

Environmental Audit Committee

Oral evidence: [Green Finance](#), HC 617

Wednesday 21 February 2018

Ordered by the House of Commons to be published on 21 February 2018.

Watch the meeting

Members present: Mary Creagh (Chair); Colin Clark; Mr Philip Dunne; Zac Goldsmith; Mr Robert Goodwill; Caroline Lucas; Kerry McCarthy; John McNally; Anna McMorrin; Alex Sobel.

Questions 385 - 508

Witnesses

I: Rt Hon Claire Perry MP, Minister for Energy and Clean Growth, BEIS; John Glen MP, Economic Secretary to the Treasury; Fiona Walker, Deputy Director in Private Pensions and Head of Automatic Enrolment and Defined Contribution, Department for Work and Pensions; and Catherine Bremner, Transformation Director, BEIS.

Written evidence from witnesses:

- [HM Treasury and the Department for Business, Energy and Industrial Strategy](#)

Examination of witnesses

I: Rt Hon Claire Perry MP, Minister for Energy and Clean Growth, BEIS; John Glen MP, Economic Secretary to the Treasury; Fiona Walker, Deputy Director in Private Pensions and Head of Automatic Enrolment and Defined Contribution, Department for Work and Pensions; and Catherine Bremner, Transformation Director, BEIS.

Q385 **Chair:** I declare the meeting open and welcome our witnesses this morning. You are all very welcome here. For the purposes of Hansard, can you introduce yourselves from left to right, please?

Catherine Bremner: Yes. Hi, I am Catherine Bremner. I am the Transformation Director in BEIS. I am also one of the lead officials on Green Finance. I have had 15 years in green finance, previously as Head of Sustainable Finance for ANZ Bank.

Claire Perry: Claire Perry, Minister of State for Clean Growth and Energy.

John Glen: John Glen, Economic Secretary to the Treasury.

Fiona Walker: Fiona Walker. I am Deputy Director for Automatic Enrolment into Workplace Pensions and DC Pensions at DWP.

Q386 **Chair:** Great. This is the final session of our green finance strategic overview. We have had some very interesting sessions and we are going to cover quite a wide range of issues today.

If I can start off with you, Minister Perry, one of the things we have been concerned about is the fall away in green energy investment. It has fallen by 56% in cash terms in 2017. Can you explain to us why that has happened?

Claire Perry: Thank you, Chair, and can I also thank the Committee for spending time on what I think is a truly vital and too long missing part of solving the green growth puzzle?

I would perhaps make a couple of factual points and then ask a question, if I may, which I think about quite often. The first is, as Committee members will know, this is quite a lumpy profile. If you look at how projects are brought forward—particularly the Hywind project that closed in the first quarter of 2016—you do see the numbers very much accelerated and flattened by signing of what are pretty capital-intensive sectors. It is also important to note that we have spent £52 billion in this sector collectively since 2010, and of course as a result of that, we have developed the largest offshore wind capacity in the UK.



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From conversations that we have with project developers, particularly those who are bidding in under—what is the word I am looking for?—the new confidence about the CfD, because we have set out what those numbers will be going forward, there is no evidence of a shortage of capital wanting to bid into various projects. There is evidence that more needs to be done on the risk sharing and the cost of capital, particularly for really important new technologies like carbon capture and storage.

If you talk to the Oil and Gas Climate Initiative, they have £1 billion they would like to spend in that area. The UK is the number one market for looking to develop projects, but at the moment we have not yet worked out the best ways to do risk sharing and cost reduction. That is why we have set up the Carbon Capture, Usage and Storage Taskforce and Council to help us try to solve some of those problems.

Chair: It is lumpy, that is what you said.

Claire Perry: Yes.

Q387 **Chair:** We have had other evidence that shows that there is a dearth of planned renewable energy projects going forward into the future pipeline, equivalent to a 95% drop in investment in 2021 compared with 2017. That is evidence that the Green Alliance has given us. Is that something you recognise?

Claire Perry: I do not recognise those numbers. Again, I would slightly question—there seems to be a narrative from some that—

Q388 **Chair:** How does the infrastructure pipeline going forward from 2017 compare, because 2017 was already a drop, wasn't it?

Claire Perry: As I say, we have set up the auctions. In the last auction that we just closed we bought offshore wind at £58 per megawatt hour. We brought forward as much offshore wind capacity as the last five auctions in the Netherlands and Denmark combined, so I do not recognise those numbers. I do challenge the view that as renewables are falling to subsidy-free levels, spending money on subsidy is a definition of success. If we can do more for less, it seems to me that that is the right place to be. I do not know, Cath, if you want to comment.

Catherine Bremner: I agree with the Minister's comments on this. If you look at the forward look on the CfDs through the Clean Growth Strategy, it was 3.2 gigawatts in the last CfD round with 557 committed for the next CfD round. That is just in the renewables space.

The other thing to note is in the last Budget, investment from Government was £2.5 billion from the British Business Bank. If you look at investment signals across the sector, there is strong support for increasing venture capital as well as infrastructure investment.

Q389 **Chair:** But my question was not about the quantity—obviously you get more as the price falls. My question was about the cash amount and it



was not about subsidy. It was about actual investment, which has fallen by half from one year to the next, this year, and we have heard evidence that says it falls off a cliff going forward over the next four years. What is your future look for investment into this sector over the next four years?

Claire Perry: Forgive me, I do not recognise those numbers. We have never set out what some would want us to do, which is a sort of Government-mandated mix of technologies. We have set out an extremely clear and very effective auction mechanism that has driven costs down dramatically in various renewable sectors. We have said what that will be for the next five years. We have set a carbon price going forward, so those who are emitting carbon know what they have to pay.

We then have, as I say, numerous conversations with companies who want to bring projects forward, whether they are interconnectors, additional offshore, other areas, or subsidy-free solar. I opened the first subsidy-free solar farm in the third quarter of last year. Therefore I do not recognise those numbers, and from what market investors are telling us, the UK remains an extremely attractive and stable market for renewable energy and also for many other forms of decarbonisation technology.

I mentioned carbon capture, usage and storage deliberately, because without that we will not decarbonise our biggest pool of emissions, which are industrial process emissions. That is why we are spending so much time and attention on trying to solve the cost conundrum in that technology.

Q390 **Chair:** Obviously this Committee has been very critical of the cancellation of the CCS competition in the autumn statement when we did our review into sustainability in the Treasury. Do you think that was something that is regrettable?

Claire Perry: It was really disappointing, but what we have is a triple test now that we apply to all forms of spending of other people's money—taxpayers' money—which means that it has to achieve a decarbonisation pathway that helps us meet our budgets, it has to be delivered in a cost-effective way, and it has to create competitive advantage that we can build on and export as the whole world pivots to this low-carbon economy.

I cannot comment on the decision-making at that point, but since then we have invested that money in further research and development in the sector. The companies part of the Oil and Gas Climate Initiative is prepared to put £1 billion to work of its own capital in this area, and there is a far closer linkage with industrial clustering in the projects that are being brought forward. Hindsight is a—I would not want to say it was the right or wrong decision.

By the way, there are only 21 at-scale CCS plants operating globally and 16 rely on CO₂ as a form of enhanced oil recovery for revenue, so only



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five plants around the world are taking a big subsidy from somebody. It suggests we are not alone. If you take evidence from the Norwegians, you will know they are having exactly the same conversations in wanting to drive the cost down to deploy the technology more effectively.

Q391 Chair: I have the figures now, so the investment in clean energy went down from £25 billion in 2015 to £10 billion in 2017. What do you think it will be in 2018?

Claire Perry: Chair, if I may, are they the Green Bank new energy finance numbers?

Chair: Yes.

Claire Perry: Those are not public numbers. They are based on their own estimates. They are not numbers that we have had input to or recognise, but what I am told in conversations is that they are remarkably flattered by signing the Hywind project, which was the world's largest offshore wind project at the time in 2016. I am not suggesting they are wrong, but we may be better off taking a smoothed version of those numbers over a period of time.

Q392 Chair: That would show that in 2010 it was £10.8 million, in 2011 £13 million, in 2012 £11 million, in 2013 £15 million and in 2014 £17 million. We are back at 2010 levels.

Claire Perry: We have quadrupled our renewable capacity over that time, to the point where we are now well ahead of our EU emissions renewables targets. We have seen a price decrease in offshore wind, to a point where it is becoming subsidy free, suggesting that we are able to bring forward these projects and spend less money—both private and private money.

Q393 Mr Robert Goodwill: Just on that, we heard yesterday that coal will soon be history in terms of electricity, but on some of the metallurgical industries, particularly steel production, there are technologies out there that may either reduce carbon as a reducing agent or capture the CO₂. Are the Government aware of what could be done to move forward, because if we could get that technology, we would have a competitive edge over some of the big steel-producing countries, like China?

Claire Perry: That is 100% right; you are absolutely right, so we will be phasing out unabated coal production by 2025. We are at about 4% right now with power generation from coal and that will head to zero. Of course we had our first coal-free day ever—well, since we had coal-fired power stations—only last year. You are absolutely right, and we are focusing on the technological innovation and trying to make the breakthrough. The Carbon Capture, Usage and Storage Council has people like Rodney Allam, who is the inventor of the new form of combined gas turbine technology that completely creates an entirely new way of producing CO₂ ready for sale. The intention is to try to get those technological breakthroughs so that we can help the world with this



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process, but without that technology, I do not believe we can meet our decarbonisation targets.

Q394 **Mr Robert Goodwill:** Will there be Government money to back up that research?

Claire Perry: Yes, we have committed £100 million of innovation funding to go into that money. As I say, there are deep-pocketed investors—frankly, it is a fraction of their cash flow, particularly with oil at \$71 a barrel—who are prepared to co-invest, because everybody perceives that this is the technology of the future.

Q395 **Chair:** Can I ask you about the BEIS Secretary's speech to the EEF last night? He said that there was an Independent Industrial Strategy Council to monitor, to keep BEIS on track and on target for those intermediate outcomes of the Industrial Strategy. There is a long-term strategy, but there obviously have to be intermediate steps. Is the Clean Growth Strategy going to be monitored by that industrial council?

Claire Perry: Are you happy if I keep talking?

John Glen: Yes, that is fine.

Claire Perry: What we are very keen on with the Industrial Strategy is that we have measures to test if it is successful. One of the things we want to do is have the independent council. It is not just about creating jobs, it is about creating highly-productive jobs. It is about reducing regional inequalities and increasing productivity, and the council is helping us with that.

One of the core four challenges in the Industrial Strategy is the Clean Growth "Grand Challenge", which is entirely based on the economic opportunity of moving towards this low carbon economy. It will absolutely form part of that, but of course the key test for the Clean Growth Strategy is the statutory budgets that we have to meet, and that is a great recipe for any Government out there. We are trying to market this to things like the CHOGM and other international for a, because it is incredibly valuable to have, first, the Committee on Climate Change as our independent statutory body, and secondly, carbon budgets that are scrutinised by Parliament and by everyone. I think we feel that we have our own measures and metrics that we have to meet.

Q396 **Chair:** In the Clean Growth Strategy there are measures around agriculture; there are measures around transport. Who will be monitoring them?

Claire Perry: They are monitored by the Inter-Ministerial Group on Clean Growth, which has been reconstituted, and which I think meets monthly. Of course the Clean Growth Strategy is a cross-Government strategy, but ultimately all the savings feed into our UK carbon budget, so we all have that collective responsibility for delivering those emissions reductions.



Chair: Thank you very much.

Q397 **Anna McMorris:** The Committee on Climate Change said that even if all of the policies that are set out in the Clean Growth Strategy are delivered, it will still not be enough to meet our carbon budget in the late 2020s. What do the Government intend to do to bring forward a plan to address that shortfall, or how do you intend to meet that gap?

Claire Perry: If I may, I think what they commented on were the policies and proposals in the Clean Growth Strategy for which estimates have been created, and only 30% of the 50 policies and proposals are at a developed enough state to put emissions reductions against them. Even with those estimates—and using the updated emissions estimates from January—we are on track to meet 97% of the fourth carbon budget and 95% of the fifth carbon budget, and those are budgets that end in 10 or 15 years' time. I am unashamedly on the record as saying I think with the rate of change in the global low carbon economy, the unprecedented amount of R&D the Government are committing, and the seizing of the opportunity for things like industrial decarbonisation, that we will meet those budgets.

Of course, thanks to the wisdom of the Environment Secretary at the time we brought the Act in, we legally have flexibilities. I know campaigners do not like it, but we can legally use flexibilities, either ones that are stored up—and the evidence suggests we will have more than enough flexibilities to meet those budgets—or indeed flexibilities to pull forward or even buy internationally. When that was set up by the Government in 2008, all of those measures were built in, because ultimately we cannot overburden consumers with the cost of this journey. That is the reason the flexibilities are there. We have to have a low carbon trajectory at the right cost and create advantage for the Industrial Strategy, so I think we will meet them. But we have flexibilities that we can bank, if we need to, to meet them and that is the law.

Q398 **Anna McMorris:** Isn't that just a cop-out though?

Claire Perry: No.

Q399 **Anna McMorris:** Because you do not have the delivery set out in your Clean Growth Strategy, and the Committee on Climate Change—not just the NGOs—has advised against this approach on flexibilities, so why are you still going—

Claire Perry: Because the intelligence of those who brought the Bill in at the time knew exactly that the problem would be that if you had to take leaps into the dark in technology that would overburden consumers with cost. That would probably be a bad thing to do and therefore we have the flexibilities.

If I may just say, the fact that we are at 97% and 95% of required activity, based on 30% of the policies in the Clean Growth Strategy having emissions reductions put against them, is quite confidence



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boosting. I do not know of many other Government Departments that can say that they are at 97% of where they need to be in 10 years' time. By the way, I would be extremely disappointed if we had to use flexibilities, but the option is there. It is the safety valve for consumers. We can legally do it, regardless of what others may think, but my expectation is that we will not have to.

Q400 **Anna McMorris:** I would dispute that this is not about the burden on consumers. This is about getting the right regulatory framework from Government to give industry that flexibility and the—

Claire Perry: You are absolutely right to focus on the need for a long-term framework, but equally, if we were to go off and buy technology at £200 per megawatt hour for consumers and put the bills up, I would think that was a bad stewardship thing to do.

Q401 **Caroline Lucas:** I cannot sit here and listen to you talking about how much you care about consumers when you are locking consumers into a massive price hike through Hinkley, when they are going to be paying double the wholesale price for electricity for the next 30 years, and yet we are supposed to believe that this is all about protecting consumers.

Claire Perry: Sorry, forgive me, you are quite right. What I did not mention was the need also to have a balanced energy supply. One of the striking things about attending COP in Bonn was watching the barges of brown coal dug up in the Ruhr, going to be burnt in German power stations, because Germany has taken an ideological decision to not use nuclear power.

Q402 **Caroline Lucas:** We are not doing that here. We are focusing on the UK.

Claire Perry: Exactly.

Q403 **Caroline Lucas:** Why are we going down the Hinkley road?

Claire Perry: We are focusing on building a secure diverse energy supply with maximum opportunities to invest in technology, so we can export and help the world with their decarbonisation journey.

Q404 **Caroline Lucas:** Why do we need nuclear and Hinkley? When your litmus test just now was about the impact on consumers, how can Hinkley possibly be justified, given the impact that is going to have on consumer bills?

Claire Perry: Because Hinkley will provide us with 7% of our baseload energy supply when it comes on stream.

Q405 **Caroline Lucas:** People are saying that you do not need a baseload anyway.

Claire Perry: Certain campaigners are saying that. Others are saying—

Caroline Lucas: No, no, no.

Claire Perry: —that energy supply and security really matters.



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Q406 **Caroline Lucas:** Minister, the head of the grid himself said that the idea of this need for nuclear for baseload was well out of date.

Claire Perry: I do not recognise those comments.

Caroline Lucas: I will send them to you.

Claire Perry: If you might forgive me, campaigning for this on an incredibly narrow partisan basis is probably not terribly sensible when the Government have to balance energy security and supply.

Caroline Lucas: Minister, I do not think that is a very helpful response, but I will be glad to send you the letter from the head of the grid, who will explain the point about baseload. Thank you.

Chair: Let's continue our questioning.

Q407 **Anna McMorris:** Thank you. Just following on from that, we have yet to see a decision on the Swansea Bay Tidal Lagoon, so it is not just about investing. There is also a lack of commitment on onshore wind. You might have made that commitment on offshore wind, but in terms of getting that renewable energy focus, I do not see that. I do not see it set out in the Clean Growth Strategy and I do not see the commitment coming from yourselves in Government. Indeed, as the Chair mentioned, the Treasury was criticised in 2015 for cancelling a series of low carbon policies, including CCS, and including removing the climate change levy, feed-in tariffs, low carbon homes—removing those standards. We do not see that commitment coming from your Government.

Claire Perry: Forgive me, I have been on the other side of this and I know that the job of committees is to be very challenging, but that really does ignore the facts. We have a higher percentage of renewable energy now than France. We have tripled the amount of renewable energy that we have brought on stream, whereas Germany has only doubled it. We have bought renewable energy at prices that are close to subsidy free—an 80% reduction in three years. We have the UK's biggest offshore wind capacity and we are one of the first countries in the world to phase out unabated coal production. We have persuaded over 50 other countries and non-countries to join us, including states and cities, so I simply do not recognise what you are saying.

By the way, we are not doing what Germany does and pretending that we can manage the baseload without buying nuclear, and literally taking barges of coal past the conference of the parties to burn in our power stations, because we recognise that coal is the most polluting fossil fuel and we have an opportunity to get ourselves off it. In doing so, we are not overburdening consumers with cost, because the cost of consumer energy bills has come down over the last four years. Of course we are paying attention to energy security, so our grid margin is now double what it was last year. Therefore I simply do not recognise the picture you are painting and I think it is, frankly, talking down the incredible achievements that successive Governments have made, because we had



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the wisdom to put a Climate Change Act in place and hold successive Governments' feet to the fire.

Q408 **Chair:** We will take the credit for the Climate Change Act, although it was obviously—

Claire Perry: You will know, Mrs Creagh, that it was cross-party and certain leaders had to be persuaded to bring it forward.

Q409 **Chair:** Can we press the Treasury Minister on these questions?

John Glen: In terms of the decisions that have been made over several years, there is obviously a decision at every spending review based on the relative cost effectiveness of different choices that need to be made. I cannot address matters that happened several years ago, but there has always been a balance needed to put the right incentives and the right frameworks in place. We can come on and look at some of the options that we face at the moment and some of the choices that we will need to take.

Q410 **Anna McMorris:** Removal of ROCs, for example, has impacted on onshore wind. That makes it a lot harder for developers to build.

John Glen: Those decisions were made in previous spending rounds and they reflected the intense pressures that we faced at the time. What we can say, as Claire has set out, is that we are in a relatively strong position and we will look to take enabling decisions in future budgets as far as the public finances allow.

Q411 **Anna McMorris:** Minister, you say that you are doing an enormous amount, but the Committee on Climate Change beg to differ. They do not see the delivery set out in your Clean Growth Strategy as being able to deliver on any future budgets.

Claire Perry: I am sorry, but that is not the language that I recall reading. I remember there being, quite rightly, a challenge for us to get from 95% and 97% to 100%, and an expression that they would not like it if we used flexibilities, although everybody recognises we have the legal wherewithal to do so. There was a recognition that we had a very coherent and ambitious set of policies and proposals right across Government, so I am afraid I do not recognise that characterisation.

Q412 **Chair:** Perhaps I can read it out to you. They said that, although ambitious, there is a risk about us not meeting the fourth carbon budget, which begins in only five years' time; plans are insufficient; in 2018 you should set out the additional policies to close the gap on low-carbon heating, waste, afforestation; by 2020 there should be a plan that provides confidence that the fourth carbon budget will be met. They are very clear, and I have sat in the Chamber and listened to you saying that you do not want to use the flexibilities.

Claire Perry: No, I do not, but equally the idea that there is some legal base to challenge the Government for using it is for the birds. I recognise



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all of those points, but that is a very different characterisation from the one that was given.

We will bring forward—and are bringing forward—the policies and proposals. As you know, we have set out a very clear timeline for the various big projects we need to bring forward: how we are going to deploy the £2.5 billion of innovation funding, particularly in areas like carbon capture, usage and storage. We will continue to work like stink to meet those targets, and I can confidently say that we will do more than any Government ever to accelerate the progress on our carbon budgets.

Q413 Chair: Can I come back on this, on the Treasury? Landfill tax, vehicle excise duty—they have all gone in the wrong direction in terms of clean growth, haven't they?

John Glen: If you look at the last Budget, in terms of the investment in the British Business Bank, and if you look at the investment in terms of trying to ensure that more of the Patient Capital Review is about trying to make more sums available for investment in infrastructure, including green infrastructure—we are trying to take sensible decisions that allow more investment, but we are not prescribing that pound for pound from the Treasury. What we are trying to do is set the conditions for that capital to grow.

Q414 Chair: Isn't there a difference between patient capital and leveraging money into large-scale projects, and the amount of vehicle excise duty that you pay on your electric car—that has now gone up—or the amount of landfill tax that you kept flat, and the fact that you allowed the changes so that homes can be built that are not zero carbon? They are going to be around for the next 50 or 60 years and we are going to be retrofitting them. Surely that is an incredibly short-term decision. This is the autumn statement 2015. It is not 100 years ago. It is two years ago.

John Glen: There has to be—and there will always be—a range of choices around what is actually going to deliver a sustainable platform for investment in infrastructure. I would argue that what we are trying to do is get that very critical balance right between—

Q415 Chair: Our argument is not with a platform for investment. Our argument is about the microeconomics of Treasury decisions that push people to buy houses that are not sustainable and to keep using cars that run on diesel or that are not electric. It is a Treasury question—

John Glen: It is not because some of those decisions are policy decisions made in other Departments. For example, you raise the issue of houses. One issue that we are very interested in—I think my predecessor has mentioned this—is green mortgages and what can we do to try to get lenders to be more engaged in looking at ways of measuring the efficiency of energy in homes, in terms of increasing lending and facilitating investment in greener properties. I think that is something that will develop and there are initiatives underway on that.



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Q416 Chair: You took out the regulatory policy that would have shown those lenders that they were lending against a zero carbon home. You, the Treasury, destroyed that standard that had been worked on for two years by the industry and invested in. It is all very well talking about the abstraction of a green mortgage, but what is the definition? We can get into what is the definition of a green house. It is about making microeconomic decisions, not about the big financial stuff. It is not about 0.25% off your mortgage interest rate, which for most people is an abstraction; it is about how you get help with green boilers. How do you insulate your home? Where are those granular policies?

John Glen: If you look at the LENDERS project that was funded by Innovate UK, it is looking at how energy performance certificates can be used in order to measure energy efficiency and how that can give the granulation. Those sorts of initiatives are going to lead to a transformation in the mortgage market. It is never going to be a situation where the Treasury makes lending decisions for individual banks or building societies. What we have to do is put in place initiatives that give them the confidence to make those decisions more easily and satisfy what I anticipate is an emerging demand in the market.

Q417 Anna McMorris: Can I turn to this lack of what I see as investment in what are the most affordable forms of renewable technology? There have been rapid changes within the UK Government policy and they have decimated large parts of the renewable energy sector. Excluding onshore wind and solar from the Contracts for Difference process, for example, would be a very simple way of ensuring that we have that rolled out and that you are more on track to meet those targets.

Claire Perry: The argument is well made. The challenge we have always had—indeed, I think it is a cross-party issue—is that for many communities the idea of an uncontrolled large-scale onshore wind turbine development is extremely unpalatable. I believe that the planning system has been improved. However, I also know there are parts of the country that are keen to install onshore wind, and we cannot currently express a geographical preference in the contracting process to bring forward wind projects from elsewhere. It is something that we are looking at, but the Government have a manifesto commitment to have no more large-scale onshore wind and I believe in sticking to commitments.

Q418 Anna McMorris: What about looking at specific requirements to invest in low carbon infrastructure through, for example, the latest round of Growth Deals with local authorities? That would be a way of looking at more localised energy production.

Claire Perry: That is exactly right. That is indeed happening—

Q419 Anna McMorris: How is that happening?

Claire Perry: We are pulling through a whole series of local Growth Deals. We have a £7 million local energy programme. We are establishing energy hubs right across the UK. We need to crack some of these really



future-facing technologies, such as hydrogen as a source of heat—heating is a huge problem because it is too expensive to electrify heating. It requires a lot more electric capacity, but hydrogen is also a very useful fuel for industrial processes and for vehicles. The best way to pull those forward is to work with places, as we are doing—Leeds is an extremely interesting area that wants to work with us.

Therefore I absolutely think we are working with local authorities. Indeed, I am speaking tomorrow at the UK100 conference organised by Polly Billington. We are absolutely looking at how we can work more closely with these authorities because they are the ones who see how this cuts across borders. It is local authorities who are working on putting in charging points in their lampposts for electric vehicles in Oxfordshire, or working out how to do low carbon heating in Leeds. They are really pulling it together at a local level, which I think is hugely helpful.

Q420 **Anna McMorris:** I would say that that is despite the UK Government's actions, but—

Claire Perry: I would say that is a very cynical view of the world.

John Glen: If I could just mention, the Public Works Loans Board—this will be the main vehicle that most local authorities would use to borrow against—would be able to assist with that. As we see a greater appetite from communities up and down the country to address the challenges of climate change and investing in green infrastructure, that would clearly be an option. That option exists and you would expect that to be used.

Q421 **Anna McMorris:** Can I ask one final question? When are you going to make your decision on the Swansea Bay Tidal Lagoon?

Claire Perry: It is a cross-Government decision and conversations are happening to establish whether or not the Welsh Government's offer of financing can be quantified, so there are a series of extremely important conversations happening.

Q422 **Chair:** Can I just check with you, Minister, you said there is a 7 million local energy programme; is that £7 million?

Claire Perry: Yes, £7 million local energy.

Q423 **Chair:** What is the budget for the regional Growth Deals?

Claire Perry: I would have to write to you with that number.

Chair: Several billion?

Claire Perry: This I believe is coming out of BEIS funding. This is money that we have put aside from the energy—

Catherine Bremner: The funding there is to identify some of these projects ready for investment, so it is a partnership between the local authorities and the Local Enterprise Partnerships. One of the gaps that has been identified—as the Committee rightly points out—is where can



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we accelerate investment in local regions? We have seen a lot of work from the City of Manchester, Leeds and others saying they would like to create low carbon hubs and targets around this across the economy. We have the Clean Growth Challenge in the Industrial Strategy, but we are also thinking about the place agenda. BEIS recognises, as the Assistant Minister rightly points out, that we need to identify what are the local investable projects and then encourage local investment.

Claire Perry: Equally, that is on top of the £300 million-plus heat networks funding that we have made available. It is on top of the Salix programme, because one of the key drivers of change is often the public sector and we are keen to use public sector procurement as a real agent for change. The Salix programme, which we have set up, enables public sectors to basically finance these activities extremely successfully. It also links up to the £80 million charging infrastructure deployment fund that is out there, and the £50 million for the plug-in taxi programmes.

A lot of cash is being made available cross-Government for local areas to pull forward. The challenge is often local capability, so this is why the additional money we are putting in—the £7.6 million—is to try to help local authorities build that capability so they can bid in to these funds and develop a coherent energy strategy for their local area.

Q424 **Zac Goldsmith:** Very quickly on that point, do local authorities want to bid for Salix funds?

Claire Perry: That is a really interesting question we had at the Ultra Low Fleet Summit meeting. We had some really fantastic local authorities who said, “The amounts are too big. We are starting from quite a small place. We need to persuade people locally that they need electric vehicles, so do not make us bid in for £25 million. Make us bid in—.” It was an interesting conversation. There are some fantastic pathfinders out there, but there is not enough capability. We are very keen to work with local authorities so they understand there is money available for upskilling and they understand what is possible.

Q425 **Zac Goldsmith:** Is there enough money available? If you were able to stimulate that demand in the way that you obviously want to, would the funds match that demand?

Claire Perry: I may be able to answer that question better after I have spoken at the UK100. There is never enough money, as we know, but equally we see some fantastic local authorities and I think so much of this is about having the confidence to do it locally, and to overcome objections to hydrogen heating: “What is that? That sounds very scary. What are these electric vehicles?” We must support the best sort of place-based approaches and drive change.

Q426 **Zac Goldsmith:** I want to say on the record I am personally very grateful for the enthusiasm and energy you put into this agenda, because I feel like it has had a lift since you were given this post, and broadly the



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story is a very promising one, relative to other countries.

But I want to ask you another point going back to the question around wind. I am a fan of onshore wind. I am also a localist. I think the Government's approach, giving local authorities more say, is the right approach, but what I have never been able to understand is why we would apply that approach to wind, and apply a very different approach to things like fracking, which is much more divisive and controversial, and much more questionable from an environmental point of view. Is there any prospect that the Government will create a level playing field in terms of the planning approach between onshore wind and fracking?

Claire Perry: I would hate to try to do the Secretary of State for DCLG's job for him. I take the point about onshore wind deployment and we are working on ways to see if we can bring forward projects where there is strong local support, not in England, under the manifesto commitment, and the question of fracking is one on which I would be happy to answer questions. The ultimate point is if there is strong local support for this and indeed some local benefit, we can see attitudes change.

Q427 **Kerry McCarthy:** I want to go back to electric vehicles in particular and today's court ruling on the air quality plan. Does that mean that you are likely in any way to accelerate plans for more investment in electric vehicle technology and infrastructure, so that we can move more quickly towards phasing out diesel?

Claire Perry: That would be a question for our colleagues at DfT and Defra, and indeed the Road to Zero strategy will be published by DfT shortly. Again, what has been very interesting is that when we announced the phase-out date for fossil fuel vehicles, which we initially set at 2040, that was considered to be a very avant-garde thing to do, and of course what has happened is—

Kerry McCarthy: Not by everybody, in fact.

Claire Perry: The honourable lady represents a city that is doing really good things in the whole local energy space. It is an example of where good things can be done—Bristol.

But the industry is catching up, so from that announcement we then saw BMW announcing they would build the electric Mini in Cowley. The Auto Council saw the companies coming forward with their electric plans, so that pace is already accelerating, but I would not want to comment on what Defra and DfT will do as a result of that decision.

Chair: A change of tack now, over to Philip.

Q428 **Mr Philip Dunne:** I would like to focus my questions on the nub of the inquiry, which is about green finance and what the Government are doing to facilitate some structural availability of finance. We heard in this inquiry that the Green Investment Bank and the European Investment Bank were the two principal sources of funding, in particular to stimulate investment in innovation in green technology. Given the combination of



the sale of the Green Investment Bank—we had the representative of Macquarie in to talk to us and they are obviously pursuing a somewhat different strategy as opposed to priming technology, which was the origins of the entity—and the impact of Brexit and the potential loss of access to European Investment Bank funding, what impact will that have on deliverability of the Clean Growth Strategy? I think it is initially a question to Minister Perry.

Claire Perry: I may just speak to Macquarie and then let John speak to the EIB. We had a long conversation with the chief executive of Macquarie—I think he is coming in this week. Again it gets back to this question: do we think there is a funding shortfall that is somehow hindered by this change of ownership? I do not think there is. I look at the fact that originally the GIB was set up to address market failure and it does not appear that there is market failure now. There are questions around the cost of risk structuring, particularly around carbon capture, but that is not the point of the additional finance. They have made their public commitment of £3 billion over three years. They have continued to invest in the waste-to-energy project.

What they told me, which was quite a compelling story, is that given they are the largest global investor in infrastructure, they are able to both pull in further pools of capital and also market UK deals more broadly, which I found to be quite an attractive proposition. But of course we do have the special share. We are able to be involved in their decisions. It is early days, but I think that that sale was the right thing to do and will deliver additional capital into the space.

John Glen: If I turn to the EIB and the EIF, which have been instrumental in terms of providing investment in green infrastructure, I recognise we are in a negotiation. We have an agreement in terms of whether it will be necessary for the return of €3.5 billion over 12 payments. As the Chancellor said in his Mansion House speech, it may be seen to be mutually beneficial for us to continue to be able access the EIB and the EIF. That is something that we are working through as part of the negotiations.

It is also important that we recognise the British Business Bank in terms of the extra £2.5 billion that has been put in there. I met with the Business Growth Fund this morning to look at how we can use some of the work that came out of the Patient Capital Review, and keep looking at how we can get more money in to make more money available.

With respect to the question you asked specifically about the EIB, that is work that needs to be undertaken, and part of the journey that we are obviously on with the Brexit discussions.

Q429 **Mr Philip Dunne:** You mentioned the British Business Bank as stepping in to plug the gap left by the Green Investment Bank. Is there an allocation of funds within the monies available to the British Business Bank that is specifically allocated for green investment? Is that something



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that you are prepared to consider? There is a continuing investment gap.

John Glen: There is not a ring-fence at the present time, but I think it represents the sorts of long-term infrastructure investments that the Treasury would expect to see. That would cover things in the scope of green infrastructure. I recognise that we have seen a bit of a slowdown with some of the EIB decisions, and I think some progress was made at the board decision in December around the north-east application. That would be for them to decide whether to take that forward, but we are clear, from a Treasury perspective, that we want to make sure that there are no significant gaps in capital availability, howsoever that is delivered.

Claire Perry: If I may—forgive me, Mr Dunne—because smart money comes out of fossil fuel investments and looks to invest in green tech, effectively there is a real growing institutional appetite, according to Macquarie and others, to invest in this area. I was very struck when we recently asked for a run of all the companies that the Government have invested in since 2012 in the green tech space, and it is 4,300 companies and projects. There is more work to do to see where that portfolio goes, but there is a real appetite to be investing in what are some of the most innovative ideas and companies being developed and grown in the UK.

Q430 **Mr Philip Dunne:** Of those 4,300, how many have received Government funding?

Claire Perry: All of them. That was the portfolio of companies and projects since 2012 that have been invested in, either directly through BEIS or through the various EPSRC and other portfolios.

Q431 **Mr Philip Dunne:** Did you quantify how much money has been invested in those by the public sector?

Claire Perry: There is more work to be done, and I would be delighted for the Committee to ask for much more detail because I feel this is the public sector's investment portfolio and it is incredibly helpful.

Q432 **Mr Philip Dunne:** It would be quite helpful if you could write to us with that, not least because if that source of funding has been switched off then it might demonstrate that there is a gap. If there isn't a gap, how can we be reassured that it will come from the private sector?

Claire Perry: Sorry, to clarify, the funding source for that group has been increased because that has come off the research and development budget, so we—

Q433 **Mr Philip Dunne:** All right. My final question is where the research and development budgets are going down the green finance track. Again, do you have either a ring-fenced element of that or can you give the Committee some reassurance that you anticipate significant sums from R&D to go into green tech innovation?

Claire Perry: We have ring-fenced £2.6 billion of the Department's R&D budget over this Parliament to go into the clean growth area. The



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allocations of that were set out in the Clean Growth Strategy because we are really good at early stage R&D and again this portfolio of companies is our public investment in the future. By the way, it showcases investment opportunities for overseas investors as well, so lots more to do with that, but I am delighted that the Committee would request more information and I will happily write with what we have.

Q434 **Chair:** Thank you. Just on the European Investment Bank, if I can question the Treasury Minister a bit further. EIB's investments in the UK collapsed by about 60% to 70% last year, post the referendum results. In 2016 it was €5.5 billion invested, last year €1.9 billion. My maths is not fabulous, but that is about a 60% drop. The British Business Bank isn't going to make up that shortfall, is it?

John Glen: You are right, and if I could take that perspective back further. If you look from 2006 to 2016, you see €15.69 billion invested. I acknowledge that there is work to be done in terms of overcoming the challenge of working out how we transition to the new environment. The Chancellor has been very clear about the possibility of seeing it mutually beneficial to continue to have that relationship with the EIB, but it is not something I can categorically tell you the outcome of because it is part of the wider negotiations. We are aware of the actual sums of money involved and the need to have an appropriate alternative mechanism to invest should that be necessary at the end of the negotiation process.

Q435 **Chair:** Is that the point of the British Business Bank then?

John Glen: No, it is not the point in itself, but it is one vehicle that would be a convenient way of addressing some of these infrastructure investments, and it would seem a suitable way. But we are not at the end of the conversation about the future of our relationship with the EIB and we will have to see what happens.

Q436 **Chair:** What is the point of the British Business Bank?

John Glen: The British Business Bank is there to try to deal with the problem that we have had historically with lending and encourage businesses to go beyond a certain size. We see that we have a problem in this country where there are early exits and we want businesses to grow from that £25 million/£50 million stage to have the aspirations to go to IP on the stock market and go that bit further. The British Business Bank is well-placed to look at that, but it won't have one purpose. It has a range of roles and certainly providing support with infrastructure is one of them too.

Claire Perry: Chair, could I just correct? I said £2.6 billion. It is £2.5 billion from 2015 to 2021 as the amount of money flowing in to low carbon innovation.

Q437 **Zac Goldsmith:** Is that of the overall R&D budget?



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Claire Perry: I cannot remember the R&D budget. I think it is. I want to say more than half, but I will check that.

Catherine Bremner: It is a significant proportion.

Q438 **Chair:** Is that across all the research agencies?

Claire Perry: Yes.

Q439 **Mr Robert Goodwill:** Almost on the same subject, I would like to ask a question about the green bonds. Green bonds are a way of attracting investment into these green technologies, which historically might have attracted people for altruistic reasons, but are becoming increasingly hard-nosed business decisions. We took evidence yesterday from the London Stock Exchange. I got the impression that it wanted to have its cake and eat it. It said the UK could push forward with its own green bond, which would give it a chance to innovate. On the other hand, it would also like to participate in green bonds, so my question is: following the European High Level Group on Sustainable Finance, which recently recommended a European taxonomy for sustainable finance in a European standard for green bonds, do the Government plan to adopt Europe-wide standards for sustainable finance and green bonds, or will they be developing their own?

Claire Perry: We both want to talk. I had the great pleasure of opening the Stock Exchange on the day that that report came out. You have seen that, it is very exciting. You are right this is an area where the London Stock Exchange is establishing great leadership. We have had a series of announcements of other countries who want to list there. We know we are battling some other European capitals to establish this, but you are right to also say that the securities are pricing on or below the curve. That is, people are not paying a premium to issue a green wrapper for financing. We saw things like the Anglian Water launch, which was incredibly successful, and there is a lot of interest and other groups bringing the money to market. But I will let John talk from the Treasury perspective, if I may.

John Glen: Yes. Certainly when I opened the Stock Exchange yesterday morning, the chief executive did mention the issuance of a sovereign green bond and I am aware that obviously Fiji, Poland and a couple of other countries have done so. Obviously there are two sides to this. There is the requirement that the Government have in terms of funding debt and then there is the appetite of the market. I chair the Gilt Issuers Committee, and when I chaired that—the minutes are publicly available—they did not mention an appetite for a sovereign green bond. Then it comes down to whether it would be a good signal to send. Clearly the fact that we have had 64 green bonds raising £20 billion on the London Stock Exchange means that we are seen as pioneers, but the question is: what is the balance between the signal and the market appetite and what is the cost of funding that debt for the public purse?



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Q440 **Mr Robert Goodwill:** It sounds a bit like you want to have your cake and eat it too.

John Glen: It is not a question of having your cake and eating it. It is a decision that the Debt Management Office will make and advise the Treasury based on the cost of doing it. But clearly the London Stock Exchange is a world leader and that is something we need to come to.

I want to come on to the second bit of your question, which was about the standards, because there is the Climate Bonds Initiative, and when Barclays issued a green bond they asked the Climate Bonds Initiative to verify the green credentials. There seems to be a number of market initiatives to examine and set out what a green bond looks like. There are no plans at the moment to develop new regulatory and definitional properties of a green bond, but we do have the Green Finance Taskforce, which Claire and I will be chairing next week and we will be looking for some input from them on matters such as—

Q441 **Mr Robert Goodwill:** For example, I would be delighted to see investment in zero carbon nuclear energy in the bond, whereas I suspect Caroline over there might not be. These are decisions that need to be made before a bond would be devalued by criticism from green lobby groups.

John Glen: You make a very reasonable point about the parameters of what should be included, and we are anxious to make sure that we do not do anything that jeopardises the significant market interest in investment in green infrastructure.

Claire Perry: We do not hypothecate gilts in particular projects, so in a way, in order to meet the test you would have to I guess hypothecate it for a particular prospect.

John Glen: We would have to have primary legislation to address the 1968 Act on that in terms of hypothecation. We would not want to be doing that.

Claire Perry: I think there is huge potential for borrowing authorities, housing authorities, private companies, who we have seen coming to market, and possibly different groups who really do want to invest in green economy solutions.

Q442 **Mr Robert Goodwill:** Are we lagging behind countries like France and Germany? Is the City of London likely to miss the boat if the Government plan to make sure that we are at the forefront of not only trading our own green bonds, but maybe as an international centre for the green bond market?

John Glen: If we look at the label “green bonds”, the market has grown in 10 years from £0.8 billion in 2007 to £155 billion in 2017 in London, so I do not think we are in danger of falling behind. We do not want to be complacent, but we do not want to put in proactively a definitional



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wrapper that will inhibit the growth of green bonds when there are a number of market initiatives to bring definitions that people are ready to adhere to.

Claire Perry: We have some enormous leadership, so the Taskforce on Climate-Related Financial Disclosure from the Bank of England was incredibly helpful in establishing that sort of global conversation. We trade 90% of carbon in the London markets. We have a very long track record of innovation in this space and this was the reason for wanting to have the Green Finance Taskforce up and running. We brought together as many great people as we could for a time limited point to say, "Give us your best ideas. How do we accelerate this market development as well as other parts of financial engineering?"

Q443 **Mr Philip Dunne:** Could I ask you to clarify that figure you have just given us? We have had some slightly different information about bond issuance in this country lagging significantly behind France and Germany. Was the figure you were giving there, John, trading on an annual basis or do you have any stats of green bond issuance for the UK compared to other countries?

John Glen: What I have here is that the labelled green bond market has grown from £0.8 billion in 2007 to over £155 billion in 2017.

Q444 **Mr Philip Dunne:** That is annual trading on the London—

John Glen: Yes, and 64 bonds have been issued on the London Stock Exchange and that has totalled £20 billion. That is denominated in seven currencies through 11 countries. If it would be helpful, I would be happy to clarify what precisely I mean in all those figures.

Mr Philip Dunne: That would be very helpful. We have slightly lower figures.

John Glen: Certainly, Chair, I will do that.

Q445 **Mr Robert Goodwill:** Finally, you touched on the Green Finance Taskforce. Could I ask when it will be publishing its report?

John Glen: We will be meeting with them next Monday. We would expect to see their report in the first half of this year and the Government response in the second half of the year.

Claire Perry: We did deliberately set it up on a time-limited basis because I think all of our experience is you have an APPG that sets up to do a campaign and it rolls on. You invite people to come in and advise you and we did not want this to be an advisory chore. We wanted to unleash the energy of the best market-makers, risk assessors, regulators in the UK and say, "Give us your best ideas". We are looking for 10 good recommendations that will move the dial. The groups met over 30 times. There has been a huge amount of energy and I am really excited with what they are going to come up with. We need to implement it or agree to the recommendations, but it will be a good game changer in this. This



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is one of our great export opportunities. It is a factor we have to get right to drive the transition in the UK and the ability to help the world with its transition, as well as all the climate finance that we spend I think is immense.

Q446 **Mr Robert Goodwill:** Thank you. It would be helpful to have some clear figures, because obviously you can issue a bond, and that is new capital in the market. You can trade a bond that has been issued, which is churning the money but not new money coming in—perhaps we could get a bit more information.

John Glen: That is a very reasonable point and of course I will write to the Committee as soon as possible.

Q447 **Chair:** The figures we have are \$4 billion issued in the UK, \$25 billion issued in Germany and \$41 billion issued in France, in US dollars.

John Glen: We will come back on that.

Chair: Can you let us know whether you recognise those figures or whether they are correct? We got those from the Climate Bonds Initiative.

John Glen: Okay.

Q448 **Colin Clark:** The Bank of England has said that there is growing evidence of financial risks from climate change. In 2015, Mark Carney warned there was a danger that climate risks may be beyond the horizon of most businesses, politicians and financial regulation. To what extent are you satisfied that the UK's other financial regulators have considered the impact of climate change on their remits, John?

John Glen: You are absolutely right that the Bank of England and Governor Carney have taken a strong leadership role in terms of his role as Chair of the Financial Stability Board. The work on the climate-related financial disclosures has been important to that. That work has come up with voluntary consistent climate-related financial risk disclosure principles and frameworks. If those were implemented, then it would mean that consideration of climate change in business investment decisions would be enshrined and it would lead to a more efficient allocation of capital and risk. If that work looked across banking, risk and insurance, and at the requirements of transparency, I think there are significant grounds to believe that that will move things forward significantly.

You had the representative from the FCA here yesterday as well. There is an issue in terms of disclosure around asset management and people's understanding of where green-related investments are taking place. I think that is growing all the time. They are an independent regulator and there is obviously a very close dialogue between the Treasury and the FCA and the Bank of England. What we would hope to see is the FCA represented in the taskforce to come forward with a clear



recommendation on that, but the work of the Bank of England at the moment has set forward some sensible principles that give us grounds to believe that we will make some good progress.

Q449 Colin Clark: There may be a risk of gaps, so the risk ratio only covers physical risk from climate change and does not include the potential transitional liability risk that the Bank of England has also identified. Is the Bank of England or FCA right when it comes to identifying what risk climate change poses to financial stability?

Claire Perry: Yes. Again, this was one of the work streams we had asked the Green Finance Taskforce to take on, which was to understand what better regulatory provision needed to be made to assess risk and to also help establish some global standards. As I recall, the Financial Reporting Council is consulting on the Corporate Governance Code, which refers to the work of these various climate risk disclosure committees to encourage companies to assess and report on those. It is hugely important.

John Glen: Could I mention one other thing? It is partly because one of my constituents was pushing the Treasury on it for several years before I was there, which is insurance-linked security. Parliament recently approved some regulations that introduce a competitive regulatory and tax regime for insurance-linked security businesses in the UK, which essentially allows some of the climate change risks to transfer to the capital markets. That is a welcome innovation and will deal with some of the climate-related risks that exist.

Q450 Mr Robert Goodwill: On the issue of risk, the difficulty is defining or creating a common understanding of what risk looks like, but it is the financial risk of climate change as opposed to the physical risks that are at least to some degree policy. In other words, you write the risk. If you decided to double your carbon reduction aspirations over the next 20 years and then came up with a tangle of policies to achieve that, that would make certain investments less viable and other investments more attractive. Is there an agreed understanding within Government on what climate-related finance risk looks like? Is that a fair distinction?

Claire Perry: I guess it is a really important question and one of the conversations for companies is about stranded assets: what do you actually do? I suppose the conversations we have had with companies suggest that they are taking a global view on this. They look at things like the Paris Agreement and they have a view on the trajectory and they are basing their investment decisions and also their divestment decisions on those. Cath, do you want to comment on that?

Catherine Bremner: Sure. This is one of the biggest questions for financial institutions globally, following the TCFD report. The Committee heard evidence yesterday from the Bank of England, but also Lord Turner. One of the biggest challenges in the climate finance sector at the moment is: how do you make your investment future proof in terms of



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transition risk, as the TCFD outlined, and also physical risk? You have had over 240 companies globally voluntarily commit to implement the TCFD recommendations, so working out what a 2 degree pathway looks like for their investments is not a trivial task.

As the Minister said earlier about the Clean Growth Strategy, the Government are leading globally in trying to do that for the UK, but if you are a major institution globally, how do you do that across all your investments? Then the second area is around climate scenario planning. The Bank of England talked about that as well yesterday. It said that the UK is a leading expert globally on climate science, but it is about translating that into a language that a financier can look at for investment decisions and say, "Have you future proofed that against different scenarios?" whether that be 1.5 degrees, 2 degrees, or 2.5 degrees.

The Environment Agency and Defra have done a lot of work in the UK around flood risk, including in the future. Therefore we have asked the Green Finance Taskforce to look where the centre of expertise is in the UK, not only on the finance side, but on the climate science and risk side. How can we bring that to bear to help financial institutions address the TCFD report and its implementation?

Claire Perry: There is also an important global perspective on this. We are again recognised globally as a centre of excellence: excellence in modelling, meteorological forecasting and risk assessment. DFID set up the Centre for Global Disaster Protection to help developing countries understand and mitigate the risks of climate change, particularly on an insurance basis. Again, I see this as a fantastic opportunity for us to both do the right thing and create some productivity growth in the UK, if we can export this capability and promote it as part of what we can help the world with.

John Glen: The last thing I would say is that the UK co-chairs with China the Sustainable Finance Study Group. That leadership is rooted in some of the emerging big investments happening there, and it was raised in our economic and financial dialogue with Brazil last autumn as well, so we are seeking to get that balance between being proactive, leading globally, and trying to deliver the sorts of outcomes that we all anticipate and wish for.

Q451 **Alex Sobel:** Moving on to adaptation reporting, under the Climate Change Act, Defra has powers to request adaptation reports. The consultation on the third cycle of adaptation reporting was published last week and says that it is encouraging a voluntary approach. What steps are your Departments taking to encourage regulators to engage with Defra on this?

Claire Perry: We are all looking at Cath hopefully.



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Catherine Bremner: We sit on the National Adaptation Committee with Defra. Could you repeat the question in terms of—

Alex Sobel: What steps are your Departments taking to encourage regulators to engage with Defra on this, so regulators that you work with?

Catherine Bremner: I might have to come back to the Committee on that. We do engage with Defra on particular industries and their planning around environmental and climate risk and particularly the energy sector and the plans in place for that. But in terms of other regulators we can come back to the Committee.

Q452 **Chair:** Can I press you on this because this is the heart of the inquiry? Can we perhaps hear from DWP on this? You regulate the Pensions Regulator. We had them in yesterday to talk about this adaptation reporting power. In their evidence to us they said they were all looking at it, but they had not made a decision. What dialogue is happening on this in your Department? This is the future material risk to our and our children's pensions. Do you not think this is something they should be looking at?

Fiona Walker: I am afraid it is not an area that I am aware of us doing particular work on, so I would need to enquire and come back to the Committee.

Catherine Bremner: Sorry, I should clarify if the question was about how are the Government and their regulators looking at climate and physical risk—

Chair: Adaptation reporting power under the Climate Change Act.

Catherine Bremner: As described yesterday by the regulator in the Committee, under the Companies Act at the moment companies are able to disclose material risk. The Government endorsed the TCFD recommendations last year and encouraged all listed companies to implement those. The Government are, through the FRC—as the Minister pointed out—in the midst of a consultation in this area as well. As the Committee heard evidence yesterday, all of the regulators are looking at ways in which to provide additional guidance. The Bank of England in particular emphasised that while at this stage it did not think it was appropriate to have mandatory implementation of TCFD, which includes the physical and adaptation risks, the Government are looking at proposals around this to provide more guidance to companies on how to address climate risk. It is one of the key work strands of Green Finance Taskforce.

Q453 **Chair:** That is not what we are asking. We are asking about adaptation reporting, so it is asking what the regulators and your Departments are doing in terms of the adaptation reports to the Committee on Climate Change.



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Catherine Bremner: Material risk could cover physical risk, which is adaptation reporting, yes, so I think it is, unless I have—

Q454 **Chair:** We are asking specifically about the adaptation round, not the general concept, the abstract concept. This is something that is underway now and it is a five-yearly cycle. The Bank of England has undertaken it on the insurance sector. It is about to undertake it on the banking sector, so it clearly thinks that the banking sector has some material risk from adaptation. Don't pensions have a material risk from the adaptation cycle? Doesn't the Treasury have a material risk? Doesn't BEIS have a material risk?

Claire Perry: It is a superb point to make, if I may, Chair, and I am sure that all the usual conversations are happening. We have asked the taskforce specifically to look particularly at regulators and whether their reporting requirements are up to scratch. But could we take that away and write to the Committee, because it may be that the Committee has—as often happens—flagged up something that we need to make sure we are absolutely—

Catherine Bremner: Defra is lead on the National Adaptation Plan, so I think we would consult with Defra and come back to the Committee.

Claire Perry: The point about industry regulators is a really valid point. I am sure it is happening, but if we may just take it away and write to you because it is an excellent point.

Q455 **Alex Sobel:** You may be able to answer that. Colin obviously raised this issue about the FCA's risk register and the gaps in the risk register related to climate change. Again, will the Treasury be encouraging the FCA to take part in adaptation reporting? Are you able to answer that, John?

John Glen: The Treasury has a close dialogue with the FCA on a number of matters. I have already met Andrew Bailey, and I will be very happy to—and expect to—continue that dialogue. What we need to understand is exactly where they are at in terms of the different sectors and the reviews that they are undertaking. Absolutely, but as Claire said, we need to come back with a more definitive answer on this.

Q456 **Alex Sobel:** You will take that adaptation point away and come back to us?

John Glen: Yes.

Chair: We will maybe come back to that a bit later.

Q457 **Caroline Lucas:** Catherine, what you were beginning to say then—I think you were anticipating in a sense the question I wanted to ask, because as you rightly said, the Government have endorsed the TCFD proposals and have said in their own submission to our inquiry that they are encouraging publicly-listed companies to implement them. My question was, in a bit more detail: what specific actions have the



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Government taken and are they taking to encourage publicly-listed companies to implement the TCFD recommendations?

Catherine Bremner: As I previously said—I welcome that question—the Government formally endorsed the TCFD’s recommendations as part of their Clean Growth Strategy last year, recognising the importance of this work globally in addressing financial risk, so climate change, both physical and transition.

One of the key challenges though is having the right information at the right time for the financial sector to implement the recommendations from the TCFD. As the Committee heard in evidence yesterday from the regulators and Bank of England, more than 240 companies have already voluntarily committed to implement the recommendations.

Q458 **Caroline Lucas:** The question was specifically what more are you doing to encourage more companies to do it?

Catherine Bremner: The FRC is doing a consultation at the moment around corporate governance reporting. BEIS has also recently done a consultation around carbon reporting and specifically asked questions around where could Governments provide further guidance and clarification to companies in the implementation of TCFD?

Q459 **Caroline Lucas:** Are you saying, in a sense, you do not know yet how to encourage more companies to do something?

John Glen: May I just interject on this? The point is that a large number of companies have supported the work in terms of what reporting they think is necessary. My predecessor set out that for those recommendations that came forward in June 2017, we would expect them to be adopted. I think the issue that you may be driving at is in terms of how much compulsion there should be. We have not reached the point yet where we can verify the voluntary take-up of what has been a very well-received initiative and—

Q460 **Caroline Lucas:** But your point right now, as I understand it, is that the Government support voluntary take-up. Presumably you are supporting that because you think companies will take it up, but—

John Glen: Yes, so there comes a point where you have to verify whether they have or have not—so whether you need to go further.

Q461 **Caroline Lucas:** Exactly. What practical things are you doing to encourage, to support, and to promote companies to sign up? What I have heard so far is answers explaining that there are a number of consultations going on trying to ask companies what help they need, but that begs the question: do you not already know what needs to be done to encourage companies to sign up?

Claire Perry: If I can clarify, we have asked the Green Finance Taskforce specifically this question: should Government do more to facilitate this



voluntary take-up? As Cath mentioned, we have had a consultation that has had 130 responses, which are being considered on this question.

Q462 **Caroline Lucas:** Maybe it is semantics, but it is just that in your submission to this inquiry you said that the Government are encouraging and have encouraged publicly-listed companies to implement them. I am trying to understand—I can see when you talk about future things, that is fine—what they have done.

Catherine Bremner: We already have in the UK encouraging of carbon reporting, so the first step for financiers to be able to start to report the transition risk is to understand the carbon footprint in their investment. In the UK we already have those regimes in place.

The second is this climate change scenario or risk, which is the physical risk, and that is through the climate science work, which the Government support. We are co-sponsoring the 1.5 degree report through the IPCC, and the Government invest over £90 million per year on climate science research. Therefore the Government already invest quite a lot in this space. The question that I think remains is how you translate that information into something that the finance sector can use for their modelling and for the—

Claire Perry: Also for the corporate sector in a way that is not burdensome, and again, this constant balancing of mandation versus over-regulation is one that we would want to get right.

Q463 **Caroline Lucas:** How long do you think you would need to wait before taking a further view, potentially, on mandatoriness or not?

Claire Perry: We need to review the results of the consultation and review the work of the Green Finance Taskforce and come to a conclusion.

Q464 **Caroline Lucas:** Just remind me when that is likely to be.

Claire Perry: The Green Finance Taskforce will conclude its recommendations in the next couple of months and the consultation date is being considered, so we will go away and try to come up with a—

Q465 **Caroline Lucas:** I do not want to put words in your mouth, but you are suggesting maybe after the summer that might be a moment where you might revisit the issue of voluntariness versus mandatoriness.

Claire Perry: I would hate to front run any Government business, but I think we all celebrate the work of the Bank of England and the taskforce. I think it was an excellent piece of work and it is right to endorse those proposals and then think about how to make them stick in a way that is not burdensome and does not create lots of disincentives.

Q466 **Caroline Lucas:** I would simply say that we have had quite a lot of evidence, as you can imagine, saying that while there may well be an argument for it not being mandatory until now, we have evidence that



literally says that we cannot have this going on forever, and we do need to have some—

Catherine Bremner: I think one of the key opportunities is to learn from those organisations that are voluntarily implementing the TCFD. Some of the issues that they might be encountering, certainly some of the evidence the Committee has seen, has mentioned the importance of standards in this space, so how do you define green?

There is the Climate Bonds Initiative that you have already mentioned around green bond taxonomies, but as Minister Perry said, she welcomed the HLEG report. One of those key recommendations was around further green taxonomies, so how do you have standards in this space that also aid in disclosure? I think the three primary principles are standards, guidance, but also learning from those that are implementing at this stage.

Claire Perry: Nobody wants greenwash. This is one of the reasons we have asked the BSI to help us to develop global investment standards. Let us be in the business of having serious, well-defined green investments and proper disclosure, because then again it supports the UK's leadership in this space.

John Glen: The last thing I wanted to say—it might be the last thing, depending on what you say—is that a lot of bilateral conversations are going on as well, so I would not want to give the impression that the UK is acting in isolation. There are lots of conversations going on within the G20 and bilaterally with China, so these standards have to be fit for purpose in a global operating environment—one I think that we are taking the lead in and we want to do that in the right way. But I do not think there is any reticence to act should there not be the take-up that we need.

Q467 **Caroline Lucas:** I want to ask Fiona Walker a question, if that is okay. TCFD recommendations obviously are directed at asset owners and pension funds as well, so what will you be doing to encourage them to implement the proposals?

Fiona Walker: We are certainly very keen to see pension schemes demanding better disclosure in this space. Clearly there is a demand side to this. It is difficult. Most big schemes are invested in a huge number of firms and only a small proportion of them may be considering these sorts of disclosure. It is hard for them to do it in a systematic way at the moment, but we certainly think they have a role to play in building that demand and my ministry is encouraging them to do that.

Q468 **Caroline Lucas:** How? I am struggling with how you are encouraging them.

Fiona Walker: It is in dialogue at the moment. There is not a regulatory approach that is firmly fitting around that.



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Q469 **Caroline Lucas:** Do you have specific conversations or dialogues and processes with BEIS in order to accelerate the take-up by companies?

Fiona Walker: Yes, absolutely. We have been very much part of the cross-Government work in this area. We recognise that pension schemes, as institutional investors, are very large. They are here for the long term and they have a big role to play so we are very firmly plugged into that.

Claire Perry: Having flogged the question about adaptation reporting, my officials have told me what is happening, if I may inform the Committee. We launched on 15 January a consultation on the third round of adaptation reporting as required under the Climate Change Act. It proposes that a number of new financial regulators like the FCA, the Pensions Regulator and the Financial Reporting Council were invited to participate. We will lay our third strategy for adaptation before Parliament in summer of this year, but I think we all have the message we need to take away and make sure these important risks are being included.

Q470 **Chair:** Can I come back on that? We are at risk of losing our DWP focus, but Defra has opened a separate consultation on which bodies should be required under the Climate Change Act to prepare an adaptation report and that consultation closes on 26 March. Our question was about whether you are engaged in the Defra consultation, and on which bodies.

Claire Perry: I think I may be referring to the Defra consultation in my answer because they are the lead Department on this.

Q471 **Chair:** But yours started in January and Defra's opened on 12 February.

Claire Perry: I do not feel I have clarified the position. I am very happy to go away and make sure we are clear as glass.

Chair: It may be that you are consulting because of the Defra consultation.

Claire Perry: There are square brackets around the date on my submission, so it may be that you are right. We will de-flub adequately because it is extremely important.

Chair: Thank you. Can we go back to the DWP line? I am keen to hear on that.

Q472 **Caroline Lucas:** In fact, I was moving away from that in my next question. The last question I had was about reference scenarios. We have heard from a number of companies and asset owners that they could minimise the costs of implementing TCFD if reference scenarios could be suggested. My question was whether anyone sees a role for Government or public bodies in helping companies and asset owners implement specifically by setting reference scenarios.

Catherine Bremner: As I said earlier, the reference scenarios in the whole climate change risk is an important issue and the TCFD, the Bank of England, as I understand, is looking to provide further guidance to financial corporations later on this year. I know that Green Finance



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Taskforce members are also considering how can we use the UK's expertise around climate science to translate what some of the scenarios might mean for the finance sector in meeting the Paris Agreement, but also in being prepared for climate risk.

Q473 **Chair:** Could we just say about DWP, your Department's submission to this Committee says the pension schemes' ability to implement TCFD depends on companies taking it up, so is your Department pressing BEIS to accelerate the take-up of TCFD?

Fiona Walker: We are certainly in dialogue with them about that and the other thing we will look at doing—

Q474 **Chair:** Is dialogue pressing or is dialogue just having a nice chat?

Fiona Walker: I think it is pressing and I think the other side of this is clearly that I know the Committee has talked to several of the witnesses about the fact that there are not enough pension scheme trustees who are confident in this area yet. There is a misunderstanding about there being regulatory barriers to them being more demanding and we have committed to do further work this year to consult on going from the regulated guidance that there is now, which seeks to try to enable trustees to be more effective in changing this area, to clarifying that position in the law. I think we will see some real progress on that in the next year.

Caroline Lucas: I have finished my questions, but before I leave the floor, just for the record, the CEO of National Grid was Steve Holliday, who said that the idea of base load power was already outdated, but I will send you the full reference.

Chair: Fine. We are all having a very interesting time, some more than others.

Q475 **Kerry McCarthy:** You may be saved by the bell in a moment because the whips are telling us there is going to be a vote quite soon, so I will try to get this through quickly. The Companies Act already requires companies to disclose the principal risks they face, so which sort of company from which sectors would you expect to be reporting on climate risk already?

Catherine Bremner: The key question in the Companies Act is about those that pose a material risk and the Committee has heard evidence around those sectors that might be more exposed to climate risk. Clearly energy is one of those, but heavy manufacturing sectors, including those impacted by flood risk as well—some of the construction and building sectors are the kinds of companies I mean. But each company needs to make its own judgment and the assessment of what is material risk.

Q476 **Kerry McCarthy:** We heard yesterday that people tend to factor in the risk of flooding and other planet-related events, but not so much looking at the risk of stranded assets, for example. Should companies be doing more to focus on that?



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Claire Perry: Yes, and I think markets are a great way of already coming to a judgment on which companies. You only have to look at the share price performance of companies relating to coal activity. There is a clear market signal out there and you would want active investors to be demanding more disclosure. I also think it is companies who make a business from this space, so the big service companies. It is not just always those who are engaged in manufacturing who have a business in—

Q477 **Kerry McCarthy:** I suppose there will be energy-intensive companies where it is not as obvious. If you are a fossil fuel company you would obviously expect Government policy on climate change and reducing the use of fossil fuels to be reflected in your prospectus and what you are putting forward. But there will be other companies where it is slightly one step removed.

Claire Perry: Supply chains are important. If I can just pivot back to the Industrial Strategy—so when we are going through the sector deal process and we have launched the first sector deals, but we are also working on sector deals with the oil and gas industry, and with the nuclear industry, trying to understand what that means for their supply chain as well. I think it is a hugely important thing and we have obviously asked them to consider these four Grand Challenges—clean growth, mobility, ageing and digitisation—and think about what that means for their industry and their supply chains. It is not just the big companies you want to be thinking about this; it is also the smaller suppliers.

Q478 **Kerry McCarthy:** You are aware of the Client Earth complaint against the FRC. The FRC failed to challenge two oil and gas exploration companies—Cairn Energy and SOCO International—because they did not mention climate change in their reports. As a response to that, eventually the companies did change their strategic and risk management report and no action was taken, because the moment it was flagged up they responded. Do you think that was appropriate, given the rules on risk reporting set out in the Companies Act?

Claire Perry: I think in a market where you have companies who are trying to attract capital, if they do not disclose material risks they do not attract the right capital and there is a level of shareholder activism that you want involved here. The challenges around certainly reporting for regulators and Government are absolutely huge. In a way, the markets do punish those companies for not disclosing risks.

Q479 **Kerry McCarthy:** But that required—as so many things do these days—intervention from Client Earth to flag up that something was wrong. Do you think there is more that could be done?

Catherine Bremner: As the Committee heard evidence from the FRC yesterday, they audit 10% of companies every year—*[Interruption.]*

Kerry McCarthy: I think it will stop in a second, so you might want to wait for that, for the sake of the Hansard report.



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Chair: We will suspend for 15 minutes and meet back here at 15.43, if that is okay with you.

Sitting suspended for a Division in the House.

On resuming—

Chair: I think the bell went and the feed was cut when the bell goes, so perhaps we could resume with Kerry's questioning, please.

Q480 **Kerry McCarthy:** We were trying to remember what I just asked, what was being said. I am not quite sure we had reached the bottom of it during the break, had we? I do not know if you can remember what answer you started giving.

Catherine Bremner: I think I was talking about the FRC.

Kerry McCarthy: We had asked about Client Earth and the complaint, so we reached that far, but Claire had answered it to an extent and then you were coming in on that.

Catherine Bremner: Just to say that, as the Committee heard evidence yesterday from the FRC, they audit 10% of companies reporting each year. The FRC welcomed Client Earth looking into this and then also encouraging further climate risk reporting in the case of those couple of companies.

Q481 **Kerry McCarthy:** Is that it—to encourage further reporting?

Catherine Bremner: I think they asked them to report against it and they did.

Q482 **Kerry McCarthy:** But that is a retrospective move, is it not? They put their house in order after a fuss was made, but that is not the ideal scenario we should be aiming for. They should be reporting on these things.

Catherine Bremner: I have gone back to the Minister's previous comments around Government encouraging implementation of the TCFD.

Claire Perry: I do not know, Ms McCarthy, how it fits against other sampling and I think it is good that it has been sorted out. I think it is absolutely right to encourage companies to disclose, but it may be normal practice to sample your customer base or your company base in order to establish compliance or not, so we need to take that away.

Q483 **Kerry McCarthy:** The FRC is currently consulting on a revised corporate governance code and the proposed revisions do not explicitly mention material risks related to environmental sustainability. We had quite a discussion yesterday, as you will have seen in the transcript, about the scope of fiduciary duty and to what extent certain decisions could be made, taking into account environmental risks. Do you think the corporate governance code needs to be more explicit in terms of material risks?



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Claire Perry: Did you say it was not a request in the consultation?

Q484 **Kerry McCarthy:** The revisions that they are suggesting to the code do not explicitly mention material risks relating to environmental sustainability, so it is whether we could do more. I know it is slightly convoluted because it is a regulator, which is not your responsibility. It is a regulator drawing up the code that is now up for revision.

Claire Perry: But it would be a great proposal from the Committee to write and put into the consultation. I think you have probably taken a lot more evidence on this than many other groups and making that point in response to a consultation could be—I genuinely think this is an area where people want to do the right thing. There is this tightrope we discussed about too much of a burden versus making sure the right risks are disclosed. It is striking how many companies do want to come forward and be on the side of transparency, but I genuinely think it is an area where establishing the UK and UK companies as the most transparent and most obviously disclosing their environmental risk can only be a good thing. The Committee's suggestions on that I am sure will be welcome.

Q485 **Mr Robert Goodwill:** Could I suggest rather than this Committee making a submission to the consultation that you look at our report and then respond to that and use that as part of your policy formulation? I think this Committee would deserve slightly more than being just another of the consultees.

Claire Perry: Of course, yes, and it is not our consultation. It is an independent regulator, but I look forward with great interest to many of the recommendations in the report.

Q486 **Kerry McCarthy:** By the time we have published our reports and you are looking at your response—I do not know the deadlines for the current consultation on the code, but I suspect that the boat might have sailed by then.

Fiona Walker: Twenty-eighth of February.

Q487 **Kerry McCarthy:** I do not know if you have a quick enough turnaround, that you might want to just give them a little nudge in the right direction, if you are able.

Claire Perry: Is the request that we write to the FRC to say that we have given evidence and there was a strong interest?

Q488 **Chair:** Yes, and not just on the material risk, but the transition and liability risks.

Claire Perry: Before I commit the Department to do something that may be completely out of scope, I think that makes perfect sense, so I would like to go away and just check that is all okay and there are no conflicts, but it seems to me to be a perfectly sensible suggestion.



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Q489 **Chair:** One of the things we notice is everyone is comfortable talking about material risk, energy companies, flooding. What they are not comfortable talking about is transitional risks, stranded assets.

Kerry McCarthy: It is about sustainability, so it is across the piece. Sustainability is a bit different to your immediate flooding risks or whatever, yes.

Claire Perry: We will take that away.

Chair: Thank you. We are going to move on with some questions from Anna.

Q490 **Anna McMorris:** This is a question to the DWP. In the Department's submission you acknowledge that while the practice exists, recent research suggests that an outright misunderstanding of fiduciary duty could be widespread among trustees. Why has it taken three years and two reports from the Law Commission for the Department to promise concrete action to clarify duties?

Fiona Walker: We were hopeful that the guidance that the Pensions Regulator issued to trustees would help them understand what they were able to do, required to do and permitted to do. Clearly it has not been as successful as we hoped, so therefore we have committed to go forward and legislate on that now.

Q491 **Anna McMorris:** Opening this out then as well to the Treasury, auto enrolment has led to a huge increase in contract-based workplace pensions provided by FCA-regulated insurers. How can we ensure that obligations on pension providers to consider environmental risks are the same across both the trust and contract-based pensions?

John Glen: That is an issue I am not intimate with, I have to say, because there is obviously a regulatory framework around that. You are right to say there is a shift from the way that pensions have been invested, but I am sorry, I will need to take that away and come back to you.

Fiona Walker: Is it helpful if I come in on the numbers of schemes we are talking about? You are absolutely right that automatic enrolment has driven a huge growth in the market. At the minute we have about 2,600 contract-based DC schemes and 35,000 occupational trust-based DC schemes. We are also seeing more of a merging. For example, on the contract side we now have probably most of the big insurers where they are active in the automatic enrolment market, having set up master trusts, so they are using a trust-based system to run something backed by insurers. In that case the provisions that apply to trust-based schemes will also apply to those ones that are being run by insurers too.

Q492 **Anna McMorris:** The FCA and TPR have announced they will be working together?

Fiona Walker: Yes, to produce a joint strategy on how to regulate it.



Q493 **Anna McMorris:** What is the timeline for this?

Fiona Walker: They mentioned yesterday they are out doing some consultation events on that next month and then they plan to publish it before the summer. That is a particularly proactive piece of work they are doing together. There has long been a debate about whether or not having two different regulators for pension schemes is the right approach. We think it is, provided they work sufficiently closely together. There is also a lot of work behind the scenes. For example, we have a group that meets on DC policy issues that includes the FCA, the regulator, the Bank of England and the PRA and that has been in existence for many years.

Q494 **Anna McMorris:** How will climate change risks and opportunities related to that be considered as part of the development of this strategy?

Fiona Walker: I could not speak for two independent regulators on that. I think they plan to publish a discussion document setting out the scope of the strategy before their events next month, so I am sure they—

Q495 **Anna McMorris:** Could this not be written into the terms of reference?

Fiona Walker: I am sure that it could. It is, as I say, a piece of work that is being led by them, so I am happy to pass the message on and suggest that it should be.

John Glen: The taskforce that Claire and I are dealing with next week—the FCA is represented on that. If there are clear recommendations in this area we will be keen to address them. The point of this time-limited taskforce is to get some actionable items for us to take on, so there is no reticence to listen to what the FCA have to say. But we are in a bit of a difficult situation here because obviously the regulators are independent and there is a dialogue there.

Q496 **Anna McMorris:** But if they are not asked to even consider any of this, they are not going to get those recommendations.

John Glen: I know, but with the greatest respect, we have not reached the end of that process yet. When we have the taskforce recommendations it may well include something in this domain and then we will know to act. If not, then there is something we can take forward. It would be difficult for us to commit to do something before we have been asked by the body we have set up to look into things.

Q497 **Anna McMorris:** But this strategy could be used to contribute to your Government policy, could it not?

Claire Perry: On the taskforce, we do engage with them regularly. Part of the idea of getting all these disparate players together was to come up with a better understanding of the risk, and a better development of products that might have to run across different boundaries and be regulated in different ways and a better opportunity. I think the Committee is making the point quite clearly.



John Glen: Can I just give an example in terms of asset management, where there are some very real issues around the capacity of the industry to adapt to the opportunities of fintech to find the right platform of skills? There is a taskforce that I chair. I met with them a few days after I took on this job five weeks ago. I am very happy to take that back to that taskforce in the asset management side and the FCA are involved in that as well. There is an iterative conversation to say how are we addressing this issue, how is the industry addressing this issue and what is the best way forward. The FCA is in active dialogue with them and has charged them with doing certain things at different points in time. I am very happy to look at that issue as part of that work.

Q498 **Chair:** The Law Commission process has been going on for over two years, so this is not something that we have just pulled out of the hat. This is something that has been grinding on in the background and your colleague just said there are 37,000 Defined Contribution schemes out there now, so this is an explosion through auto enrolment. Surely one of the tasks is to see how that investment can be rolled into green investment vehicles for the future. Surely that is what they are looking at, isn't it?

Fiona Walker: Can I just clarify? The vast majority of trustee pension schemes are single employer small trusts and they pre-exist automatic enrolment. Where we have seen a huge growth through automatic enrolment is in a relatively small number of now very large schemes.

Q499 **Chair:** And NEST.

Fiona Walker: Including NEST, yes.

John Glen: That is one of the three or four big master trusts.

Fiona Walker: Yes, that is absolutely right. For example, we have 140 schemes that have more than 5,000 members, so in terms of targeting a focus on issues where we think that there is more trustees can and should do, we now know what the population of those schemes are and they are the ones I would suggest where more significant headway can be made.

Q500 **Chair:** NEST was not confident in talking about these issues to us, so this is not something that is on their horizon. They have just been busy getting the scheme up and started. They have their sustainable investment strategy, but they have not any engagement with their beneficiaries.

Fiona Walker: I would perhaps not quite agree that it is lack of confidence. I think automatic enrolment is a long, slow thing to get going and our first priority is to get people saving and we are well along the way with that. We have nearly 10 million new savers. We need to get them saving more, so in April this year and April next year contributions rise. Once they are beginning to save enough and beginning to recognise the value of that and hopefully be pleased that they are pension saving,



we can then hope to build on that, to do more to encourage them to be active in understanding where those schemes are invested and influencing them.

It is an inertia-based policy. We are a little bit nervous of disturbing that inertia too much while we are getting people accustomed to pension saving again. I think we absolutely agree that engagement has to be the way forward and it is certainly one of the ways we will galvanise the trustee member engagement and then hopefully beyond that. But we do not think this is quite the point to focus on that.

Claire Perry: If I may go back to the point we discussed earlier, there is not a global set of defined standards for green investing, so at the moment the opportunity for pension funds and other investors to invest their members' assets in kite-marked green investments does not exist. That is where the work of the British Standards Institute is incredibly helpful in trying to establish that kite mark. This is the mark of a proper green investment and I believe they are going to be hosting their first feedback session in March as to where they want to take those proposals.

I think there is a lack of potential investor confidence in what is a truly green type of investment right now. Does it include nuclear or not? There are these challenges and questions, so for me establishing a leadership position and helping the investment community with that could be a really good move forward.

Q501 **Chair:** We are going to just develop that now. If I can come back to Ms Walker, in your submission you noted the benefits of greater engagement between trustees and beneficiaries. If pension fund trustees were required to consult beneficiaries, how do you envisage that process working?

Fiona Walker: There are a number of potential routes. It is probably realistic to think that it is unlikely that very large proportions of members would become engaged. I think the regulator already publishes guidance on some of the methods, whether it is sampling, whether it is focus groups and those sorts of things. I think it is a case of building from there. Also we talked to some of the organisations like ShareAction, who are very good at galvanising member engagement and we are keen to work with them as we go forward.

Q502 **Chair:** Can't you put it down on the annual statement of benefits?

Fiona Walker: We can or we could. I should not say we can, because that would be too easily done. To be honest, the huge challenge with annual member statements is people do not read them. We are in a position where a lot of the annual statements have become very long and ever more likely not to be read. We have done a piece of work in the Department over the last year looking at how we can have a single template for a two-page statement that the whole of the industry would



look at using. Frankly it is about simplifying, it is about making language accessible and meaningful.

I am reluctant to think we should look at loading more things into that until we have a basic formulation that works. That is the short-term priority and again it is all about once we get people reading those, understanding what their DC pension is and what it means, that there are investments that sit behind it, I think we can then build from that.

Q503 **Chair:** Why are they not using apps?

Fiona Walker: Quite a lot of them do. One of the challenges again is getting members to engage with those apps, so obviously the way automatic enrolment works is the employer puts people into a pension scheme unless they opt out and then they continue to save. Getting members to then log in, understand how much they have, what they are projected to have in the future, even that is a huge challenge and that is the challenge we are focused on at the moment.

Q504 **Chair:** The Government has raised concerns, you have raised concerns about a survey-based approach, self-selection. What response rate do you think is robust evidence?

Fiona Walker: That is a very good question. It depends probably on the topic that is being probed. It will be more evident in some cases that there may be areas where only a small proportion of members would be likely to have a strong view. There will be others where you would expect that most people would have a view on things, like whether or not a scheme should invest in tobacco would be an obvious example. The challenge is for us to find ways to be truly representative without necessarily being hugely inclusive in terms of numbers and there is a way to go on that.

Q505 **Caroline Lucas:** I want to go back to the first question. Your answer was you would be not unwilling, but reticent, about loading more things into this template. I wondered whether it might work the other way around in the sense that if one of the things people were going to get when they logged on was a statement of investment principles, you might want to call it something a little bit more exciting than that, but that might motivate more people to find out what is going on. Lots of people will look at their piece of paper and do not fully understand what the figures mean, myself included.

We know there was a survey in our papers yesterday and something like over 50% of people said they would, for example—it was a survey of young people—like to make sure that their pensions were not invested in fossil fuels. There would be a way of tapping into some of these concerns if some of the information they were going to get when they did bother to log in was potentially more meaningful to them.

Fiona Walker: That would be a helpful thing to test. We know younger people are more likely to continue saving than older people with



automatic enrolment. They have a long horizon of time to be invested. Obviously there is a challenge with a great big scheme like NEST or many others. They are quite rightly invested in a very diverse set of options and they do publish their statement of investment principles on their website. They also have other plain English guides to that and I know they would be very keen to do more work on that in future. I agree, I think it is a potential area that we could exploit in future.

Caroline Lucas: It would be great if you could.

Q506 **Mr Robert Goodwill:** Following on from that, it must be quite a challenge to ask a question that is not a loaded question. If you had the question, "Do you recommend we invest in companies that are kind to the environment, kind to animals and do not destroy things?" most people tick the box. On the other hand, if there was a question saying, "We do not care what you invest in, so long as my pension is as big as it could be" a lot of people would also tick that box. Do you think the challenge might well be how you can consult with the beneficiaries of a pension scheme without leading them in terms of the questions you ask?

Fiona Walker: I am sure that is absolutely right and also of course keeping things in balance. Fundamentally the pension scheme is there to give someone the income in retirement and that must remain the trustees' fundamental concern and will be most members' fundamental concern as well.

John Glen: Can I just make one point there? You mentioned earlier about apps. It is relevant to talk about open banking and fintech, the opportunities for growth and transparency. As we have seen a consolidation of investments post auto enrolment and the ramp-up of that, the sensitivity has been around getting those behaviours embedded, the consolidation into a small number of master trusts. But as you see more the opportunities that come from greater transparency and access to data and fintech, a market that is growing and we are world leaders in, I think we will see a greater appetite for transparency and that will drive this change.

I acknowledge where you are coming from and some of the questions have been around what we mandate, but I think this is something that the Government will wish to come back to as we see a greater confidence in the levels of take-up and a greater appetite to engage with this. I think it is positive for people to be aware of and to be engaged in decisions related to what their funds are invested in because that drives a more responsible behaviour with respect to what they do with that sum of money. The pots are quite small at the moment and the primary concern would be to get them to hold on to it and concentrate on building it up.

Q507 **Chair:** Absolutely, and we want to see that as well. I would like to leave you with a quote from David Geale yesterday, who is the Head of Policy at the FCA. He said, "There is a potential tension with the fact that people are expecting companies to maximise returns. In some cases, they may



be giving up returns by taking some form of social investment as an aspect of their pension funds". Isn't that a fundamental misunderstanding of what sustainable investment is, that if you invest sustainably over a 40-year timescale you should be protected from the transition and physical and material risks of climate change? We were quite concerned to see that from the FCA, who are now regulating these Defined Contribution schemes.

John Glen: My observation on that would be that there is a big gap between somebody who has a small pot, just becoming familiar with putting a few per cent of their very limited disposable extra income into a pension, and getting to the point where they are going to make well-considered, well-informed decisions about investment. We need to get the balance right between transparency around where that money is and what the risks are associated with it and active investment. We need to be sure we are getting large numbers of people committed to that ongoing discipline of saving in terms of their pensions.

Q508 **Chair:** But the FCA's outlook looks at material risk from a three to five-year timescale. They are now going to be in charge of people's pensions on a 20 to 40-year timescale. Don't you think that change with regard to these Defined Contribution schemes needs to be reflected in how they regulate?

John Glen: Clearly all regulators need to deal with the evolving issues they face in their responsible areas. That is something we will need to look at and they will need to respond to.

Chair: Thank you all very much indeed. It has been a very illuminating session.