Policy Liaison Group
Environmental, Social, and Governance

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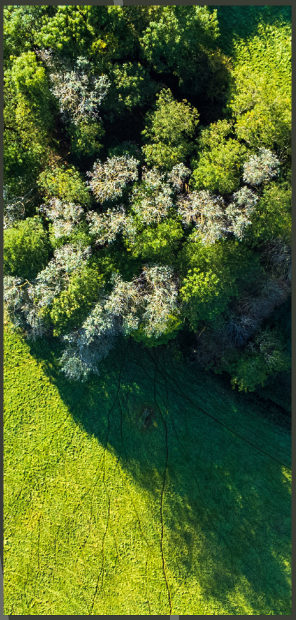
ESG under the new Labour government

With Heather Buchanan, Chief Executive & Co-Founder of Bankers for Net Zero (B4NZ); and Oscar Warwick Thompson, Head of Policy and Regulatory Affairs at the UK Sustainable Investment and Finance Association (UKSIF).



Online

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Introduction

The King's Speech marked the new Labour government's green agenda, with a strong focus on the energy transition and sustainability. The proposed 40 bills include the National Wealth Fund Bill to boost green investment, the Great British Energy Bill to support clean energy, modernising offshore wind investments and promoting sustainable aviation fuel. While the proposals have been positively received, there is a lack of focus on sustainable finance in spite of the manifesto commitment to make the UK a world leader. This session of the PLG engaged with the government's ambitions, exploring additional priorities as we look to accelerate the green transition.

Key takeaways

Advocacy

- We need to rethink collaboration between government, industry, and civil society, to advance sustainable finance and achieve net-zero targets. Policy consistency and clear, fact-based communication will be essential to gain the support of individuals and industry.
- Transitioning to a greener economy is best with technical challenges across the board (energy, financial engineering, data), progress is therefore contingent on intensive collaboration that transcends traditional public-private bodies - e.g. taskforces.
- Securing cross-party consensus on challenging aspects of transition, such as banning new internal combustion engine vehicles and decarbonising heating is vital. Consensus is essential for future-proofing policy commitments.
- Much of the negativity surrounding net-zero is driven by fear rather than recognising the opportunities they present. Fear-based narratives must be countered with facts.
- Messaging about net-zero and related efforts should be aligned with Labour's five missions for Britain, ensuring coherence and reinforcing the positive aspects of these ambitious goals.

SMEs

- SMEs are put "in the too difficult box" - they face unique challenges and are often overlooked due to their diversity. SME organisations have argued that the challenges they face are overlooked in the manifesto and the King's Speech.
- The SME rationale of "we could kind of leave them alone and just let them crack on and not put the burdens on them" is counterproductive. The burdens are already on them, reporting and transition planning requirements trickle down from financial institutions and supply-chain partners.
- A bottom-up approach is required to support SMEs, with simplified, accurate data collection and reporting frameworks. B4NZ's Project Perseus aims to automate and improve data accuracy for SMEs, facilitating better financing conditions.

Sustainable finance

- There's a sense that sustainable finance policy and regulation have been adrift in recent years, and there is hope for change under the new government. Labour's "Financing Growth" report includes commitments to the Green Taxonomy, International Sustainability Standards Board (ISSB) standards, and 1.5 degree aligned climate transition plans.

- Clarity is needed on when the Green Taxonomy consultation on climate change mitigation and climate change adaptation is going to come out, followed by consultations on the four wider objectives (see the Group's 2022 report).
- Likewise, it is not clear what the commitment to 1.5 degrees really entails, does it differ from net-zero transition plans? What are the consequences for companies that fail to meet decarbonisation targets?
- There's hope of more certainty with ESG data, potentially a policy statement from the Treasury.
- The investment community still wants to see much more clarity on energy intensive sectors' decarbonisation pathways.

New investment frameworks for retrofitting homes

- To create a new investment framework for homes, homeowners should be encouraged to take out loans that reduce the operational costs of their homes. Potential strategies include de-risking loans through mechanisms like the British Business Bank (BBB) or utilising guaranteed loans and other financing models.
- Many banks have created green mortgages, "but they can't get them off the shelf." Banks face higher risks when allocating capital to home retrofitting because EPCs are not reliable measurement tools (see recommendations).
- Demonstrating the benefits of retrofitting homes effectively is crucial. Making homes more energy efficient too often focuses on up front cost, instead of long-term savings.
- The reluctance to change overlooks the opportunities, job benefits, and health improvements retrofitting can offer. Showcasing the advantages is challenging but presents an exciting opportunity for the finance sector to play a key role.

Fiduciary duty

- The inconsistent interpretation of fiduciary duty by pension scheme trustees may hinder trustees from allocating more capital toward illiquid assets in the economy, such as infrastructure.
- While fiduciary duty among trustees is generally well established, the application and understanding of fiduciary duty at the board level, particularly regarding ESG factors, needs further clarification.

Recommendations

EPC reform

- Poor risk assessments hinder financial investment. Using EPCs is an obstacle to derisking investment and boosting the retrofit industry. Lenders assign a higher level of risk premium to these loans as EPCs are not an accurate measurement or a tracking tool.
- The ask is to reform EPCs and provide more granular data that is relevant to financial institutions,which will help drive private investment.
- The onus is on the government to facilitate more attractive retrofit loans for consumers to release private investment, the government's £6.6bn funding pledge will not be enough.

Pensions

- Labour should build on the Financial Markets Law Committee's (FMLC) report, which emphasises that climate risk is an investment risk for pension schemes trustees and must be considered for beneficiaries.
- The Pensions Regulator could be instructed to provide clarifying guidance for trustees based on the FMLC's report's conclusions.

We would like to thank the members of our Advisory Board for their contributions and continuing support.

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