HOUSE OF COMMONS

Treasury Committee

Oral evidence: Decarbonisation and green finance, HC 147

Monday 16 November 2020

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 236 - 330

Witnesses

I: John Glen MP, Economic Secretary, HM Treasury; Kemi Badenoch MP, Exchequer Secretary, HM Treasury; Niva Thiruchelvam, Deputy Director, Head of Net Zero Review, Enterprise and Growth Unit, HM Treasury; Richard Knox, Director, Financial Services Group, HM Treasury.

Examination of witnesses

Witnesses: John Glen, Kemi Badenoch, Niva Thiruchelvam and Richard Knox.

Q236 **Chair:** Good afternoon and welcome to this Treasury Committee sitting. This is the final session of our inquiry into decarbonisation and green finance. We are very pleased today to have four panellists before us, including two Ministers. For the public record, I would like to ask them to introduce themselves briefly to us now.

John Glen: I am John Glen. I am the Member of Parliament for Salisbury and the Economic Secretary to the Treasury. I broadly cover green finance and matters related to reporting on green sovereign bonds and suchlike.

Kemi Badenoch: I am Kemi Badenoch. I am the Exchequer Secretary to the Treasury. My brief covers productivity and growth, which includes green growth and the Net Zero Review in particular.

Niva Thiruchelvam: My name is Niva Thiruchelvam. I am a deputy director in the Treasury and I head up the Net Zero Review.

Richard Knox: I am Richard Knox. I am the director for international financial services in the Treasury.

Q237 **Chair:** Welcome to all of our panellists. We are very pleased to have you here today. Thank you for giving us your time. We will be asking a number of questions. Generally, the questions will be directed at one or more of the panellists, so it will be very clear who we are asking to answer. In the event that you are not selected in that way and you wish to make a point, please do not hesitate to put your hand up and I will endeavour to bring you in.

Perhaps I could start with a question to Kemi. The Climate Assembly UK's report published in September supported building back greener. In fact, the Prime Minister's speech at conference last month gave a major commitment to that aspiration. I just wonder whether you could set the scene for us and let us know a bit about what the Treasury is doing to make sure that that aspiration is fulfilled.

Kemi Badenoch: The Treasury wants to support a green recovery. It is more important than ever now, given where we are with Covid-19. The approach that we have taken has been to have short-term, medium-term and long-term measures. Obviously, the closer the timeframe, the more we can say about what we have planned.

In terms of short-term measures that support a green recovery, we announced a £3 billion package to make homes and buildings greener. That is to support over 100,000 jobs, with the potential to upgrade over 600,000 homes. We had a £40 million green recovery challenge fund, which should enable environmental charities to improve the natural environment. There is £160 million to develop ports infrastructure to support offshore wind and £250 million for the emergency active travel fund to support cycling and walking.

In terms of the medium term, we have announced £800 million for carbon capture and storage in at least two industrial clusters; £2 billion for cycling and walking over the course of this Parliament; and then another £1 billion to support ultra-low emission vehicles. In the much longer term, we have promised that we are going to double funding for energy innovation. We have promised £100 million towards direct air capture technologies. At the moment, that is an outline of the measures that we have announced to support that green recovery.

Q238 **Chair:** That is very helpful, thank you. In October, the Government committed to publishing a comprehensive net-zero strategy. Can you tell us a bit about how that strategy document will set out a clear path to net zero? What can we expect to see in it, in general terms?

Kemi Badenoch: This would be the Net Zero Review. The best way to say it is that we have an interim report coming out imminently. The Net Zero Review wants to basically set out how we are going to do this and, more importantly, start looking at what it is going to cost and how the costs will need to be borne by various different stakeholders, whether that be business, the consumer, taxpayers, asset-holders and so on.

We need to have a conversation that is not just about wanting to decarbonise but also about how we are going to do so, making it clear to the public what the Government's plans are. We need to bring it from a high-level, blue-sky ambition to something that is strategic and apparent in all the policy that we are putting out.

Q239 **Chair:** Can you give us any sense overall of the cost, say over the next few years, of meeting net zero in 2050? Does the Treasury have an assessment of what it will be likely to cost?

Kemi Badenoch: It is a very good question. Without pre-empting the Net Zero Review, I can tell you that BEIS and the Committee on Climate Change have been working together. The figure that they have settled on—this is the current Government view—is about £50 billion every year until 2050. That is the estimate that we are able to give over the next 30 years. £50 billion until 2050 annually is what we are working on as our presumption. Obivously, this is not a final or set figure. It is something that is likely to change over the course of time, but those are the projections that we are working on.

Q240 **Chair:** Is that £50 billion an investment level per year? Is that basically what that is? Is that the total level of investment each year? If it is, could you comment on what kind of return we are likely to get on that and what the net cost is going to be, or is that £50 billion already a net cost?

Kemi Badenoch: I have not worked on the technical consultation on how the figure has arisen. It is one that I have been given by officials. I do not know whether that is something that Niva can talk to more specifically, but that is the number that I have been working towards.

Niva Thiruchelvam: The CCC estimate is £50 billion in 2050 only. It is a resource cost estimate. What that means in practice is that they have taken the capital costs, including the financing costs, and created an annualised profile in order to reach that figure in 2050. It is not a complete cost of what it might cost us to get to net zero because it does not take into account economic costs, fiscal costs and policy costs. It also does not provide us with a year-by-year breakdown. In practice, we would expect the profile of costs to be a bit lumpier as different projects come onstream. This is just a snapshot. However, both the CCC and BEIS, as the Minister said, are refining these estimates and they will both be publishing individual cost estimates over the coming months, so we should have a more refined picture there.

Q241 **Chair:** From what you are saying there, if I understand it, that £50 billion is not so much an annual amount but an amount that rises to a cumulative total of £50 billion in 2050, which sounds way too low, or is it rising to £50 billion as the annual amount that year?

Niva Thiruchelvam: It is a net cost in 2050 only. It does not provide us with a true cost. It is just an estimate that the CCC provided in order to give us a sense of the order of magnitude of what we are likely to face at the end of the transition. What they are looking to do in their report at the end of this year, for the sixth carbon budget, is to refine that estimate and give us a truer cost year by year.

Q242 **Chair:** The annualised profile of costs going up to 2050 is not yet set out. It will be in the report that you are preparing. Thank you very much. That is very helpful.

John, could I turn to you for a moment? The Government and the Treasury have provided very significant support to businesses during the crisis that we are going through. There have been a lot of suggestions that some of that support might have been made conditional on the green approaches that those businesses might take. That is not something that the Treasury has decided to do. Can you just talk us through the thinking around that and why it is the Treasury decided not to take that particular line?

John Glen: As Sarah Breeden from the PRA told you in the evidence session previously, there is a challenge when you are trying to make massive sums of money available to a range of actors across the economy such that it is impossible to put that degree of conditionality in. When it comes to the CCFF, that was not added in. We were in an acute state of distress. If you recall, when there were problems initially with the accessibility of the funding from CBILS and the Chancellor announced subsequently the bounce-back loans, there was a desire to make that money available.

That is not to say that there was not conditionality put in in terms of security of trying to deal with fraud risks, et cetera, but, given the scale of the challenge and the need to protect jobs, conditionality would be difficult to verify in a quick application process, so that was not put in. Subsequently, in terms of the summer economic update and some of the measures that Kemi has just mentioned, it was a priority to try to skew as much investment as we could towards a green recovery and stimulus package.

Q243 **Chair:** We have heard the Chancellor very recently talking about green gilts as an approach. Could you tell us a bit about that? Is that kind of thinking, going forward now, something that might be applied in other areas of the Treasury's activities and area of responsibility?

John Glen: The Debt Management Office comes under me and you are absolutely right. Last Monday, the Chancellor announced that we would issue a sovereign green bond for the first time next year and a series thereafter. This is something that we have been looking at in the Treasury over four years, since Chancellor Philip Hammond. I asked for that to be moved forward in terms of the analysis in August. Market conditions have materially changed, and there were value-for-money considerations previously that perhaps prevented that from coming forward. As we have seen in the marketplace over the last few months in terms of other jurisdictions, that has changed and that is why we announced it last Monday. That also supports the fact that we have had 230 bonds totalling £47 billion listed on the London Stock Exchange. There is significant appetite across the piece for this sort of funding.

Yes, that will be part of our debt financing going forward. We will be working with international standards to make sure that that is not greenwashed and that it is actually an authoritative instrument and people understand what it is there for.

Q244 **Chair:** There is a lot of debt issuance going on at the moment. Can you give us a sense of what kind of proportion you might expect the green gilts to be of the total gilts that are likely to be issues going forward? Is it a very small amount and can you quantify that amount? Would you expect it to grow through time?

John Glen: I would expect it to grow through time but I would not be able to quantify it at this point. We are in a very fluid situation at the moment, depending on what is happening with the NPIs and what is happening with the future state of the economy and the recovery. We have a consultation with the markets in January every year and we will be looking at what that profile needs to look like in terms of the spread of the gilts and how we do that. I cannot offer you that number or proportion now, but it is very much in the mix and that is welcomed by the markets.

Q245 **Chair:** Is it correct to state that there is quite an appetite for this kind of financing and that you could therefore be raising money at a very competitive rate by using that as your vehicle?

John Glen: Yes, absolutely. The issue previously was around that value-for-money consideration. We have looked very closely at that and we feel that there is a pricing that will work and that will be advantageous in the context of our overall debt financing. As I say, we will make further announcements in due course. Obviously, we have a significant challenge and responsibility to get this right and we will be doing that in due course.

Chair: Thank you. That is very helpful.

Q246 **Julie Marson:** I have some more questions about HMT's consideration of the costs of achieving net zero. Kemi, we mentioned the figure of £50 billion per annum. Chris Stark, the chief executive of the Committee on Climate Change, said that he felt that the cost was surprisingly low. Would you agree with that characterisation? Particularly in a post-Covid world, can the UK economy bear these costs?

Kemi Badenoch: The cumulative costs will be much more. We do not have an annualised profile. Sorry, I was probably being confusing in the way that I expressed it right at the beginning. Niva gave the more accurate version. The £50 billion is 2050, but we believe that the cumulative costs will be more. It is why the work that we are doing at the moment is so important. The public needs to understand what we are trying to do, what the benefits of it are going to be and how we are going to do it in a sustainable way.

Q247 **Julie Marson:** Are we saying that the UK economy can bear these costs in addition to the costs that we have had to bear from Covid, for example? What estimates and assessments does the Treasury do on those combined costs, individually and together?

Kemi Badenoch: That is the sort of thing that we will be able to know more about going forward. We do not know what the full costs of Covid are at the moment. We just know what we have spent so far. The Net Zero Review started before we even knew what coronavirus was. This is something that we will end up revisiting and updating as we go forward. The key thing to know is that the Government's priority is that we do this in a way that is sustainable and not in a way that loses people their jobs or their livelihoods. It is absolutely important that, while we fight climate change, we make sure that we are doing so in a way that does not destroy lives or the economy.

Q248 **Julie Marson:** When the Treasury is doing the assessments of the costs, is it assessing how the economic cost of transitions can be as least burdensome as possible on our economy, particularly where we are now with Covid?

Kemi Badenoch: Yes. We need to make sure that the balance is right. Obviously, everybody would want their share to be zero. As I said earlier, between businesses, taxpayers and consumers, it is about making sure that the balance is fair. That is going to be the priority.

Q249 **Julie Marson:** How do you assess where the balance between those different stakeholders will fall? Do you have an assessment of how that will fall?

Kemi Badenoch: It is a very complex question. It is not something simple like looking at tobacco and the cost of trying to reduce tobacco. We are looking at something that is affecting all our energy, whether for heating or for business and industry, transport, the food that we eat, the clothes that we wear and the homes that we build. This is not something that we can have a simple formula for. It depends on the industry and the timing that we are looking at in terms of phasing things out. It is very complex. The review is the first step in getting that discussion taking place across all the parties that need to have a view and to help in the decision-making process.

Q250 **Julie Marson:** Philip Hammond suggested last year that, to get to net zero, heating, for example, would have to be almost completely decarbonised and that households would have to bear the brunt of the cost of replacing gas boilers to heat pumps. Would you agree with that assessment, for instance?

Kemi Badenoch: No, not strictly, because we have not decided exactly how we are going to carry out the transition. On the second half of the question, that is not something that I can speak to. I do not know where Philip Hammond's analysis came from. This would have been before my time. In terms of whether we are going to need to decarbonise oil and gas if we are going to hit net zero, the answer is yes, and that will include home heating.

Q251 **Julie Marson:** Will the Government be looking at ways to protect the most vulnerable in society if at least some of this cost will fall on consumers?

Kemi Badenoch: Yes, we always do. We have a distribution analysis that looks at how we can do that. If you look at our Covid interventions, for example, we have been looking at those who are most vulnerable in terms of making sure that they are supported. That is a principle that will underpin all forms of Government policy, not just in this area.

Q252 **Julie Marson:** In the past we have heard evidence from HMT that decarbonisation is looked at very much as purely a cost rather than a benefit as well. Does HMT view the economic opportunities as well as the costs?

Kemi Badenoch: We would look at it all in the round. There will be economic opportunities but the key questions are about what the net cost or net benefit will be and where it will fall. The obvious answer is that the costs of preserving our environment and our planet are incalculable. The benefits from that perspective are fairly obvious. It is more about how we can get there in a way that means that we will actually achieve the strategy.

We do not want to put ourselves in a position where we fail and then we have lost both economically and environmentally and do not have the net-zero target that we want or an economy that is sustainable. That is the right way to look at it.

Q253 **Julie Marson:** John, where do you see the economic opportunities from decarbonisation and the transition to net zero?

John Glen: There is a significant appetite for people to invest in sustainable financial products. There is a range of ways that that can be done. One of the principal challenges we face, if I look at it from a strategic point of view, is the language, the taxonomy and the reporting. These matters are very complex and so we need to get that right so that people know what they are investing in. There are new technologies that give us faster routes to get to that net-zero goal but it is a dynamic space. It is not possible to prescribe exactly where those investments are holistically at this point. There is a lot of work going on at a global level and we look forward to doing that as we run up to COP 26 next year, in terms of lining up the expectations with the ambition as well as trying to bring in some common language around what those opportunities are.

Kemi Badenoch: There are ways of looking at this in terms of what we specialise in now and what we could do in the future. There is export potential, for instance. If we can do this right and become world leaders in carbon capture storage, hydrogen and offshore wind, we can export these technologies and that would be good for the economy. There are benefits to making sure that we get a march on and can be world-leading in this space.

Q254 **Julie Marson:** Kemi, could you comment on what you assess the costs of taking no action might be, for example in terms of flooding in the UK, the impact on air quality and even the geopolitical consequences from the wider costs of climate change?

Kemi Badenoch: I could not put a figure on it in pounds sterling, but I would describe it as devastating. We need to do something. If what the evidence is showing us is true, even with things like flooding and changes in temperature, our water supply, natural resources, natural environment, natural capital and biodiversity are all tied into it. We have not got to a point where we have been putting a figure on it. That is something that we will be looking to do very soon in the future. I believe the Treasury is aware of a biodiversity review that Professor Dasgupta has been working on, which will be published some time early next year. Those sorts of things are the thought leadership that we are providing to try to help others understand what these costs are going to be.

Julie Marson: That is very helpful. Thank you very much.

Q255 **Harriett Baldwin:** My first line of questioning is around the ending of the European Union carbon emission trading on 31 December and replacing it with the UK's approach. You have published a carbon tax proposal. Can you just talk me through it, so that I can explain to my constituents how that is going to change things in real life for them?

Kemi Badenoch: At the moment, we are in an EU emissions trading scheme. The negotiations are working on having a linked UK emissions trading scheme. We have a backup plan in case that is not something that is agreed to. The negotiations are not finalised so I cannot speak to what will be agreed to. The backup option, as I call it, is the carbon emissions tax. That is something that works in a different way. It is based on a specific tax that the Treasury and Chancellor would make a decision on in terms of where we would set the level. That is something that would be coming out in Budgets. We would try to make sure that whatever we do with the carbon tax means that we are either at least as good as or improving on what we have had with the emissions trading scheme in terms of the effect that it has on emissions.

Q256 **Harriett Baldwin:** Is that ready to go on 1 January if it needs to start then?

Kemi Badenoch: We have legislated for it. That is something that I worked on for the Finance Bill this year. We have legislation in place irrespective of which option we go with.

Q257 **Harriett Baldwin:** How much would those options raise in terms of annual revenue towards that £50 billion ballpark number that you quoted to us earlier?

Kemi Badenoch: That is definitely a question that I cannot answer because it would be pre-empting whatever level we chose to set it at. It would certainly be making a contribution towards it. The tax is going to be dependent on the level of economic activity. If, for instance, we set it at a level that is quite high and people choose to exit the industry, then the answer is that it is not going to raise any money towards that, or certainly not enough to help to address the problem.

Q258 **Harriett Baldwin:** Do you know how much the current approach would raise?

Kemi Badenoch: I am not sure. This is a BEIS competency in terms of how the emission trading scheme works. It is not something that I have worked on. I cannot tell you specifically what that would be.

Q259 **Harriett Baldwin:** Niva, do you happen to have that figure handy?

Niva Thiruchelvam: I would need to check with BEIS but I think it is in the region of about £1 billion or £1.5 billion.

Q260 **Harriett Baldwin:** Kemi, have you done any work on what level it would have to be set at to really incentivise people to reduce their carbon emissions dramatically?

Kemi Badenoch: These are exactly the conversations that are taking place now between Treasury and BEIS. Again, as I was saying, we have not decided whether we are going to go with a carbon tax. It is something that is still very much just one of two options on the table.

Q261 **Harriett Baldwin:** The trading scheme is a tax by another name, is it not, because it is a cost on business? BEIS has to offset that in terms of giving money to, for example, the steel industry.

Kemi Badenoch: That is correct, yes.

Q262 **Harriett Baldwin:** You are basically saying that you will judge what the economy could withstand when it gets to January, when you have to make this choice.

Kemi Badenoch: At the moment the emissions trading scheme is for heavy industry. At the moment, given Covid and given how we have had difficulties with the steel companies so far, we need to be mindful of lots of different factors when we are setting a carbon emissions tax because—you are absolutely right—it is a tax on business. That is why it is just one of many various tools that we have in our arsenal to tackle this.

For example, this morning I had a meeting with Zero Carbon Humber, which is looking at the carbon capture storage work. They were saying to me that we need to make sure that these industries stay in our country. We want to help keep and preserve these jobs. Being able to decarbonise as quickly as possible is one of the things that is going to mean we are able to do that. Otherwise we will have a lot of carbon leakage. There is no point in us setting a tax that is so high that people decide not to carry out certain activities in heavy industry here but just move it to a different country where the same thing is happening. That is not going to get us to net zero.

Q263 **Harriett Baldwin:** You said you were talking to Zero Carbon Humber. Could you potentially hypothecate some of the money that comes into the Treasury to specific communities?

Kemi Badenoch: Hypothecation is not something that we typically do in the Treasury. That is certainly the answer that I have been given when I have asked it on several other topics. We do for things like stamp duty and land tax. We could consider it but I do not think it would be our first go-to option.

Q264 **Harriett Baldwin:** Is the money that was paid to help the steel industry out one of the areas where the EU negotiations in terms of state aid are particularly lively? Are you aware of that? Given that it started as a coal and steel community, is the level of subsidy that we might have to give to heavy industries like steel a thorny problem in the negotiations, as far as you are aware?

Kemi Badenoch: That is not something that I could speak to. I have not been close enough to the negotiations to give you a direct answer on that.

Q265 **Harriett Baldwin:** We spoke quite a lot about the green bond earlier. John, have you decided what duration you are going to use? Germany did a 10-year maturity, did it not? Do you think that having a benchmark issuance like that will help more of the private sector price more easily against it? Have you thought of that as a political ask of the Debt Management Office, or are you just going to let the experts at the Debt Management Office decide where to issue it?

John Glen: I will take advice but I shall look very carefully at all the options, look at the state of the market and look at what we anticipate will happen next year. We will make those decisions and announce them in due course but now would not be the time for me to do that. We have clearly had quite a journey over the past five years. You were probably looking at this in some form when you were doing this job. We have made a lot of progress and it is now about getting it right and executing it well. As I said, I cannot say any more at this point.

Q266 **Mr Baker:** I have some questions on the Net Zero Review but I have realised that some of them will not make any sense unless I ask you a few more questions about the costs. Can we have the full workings out behind all the claims that are made about costs, please?

Kemi Badenoch: That is something that we can provide. I am not sure whether that is something that would be in the review itself. It would be quite difficult. I think we can provide in other forums ways of explaining the methodology. What you want is how we are going to show our working. It is the right question to ask because we need to make sure that everyone is aware of the basis on which we have made these calculations. We will go as far as we possibly can to show the working and be as transparent as we possibly can.

Q267 **Mr Baker:** You will go as far as you can; that is very clear. The reason I say that is some very bold claims are being made. Niva gave us a great articulation that, at the moment, we do not know the costs from here to 2050; we only the cost in the final year. I am advised that there is an information tribunal hearing coming up in the new year about trying to obtain the figures behind the calculations for that claim about 1% to 2% of GDP in 2050. Can you comment on that information tribunal? Might you just give the workings out now rather than wait?

Kemi Badenoch: I definitely cannot comment on an ongoing case but I have every sympathy with being able to show exactly how we have arrived at this. I am not someone who wants to see us make a mistake on this. The consequences could be catastrophic if we do not accurately estimate what the costs are going to be. That is why I am really pushing for us to have a review. This is just, as we say, the very beginning of the conversation. I am really pushing for us to have a review where everyone can engage and be clear. If there are things that are uncertain, our job is to make sure that they are as certain and as clear as possible.

Q268 **Mr Baker:** At the risk of really hammering the nail, I want to say that I have been reading *The Guardian*, where I see that Chris Stark, the chief executive of the Committee on Climate Change, has told them, "Overall, the cost is surprisingly low; it's cheaper than even we thought last year when we made our assessments. Net zero is relatively low-cost across the economy, but that rests on action now". That sounds very campaigning. It does not sound like an attempt to transparently set out detailed calculations on what we are all going to have to pay.

Kemi Badenoch: You are right. The reason for the uncertainty is that we need to make assumptions around the cost of technology, around behaviour change and around efficiencies that we might make. Those are not things that we can really accurately say. We just create scenarios and cost them.

To give you an example, if someone had asked in 1990 what the costs would have been on digitalising, there is no way they could have seen the world that we would have in 2020. Having lots of different scenarios that show what we can do in case A, case B and case C is the way to go. The Net Zero Review is going to provide some of that. We are not at all saying that this is going to be the definitive answer to a target that is set in 30 years' time.

Very cynical people might say that the target is so far in time that none of us is actually going to be here to be held accountable for the decisions that we have made. The fact is that my children will be and it is something that I think about very carefully. I certainly want us to be setting a good example to the rest of the world. If we bankrupt ourselves accidentally—this is what I tell people—no one is going to follow us on the path to net zero. We need to be very honest and very clear about how we are doing this. We are not shy about being interrogated on the figures. We believe that all the scrutiny and the challenges are important because that will help us get it right.

Q269 **Mr Baker:** That has been very helpful and I am sure that what you have said will be heard, and we can look forward to really transparent backing behind what is happening. Turning to the Net Zero Review, we know that you are looking at a range of choices for how things can be paid for across households, businesses and taxpayers. What, if any, initial conclusions have you drawn that you can tell us about today?

Kemi Badenoch: I cannot tell you about any of the conclusions because it is going to pre-empt announcements that the Chancellor would want to make. I really wish that I could. In terms of conclusions, there is very little that I can say at the moment. I can say that we are the first people to be looking at this in this way. We were the first country to legislate. Lots of countries are looking to us to see what we are doing. We are setting the pace on it. In terms of exactly what it is going to say, watch this space. It will be coming out very soon. I know it has been delayed but we are spending a lot of time to get it right.

Q270 **Mr Baker:** I will abridge a section of my questions. I understand the Prime Minister, before his self-isolation, was due to make a speech on these matters on Wednesday. Do you plan to get this report? I understand the Net Zero Review is due to be out this autumn, so it now seems to be running a bit late. Could you tell us a bit about why it is running late and when we might see it? Does it tie in with the Prime Minister's speech?

Kemi Badenoch: The Prime Minister's announcements are still expected for this Wednesday. Some of the announcements will have taken into account some of the findings from the Net Zero Review. It is another reason why I do not want to pre-empt too much. It is delayed and the reason why it is delayed is because we need to make sure that we are confident in what it is that we are telling people. We still fully expect that this is something that will happen this year.

Q271 **Mr Baker:** Niva, are you getting all of the support, focus and prioritisation that you need from Ministers?

Niva Thiruchelvam: Yes, absolutely.

Kemi Badenoch: Thanks, Niva.

Q272 **Mr Baker:** Tell us a little more about your work with Ministers. How much time do you think Ministers need to spend on this, given the importance of the subject?

Niva Thiruchelvam: Ministers treat it as a priority in the Treasury.

Q273 **Mr Baker:** I can see that you are going to be super-loyal there and I congratulate you on that. The UN Secretary-General has talked about the need to incorporate net zero into fiscal rules? I wonder if Ministers might like to tell me a bit about the Government's approach to doing just that.

Kemi Badenoch: This is probably best looked at in terms of The Green Book review. I am sure that everyone on the Treasury Committee knows that the Green Book is what we use to appraise all Government strategic objectives. Net zero is a Government strategic objective. The updated Green Book will have a way of us looking to analyse how this is going to be done.

Q274 **Mr Baker:** What about the spending review? Will net zero be part of the spending review?

Kemi Badenoch: I cannot say anything about the spending review other than that it is coming imminently and your questions will be answered shortly.

Q275 **Mr Baker:** I am beginning to think that we should have had you in in a few weeks' time. Is there anything you can tell me speculatively about the relevance of net zero to departmental spending? Is it your intention to hold Departments to account for their net-zero spending?

Kemi Badenoch: That is something that goes without saying. We cannot have a plan for net zero without Departments being fully engaged. I can tell you that I have been working across Whitehall on this very topic. It is a strategic priority and it is going to be easier for some Departments than others, just as I talked earlier about which areas are going to need the most decarbonisation, for example. Departments are leading the way in terms of thinking about what they are going to need to do and are engaging with their stakeholders on not just what the costs will be but how much support they are all going to need. All of the various Departments need to take account of which actions help us to reduce emissions. This will be important to consider in the spending review. It will be important as part of wider fiscal strategy.

Q276 **Mr Baker:** Just about everybody's life is going to be impacted. I am sitting here with my KTM racing mug, such is my love of my motorcycles. I understand that I will not be able to buy a petrol-engine motorcycle after about 2030. That is the rumour that I have heard. Do you think that Departments are adequately considering the impact that their polices are going to have on everybody's life as they work through these issues? Is that something that will be in the Net Zero Review?

Kemi Badenoch: Yes, it is absolutely something that they need to consider. This is what the review was set up to do. The fact is that Departments will need to be held to account by Treasury, first of all, because this is a really critical way of understanding exactly where the money is going to come from as well as what we are going to need to do to support. It is not all going to be Government spending. There will need to be regulatory changes if we want to change behaviour. There will be tax implications. What Departments really use are the carbon budgets, which help to keep them on track. BEIS co-ordinates this across Whitehall and that is the way that we have been monitoring what has been going on across Whitehall, basically.

Q277 **Mr Baker:** Niva, is there anything else that you would like to tell us about the Net Zero Review that you have not been able to say, while you are here before the Committee?

Niva Thiruchelvam: No, the Minister covered it. We have an interim report coming out this autumn, which I am sure you will look forward to reading.

Mr Baker: It will have to come out awfully soon to still be this autumn. Nevertheless, I look forward very much indeed to these transparent calculations and statements of costs, which I know will be examined carefully.

Q278 **Felicity Buchan:** Good afternoon, everyone, and thank you for your time. My questions are on the role of financial regulators with regard to climate risk; perhaps I can put those to John. Looking at the various different regulators, the Financial Policy Committee and the Pensions

Regulator have had climate change added to their remit. For the FCA, there was no mention of climate change in the remit letters on 4 November. What is the reason for the discrepancy? Do you think the FCA should have climate change as part of its remit?

John Glen: There is work going on to look at that. In due course, we will be able to update the remit letters to the PRA and the FCA. That is work in progress. It is certainly something that we need to do and that is something that I expect to do in due course.

Q279 **Felicity Buchan:** When you say "in due course", can you give a timeframe for that?

John Glen: No, not specifically, but it is an urgent priority for us to get that right. In the context of all that we have going on as we move towards COP 26 next year, clearly we need alignment across our regulators. We also need them to be aligned with the work we are doing on a global basis. The issues I mentioned earlier around taxonomy and the disclosures, some of which we announced last week, are to do with making sure that we are in a world-leading position on that, but we are very clear that there is harmonisation. There is a lot of discussion in different jurisdictions about exactly what the taxonomy should be and we need to be very clear about that so that the regulators are in a position to enforce that. There is a lot of work going on with financial institutions in the City, which I have been involved in during my time in office, building out from the green finance strategy last year, which is working towards urgent goals in that area.

Q280 **Felicity Buchan:** The PRA is undertaking a climate stress test as of June 2021. Andrew Bailey, the Governor, said in a speech a few weeks ago that the results of this will not be used to size capital buffers. Clearly, they were an important piece of information. Do you think that they should be used to size capital buffers?

John Glen: There are a range of factors that will need to be taken into account. As we come out of the transition period, there are lots of concerns that I have around capital buffers and how they are calculated across different-sized institutions as well. The stress tests are clearly an important part of that. That work is ongoing and we need to think very carefully about how we right-size those buffers, because one of the competitive challenges of the banking sector is that you have a small number of large institutions that have a different way of handling those buffers than some of the challenger institutions. The stress tests around climate exposures are part of that, but there is a broader context for which we have to examine very carefully what we do into the future.

Q281 **Felicity Buchan:** How would you like to see regulators supervising climate-related financial disclosures and indeed the valuation of assets?

John Glen: We are on a journey that started a long while ago but that has accelerated very quickly over the last 18 months. When we set up the Green Finance Institute, we had seven goals there. Those were about moving forward on the EU sustainable finance alignment. We announced our plans on that last Monday. It is actually about formulating the roles and responsibilities on climate change. As you have mentioned, we have the letters of the TPR and the FPC. We also need clear expectations on TCFD. We moved that forward considerably last week with our assertions around what needs to happen by 2025, and with significant parts of the economy making those declarations sooner than that, in 2023.

It is also about a broader issue of improving awareness across the City. The Green Finance Education Charter, which we secured 20 signatories to in July this year, is quite significant, because we need to raise the level of awareness of climate-related issues across all professional services and City professions.

There is a lot of work to do but we are moving to a point on a global basis where we are getting stronger alignment on what those disclosures need to look like. It is on that basis that we can then create the right regulatory framework, both at a wholesale level as well as for retail investors, where there is a lot of latent demand, which is projected to increase significantly over the next generation, so people will be able to invest with confidence and know what they are investing in.

Q282 **Felicity Buchan:** Do you think that we will get that international consensus?

John Glen: That is clearly the great opportunity and also the great challenge. The former Governor, Mark Carney, has been working since March this year on the international finance track. There are lots of elements to that. That covers reporting, risk management, returns and mobilisation. Within that, there are conversations going on on a multilateral basis. Our presidency of the G7 and COP 26 next year gives us a real opportunity to set frameworks and work collaboratively to drive forward the clarity that we need. There are different ways of doing this and obviously COP 26 is a significant moment to look at those nationally determined contributions and to look at the alignment of language and expectations into the next season.

Q283 **Felicity Buchan:** Just going back to our first discussion on the fact that the TPR and the FPC are clearly ahead in terms of their remit, why is the FCA behind?

John Glen: There is no particular inadequacy in the PRA and the FCA. Those are things, as I said in my earlier answer, that we need to provide and we will at the next opportunity, in our updated remit letters. We expect to do that in due course and it is a clear priority. I would not infer anything from that different timescale.

Q284 **Felicity Buchan:** We had the Bank of England in. We talked to them about quantitative easing, their purchase of corporate bonds and whether climate change could be a parameter in the purchase of such bonds. Do you think that is appropriate? Clearly, they need to be buying liquid instruments but do you think that is appropriate?

John Glen: Again, that is something that I would need to look at closely in the context of other decisions. I would not want to be drawn down into affirming one particular aspect of a strategy, which is quite complex and which involves a lot of consultation. We do not pre-empt that before we announce it. We have seen a fundamental shift in the way that the world of finance and the City is operating. That gives new opportunities and will bring changes. It is in that context that we approach all the decisions that we make.

Q285 **Felicity Buchan:** Is the City embracing green finance as much as it should be?

John Glen: There is a massive appetite. The City of London Corporation is doing a lot to drive forward the conversation. The Lord Mayor is also very committed to this agenda. The Asset Management Taskforce that I chair has a subgroup that is looking at stewardship and lots of dimensions of how we can improve our understanding of what responsible investing is. We have a highly developed bond market for green bonds on the London Stock Exchange.

Of course, there is lots more that needs to be done and I am not saying to you now that we have it completely sorted. I think that we have the fundamental structures in place. There is dialogue between regulators and some bold world-leading strategic goals. I am confident that we are going to make significant progress over the next year. A year from now, when we chair COP 26, working closely with Italy, we are going to see some positive outcomes that the country can be proud of.

Q286 **Anthony Browne:** I have some questions about the climate-related financial disclosures but I want to ask a more generic question first, picking up on what John Glen was just saying to Felicity. You were talking about the greening of the financial sector and the Government have said that every financial decision needs to take climate-related risks into account. There are sceptics out there who will see this as a bit of a greenwash. What role do you see for the financial sector in terms of decarbonising the economy by 2050? How important is the role that it has to play?

John Glen: We need to think about what this is about. What is greening UK finance? It is the mobilisation of private capital into environmental and sustainable projects and infrastructure. We need to have confidence that those climate change risks and opportunities are priced into financial decision-making. We have typically been seen globally as a leader in green finance, in the structuring, the underwriting and the listing of bonds, as I mentioned earlier. Our green finance strategy is about ensuring that that decision-making is integrated across the sector. That is about making sure that the disclosures are aligned across the economy by 2025. That is what the Chancellor announced to the House of Commons last Monday.

It is then about the issues of financing green, having a common definition of sustainable financing, preventing greenwashing and implementing a green taxonomy. I mentioned in my previous answer to Felicity the issues around COP 26 and the aspirations there. I mentioned the Green Finance Education Charter as well. It is within a global context and a cultural change in the City. That is how I see the green finance opportunity. I went through some of those seven priorities that we had in our strategy 15 months ago. We have realised quite a lot of them; there are a few that need to be developed further. This is an agenda that is making significant progress.

More broadly, the challenge is around alignment across different jurisdictions. We have the EU's Sustainable Finance Disclosure Regulation, the technical standards for which will not come out now by March next year. We will have to take decisions in light of our alignment to those to this point, looking at how that works for the UK. We do not want to have significant differences across the globe. It would be much easier if we had a financial sector across different jurisdictions that was aligned in the understanding of what these terms mean. When we can do that and we can understand what climate-related investments and exposures exist, we can invest in the right things going forward.

Q287 **Anthony Browne:** I certainly agree that it needs to be internationally consistent, but clearly there are challenges around that. I want to pick up on some of the detail about the TCFD disclosures. Originally they were voluntary; you have now said that you are going to make them mandatory across the economy by 2025. Was the voluntary disclosure regime not working?

John Glen: We consulted considerably. We know there is a massive appetite. We made progress with large financial institutions. We are doing this in alignment with them but it is necessary to say that there is an expectation that we make progress here. There is staging around what a lot will do by 2023. It was a balance and there has not been significant dissent from this decision. It is seen as being in line with the direction in which we were moving, and others would criticise us for not doing this sooner. It is about getting that balance right.

Q288 **Anthony Browne:** Can you just talk me through the process here? In the green finance strategy, you called for disclosures by 2022. You said that some will be by 2023 but, actually, it will be across the whole economy by 2025. How are you rolling it out exactly?

John Glen: It is about the appropriateness of the rigidity of those timeframes, based on the size of businesses and sectors. I can give you more detail on that but it is about saying what is accommodatable in different sectors in different timeframes. As I say, there is a conversation that has been going on to make sure that this is sustainable and achievable by a vast majority, and that is what has guided us. I would need to provide more specific information on that separately, because it would need to be at a very granular level. I am happy to do that.

Q289 **Anthony Browne:** If you could write to us on that, that would be great. The FCA was operating a slightly more light-touch regime—a comply-or-explain regime—for premium-listed issuers. Presumably this is overruled by what you are now rolling out.

John Glen: Yes. We have gone on a journey and we now have, across the largest economies, the most ambitious standards on disclosure. It is right that we are doing so. As my colleague, the Exchequer Secretary, said, we have significant ambitions here. The Prime Minister will be making a speech later this week on some of these matters more broadly. It means, across every area of responsibility in Government, looking to be as ambitious and as bold as we can be. This is an example of that.

Q290 **Anthony Browne:** I am chair of the all-party parliamentary environment group, and we had Mark Carney talking recently about these issues. He has obviously been driving it. One of the things that many of the companies on the call said is that they are trying to implement these disclosures but they do not have enough data about exactly how they are meant to calculate what their disclosure is meant to be. Presumably this is one of the challenges in terms of sorting out the methodology behind it. I am just wondering how you are going to address that so that companies know what they are meant to be doing.

John Glen: You have put your finger right on the challenge, which is about raising awareness and technical understanding across the professions of the City. That is why we have put emphasis on the Green Finance Education Charter, which we have 20 chartered institutions signed up to. We need to increase understanding across the board and agree a common language so that those standards are embedded in all companies' behaviours. Their awareness of their exposures and what risks they are carrying to drive new strategies for the future is something that we are working through. There is no single moment where we can just press a button and change everyone's understanding, but what we are doing sequentially and urgently is clarifying language, terminology and taxonomy. We are doing it on a consistent basis with what is happening globally and trying to drive standards that companies can work with, in order that we achieve our strategic goals.

Q291 **Anthony Browne:** How much progress do you think companies have made so far? It has been voluntary but we have heard concerns that some companies are dragging their feet. The HSBC survey recently found that only 10% of their investors saw the disclosures as useful information and that 13% of the largest 50 occupational pension schemes were making their own disclosures.

John Glen: We published a roadmap last Monday. There is work to be done to improve that. I would refer you to that, because that gives you the direction of travel and some of the challenges that we need to overcome. By being clear and bold about what we expect to do over the next few years, we are raising the bar and we expect behaviours to change to meet that. This is a new area for some companies. I have talked to some of the large banks that clearly have legacy investments and exposures, and these are significant challenges for them to come to terms with. I am sympathetic to that but this is the direction that we will be going in.

Q292 **Anthony Browne:** You mentioned earlier on, at the beginning of my questions, that the EU is coming up with its own methodology but it is a bit behind us, as it were, so we will have to work out how to co-ordinate that. Clearly, we want it to be internationally consistent if it can be. What work is going on to make sure it is internationally consistent? I am thinking about what the US is doing—obviously, they have had an election there now, which is interesting—as well as other jurisdictions around the world. What work is going on to make sure that they are all requiring the same sort of information, et cetera?

John Glen: Mark Carney's role over the last seven months, and his role previously as chair of the Financial Stability Board from the G20, is significant in terms of driving alignment as we move towards COP 26. We are in a very live window between now and the end of next year, when we expect to see significant progress in that regard. I have been through some of the areas that we are doing work across Whitehall on in terms of the financial track across the private finance pillar. We obviously have a lot of work to do to make sure that we are in a position to create that alignment next year.

The Chancellor and I did the UK-India Economic and Financial Dialogue two weeks ago. We hope to have a similar conversation with Brazil in due course, before the end of the year. These are some of the issues that we have to address in those conversations that we are having bilaterally with our friends and trading partners.

Q293 **Alison Thewliss:** I have some questions around financing green infrastructure. Kemi Badenoch, given the scale of infrastructure financing and business envisaged by the UK Government stands at around £100 billion, how do you intend to ensure that this is spent in a way that supports the post-Covid-19 recovery as well as the long-term net-zero target?

Kemi Badenoch: The Green Book review will help to align these with strategic objectives. The broader point is that we do not see this as an either/or. These things need to go together. If you look at the announcements we made about a green recovery, it shows that we are actually looking to do as much as we can to repair the economy post Covid in a green way. The £3.05 billion, which I mentioned right at the beginning of the meeting, is an example of how we are going about doing that. It is a green recovery that we want to see, and we want it to help with the wider strategic objective of net zero.

Q294 **Alison Thewliss:** That is fair enough but the July plan for jobs prioritised, for example, the construction of roads. Is there not a risk that these kinds of shovel-ready projects will be quite carbon-intensive and will actually set us back rather than move things forward?

Kemi Badenoch: No, because you still need roads for low-emissions vehicles, for example. It is all part of a long-term view of things.

Q295 **Alison Thewliss:** Yes, but if you were to put that money into decarbonising heat or into public transport, for example, that might be a better win in terms of using that money wisely.

Kemi Badenoch: We also have to think about what the capacity is to deliver. Shovel-ready projects are picked because they can protect jobs. If the jobs or skills are not there, putting the money into it is not going to get it done, so you will not get the economy recovery and you will not get the green infrastructure either. You have to think about it in a way that works and not just in a way that sounds great in an announcement. Things like roads might be carbon-intensive now but they will help to lay the path, literally, for things like low-emission vehicles and so on. At the end of the day, we need to protect the jobs that exist at the moment. We do not want people to be unemployed just so that we can say that we are decarbonising.

Q296 **Alison Thewliss:** You would expect me, as an SNP Member, to say that as well, because we have seen the impact that closing down coal communities had in Scotland; we do not want to see exactly the same happen with oil and gas. We need to see that plan to a green recovery. To talk about things like carbon capture and storage, for example, if the £1 billion Peterhead project, which was scrapped in 2015, had gone ahead, would we not be much further ahead now than we are?

Kemi Badenoch: I cannot speak to that. I do not the exact reason why the Peterhead project did not go ahead. When I had the meeting with Zero Carbon Humber this morning, they mentioned it but it was not mentioned in a sense of regret. What they were talking about were the projects that we have in place now. They stressed to me that the technology has significantly moved on in the last two years, let alone the last five years. Something that was the plan in 2015 might have actually been a bad idea looking at it in the long term compared to doing it now. I do not see those things as being in conflict.

Q297 **Alison Thewliss:** John Glen, the Treasury is currently undertaking a review of the Green Book, which sets out the framework for financing Government projects. The Institute of Civil Engineers has called for the Green Book to better reflect the 2050 net-zero emissions target. Will this review prioritise emissions reduction impacts in appraisals and investment decision-making?

John Glen: The Green Book is more Kemi's responsibility. It is not an area that I get involved in. I hope Kemi will not mind if I ask her to respond to that.

Kemi Badenoch: Yes, I can speak to that. The Green Book will do this in terms of updating carbon values. BEIS is working very much in this space. We will have the updated Green Book for 2020 shortly, which will set out a little more about how we are making sure that these strategic objectives will align with policy.

Q298 **Alison Thewliss:** Have you a date for that?

Kemi Badenoch: Yes, it is this autumn. We are running out of official dates. It was something that I spoke to officials about. There were quite a few things that we have said will be coming out in the autumn. Unfortunately, Covid has not been helpful in terms of us getting things done throughout the year. There is quite a lot of stuff that is going to be happening within the Treasury in terms of announcements where, I am afraid, "this autumn" is the answer to the question. Basically, "before the end of the year" is the answer. We will have them by then.

Q299 **Alison Thewliss:** The Government have not yet published the delayed national infrastructure strategy. Sir John Armitt, the chair of the National Infrastructure Commission, has suggested that the strategy is an opportunity to set out long-term plans and realistic financing.

Kemi Badenoch: That is right.

Q300 **Alison Thewliss:** Will the national infrastructure strategy specifically incorporate the net-zero target within it?

Kemi Badenoch: It has to have it as part of the strategy. Net zero is a Government priority and it has been for quite a while now. The infrastructure strategy needs to take it into account. It would just be very silly to have one without taking net zero into account. It is not going to be able to address every single thing—I do not see how it could, given that we are still at the beginning of a 30-year cycle—but it will be telling us what we are able to do, certainly in the medium term. It will certainly have net zero at the heart of looking at how we can deliver green infrastructure.

Q301 **Alison Thewliss:** You said that it would incorporate it and that it would be at the heart of it. How prioritised will that be within the strategy?

Kemi Badenoch: I am not writing the strategy but I have been in discussions so I know what the priorities are. They go hand in hand. You cannot have one without the other, basically.

Q302 **Alison Thewliss:** Will the Treasury look at financing pilots, for example, in new technologies and renewable energy and replacing domestic gas heating? I talked about decarbonising earlier on, as have others, through hydrogen or other means.

Kemi Badenoch: There are many innovative pilots that we will want to fund. We cannot do all of this through spending. We need to signal what sort of market environment we will need to have in order to sustain everything. The answer is that, yes, we will consider everything in the round. I do not know enough about the specific technology on decarbonising gas used in the home but, as I have said with the spending review, the infrastructure review and the PM's announcement this week, there are many things that we can look forward to in terms of taking us to the promised land of net zero.

Q303 **Alison Thewliss:** The Scottish Government have plans for net zero that are slightly more ambitious than the UK Government's. Can I ask what discussions you are having with your Scottish Government colleagues on this?

Kemi Badenoch: We have had quite a lot of discussions because we cannot have a target of 2050 for the UK without Scotland. We need Scotland and Scotland needs us in order to have this ambition. I met with the members of the Scottish Cabinet last week, Kate and Roseanna. Sorry; their surnames have just escaped me, but I am sure you know exactly who I am talking about. I try to engage as much as possible with devolved Administrations because there is no border in terms of carbon emissions and net zero, so we are involved with them. We have very feisty discussions sometimes but we are co-operating as much as possible.

Q304 **Alison Thewliss:** In terms of delivering projects in Scotland, some of the biggest problems are to do with grid transmission, costs and things like that, which make it more expensive to deliver net-zero projects that will contribute hugely in Scotland because of the way that regime works. Have you had any discussions across Government to see what could be done to change that around?

Kemi Badenoch: I have not. That is a BEIS competency. That sort of energy policy would be happening within BEIS, so I could get them to send a note on that. The very detailed bits of energy policy would not be a Treasury competency.

Q305 **Alison Thewliss:** If the Treasury is looking to fund these projects and is being held back by policy in BEIS, does that not speak to a need for much more cross-cutting policy in Government?

Kemi Badenoch: The issues that I have had raised with me in terms of costs have not been on that level. If it was raised, it would be something that I would speak to, but it has not. As far as I am aware, that is not something that has come across my desk. If it has come across someone's desk, it would be in BEIS, but I do not know if that is the case.

Q306 **Siobhain McDonagh:** My questions relate to pensions contributions and green funds. I would like to ask John Glen the following questions. The Committee has received evidence that 95% of direct contribution occupational pension schemes are invested in the default arrangement. What is the Treasury doing to ensure savers in default funds invest sustainably and in a way that supports the UK transition to net zero?

John Glen: That statistic points to the challenge that we have in terms of meeting consumers' appetite. There is a lot of research out there that points to significant appetite for sustainable investments. We have seen some movement in terms of green mortgages and the sustainability loan principles as well. The issue with pensions is the distinctions between DC and DB schemes, and the fact that, at the moment, we have not reached the endpoint in terms of clarity about what sustainable investment really means. This is also linked to other work that we are doing in terms of long-term assets funds that the Chancellor announced last week, and reforms that allow people to invest for longer. This is a challenge that we have had over a generation in terms of investment.

The pensions world is changing rapidly, and the pensions Bill going through Parliament is going to make some progress, but the real challenge for the immediate term is to define what that green investment is and progress that at a wholesale and at a retail level, so that we can get more clarity on that. We will then make progress as the opportunities to invest a higher proportion in sustainable investments become clearer and more apparent.

Q307 **Siobhain McDonagh:** The Labour party has called for UK pension funds to be carbon-neutral by 2050. Do you support this commitment and, if so, how should it be achieved?

John Glen: You need to define what that is because, at the moment, we would struggle to verify how to do that. It is all very well having a bold aspiration and a timeframe, but we need to work through the detail on how sustainable that is. At the moment, we are still in a situation where we are defining that we mean in these terms and creating reporting mechanisms that, as I said, we are making mandatory over the next five years. That is required before we can get to a point where we can reach those sorts of goals. We absolutely need to be ambitious about the way that we are going to transform the way that financing works and what we are investing in, and we are going to have to move away from legacy investments that are not going to take us to the goal that we were world leaders in defining by 2050.

Q308 **Siobhain McDonagh:** Given the rise in passive investment, the role of investment fund indices becomes ever more important in terms of steering investment. If these indices continue to reflect high-carbon assets, it will be difficult to channel investment towards green assets. What action is the Treasury considering to resolve this issue?

John Glen: You are right to say that we have to do more work to look at how we can create pathways to investment in sustainable funds and give more options and more choice. This is more related to the work that DWP and my colleague Guy Opperman are doing with respect to the pensions dashboard, which will bring more transparency to that. Following the pension freedoms, the default pathways, such that they are and will evolve into, will give people the opportunity to invest in sustainable ways.

This is work that has not yet reached its endpoint but the aspiration is to satisfy consumer appetite, which has grown massively. The Investment

Association has said that, in terms of responsible investments in DB schemes, £7.1 billion has been invested this year to date against £1.9 billion last year, so there is massive appetite for this. I would go back to the original answer that I gave you, which was less around getting our terms right. Again, as we said last week in terms of TCFD for pensions, they are in the roadmap that we published last Monday and in the DWP consultation on these matters.

Q309 **Siobhain McDonagh:** How can consumers be expected to make green investment choices if the cheapest passive funds channel their money into non-green assets?

John Glen: That is why we need to change the whole way that they operate. We need better disclosures on climate risk and we need a taxonomy approach that makes it easier for investors to clearly understand what is happening with their contributions and how they are going to make positive environmental outcomes. Great work is going on out there in terms of Make My Money Matter and ShareAction increasing awareness on this, which is engaging shareholders with companies on these matters. We had the green home finance fund, which we announced the winners of in June. Choices are only as valuable as the information that informs them, and that is why the emphasis that we are putting is improving that information. The work of the Asset Management Taskforce, which I mentioned that I chair, and DWP’s work on pension schemes and clarifying more flexibility in the rules around investment will make a significant contribution to that outcome—the outcome that you rightly say is one that people want.

Q310 **Siobhain McDonagh:** Should there be a distinction in labelling between indices or funds that are purely green—for example, investing only in renewables—and those that are focused on transition and still feature some polluting companies?

John Glen: I am not qualified to answer. What we want overall is better, higher-quality information. In a transition period, we still need to be sensitised to the fact that, as Kemi has said, we need to have a sustainable pathway. That does not mean that we are not going to go ambitiously and quickly towards the goals of net zero, but it means that we have to have an understanding of how that transition can be managed. To what extent signposting and labelling of funds would need to be adjusted is a technical matter and you would need to look very carefully at what industry says. The direction of travel in the consultations that are ongoing will, hopefully, take us to that point and they are certainly intended to do so.

Q311 **Rushanara Ali:** I am going to start off with some questions on a just transition. We have heard quite a lot about costs from questions that other colleagues have asked about trying to reach the net-zero target. Perhaps, Kemi and John, you could both speak to where you see, in financial terms, the benefits are of taking short, medium and longer-term action from now on in terms of costs that will be mitigated to our country if we act now to reduce carbon emissions and work towards reaching the 2050 target. Kemi, do you want to start? It would be really helpful if we could have some hard facts, if you have them, or if you want to signpost us to stuff that is coming out imminently, and when "imminent" is.

Kemi Badenoch: The question you are asking is about what the benefits are of acting now rather than waiting. It goes without saying that, with anything that is going to cost a lot of money, the sooner you start, the more you can get done, given the deadline and given the timeframe. I do not have for you exact amounts for how much benefit you are going to get if you start this year or if you start next year and so on. There will be some things that might get cheaper to do in time but the certainty around it is not clear. We do not, for instance, know exactly what technological improvements are going to come between now and 2050, and we cannot make the decision just to hope that the technology fixes all of the problems. Starting now gives us as much time as possible in terms of getting a net-zero economy and a net-zero society that is sustainable and also gives people time to prepare, to adjust and to transition.

You said something about a just transition. I am not sure what you meant by that.

Q312 **Rushanara Ali:** My questions are quite heavily focused on transition, so I will come on to that. Niva or Richard, perhaps you would be able to speak to any domestic and international experience of where costs can be reduced. For instance, the damage that is being done by rising numbers of floods in our country is costing a lot of money annually. Is the Treasury doing work in terms of identifying where climate risks are growing and what kind of revenue is going to be saved through action? Is there any UK-specific data on that, or examples of what other countries are doing?

Niva Thiruchelvam: In the UK, the OBR produces a fiscal risks report that looks at a lot of medium-term risks. For the first time, it published a chapter on climate change last year, in which it identified different types of risks—both climate change mitigation as well as climate change adaptation. The Net Zero Review is looking specifically at climate change mitigation and the optimal path to get to net zero by 2050. As part of that, we are looking at distributional issues, as the Minister said earlier, and a just transition is very much part and parcel of that.

Q313 **Rushanara Ali:** We should expect to see some facts on what sort of costs as well as benefits of action there would be. It sometimes feels like the debate, certainly in the conversation so far and in this hearing, has been focused on what it is going to cost us to reduce emissions as opposed to what the benefits to society. Could you focus on that in the future, when your reviews come out?

Kemi Badenoch: An example of why it is easier to look at costs in terms of benefits is because it also has to take into account what other people are doing. For instance, there could be economic opportunities, and it is certainly the plan that we have in the Treasury that we will have a comparative advantage in key areas like R&D and so on. To be able to qualify that also means knowing what other people are going to do and how much they are going to invest, and that requires looking into the future. We cannot do that. We cannot predict exactly. We can only make a plan.

Q314 **Rushanara Ali:** With respect, there are some things where we can already see the risks and the costs. Flooding is a good example of that. We will move on to another topic, perhaps, but it would be helpful to try to see more evidence of where the benefits are. Of course, as you rightly pointed out earlier, we are expecting to invest a lot to reach the target, and colleagues have spoken to costs to the taxpayer of that. To build an alliance with citizens, it needs to be made clear where the benefits are. Energy costs can be reduced towards transitioning, for instance. Those are the benefits, alongside some other costs that will need to be mitigated in terms of those who bear higher costs if we have to transition from dirty energy to clean energy, et cetera. That is what I was looking for.

Kemi Badenoch: What would be helpful is, at the point when the interim report comes out, that is the sort of feedback that could help us in determining whether we are going in the right direction. If there is not enough in terms of those sorts of things, we could look to see what more information could be provided. You will see what you are looking for in there but one of the reasons we do an interim report is exactly for the reason that you pointed out: that the information we provide might be what we think people want but might not necessarily be enough to answer the questions that they have.

Q315 **Rushanara Ali:** I am just going to add one more, if you want to pick up on this. Earlier on, there have been questions about the investment that has gone in, particularly around Covid. Investment has been put in, in terms of the focus on green jobs, for instance, and in terms of trying to protect jobs, as you have said, as well trying to look to the future at how we reduce emissions by focusing on particular sectors. Do you feel that what the Government have done is adequate, or is there more that could be done, given the crisis at hand and the amount of money that is being spent to try to protect jobs and livelihoods?

John Glen: I am happy to come in on this one. I would maybe just reference the previous discussion. In terms of the quantification of risks and costs, you rightly point out the opportunities of making interventions when we can see the catastrophic costs of not doing so, but the whole issue around climate-related financial disclosures—TCFD—is about bringing a common understanding of what those costs are. At the moment, what I see across businesses that face different costs is a real challenge to quantify that.

In terms of your question with respect to the interventions, Kemi will talk to the specific ones in the green space, but we have to get a balance here with what we are trying to do in an emergency situation. For many businesses, there was not going to be a green element to it. Home insulation, work on the public estate and things that could move the dial in terms of protecting jobs in the short term were a key driver of that, but that is only one part of a much larger set of interventions that we are making and we will announce more. I will pass back to Kemi because she will have more to say on this.

Kemi Badenoch: It is an ongoing task. With every announcement, there is more information that we can use to work out what the right interventions are to make. For instance, with the green homes grant, we have put £2 billion into that, and £3 billion in the round in terms of decarbonisation. We also need to look at things like whether the jobs market can absorb the money that is going in. Money is just one lever. Simply adding more and more money into one particular thing does not mean that there is going to be the capacity to get the things done.

If you have, for instance, an industry where people are not able to work very much because of Covid, simply adding much more money into it does not mean that you are going to create the jobs. The law of diminishing returns will come in when it comes to financing things. We need to look at lots of different ways of stimulating a Covid recovery and a green recovery. I mentioned this in relation to a previous question: spending is only one aspect. Taxing, in terms of getting people to change behaviour, and regulation are things that we need to do in terms of getting to net zero, and we should use Covid very carefully when we look at those sorts of elements.

The airline industry, for example, is one that is having a difficult time with Covid. How do we have a green recovery within the airline industry? Some people argue that that industry is one that is just carbon-emitting. Are we going to say goodbye to all those jobs? That means that we might hit one target on net zero but destroy another in terms of employment, and vice versa. It is something that we consider at every step and with every announcement, but it is not as simple as just putting more into any particular area.

Q316 **Rushanara Ali:** I am not suggesting it is but the Government's response has involved significant amounts of public expenditure because of the crisis, so it is an opportunity.

Kemi Badenoch: Yes, absolutely.

Q317 **Rushanara Ali:** In that context, you have already spoken to the fact that there are even more employees whose jobs are at risk, and airlines are a good example of where it is likely that, in the future, even with a vaccine, air travel will, for a period, perhaps be a lot less than it has been. Of course, there are the other sectors that are well known to us where people will need to transition.

Are you satisfied, Kemi and John, that there is a credible plan in Government and working across Government to make sure that we do not have an effect on some—a winners and losers situation—where the transition towards greening leads to poorer people or those in heavy-carbon-emission sectors being hit very hard? Is there detailed, granular work being done to protect those people, so that we can make sure that the journey towards 2050 is one that is genuinely just rather than having significant numbers of losers and the state not doing enough to help them? Do you feel that you are doing enough work across Government? If not, what else do you see yourselves doing to make sure that happens?

Kemi Badenoch: We are certainly doing everything we can. Whether everything we can is enough is a completely different question. With many of these things, we can only act based on the information that we have available at a specific time. We are talking, for instance, about a scenario where we did not know for sure whether we would be having future lockdowns. We did not know anything about the tiered system. We do not know what the situation is going to be this time next year. We are operating in an environment that is very dynamic. From that perspective, yes, we are doing everything we can; in fact, I would be worried if we had so many specific plans when there was so much uncertainty. We need to be able to respond quickly to a changing situation. If you look at the interventions and the schemes that have come through, it is the quick response and making sure that people do not feel a negative impact immediately.

Q318 **Rushanara Ali:** Thank you, Kemi. That is really helpful in terms of dealing with the immediate. In terms of the longer term, given that there is a longer-term agenda that needs to be looked at in terms of transition and, again, winners and losers, is there any work, John, around how that is managed? That is going to be a constant issue. In terms of the financial services sector, the City has financed about 15% of global CO_2 emissions. Can you say a bit about what particularly the Treasury, along with other Departments, is doing in terms of trying to bear down on those numbers, so that we can really see the City acting as a responsible sector and a responsible investor?

John Glen: I would take you back to the green finance strategy and the elements within it that are seeking to change the overall operating environment for measuring and reporting the risks around climate, and raising standards of understanding across the 12 institutes—I will correct myself from earlier—that drive professional behaviours in the City. What you are driving at is almost the distributional impacts of macroeconomic change and interventions with respect to climate change. How do we make sure that what effect we have is positive across the whole of the distribution of wealth across this country? That is not the driver. The challenge is to achieve our aspirations and goals by 2050, which is in legislation. We are also sensitised, through all the interventions we make, to the effect it has on people. As has been mentioned previously in this session, the OBR does that distributional analysis, which underscores the decisions we make, and that is on the record. There is an in-built sensitisation to that.

Q319 **Rushanara Ali:** My question was about 15% global CO_2 emissions by the City. You have an opportunity with COP 26 next year. We are going to have the whole world coming together to think about how each country takes action. Our emission rate is very high. You are a finance Minister, along with your colleague here. You have power and influence over the City. What do you see yourself doing in terms of mobilising, appropriate pressure and regulation—you were asked a question about the FCA and others—to try to bring down those numbers over the medium to long term? It is okay and easy to talk about 2050 and not take action incrementally. We need to see a plan, because it is not acceptable for the City to be investing in dirty energy and financing global CO_2 emissions, on the one hand, while we host a summit trying to bring down global carbon emissions, because that is not leading by example.

John Glen: What I have tried to say to you is that, through the work that we are doing and the work that Mark Carney is doing—and we will be joining the International Platform on Sustainable Finance, which is a multilateral body that we intend to join—we are looking for common standards on an international taxonomy, so that we can understand the levels of risks and, therefore, make decisions and interventions in terms of our expectations of reporting to drive and change behaviours. This will not be achieved by one single intervention; it is a change in the fundamental reporting structure within the City and financial institutions, and we are very engaged at many levels in doing that. I have set out several aspects of that this afternoon.

Q320 **Rushanara Ali:** What I am asking is whether you are confident that, as we get to the COP 26 summit next year, we will be able to signpost the direction of travel and how we reduce the 15% to something a lot less over a period of time. You can have quite a lot of interventions, as you have described, on measurement and so on, all of which are very important and heading that way, but it would be helpful to get some sense of whether we should expect to get a line of sight in terms of how that number is going to be brought down. That was my question.

John Glen: I cannot tell you what the number is going to be next year or the year after, but I can tell you that it is pretty clear that we are straining every sinew to examine every aspect of reporting of the conduct of the City and of the reporting of climate across institutions of different sizes, to try to work multilaterally to achieve something very significant, in the short, medium and long term, in a way that is sustainable for our economy, and explains the trade-offs that we have made along the way. That is absolutely our aspiration as we move to COP 26 12 months from now.

Q321 **Rushanara Ali:** I just have one more, which is about EU exit. At that point, we are no longer going to benefit from the European Investment Bank. Where are we in terms of the prospect of establishing a new green infrastructure bank?

Kemi Badenoch: I cannot speak to a green infrastructure bank. I can speak to the national infrastructure strategy, which will be looking at various things that will cover that, including financing opportunities and so on. That might be what you are alluding to, rather than specifically a green infrastructure bank.

Q322 **Rushanara Ali:** You do not propose establishing something akin to an infrastructure bank.

Kemi Badenoch: As far as I am aware, the national infrastructure strategy is going to set out financing options, so that is where I would look. If it is going to have a green infrastructure bank, we would have to wait for that announcement.

Q323 **Anthony Browne:** I have a few more follow-up questions before we liberate you and you can go back to your day jobs at the Treasury. First of all, you were talking about what you wanted from COP 26 there. This is a question for John Glen. How do you define success? How do you know if you have succeeded in what you want to achieve? Are there specific outcomes where you are looking to say, "We have this commitment"?

John Glen: The programme of work is across these different tracks around reporting, risk management, returns and mobilisation. Within that, there are pieces of work that we are hoping to see. The big challenge is to get alignment around taxonomy and reporting going forward. As we work multilaterally to set the agenda for next year, we will be defining with more clarity what those objectives are.

Q324 **Anthony Browne:** What you mean by that is to get agreement from the COP 26 parties on taxonomy and disclosed standards all countries sign up to.

John Glen: Yes, those four elements are what we are seeking to make significant progress in. The COP 26 strategy was published last Monday, so perhaps, if you referenced that, you would be able to see a broader and more detailed answer than I can give in this conversation.

Q325 **Anthony Browne:** I just want to follow up with questions on the Task Force on Climate-Related Financial Disclosures. As you said, you are mandating that companies will have to report that. Clearly, it is only worth doing all of that if it changes investor decisions and makes sure that money flows towards greener projects and away from brown projects. Are you confident that those disclosures will do that, or will you require other measures to make sure that the money does flow towards green projects?

John Glen: It will be a significant step towards making that happen. It is impossible, in the climate that exists in terms of media and societal interests, for firms to be able to avoid accounting for their carbon exposures, footprint and strategies. By doing this, we are setting the expectations and changing behaviours by reference to what exposures exist and what the strategy will be going forward. We have to be sensitive to the fact that a transition is needed for some people, but we cannot avoid the fact that we have to come to terms with where we are so that we can move and change going forward. We have been bold. This is a world-leading move in terms of the largest economies and we have done that carefully and in consultation with City institutions and industry representatives over the last two years.

Q326 **Anthony Browne:** I would agree that it is world-leading. In some of the previous hearings we have had on green finance, there have been some suggestions of other things that could be done to ensure that there is traction from investors on this. Steve Waygood from Aviva Investors called for advisory shareholder votes on climate-related disclosures at AGMs. Would you be supportive of that as a mandatory thing?

John Glen: We need to look at all of these things. On the Asset Management Taskforce, Catherine Howarth and Keith Skeoch are doing great work on a stewardship subgroup, which they are going to report on very shortly. It looks at some of the means of changing reporting and behaviours and holding businesses to account for what they are doing, in a way that then changes what is invested in. Greater transparency and awareness of that has to be a good thing. Quite precisely how those instruments and interventions work, and which ones are right at the right time, is a matter that we need to get right. That is why I work with others and work with the industry to make changes that are acceptable and accommodatable in a timeframe that does not damage their economic prosperity and the jobs that they create and hold.

Q327 **Anthony Browne:** There has been some discussion that, if the mandatory disclosures are not enough to shift investment, there might need to be some mandatory penalising factor that would somehow make investments in brown projects more expensive and incentivise investment in low-carbon industries. Would you think about such a brown-penalising factor?

John Glen: That is not something that I have looked at specifically so far. What we need is to price in risk and have transparency around capital allocation. If we can move to that point and get to a better place of transparency, we will be making progress. As in all matters, we keep everything under review and we have a very good set of relationships across the City and across different parts of the City, and we will look very carefully at the options as we move into next year.

Q328 **Anthony Browne:** When we had Huw Evans and the Association of British Insurers in front of us, we asked them about why there was not bigger investment from insurance companies in long-term green assets and infrastructure projects. They brought up our old friend Solvency II, as I am sure you would expect, which had discouraged those very long-term investments. How much sympathy do you have with that? Although you have recently announced a review of Solvency II, would that seek to resolve this issue and to encourage more investment from long-term funds into green and long-term infrastructure assets?

John Glen: Yes, absolutely. I have had the privilege of doing this job for nearly three years and it was one of the first things that was raised with me. It has been good to be able to go out and consult on that. As you probably know better than me, the Solvency II legislation did not meet with UK industry expectations and needs, given the structure and reliance on annuities, so I hope that we can change that.

You also spoke about the challenge of long-term investment, which is why we have this piece of work. We are working with the Investment Association—Chris Cummings is doing a fantastic job—looking at long-term funds, because we need to change the distribution of investment for the longer term, which is good for the economy. This is something that I have been working on and been aware of the challenge of since working for Philip Hammond as his PPS four years ago. It is something that we have to make progress on and something that the Chancellor has asked us to deliver within this next year.

Q329 **Anthony Browne:** Finally, one last question that environment groups frequently raise—I am not quite sure whether it is within your purview or not—is on UK Export Finance and funding fossil-fuel projects overseas. I do not know if that fits within your remit or not, but it has been quite controversial. Is there going to be any change on that?

John Glen: I am aware of the issue but it is not in my area, so I should not really comment on it. I do not know whether this is something that Kemi wishes to speak to, whether we should write to you or whether one of the officials should reply.

Anthony Browne: This is a chance for Richard to come in.

John Glen: I always try to avoid him having to speak. That is my objective.

Kemi Badenoch: It is not my area either. UK Export Finance is a DIT area, but I liaise with them on quite a few points. What was the specific question, Anthony?

Q330 **Anthony Browne:** The specific question is that UK Export Finance funds various projects that explore or develop fossil-fuel projects in other countries. Will the UK Government stop UK Export Finance funding these projects?

Kemi Badenoch: UK Export Finance is a commercial service. It does not subsidise UK exports. It considers lots of things—environmental, social and human rights—but, on this specific issue, it is probably easier if we write to you and get their latest lines. It is not something that I have covered with them recently.

Anthony Browne: If you could write that would be great.

Chair: Thank you, Anthony. You said that we should release our panellists to go back to the Treasury and to their day jobs, but day-and-night jobs are what are going on over there at the moment. It has been a very good session. Thank you very much to all of our panellists. We are all agreed that climate change is hugely important and that this journey to net zero in 2050 is very important also. Clearly, it is all about how we get there, and we have touched on many of the strands that the Treasury is responsible for in that great endeavour. Inevitably, whether it is disclosures, regulation, taxonomy, reporting or green finance, there are many questions that are still left hanging.

Can I thank you particularly for the many occasions on which you and Kemi in particular, John, have said that you will be as transparent as you can with the information that you come forward with? We very much appreciate that and we are looking forward to the interim report of the Net Zero Review that was referred to, and, of course, the Prime Minister's speech, if it is the Prime Minister to deliver that speech later on this week. We look forward to that with great interest. Please keep in touch with us, as I know you do, on these really important matters. Can I thank you, John and Kemi, for keeping me and the Committee informed on the various issues that arise around legislation, policy and regulation, as I know you do on a regular basis? That is very much appreciated. That brings us to the end of this inquiry session.