delivery of the UK's 'green taxonomy' and we look forward to helping ensure the taxonomy can set a high standard for green investment for the rest of the world to follow.

We know there is far more government, industry, regulators, and others can do to ensure the UK can meet its sustainability ambitions and cement its global leadership. We therefore strongly welcome the Business, Energy and Industrial Strategy Committee's inquiry on net-zero governance to contribute towards and move forward the policy debate over the necessary leadership and co-ordination required by government to deliver on the UK's 2050 net-zero objective.

1. What are the key requirements for a governance structure that can deliver cross-Government climate action at the pace, scale and over the duration required to meet the carbon budgets and the 2050 net zero target?

b) What alternative governance structures could be established to coordinate and deliver cross-Government action on climate change more effectively?

UKSIF and our members continue to strongly believe that action on climate change and sustainability issues broadly should be more deeply embedded across all government departments, including Treasury. We outline further details below in our response on one key way we believe this could be achieved in relation to Treasury's decision-making, and broadly we want to see sustainability considerations reflected fully across Whitehall and not siloed in a single department with exclusive ownership of these issues.

We believe **there could be some merit in forming new governance structures to co-ordinate and deliver more effective action**, and the Climate Change Committee's proposal to move responsibility for climate change and net-zero to a 'net-zero unit' based in the Cabinet Office to promote a shared agenda across government could be worth exploring further. This could help ensure better co-ordination across Whitehall and encourage departments to act more quickly; however, we should be mindful that changes to Whitehall's machinery in recent years have sometimes lead to delays to policy action and been counterproductive ultimately.

c) What metrics should the Government use to measure their progress towards net zero?'

While we do not have a strong view on the specific metrics government could use to measure progress towards net-zero, **we would encourage government to set more ambitious nearer-time milestones, including for 2025 and 2030, and consider outlining progress against the UK's 2050 target for every session of Parliament**. This could help ensure better accountability for each government of the day, and help minimise the risks of progress simply being passed onto future governments.

We see a very prominent role for Parliament in measuring and scrutinising progress, including through select committees. We would be very supportive of the Prime Minister, or Chancellor, reporting annually to MPs, in a statement to the House of Commons for example, progress towards our net-zero target with a debate held following this in the House. Furthermore, a select committee, or group of committees, could play a useful scrutiny function by forming a permanent 'net-zero progress inquiry' involving scrutiny of relevant ministers and officials, and others such as the Climate Change Committee.

2. What governance structures would enable HM Treasury to give greater priority to the net zero target and the carbon budgets in its financial and economic decisions?

a) How could HMT better ensure that spending decisions contribute to achieving net zero in the long term?

UKSIF and our members strongly believe the UK's 2050 net-zero objective and our sustainability ambitions, including progress against the UN Sustainable Development Goals, should lie at the heart of Treasury's spending decisions. While we very much welcomed Treasury's announcement earlier this year to ensure the mandates of financial regulators, including the FCA, have regard to the UK's net-zero target, we believe the time has now come for Treasury to make a similar commitment to its own policymaking.

One way of helping achieve this would be for Treasury to explore the introduction of a dedicated 'net-zero' chapter in its Budget statements delivered by the Chancellor, explaining how the tax and spending decisions announced bring the UK closer towards this objective. This should be reflected in the Chancellor's Budget Speech to the Commons and accompanying 'Red Book.' Our recommendation, which UKSIF has called for in recent months, in many respects mirrors the Climate Change Committee's advice its recent progress reports calling for a 'net-zero test' to be applied to every area of government policy for compatibility with its climate ambitions.

We believe this proposal could lead to, in time, **a far firmer expectation of Treasury by stakeholders and us all that every Budget has net-zero at its core** and recognises the work still to be done to deliver the UK's 2050 target. For example, based on an average five-year election cycle, we can assume six UK parliaments will take place before 2050, meaning that each one needs to steer, at least, one sixth of the journey to net-zero emissions. If the aim is to get halfway by 2030, a lot more than a sixth of the journey needs to be navigated within the next two parliaments, with emissions arguably needing to be cut by around a quarter by the time of the scheduled 2024 election.

A dedicated net-zero chapter in every Budget would signal Treasury's commitment to embed this across its decision-making, and help ensure every tax and spending decision is viewed through a net-zero lens. We would be very pleased to explore our proposal in further detail with members of the Committee and other policymakers in due course.

Another step government could consider **is further reform to the Treasury's 'Green Book**,' which is the guidance issued by Treasury on how to appraise policies, programmes and projects and provides guidance on the use of monitoring and evaluation before, during and after implementation of policies. Last year, Treasury conducted a review of its 'Green Book' and this could be re-examined regularly to ensure sustainability factors are embedded in the appraisal of policies, programmes, and projects using the 'Green Book' guidance.

3. What signals and support does business need from the Government in order to deliver cross-economy decarbonisation in line with the carbon budgets and the net zero target? What delivery function should Government provide itself and are relevant regulatory bodies mandated and resourced effectively to deliver on Government priorities?

UKSIF's members continue to require much greater policy signals and clarity from government in order to deliver cross-economy decarbonisation, including in relation to decarbonising investment and lending portfolios over time, in line with the carbon budgets and UK's net-zero target.

Most importantly, **we want government to provide clarity urgently on what net-zero means for each sector of the economy**, outlining comprehensive net-zero strategies this year. Clear signals from government on the way forward for decarbonisation of the economy will be critical, helping guide business models going forward and allowing UKSIF's members to better understand where government intends to deploy capital, particularly as anticipatory support will be key to back newer industries.

Very closely related to this will **be clarity from government over how the UK's transition will be funded, and the sectors that will be a priority for government capital investment** in the years ahead in order to effectively leverage private finance and support the de-risking of new sustainable industries that will emerge in future. The Climate Change Committee has estimated additional net-zero investment will need to grow from around £10bn/year currently to around £50bn/yr in 2030, and this will require large-scale investment in the green economy, including new low and zero-carbon infrastructure projects, and emerging green technology.

While recent announcements such as the 'Ten Point Plan for an Industrial Revolution' are welcome, the UK should consider a more ambitious investment programme in the 'green economy' to build off the Plan's ambition to mobilise £12bn of investment to provide a faster, short-term stimulus that can meet the Paris goals. Areas for more immediate funding could include home insulation and retrofitting and electric vehicle charging networks.

In terms of the role and resourcing of regulatory bodies to deliver on government priorities, **we believe the UK's regulators, including the FCA, have led the way globally in many respects in driving forward the sustainability agenda**. This includes in recent years: the roll-out of mandatory TCFD-aligned disclosures across the economy, including for premium-listed companies; recent changes to the stewardship regime including reforms to the Stewardship Code stressing the importance of outcomes of investors' stewardship activity; and the creation of 'guiding principles' for ESG investment products to help savers in this burgeoning market.

The FCA's leadership role on sustainability issues should be further encouraged by the changes confirmed by the Chancellor at the Budget earlier this year, updating its remit to take into account the 2050 net-zero target. We recognise the additional resource and focus given by the regulator to address sustainability and climate change issues, including the recent appointment of a dedicated 'Director of ESG.' This could mark an important shift in the regulator's approach to sustainable finance, though we should continue to scrutinise the resources and expertise of the regulator to make sure this keeps up with fast-changing developments in the sustainability landscape.

a) How do policy and regulatory signals and support vary between Government Departments (and how have they varied over time)? How is this affecting business activity on climate change?

Broadly speaking, the policy and regulatory signals and support given by government departments has been effective and helped positively influence the sector's and companies' activity on climate change. Some specific examples in recent years include: clarification to fiduciary duties for pension scheme trustees on material environmental, social and governance (ESG) factors, a greater emphasis on stewardship in the UK's rulebook, and the roll-out of mandatory climate change disclosure across the economy.

However, **UKSIF believes that policies and policy signals have sometimes varied between departments, which could negatively impact investors' behaviour and sentiment towards the UK**; an example is government's current approach to the implementation of TCFD-aligned disclosures across the economy. On this issue, the government's proposed approach at present for listed and private companies is not sufficiently ambitious, especially to the same extent as for the UK's pensions sector.

While large pension schemes will soon be required to produce TCFD reports from next year, many public quoted and large private companies will not face this requirement under BEIS's proposals. In its recent consultation on TCFD disclosures for companies, BEIS has proposed applying the requirement to companies with 500 or more employees, and we believe this must be extended from the outset to companies with 250 or more employees. An extended scope for companies would ensure greater visibility over how all companies manage climate-related risks and identify the opportunities of the net-zero transition. It would help many pension schemes fulfil their own requirement to produce TCFD reports from next year, particularly as they will need sufficient data to comply and greater levels of disclosures from companies would be very helpful in this respect.

The government will need to ensure policy changes on disclosure can encourage a far greater flow of sustainability data across the investment chain and economy, particularly as different sectors rely on sustainability data from other parts of the financial system and economy.

Another example of policy inconsistency between departments has been the approach to governance standards for companies as part of the changes to the UK's Listings Regime and audit market. We have seen Treasury's review propose diluting certain standards for companies seeking to list in UK equity markets, including on the premium listing segment, and we have urged policymakers not to dilute requirements for this group and indeed all companies seeking to list in the UK, including in relation to mandatory TCFD reporting. We have concerns government's listings approach could dilute certain ESG standards for companies seeking to list in UK markets, and we continue to call for strong sustainability standards to be in place for companies seeking to list in the UK, in particular for those seeking entry onto the premium listing segment.

This approach from Treasury is inconsistent in many respects with the approach from BEIS on reforms to audit and corporate governance, which is seeking to bring in tougher rules for the audit market and public interest entities (PIEs).

The government's proposals to bring in more robust standards for the audit market and for public interest entities (PIEs) should be meaningfully reflected and consistent with the upcoming changes to listings. This could further improve the attractiveness of the UK's markets and give confidence to investors and savers invested in companies at home. Taken together, the Government's changes to listings and audit and corporate governance reform should seek to build on the UK's reputation as a global leader on ESG standards, which will provide the UK with a crucial competitive advantage as we seek to attract new companies to our markets. High ESG standards have long been an integral part of the London market's success in recent years, helping attract overseas capital to the UK; these are seen by foreign investors as indicating lower risk, meaning companies can raise capital at a lower cost than competitors in those markets which are seen to have lower standards.

Finally, while we welcomed Treasury's recent announcement on ensuring the mandates of the financial regulators, including the FCA, have regard to the UK's net-zero target, Treasury should make its own similar commitment to its policymaking as previously highlighted in our response.