

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 society and the environment.

UKSIF represents a diverse range of financial services firms committed to these aims, and our 270+ members managing over £10 trillion of assets under management (AUM) include investment managers, pension funds, banks, financial advisers, research providers, NGOs, among others. Historically, UKSIF and our members have been hugely supportive of efforts to promote the sustainable finance agenda and worked closely with policymakers and others to find new ways to overcome the barriers to the growth of sustainability in the UK.

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 coordinated by the climate change think-tank E3G, and were delighted to see a drive to net-zero put at the core of the Bank's mandate at the last Budget. Most recently, UKSIF was appointed a representative of the UK's Green Technical Advisory Group 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.

UKSIF's Autumn Budget representation

On behalf of the UK's sustainable finance industry, UKSIF is very pleased to make our Autumn Budget representation ahead of its upcoming publication on 27 October.

In our representation, we focus on three main areas where we believe government could take immediate steps to demonstrate the UK's continued commitment to support the growth of the UK's world-leading sustainable finance sector and advance progress against the UK's sustainability objectives. Now is a critical juncture for the future success of the sector, and we would welcome the opportunity to work closely with government in these specific areas we highlight in our Budget representation.

1) Ensuring government's Budget decisions actively contribute to the UK's net-zero objective

UKSIF and our members continue to strongly believe that 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 all of government's policy and spending decisions.

While we very much welcomed Treasury's announcement earlier this year to ensure that 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 at the upcoming Budget.

We would like to see Treasury commit to at Budget to exploring the introduction of a dedicated 'net-zero' chapter in all future Budget statements, explaining in detail 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 should 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 at 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 Treasury and other policymakers in due course

Another step government could consider at Budget is further reform to the Treasury's 'Green Book.'. 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.

2) Embedding natural capital in the UK's National Infrastructure Bank

We are pleased to have worked closely over this year with government over the design of the UK's National Infrastructure Bank, including through a coalition group of investors, business groups, and others 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 at the March Budget.

We continue to see the National Infrastructure Bank (NIB) playing a vital role in delivering our net-zero target and helping us build a more resilient economy that can better respond to future external crises. We want to build on the very positive announcements from government this year on the design and implementation of the Bank, and believe attention should now turn to considering how to embed natural capital and biodiversity into the Bank's existing dual net-zero and levelling-up mandate.

We request that Treasury confirm at Budget the inclusion of natural capital in the mandate of the Bank, recognising the very important benefits they will play in contributing to the Bank's existing net-zero and levelling-up objectives. This action would build off government's recent positive announcement, in response to Professor Dasgupta's 'The Economic of Biodiversity' Review, on requiring nationally significant infrastructure projects to provide biodiversity net gains.

As part of this, a wider definition of infrastructure could be adopted by government within the NIB to include nature-based solutions and restoration infrastructure, from flood protection to sustainable drainage projects. As highlighted by the Green Finance Institute and others, potential areas for funding from the Bank could include: flood and coastal defence schemes, lending to local councils to develop guarantees for new markets in sustainable drainage and storm water retention, and providing guarantees within sustainable and regenerative agriculture forestry. We should seek to ensure biodiversity is explicitly targeted by the Bank, and not simply assume a project having a positive climate impact necessarily benefits biodiversity in all instances.

Nature-based investments could provide significant flood mitigation benefits, improvement to air and water quality, and other key public health benefits, and offer government the opportunity to set out ahead of COP the Bank as a world-leading institution. Including nature-based solutions could help ensure the Bank can support the crucial investment challenges of our time, as well as supporting long-term sustainable impact.

In terms of other recommendations for government in relation to the NIB, we would request the following to be considered: a long-term commitment by government to provide policy certainty, with a pledge embedded in legislation that would provide Parliament with a vote on any decision to sell the Bank (or parts of it) or reform its mandate in future; the creation of a diverse advisory board to help advise on investable projects, and this should include investor representatives among other stakeholders; and a commitment to scale up the Bank over time with greater capitalisation which will send positive signals to investors that the Bank will be a long-term project.

3) Advancing UK leadership on sustainability through the 'green taxonomy'

The UK's regulatory environment for sustainable finance standards following our departure from the European Union will perhaps be the single most critical factor in determining the UK's future leadership in this area.

The UK's approach to implementing the EU's taxonomy will play a critical part in this respect, and we strongly welcomed in June the UK's creation of the Green Technical Advisory Group (GTAG) to

advise Treasury on the delivery of the UK's 'green taxonomy' which UKSIF is delighted to be contributing to as a member representative.

While we continue to regularly contribute to the GTAG's discussions, we believe it is worth reiterating some of the sustainable finance sector's core asks for the taxonomy, which include the following:

- **The need to align with the EU's taxonomy initially:** The UK should only diverge with the EU in the short term when there is a clear need to do so. This is partly because many UK-based investors will have to undertake EU taxonomy compliance assessments and it would be easier if the UK and EU taxonomies are broadly consistent at the onset. This should still give the UK room to develop its own technical screening criteria while onshoring the EU's taxonomy framework.
- **The importance of clarifying the role of the taxonomy from the start:** The taxonomy's use cases should be clarified as early as possible to ensure it is not used in future for wider purposes for which it was not originally designed. We should learn from Europe's experience, which used the taxonomy for multiple policy solutions such as determining the distribution of Covid-recovery funds across European member states. This opened up the taxonomy to extensive lobbying from different interests.
- **The necessity of the taxonomy remaining based in science:** We need to ensure it remains based in science rather than politics, learning from Europe's experience in which the taxonomy has been diluted by sectors, such as nuclear and natural gas.
- **Retaining the right to diverge in the long term:** Over time, policymakers should be open to diverging from Europe, recognising the UK will inevitably diverge from EU rules in the longer-term. A UK taxonomy in future should recognise transitional activities which will be key to the net-zero transition, and seek to set the highest bar possible for the rest of the world to follow, giving the UK a competitive edge.

Further information

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