



Environmental Audit Committee

Friday, 23 February 2024

Baroness Vere
Treasury Lords Minister
HM Treasury

Lord Callanan
Minister for Energy Efficiency and Green Finance
Department for Energy Security and Net Zero

By e-mail only

Government response to the Environmental Audit Committee's report on *The financial sector and the UK's net zero transition*

Dear Charlotte and Martin,

Thank you to you and your colleagues for your recent and timely response to my Committee's report on *The financial sector and the UK's net zero transition*. The UK has long been a leader in green finance: the Government's COP26 commitment to making London the world's first net zero financial centre is an ambition of which we should be proud as a country. Our report identified the strong need for the UK's financial sector to maintain momentum to achieve this aim and to continue to provide leadership for other markets around the world. I write to you today with some comments on specific aspects of your response to our report.

There is much in your response that we welcome. For example, we are pleased to learn that together you have commissioned the Transition Finance Market Review, and we welcome the "early 2024" timeframe you promise for your consultation on voluntary carbon markets. It is essential that this work is delivered in a timely way to maintain the UK's lead in green finance, and to achieve the Government's climate and nature targets.

However, we are concerned about timescales slipping. Your promised consultations on the UK green taxonomy and transition plans are long overdue, and your response to us on sector-specific net zero roadmaps gives us cause for concern. In this letter we focus on these two areas in particular; but we have general concerns about lagging delivery, to which the IPPR and the Green Finance Institute drew attention in their recent report



Environmental Audit Committee

on *Making markets: The City's role in industrial strategy*, published on 20 February. In an annex to this letter, we reproduce a table from that report which outlines several policies where the Government's delivery is either late or without update. To see these slipping deadlines set out this way makes for concerning reading.

Sector-specific net zero investment roadmaps

In oral evidence in May 2023, Lord Callanan advised us that net zero roadmaps on nature, nuclear, heat networks, electric vehicles, and transport would be published in Autumn 2023. Of these, only the civil nuclear roadmap has been published, and after the promised Autumn 2023 deadline. In your response to our report you promise a nature roadmap by the end of 2024 and an update to the hydrogen roadmap in February 2024, and explained that your approach to mobilising investment in electric vehicles and green industries was covered in your November 2023 Advanced Manufacturing Plan.

We strongly support the Government's intentions to publish an investment roadmap for nature: as we identified in our report, the UK has led the way globally on climate finance and has the opportunity to be a world leader on financial solutions to support nature's recovery too. But given the Prime Minister's recent statements on the likely timing of the General Election, we are concerned that your "end of 2024" deadline for the nature roadmap could risk slippage to after the General Election. **We judge that your proposed timescale for a nature investment roadmap is not ambitious enough, and should be brought forward to Autumn 2024 at the very latest.**

For the other areas – heat networks, electric vehicles, and transport – you have chosen not to publish standalone investment roadmaps. **What assurances have you received from industry that the detail in your Advanced Manufacturing Plan gives sufficient confidence to invest in net zero solutions in these sectors?**

Transition plans and UK green taxonomy

We strongly support the Government's ambitions to launch a UK green taxonomy and a framework for companies' net zero transition plans. They are essential to be able to compare apples with apples and to hold companies to account. We congratulate both the Transition Plan Taskforce and the Green Technical Advisory Group for their excellent work in these areas.

We made several detailed, specific recommendations in these two areas which each received about half a page in response. We recognise that the Government intends to



Environmental Audit Committee

consult on transition plans and on the taxonomy and so you may be wishing not to jump the gun. Therefore, we ask that you take our detailed analysis into consideration as part of your consultations. **We also request that you write to us, when you publish the outcome of those consultations, with more detailed and specific responses to our recommendations in chapter two of our report**, including on:

- The comply or explain basis for transition plans;
- Whether it will be mandatory to have and to disclose a transition plan;
- Whether there will be a compulsory framework for transition plans;
- Monitoring, evaluation, and verification of transition plans;
- How often you will report on your monitoring of the voluntary reporting period of the green taxonomy;
- Whether the taxonomy will be mandatory and for whom; and
- A long-term institutional home for the UK green taxonomy.

Before that time, **we request that you set out the proposed timeframes for both consultations.**

The Government is not short of ambition on green finance, but continued dither and delay risks undermining the exceptional track record and reputation the UK has globally, weakening market confidence, and failing to meet the Government's critical targets on net zero and nature. We urge you to expedite the consultations you have promised, and look forward to receiving further updates from you in due course.

Yours sincerely,

Rt Hon Philip Dunne MP
Chair, Environmental Audit Committee



Environmental Audit Committee

Annex: Green finance strategy policies and current status

Policy	Important Dates in Green Finance Strategy (2023)	Latest Update on Policy
<i>Increase transparency: fostering data flows from the real economy to financial firms and from financial services to end investors to inform stakeholders.</i>		
Mandatory Transition Plans consultation	Soon after TPT framework.	Framework published by TPT Q4 2023. No update on government consultation.
DBT: UK Sustainability Disclosure Standards (SDS) based on IFRS Sustainability Disclosure Standards	Endorsement decision within 12 months of the first two standards' publication.	Call for evidence closed Q4 2023. Endorsement decisions by July 2024.
FCA: Sustainability Disclosure Requirements (SDR) and Investment Labels	Policy Statement and final rules in Q3 2023.	Published Q4 2023.
Update the Environmental Reporting Guidelines (ERG)	Stakeholder engagement in Q3 2023.	No update.
Clarify scope 3 greenhouse gas emissions data reporting	Consultation in Q3 2023.	Launched and closed in Q4 2023. Implementation TBC.
Climate resilience assessment and disclosure guidance	Developed in the lead-up to 2024 and beyond. Approach published in 2024.	Plan expected in 2024.
Tackle deforestation-linked finance	Spotlight in 2023.	Regulations on forest risk commodities – SI expected in Q1 2024. Financial Investment and Deforestation Bill - 1 st reading HoC, Q4 2023.
Incorporate TNFD into UK policy and legislative architecture	Assessment of framework in Q4 2023.	No update.
<i>Tools for transformation: provide tools, products and services to assist market participants with greening the financial system</i>		
UK Green Taxonomy	Autumn 2023 consultation - disclosures will be voluntary for at least two years. Initial timeline (Greening Finance	Consultation expected in Q1 2024.



Environmental Audit Committee

	Roadmap; 2021) included consultation in Q1 2022.	
Regulation for ESG ratings providers	Launched consultation.	Plans expected January 2024.
Reforming ESG benchmarks	Review post implementation of other measures e.g. UK Green Taxonomy.	No update.
<i>Transmission channels: government policy levers to scale up the availability of finance for the transition to a net-zero, resilient and nature positive economy</i>		
FRA-FCA: Regulatory framework for effective stewardship	Review in Q4 2023.	Discussion Paper expected in H2 2024.
Fiduciary duties to be clarified in the context of the net-zero transition.	Review in Q4 2023.	Guidance published Q1 2024.
PRA: Implement Solvency UK regime	2023.	Reforms, including Matching Adjustment, in H2 2024.
Mobilise additional finance through high-integrity voluntary carbon and nature markets		
Consult on interventions to foster high-integrity carbon and nature markets	2023.	No update.
Taxation of environmental land management and ecosystem service markets	Consultation published in Q1 2023.	Response deferred until Spring 2024.

Source: IPPR, [Making markets: The City's role in industrial strategy](#), February 2024, pp.15-16