

Written evidence submitted by Positive Money (NZG0060)

# Net-zero Governance Inquiry

***Business, Energy, and Industrial Strategy committee Call for evidence | 27 August 2021***

Positive Money is 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.

## RECOMMENDATIONS

- BEIS, DEFRA, HMT and The Bank of England, should collaborate to establish a Green Finance Action Taskforce (GFAT), with representatives from each department as well as independent bodies such as the Climate Change Committee, to ensure cross-government coordination on greening the financial system. The GFAT should work to align the UK financial system with the 2050 net-zero target.
- The Green Technical Advisory Group (GTAG), Bank of England and government departments involved in the development of the UK's Green Taxonomy should ensure proper public consultation at all stages. Classification of financial flows by the UK Taxonomy should incorporate a classification of 'dirty', as well as green, activities.
- The Bank of England (with the assistance of GFAT and other government departments) should develop a metrics dashboard which reports on financial flows towards net-zero, and targets to bring the financial system in line with the Paris Agreement. Progress should be regularly measured against these targets and publicly reported
- The UK should implement a Net Zero Test for all government spending decisions to ensure they are in line with the UK's net zero targets. Government departments should also incorporate a range of social and environmental indicators into their spending decisions instead of narrowly focusing on GDP. For instance, HMT could further incorporate the ONS 'Measures of National Wellbeing' dashboard into policymaking.

## KEY POINTS

- The Bank of England, the UK financial system, and key Whitehall departments are not sufficiently co-ordinated to be able to achieve the Government's net zero target by 2050.
- Despite national and international commitments to cutting carbon emissions, the UK's financial systems continue to fund the extraction, processing, and distribution of fossil fuels.
- Following the Bank of England's update to its remit to include the net zero target and environmental sustainability, it has a clear mandate to coordinate with government departments and oversee the transition of the UK financial system to net zero.
- It will not be possible to achieve net zero by only classifying and financing green energy projects. The creation and implementation of the UK Taxonomy must include 'dirty' financial flows in order to effectively cut emissions.
- The narrow and disproportionate focus of HMT on GDP growth as a target for policymaking prevents progress towards achieving net-zero, as it does not incorporate the use of environmental resources into its modelling. New metrics for project appraisal, monitoring and evaluation which take a holistic approach to social and environmental wellbeing will need to be established.

### **Question 1: What are the key requirements for a governance structure that can deliver cross-Government climate action at the pace, scale and over the duration required to meet the carbon budgets and the 2050 net zero target?**

- a) **Are the Government's existing net zero governance structures effective in this role, both in terms of coordination across Whitehall, and coordination with the devolved administrations and local and regional authorities?**
1. A major gap in the Government's existing net zero governance structure is a lack of coordination with the Bank of England, which is chiefly responsible for financial policy, to green the UK's financial

system. The government outlined its Green Finance Strategy<sup>1</sup> in 2019, but the City of London's carbon footprint remains close to double the UK's annual territorial emissions. Since the signing of the Paris Agreement, Barclays and HSBC alone have directed more than £185 billion into fossil fuels<sup>2</sup> - more than three and a half times what it would cost to power all UK homes with offshore wind by 2030.<sup>3</sup> Therefore, the Bank of England is currently overseeing a financial system that is profoundly out of step with the government's net zero target.

2. In March 2021, the Chancellor updated the remit of the Bank of England's key policymaking committees to include the net-zero target and environmental sustainability.<sup>4</sup> This was a welcome development, but it must now be accompanied by new and improved channels of communication and coordination between the Bank and key Whitehall departments overseeing the transition. This would pose no threat to the ongoing operational independence of the Bank, but would simply improve the chances of a successful transition as well as the maintenance of price and financial stability - the Bank's primary objectives - in the long-run.

**b) What alternative governance structures could be established to coordinate and deliver cross-Government action on climate change more effectively?**

3. The establishment of a Green Technical Advisory Group to establish a green taxonomy was a positive step. However, the government must ensure that the taxonomy is subject to sufficient public consultation, and does not serve as a substitute for a high-level transition plan. Furthermore, the government should seek to incorporate a classification of 'dirty' assets in its taxonomy, so that certain economic activities that are incompatible with net-zero can be phased out in both public and private investment practices.

4. The government should establish a dedicated Green Finance Action Taskforce (GFAT) with the goal of aligning the financial system with the net-zero target. GFAT should include representatives from the Bank, relevant government departments including the Treasury, BEIS, DEFRA, as well as independent bodies such as the Climate Change Committee.

5. GFAT could, amongst other things:

- Monitor the transition effects of green finance policies and design appropriate measures to mitigate transition risks.
- Review and coordinate policies that help fill the green finance gap by stimulating the investment required over the next decades to meet the goals set by the Paris Agreement.

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<sup>1</sup> Department of Business, Energy and Industrial Strategy, 'Green Finance Strategy: Transforming Finance for a Greener Future', July 2019: <https://www.gov.uk/government/publications/green-finance-strategy>

<sup>2</sup> Rainforest Action Network, 'Banking on climate chaos: fossil fuel finance report 2021': <https://www.ran.org/bankingonclimatechaos2021/>

<sup>3</sup> The Guardian, 'Powering all UK homes via offshore wind by 2030 'will need £50bn'', 6 Oct 2020: <https://www.theguardian.com/environment/2020/oct/06/powering-all-uk-homes-via-offshore-wind-by-2030-would-cost-50bn>

<sup>4</sup> 'Monetary policy remit: Budget 2021', 3 March 2021: <https://www.gov.uk/government/publications/monetary-policy-remit-budget-2021/monetary-policy-remit-budget-2021>. [The MPC's remit refers to "the government's economic strategy for achieving strong, sustainable and balanced growth that is also environmentally sustainable and consistent with the transition to a net zero economy"]

'Remit and recommendations for the Financial Policy Committee', 3 March 2021':

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/965778/FPC\\_Remmit\\_and\\_Recommendations\\_Letter\\_2021.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/965778/FPC_Remmit_and_Recommendations_Letter_2021.pdf)

[The FPC is required to "support the government's ambition of a greener industry, using innovation and finance to protect our environment and tackle climate change."]

- Dynamically update the set of measures tackling dirty assets to minimise the potential for greenwashing and regulatory arbitrage.
- Dynamically update the set of measures encouraging the emergence and rapid growth of green assets to minimise the potential for greenwashing and address potential imbalances between the demand for and supply of green assets.
- Analyse how climate policies are likely to affect the financial system and make suggestions for the coordination of green fiscal, industrial, and finance policies.
- Advise and adjust regulations regarding fiduciary duties to ensure that climate regulation does not lead to fiduciary breaches.

**c) What metrics should the Government use to measure their progress towards net zero?**

6. There currently is no metric that measures the extent that the UK government is delivering on Article 2.1.c of the Paris Agreement, which requires signatories to make “finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”<sup>5</sup> GFAT should develop and report on a metrics dashboard that helps us better understand where financial flows are going and for what purposes. The UK should implement a Net Zero Test for all government spending decisions to ensure they are in line with the UK’s net zero targets.<sup>6</sup>

**Question 2: What governance structures would enable HM Treasury to give greater priority to the net zero target and the carbon budgets in its financial and economic decisions?**

**a) How could HMT better ensure that spending decisions contribute to achieving net zero in the long term?**

7. Currently, the Treasury’s Charter for Budget Responsibility, which sets out the government’s basic fiscal framework, is far too focused on the GDP metric and reducing the government deficit, neither of which should be guiding spending decisions if the government intends to achieve a net-zero transition which does not harm living standards. A wealth of evidence shows that GDP growth in rich countries like the UK does not contribute to social wellbeing, yet it is still closely associated with carbon emissions, and even more so material footprint, which drives various ecological issues.<sup>78</sup> Meanwhile, there is growing consensus in the field of economics that fiscal policy which focuses on reducing government deficits is counterproductive to ensuring a resilient economy, not least a fair and orderly green transition.<sup>9</sup>

8. The fundamental goal of the economy should be to meet human needs within planetary boundaries. The net-zero transition, depending on how it is carried out, could result in a range of different outcomes for different groups in society and for the UK’s global material footprint. In order to ensure the transition is just, metrics of both individual and collective social wellbeing must sit at the core of the

<sup>5</sup> Adoption of the Paris Agreement, UNFCCC 2015:

[https://unfccc.int/sites/default/files/english\\_paris\\_agreement.pdf](https://unfccc.int/sites/default/files/english_paris_agreement.pdf)

<sup>6</sup> E3G, Financing the net zero transition, May 2021: <https://www.e3g.org/publications/financing-the-net-zero-transition/>

<sup>7</sup> “GDP Is Not a Measure of Human Well-Being”, Harvard Business Review, October 2019:

<https://www.google.com/url?q=https://hbr.org/2019/10/gdp-is-not-a-measure-of-human-well-being&sa=D&source=editors&ust=1630082140971000&usg=AOvVaw1aTf5mLJiSAhwJ3jZUES9D>

<sup>8</sup> “Socio-economic conditions for satisfying human needs at low energy use: An international analysis of social provisioning”, Science Direct, July 2021:

<https://www.sciencedirect.com/science/article/pii/S0959378021000662>

<sup>9</sup> Guardian, “UK can’t fight climate crisis with austerity, warns expert”, 14 August 2021:

[https://amp.theguardian.com/environment/2021/aug/14/uk-fight-climate-crisis-austerity-government-treasury-green-spending-net-zero-nicholas-stern?\\_twitter\\_impression=true](https://amp.theguardian.com/environment/2021/aug/14/uk-fight-climate-crisis-austerity-government-treasury-green-spending-net-zero-nicholas-stern?_twitter_impression=true)

government's net-zero strategy. HMT should adopt a dashboard of social and environmental wellbeing indicators so that its spending decisions are directly aimed at achieving a transition to a fair, sustainable, and democratic economy.<sup>10</sup>

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<sup>10</sup> Positive Money, 'The Tragedy of Growth' May 2020: <https://positivemoney.org/publications/tragedy-of-growth/>