

# POSITIVE MONEY – WRITTEN EVIDENCE ESI0016 – UK ENERGY SUPPLY AND INVESTMENT

Positive Money welcomes the opportunity to respond to the Economic Affairs Committee call for evidence on UK energy supply and investment.

We are a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

If you would like to discuss any aspects of this response please contact Simon Youel, Head of Policy & Advocacy at Positive Money:

[simon.youel@positivemoney.org.uk](mailto:simon.youel@positivemoney.org.uk)

## Key points

- The gas crisis, exacerbated by Russia's invasion of Ukraine, has exposed longstanding vulnerabilities in Britain's energy system.
- The volatile nature of oil and gas will be a long-term feature of global energy markets, and price fluctuations should be expected regardless of the speed of the energy transition.
- The only responsible way of stabilising energy prices in the long term is to reduce the share of oil and gas in the system, by (1) stopping all new fossil fuel exploration and expansion, and (2) rapidly upscaling investment in renewable energy.
- In May 2021, the International Energy Agency warned that investment in new oil, gas and coal supply must stop this year if the world is to reach net zero by 2050, and said that annual global investment in clean energy needs to increase by more than triple, to \$4tn by 2030.

## Recommendations

1. Not approve licences for any new domestic fossil fuel expansion projects, and restrict all lending by UK banks to projects that are incompatible with the IEA pathway to net zero by 2050 and ecological limits.
2. Support green lending through the Bank of England's targeted lending schemes, such as the Term Funding Scheme (TFS).
3. Significantly increase capitalisation of the UK Infrastructure Bank.
4. Use climate-calibrated capital requirements to protect the economy from risky fossil fuel lending and steer lending away from fossil fuels.
5. Ensure better coordination between the Bank of England and the Treasury to facilitate public investment in the energy transition to at least £30 billion a year.
6. Reverse HMT plans to give financial regulators new statutory objectives

for growth and international competitiveness, and instead introduce a statutory objective for alignment with the goals of the Paris Agreement.

**1. To what extent are the causes of recent rises in energy prices likely to be long-term features of global energy markets? Are the Government's policies for reducing the impact of higher energy prices on consumers sustainable and in line with long-term energy objectives? If not, what alternatives are there?**

**1.1. The gas crisis, exacerbated by Russia's invasion of Ukraine, has exposed longstanding vulnerabilities in Britain's energy system.** Energy price pressures since late 2021 have resulted from Britain's reliance on depleted European gas stocks, high demand for liquefied natural gas in Asia and Latin America, as well as a drop in gas supplies from Russia.<sup>1</sup> Longer-term, the UK's reliance on imported fossil fuels for heating and electricity generation, combined with a lack of storage capacity (the UK stores gas equivalent to just 12 days of average demand<sup>2</sup>), makes the UK particularly exposed to changes in gas prices, with the cost of gas four times higher in January 2022 than a year earlier.<sup>3</sup> 85% of the recent rise in electricity prices is due to gas.<sup>4</sup>

**1.2. The volatile nature of oil and gas will be a long-term feature of global energy markets, and price fluctuations should be expected regardless of the speed of the energy transition.** At the same time, climate change and ecological breakdown are bringing us into an era of long-term instability and uncertainty, threatening the basic conditions for price and financial stability.<sup>5</sup> The only responsible way of stabilising energy prices in the long term is to reduce the share of oil and gas in the system, by (1) stopping all new fossil fuel exploration and expansion, and (2) rapidly upscaling investment in renewable energy. Due to soaring gas prices in 2021, Europe's renewables are already replacing fossil gas, where they previously replaced coal power.<sup>6</sup> However, the transition is not happening nearly fast enough to stay within 1.5C.

**1.3. Unfortunately, this is not the UK's current direction of travel.** The government has signalled its intention to approve the development of the major new Cambo oilfield (although that project has now been put on hold<sup>7</sup>), and not to end new licensing.<sup>8</sup> As such projects take many years to develop, they will not help to fill energy supply gaps in the short term, nor stabilise prices. As the IEA forecasts make clear, any development of new fossil fuel sites will cause the

---

<sup>1</sup><https://www.opendemocracy.net/en/oureconomy/britains-energy-crisis-has-been-decades-in-the-making/>

<sup>2</sup><https://questions-statements.parliament.uk/written-questions/detail/2019-02-11/HL13575>

<sup>3</sup><https://www.ons.gov.uk/economy/inflationandpriceindices/articles/energypricesandtheireffectonhouseholds/2022-02-01>

<sup>4</sup> <https://ember-climate.org/commentary/2022/01/14/uk-electricity-prices-fossil-gas/>

<sup>5</sup> [https://eprints.soas.ac.uk/35496/1/The%20Price%20of%20Hesitation\\_FINAL-New.pdf](https://eprints.soas.ac.uk/35496/1/The%20Price%20of%20Hesitation_FINAL-New.pdf)

<sup>6</sup> <https://ember-climate.org/project/european-electricity-review-2022/>

<sup>7</sup><https://www.theguardian.com/uk-news/2021/dec/10/work-on-cambo-oilfield-paused-after-shell-withdrawal>

<sup>8</sup> Department for Business, Energy and Industrial Strategy, Designing a climate compatibility checkpoint for future oil and gas licensing in the UK Continental Shelf, December 2021

further lock-in of both pollution and stranded assets, increasing transition risks for all oil and gas investments (not just new ones).<sup>9</sup>

**1.4. The UK's heavily privatised and fragmented energy sector allows natural monopolies to engage in exploitative pricing, and the government's approach to the gas crisis has protected company profits at all costs.**<sup>10</sup> As a result, UK households are expected to see energy bills rise by an average of £693 a year in April, while Shell and BP reported Q4 2021 profits of £14 billion and £9.5 billion respectively.<sup>11</sup> By contrast, the French government has limited gas price increases to 12.6% and promised further help after the cap ends in April, whilst also restricting increases in power costs to 4%, with supplier EDF offering discount prices.<sup>12</sup>

**4. What level of investment will be needed in the UK's energy supply to secure an orderly transition, particularly over the next decade? 4.b. Is sufficient private capital being invested in reliable and affordable energy sources that are in line with climate objectives, including the commitment to net zero (for example, hydrogen and nuclear)?**

**4.1. In May 2021, the International Energy Agency warned that investment in new oil, gas and coal supply must stop this year if the world is to reach net zero by 2050, and said that annual global investment in clean energy needs to increase by more than triple, to \$4tn by 2030.**<sup>13</sup> The Climate Change Committee recommends that to reach net zero by 2050, the UK must upscale low-carbon investment through public and private sources from £10bn/year in 2020 to £50bn/year by 2030.<sup>14</sup> These goals will require an urgent reorientation of finance away from fossil fuels and towards green alternatives, using all policy levers available.

**4.2. Offshore wind is now amongst the cheapest forms of electricity in the UK, with onshore wind even cheaper,<sup>15,16</sup> and estimates suggest that**

<sup>9</sup> [https://www.greenpeace.org.uk/wp-content/uploads/2022/02/zeroing\\_in\\_investor\\_briefing.pdf](https://www.greenpeace.org.uk/wp-content/uploads/2022/02/zeroing_in_investor_briefing.pdf)

<sup>10</sup> <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/EnergyConsumersMissingBillions.pdf>

<sup>11</sup> [https://uk.news.yahoo.com/why-energy-price-cap-going-up-when-oil-firms-shell-making-billions-profit-163329341.html?guccounter=1&guce\\_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce\\_referrer\\_sig=AQAAANAMiUt26\\_gaxGxfem9iUG-7BWUhB2IyHWbuZ85FRwAEgnBbGGzSgD\\_oSF0OmE8\\_-PCh4i35QGPP88oxZFORahF1iAJvBYymAYsmzCa6f0wATanmR1RJgab08NU8r5BkDjfNsrPMB3WmYDfuMf88MzflPyL9h4\\_mzZFmor6PDdkG](https://uk.news.yahoo.com/why-energy-price-cap-going-up-when-oil-firms-shell-making-billions-profit-163329341.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAANAMiUt26_gaxGxfem9iUG-7BWUhB2IyHWbuZ85FRwAEgnBbGGzSgD_oSF0OmE8_-PCh4i35QGPP88oxZFORahF1iAJvBYymAYsmzCa6f0wATanmR1RJgab08NU8r5BkDjfNsrPMB3WmYDfuMf88MzflPyL9h4_mzZFmor6PDdkG)

<sup>12</sup> <https://www.gouvernement-fr.translate.google/actualite/le-gouvernement-veut-limiter-la-hausse-du-tarif-de-l-electricite-a-4? x tr sl=fr& x tr tl=en& x tr hl=en& x tr pto=sc>

<sup>13</sup> International Energy Agency, 'Net Zero by 2050: A Roadmap for the Global Energy Sector', May 2021: <https://www.iea.org/reports/net-zero-by-2050>

<sup>14</sup> <https://www.theccc.org.uk/wp-content/uploads/2020/12/The-Sixth-Carbon-Budget-The-UKs-path-to-Net-Zero.pdf>

<sup>15</sup> <https://www.carbonbrief.org/wind-and-solar-are-30-50-cheaper-than-thought-admits-uk->

**all UK homes could be powered with offshore wind for £50 billion.<sup>17</sup>**

Moving at an urgent pace (as was done to roll out the UK's Covid vaccine programme), with significantly higher levels of investment, the energy system could be electrified with renewable sources within one to two years. Analysis from Carbon Brief has shown that there are 649 individual onshore wind and solar projects that have already been granted planning permission, but are not yet built because of the lack of Government support to bring them to the market.<sup>18</sup> If built, these projects could quickly generate more energy than the UK is currently importing every year from Russia.<sup>19</sup>

**4.3. Currently, levels of private investment are a long way off what is required to meet these goals.**

The UK banking sector is in fact pulling in the opposite direction, continuing to pour billions of pounds a year into fossil fuel development at home and abroad. Emissions from projects financed by the UK banking sector are greater than those of other European countries, with the biggest five UK banks pouring £227 billion into fossil fuel development between 2016 and 2020.<sup>20</sup>

**4.4. Public investment in the energy transition is also lagging.**

The government's Net Zero Strategy set out plans to 'unlock' £90 billion of new investment in the green transition between 2021 and 2025, of which more than £60 billion is expected to come from the private sector.<sup>21</sup> But £90 billion is the same amount that has been invested in renewables in the last nine years. Economists have called for the government to upscale public investment in the green transition to at least £30 billion a year to meet the government's net zero target.<sup>22</sup>

**5. What effect is financial services regulation, and the commitments made by financial services providers to achieve net zero in 2050, having on energy investment? Specifically, is regulation getting the right balance between encouraging investment in renewable energy and supporting the green transition, while also ensuring security of supply?**

---

[government](#)

<sup>16</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/911817/electricity-generation-cost-report-2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/911817/electricity-generation-cost-report-2020.pdf)

<sup>17</sup><https://www.theguardian.com/environment/2020/oct/06/powering-all-uk-homes-via-offshore-wind-by-2030-would-cost-50bn>

<sup>18</sup><https://inews.co.uk/opinion/fracking-onshore-wind-boris-johnson-uk-weapon-against-vladimir-putin-1506705>

<sup>19</sup><https://inews.co.uk/opinion/fracking-onshore-wind-boris-johnson-uk-weapon-against-vladimir-putin-1506705>

<sup>20</sup> <https://www.ran.org/bankingonclimatechaos2021/>

<sup>21</sup> <https://www.gov.uk/government/publications/net-zero-strategy>

<sup>22</sup><https://www.ippr.org/news-and-media/press-releases/budget-investment-boost-of-33bn-a-year-needed-to-put-uk-on-path-to-net-zero-by-2050-chancellor-told>

**5.1. Financial institutions’ own pledges and commitments have proved ineffective at moving capital out of fossil fuels or stimulating investment in renewables.** Europe’s 25 largest banks provided £42 billion (\$55 billion) in financing to companies expanding oil & gas production last year, despite 20 of them having pledged to zero-out emissions from their portfolios by 2050 at the latest.<sup>23</sup> No European bank currently enforces any corporate finance restrictions for companies involved in the development of new conventional oil and gas reserves.<sup>24</sup> The Mark Carney-led Global Financial Alliance for Net Zero, which is claimed to represent around 40% of the world’s total financial assets, has been similarly criticised for failing to require of its members any concrete cuts in oil, gas or coal financing.<sup>25</sup> As well as threatening the government’s own emissions reduction targets, unregulated investment in fossil fuels<sup>26</sup> and ecological damage<sup>27</sup> also exposes the UK to serious financial stability risks. As the Bank of England recognises, climate change threatens to wipe \$20tn off the value of assets by 2050.<sup>28 29</sup>

**5.2. On the Environmental, Social, and Corporate Governance (ESG) and institutional investor side, greenwashing is rife.** A recent report by the Common Wealth think tank analysed a cohort of over 10,000 mutual funds and exchange-traded funds (ETFs) registered for sale in the UK.<sup>30</sup> The author found 809 ‘ethical’ funds, 150 funds marketed under an ESG theme, and 33 funds marketed according to a specific climate or low-carbon theme. Within the climate-themed funds, 12 funds (one third of the cohort) held oil & gas producing companies as of their recent filings (Q1/Q2 2020), of which three had stakes in oil giant ExxonMobil.<sup>3132</sup>

**5.3. The government’s current approach to climate-safe financial regulation relies far too heavily on financial institutions’ voluntary**

---

<sup>23</sup><https://shareaction.org/news/net-zero-banks-continue-to-finance-oil-gas-expansion-ignoring-climate-science>

<sup>24</sup><https://shareaction.org/news/net-zero-banks-continue-to-finance-oil-gas-expansion-ignoring-climate-science>

<sup>25</sup><https://www.bloomberg.com/news/articles/2021-11-03/carney-led-climate-finance-plan-stirs-criticism-as-too-little>

<sup>26</sup> Rainforest Action Network, ‘Banking on climate chaos: fossil fuel finance report 2021’: <https://www.ran.org/bankingonclimatechaos2021/>

<sup>27</sup> Portfolio Earth, ‘Bankrolling Extinction’ report: <https://portfolio.earth/>

<sup>28</sup> Bank of England speech Sarah Breeden, ‘Avoiding the storm: Climate change and the financial system’, April 2019: <https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/avoiding-the-storm-climate-change-and-the-financial-system-speech-by-sarah-breedem.pdf>

<sup>29</sup> International Renewable Energy Agency (IRENA) report 2017: [https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2017/Mar/Perspectives\\_for\\_the\\_Energy\\_Transition\\_2017.pdf](https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2017/Mar/Perspectives_for_the_Energy_Transition_2017.pdf)

<sup>30</sup><https://www.common-wealth.co.uk/reports/doing-well-by-doing-good-examining-the-rise-of-environmental-social-governance-esg-investing>

<sup>31</sup><https://www.common-wealth.co.uk/reports/doing-well-by-doing-good-examining-the-rise-of-environmental-social-governance-esg-investing>

<sup>32</sup><https://influencemap.org/report/Climate-Funds-Are-They-Paris-Aligned-3eb83347267949847084306dae01c7b0>

**pledges, disclosures and information-gathering exercises.** The overemphasis on the Task Force on Climate-related Financial Disclosures (TCFD) is illustrative of this trend, which relies on two false assumptions. First, that markets are efficient and financial institutions can effectively self-regulate. The 2008 global financial crisis served as a wake-up call to the reality that financial markets left to their own devices are prone to excessive risk-taking and unable to price assets efficiently. Second, that climate risks are quantifiable, which has been refuted by green finance experts. The Bank of International Settlements confirms that the 'radical uncertainty' associated with climate change impedes precise quantification of the risk it presents.<sup>33</sup> Climate risks are uniquely complex, involving tipping points and feedback loops, and cannot be quantified, extrapolated from past data or 'efficiently' priced into market activities.<sup>34</sup> Relying solely on market-led approaches therefore risks both failing to manage material risks to the financial system, and failing to sufficiently 'green' finance flows within the timeframes remaining for action.

**5.4. The Financial Services Future Regulatory Framework Review presents a major opportunity to shape the financial system to support the UK's energy transition, but current proposals to give the regulators a 'competitiveness' objective risk undermining these goals.**<sup>35</sup> The Treasury's current proposal for a 'regulatory principle' for sustainable growth does not go far enough and risks being undermined by a stronger statutory objective to promote the 'international competitiveness' of the industry. Where regulatory changes involve a trade-off between supporting the net zero transition and promoting the international competitiveness of firms, the proposed approach will force regulators to choose the latter, as 37 leading charities and public interest groups recently argued.<sup>36</sup>

**5.5. Fiscal, industrial, and environmental policy should be the first priority to realise the UK's energy transformation, but financial policy must also play a key role by moving capital out of fossil fuels and into renewables.**

## **6. What should the Government do to incentivise and enable investment in, and financing of, reliable and affordable energy that is in line with its climate objectives, including net zero by 2050?**

---

<sup>33</sup> Bolton, P., Després, M., Pereira da Silva, L., Samama, F. and Svartzman, R. 2020. The green swan: Central banking and financial stability in the age of climate change [Online]. Bank for International Settlements. Available from: <https://www.bis.org/publ/othp31.pdf>.

<sup>34</sup> <https://positivemoney.org/2019/10/climate-risk-vs-uncertainty-in-financial-policymaking/>

<sup>35</sup> <https://www.gov.uk/government/consultations/future-regulatory-framework-frf-review-proposals-for-reform>

<sup>36</sup> <https://positivemoney.org/2022/02/public-says-no-to-financial-deregulation/>

**6.1. Delivering the government’s new Net Zero Strategy and securing the UK’s future energy supply will require a rapid reallocation of public and private finance away from dirty sectors and towards clean ones.** The speed and scale of this shift means it cannot be achieved through voluntary private sector initiatives, nor through ‘information gathering’ exercises like stress tests, mandatory plans and disclosures. Different arms of government must now work together to join up fiscal, monetary, and industrial policy in order to finance a rapid, orderly and just transition across every sector of the economy. As well as restricting *all* investment in new fossil fuel expansion, this will require the government to fill funding gaps through public investment, take an active role in shaping new green markets, and guide private credit towards them.

**6.2. To incentivise and enable investment in, and financing of, reliable and affordable energy that is in line with its climate objectives, the government should:**

**6.3. Not approve licences for any new domestic fossil fuel expansion projects, and restrict all lending by UK banks to projects that are incompatible with the IEA pathway to net zero by 2050 and ecological limits.** The government should explore the case for direct limits on investments which are incompatible with the pathway to net zero by 2050 outlined by the IEA, such as financing for new fossil fuel projects. To prevent economic ‘overheating’ and to ensure fiscal space for increased investment in decarbonising homes and switching to renewable energy sources, the government and Bank of England could restrict private credit creation (which makes up the vast majority of money in the economy<sup>37</sup>), rather than increasing interest rates across the board. Such restrictions could include qualitative and quantitative regulations to restrict credit towards new fossil fuel projects, as well as regulations to restrict credit towards activities such as M&A, to prevent greater market concentration in the energy sector. As a recent macroprudential bulletin from the European Central Bank concludes, “Quantitative and qualitative restrictions on banks’ portfolios could contribute to limiting the build-up of climate risks.”<sup>38</sup>

**6.4. Support green lending through the Bank of England’s targeted lending schemes, such as the Term Funding Scheme (TFS).** The government should work with the Bank of England to encourage, and in some cases require, private banks to channel their lending for green projects, such as renewable energy infrastructure and retrofits.<sup>39</sup> The Bank’s TFS was adjusted to support specific parts of the economy during the pandemic. Further changes

---

<sup>37</sup> <https://positivemoney.org/how-money-%20works/>

<sup>38</sup> [https://www.ecb.europa.eu/pub/financial-stability/macprudential-bulletin/html/ecb.mpbu202110\\_1~5323a5baa8.en.html](https://www.ecb.europa.eu/pub/financial-stability/macprudential-bulletin/html/ecb.mpbu202110_1~5323a5baa8.en.html)

<sup>39</sup> E. Lonergan, M. Greene. 2020. ‘Dual interest rates give central banks limitless fire power’. Retrieved from <https://voxeu.org/article/dual-interest-rates-give-central-banks-limitless-fire-power>



could be introduced to increase green lending to small businesses and households by lowering the cost of borrowing for green activities. The Bank of England's Japanese counterpart announced a similar scheme last year.<sup>40</sup>

**6.5. Significantly increase capitalisation of the UK Infrastructure Bank (UKIB).** UKIB could be mission-critical to delivering renewable energy infrastructure as well as efficiency measures such as retrofits, by coordinating stakeholders, channelling public funds and bringing together sources of capital.<sup>41</sup> With the seed funding for the UKIB set currently at only £12bn (with further £10bn in government guarantees) over the next five years, the Office for Budget Responsibility has reported the UKIB would only be able to support £1.5bn a year in investment. This falls far short of £5bn a year on average the UK received from the European Investment Bank (EIB) ahead of the Brexit referendum, and is even further off the current green investment gap in the UK, estimated as at least £10bn annually with additional funding needs increasing to £50bn according to the CCC.<sup>42</sup> The government should therefore commit to significantly increasing UKIB's paid-in capital.<sup>43</sup>

**6.6. Use climate-calibrated capital requirements to protect the economy from risky fossil fuel lending and steer lending away from fossil fuels.**

The government should work with the Bank of England to adjust capital requirements to increase the amount of shareholder equity that a bank has to hold against fossil fuel lending, to reflect the high risk of such investment. In a scenario in which the government bans new fossil fuel projects and restricts fossil fuel lending, capital requirements could be used as an additional tool to reflect the high risk of *existing* fossil fuel lending, which should be subject to a 150% risk weight at minimum. However, in the absence of these restrictions, new fossil fuel lending should be assigned a 1250% risk weight,<sup>44</sup> to ensure that investments incompatible with IEA's pathway for net zero are funded wholly by banks' own capital, rather than putting the public's deposits at risk. This would mean that every unit of currency of financing provided to new fossil fuel projects be matched by one equivalent unit of currency of financial institutions' own funds. Central banks themselves within the Network for Greening the Financial System,<sup>45</sup> as well as the European Central Bank<sup>46</sup> and Bank of England<sup>47</sup> have proposed the use of climate-calibrated capital requirements.

---

<sup>40</sup><https://www.bloomberg.com/news/articles/2021-06-18/boj-announces-new-steps-on-climate-change-stands-pat-on-rates>

<sup>41</sup><https://9tj4025ol53byww26jdkao0x-wpengine.netdna-ssl.com/wp-content/uploads/UK-Infrastructure-Bank-Built-Environment-roundtable-E3G-Briefing-Paper.pdf>

<sup>42</sup> [1] Nick Robins. 'CCC(Dec 2020)\_The Road to Net-Zero Finance', A report prepared by the Advisory Group on Finance for the UK's Climate Change Committee. Retrieved from <https://www.theccc.org.uk/wp-content/uploads/2020/12/Finance-Advisory-Group-Report-The-Road-to-Net-Zero-Finance.pdf>

<sup>43</sup><https://9tj4025ol53byww26jdkao0x-wpengine.netdna-ssl.com/wp-content/uploads/UK-Infrastructure-Bank-Letter-April-2021.pdf>

<sup>44</sup> <https://www.finance-watch.org/wp-content/uploads/2021/11/One-for-One-Joint-letter-BCBS.pdf>

<sup>45</sup> [https://www.ngfs.net/sites/default/files/medias/documents/ngfs\\_guide\\_for\\_supervisors.pdf](https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf)

<sup>46</sup><https://www.ecb.europa.eu/pub/financial-stability/macroprudential->

**6.7. Ensure better coordination between the Bank of England and the Treasury to facilitate public investment in the energy transition to at least £30 billion a year.** Since the outbreak of the pandemic, there has been substantial monetary and fiscal coordination, making it clear that under certain conditions, the UK government's financing needs can be supported by the Bank. These tools should be re-deployed to help finance targeted public spending to meet the UK's clean energy needs in this moment of crisis. The government should aim to upscale public investment in the energy transition to at least £30 billion a year.<sup>48</sup>

**6.8. Reverse HMT plans to give financial regulators new statutory objectives for growth and international competitiveness, and instead introduce a statutory objective for alignment with the goals of the Paris Agreement and emissions reduction targets outlined by the International Energy Agency pathway to net zero by 2050.**<sup>49</sup> To stop the financial system threatening the basic conditions for monetary and financial stability and causing energy price volatility, regulators must be empowered to adopt an active and 'precautionary' approach to managing these risks and fulfilling their new 'green' remit.<sup>50</sup><sup>51</sup>

## **8. What incentives could the Government provide to households and businesses to reduce demand for energy or to improve energy efficiency?**

**8.1. Retrofitting homes would reduce demand for energy while saving households hundreds of pounds a year in bills.** The UK has some of the least efficient homes in Europe.<sup>52</sup><sup>53</sup> Air source heat pumps are four times more efficient than gas boilers.<sup>54</sup> An urgent programme to deliver retrofits at scale could significantly reduce dependence on gas, and is essential for meeting the

---

[bulletin/html/ecb.mpbu202110\\_1~5323a5baa8.en.html](https://bulletin/html/ecb.mpbu202110_1~5323a5baa8.en.html)

<sup>47</sup><https://www.bankofengland.co.uk/prudential-regulation/publication/2021/october/climate-change-adaptation-report-2021>

<sup>48</sup><https://www.ippr.org/news-and-media/press-releases/budget-investment-boost-of-33bn-a-year-needed-to-put-uk-on-path-to-net-zero-by-2050-chancellor-told>

<sup>49</sup> <https://positivemoney.org/2022/02/public-says-no-to-financial-deregulation/>

<sup>50</sup> UCL Institute for Innovation and Public Purpose, 'Climate-related financial policy in a world of radical uncertainty', December 2019: <https://www.ucl.ac.uk/bartlett/public-purpose/publications/2019/dec/climate-related-financial-policy-world-radical-uncertainty>

<sup>51</sup><https://www.gov.uk/government/news/climate-considerations-now-fully-embedded-across-uk-principal-financial-regulators>

<sup>52</sup> <https://theenergyst.com/europes-leakiest-homes-new-study-fingers-britain-fails-to-plug-gaps/>

<sup>53</sup>[https://environment.inparliament.uk/sites/environment.inparliament.uk/files/2022-03/How%20to%20power%20an%20affordable%20net%20zero%20economy%20-%20APPG%20briefing\\_%20%28002%29\\_0.pdf](https://environment.inparliament.uk/sites/environment.inparliament.uk/files/2022-03/How%20to%20power%20an%20affordable%20net%20zero%20economy%20-%20APPG%20briefing_%20%28002%29_0.pdf)

<sup>54</sup><https://www.theecoexperts.co.uk/air-source-heat-pumps/efficiency#:~:text=%20Yes%2C%20heat%20pumps%20are%20much%20more%20efficient,usually%20around%20370%25%20more%20efficient%20than%20gas%20boilers.>

UK's climate goals. It would also reduce energy bills at a critical moment, as consumers are facing rising prices and a wider cost of living crisis. The Green Homes Grant's Local Authority Delivery scheme has already saved recipient households £1.2 billion on their energy bills. The Institute for Public Policy Research has estimated that decarbonising the UK's housing stock could also create 138,000 new jobs.<sup>55</sup>

**8.2. The government should provide retrofit grants for poorer households, and work with the Bank of England to offer cheap lending for retrofit measures.** The New Economics Foundation (NEF) estimates that upgrading the UK's entire housing stock to EPC Band C by 2030 requires a total spend of £35.6bn over a five-year period (2020/21-2024/25), which means significantly upscaling both public and private investment.<sup>56</sup> The government should offer full grants to cover the costs of retrofitting fuel poor households. It should also explore reforms to the mortgage market to incentivise lending for retrofit measures and reduced interest rates for efficient properties. The Bank of England could play a critical role in the green mortgage market through its credit guidance policies such as its term funding schemes. As NEF has proposed, the government should look into a national loan guarantee scheme, an interest rate offsetting scheme, and favourable capital treatments for green mortgage loans.<sup>57</sup>

## **9. What lessons are there for the UK from comparable countries in terms of securing investment in reliable and affordable energy?**

**9.1. There are good lessons from Germany's KfW loans to support retrofits.** KfW is a German state-owned investment and development bank. The bank's "Energy-efficient Construction and Refurbishment" programmes have retrofitted 4 million households, catalysed investments of over €260 billion, produced 320,000 jobs per year, and reduced emissions by 9 million tonnes per year.<sup>58</sup> The programmes were catalysed by the 1970s oil crisis and spike in fuel prices. A similar approach is warranted by today's gas price crisis. There are also successful examples of the use of low interest loans for retrofit across Europe, including in Scotland and Ireland.<sup>59</sup> Germany has also announced €200 billion to fund industrial transformation between now and 2026, including climate protection, hydrogen technology and expansion of the electric vehicle charging network.<sup>60</sup>

---

<sup>55</sup> <https://www.ippr.org/research/publications/pump-up-the-volume>

<sup>56</sup> [https://neweconomics.org/uploads/files/Great-Home-Upgrade-Policy-Briefing\\_September-2021\\_final.pdf](https://neweconomics.org/uploads/files/Great-Home-Upgrade-Policy-Briefing_September-2021_final.pdf)

<sup>57</sup> [https://neweconomics.org/uploads/files/Great-Home-Upgrade-Policy-Briefing\\_September-2021\\_final.pdf](https://neweconomics.org/uploads/files/Great-Home-Upgrade-Policy-Briefing_September-2021_final.pdf)

<sup>58</sup> [https://www.kfw.de/About-KfW/Newsroom/Latest-News/Pressemitteilungen-Details\\_403200.html](https://www.kfw.de/About-KfW/Newsroom/Latest-News/Pressemitteilungen-Details_403200.html)

<sup>59</sup> <https://9tj4025o153byww26jdkao0x-wpengine.netdna-ssl.com/wp-content/uploads/UK-Infrastructure-Bank-Built-Environment-roundtable-E3G-Briefing-Paper.pdf>

<sup>60</sup> <https://www.reuters.com/business/sustainable-business/germany-has-earmarked-220-billion->

**9.2. As mentioned in question 1, the UK could also look to France for measures to manage energy prices.** The French government has limited gas price increases to 12.6% and promised further help after the cap ends in April, whilst also restricting increases in power costs to 4% with supplier EDF offering discount prices.<sup>61</sup>

*11th March 2022*

---

[industrial-transformation-by-2026-2022-03-06/](#)

<sup>61</sup><https://www-gouvernement-fr.translate.google/actualite/le-gouvernement-veut-limiter-la-hausse-du-tarif-de-l-electricite-a-4? x tr sl=fr& x tr tl=en& x tr hl=en& x tr pto=sc>