Global Counsel

The UK government's green finance gambit

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How might the green finance agenda shape up under a new UK government committed to green-led growth? Well, while headlines are grabbed by the (highly important) 'carrot' of their approach to mobilising finance for the clean transition, investors and corporates with activity in the UK should not ignore the 'stick' embodied in green finance regulation. New regulations will progress swiftly, with the government intending to establish the UK as "the green finance capital of the world" through the delivery of a "world-leading regulatory framework". This is driven by their belief that such regulation is less an onerous route to rein in companies and more a catalytic tool to unleash flows of green finance through transparency and clarity.

UNLEASHING GREEN FINANCE: BALANCING THE CARROT AND STICK

The new UK government has set out a 'mission' to achieve full power decarbonisation by 2030 alongside a neighbouring 'mission' to become the fastest growing G7 country. These dual missions run up against the stark reality of a restricted fiscal environment. Rachel Reeves, the Chancellor of the Exchequer, talks of a £22 billion black hole in the public finances, and Prime Minister Sir Keir Starmer's spirit of a "decade of national renewal" is now seemingly being overshadowed by a stonier message of the "painful" fiscal decisions ahead.

Fiscal constraints are not fresh news to Reeves. When in opposition, the Labour party scaled back their flagship £28 billion per annum Green Prosperity Plan (GPP) to drive public investment into the clean transition. Comparisons to the Inflation Reduction Act in the United States were already generous to Labour but became significantly more so when the party scaled this right back to only £4.75 billion per annum in February. A tough fiscal inheritance was cited for this sizeable reduction.

The 'North Star' of 2030 remained in place, however, implying that Labour in government must now find a private-sector shaped lift for a greater stretch of the journey. Dangling a carrot in front of investors and companies looking to conduct new 'green' business in the UK (or scale up existing investments and/or operations) forms a critical part of this approach. If we look at the key co-investment pillars of the scaled back GPP described above, the sums are by no means insignificant (Fig. 1).

The Climate Change Committee, which advises the government on meeting their emissions targets, estimates that public and private investment needs to scale up at pace to the tune of £50 billion per annum by 2030 to meet the UK's ambitions. The interventions above are intended to meet a significant portion of this, as are broader structural interventions such as tackling grid capacity issues and stimulating the development of renewables through the UK's Contracts for Difference scheme.

Crucially, however, sitting alongside these various 'carrots' is what the government see as an equally important ensemble of 'sticks' when it comes to greening the UK's financial system. Green finance is increasingly an area where the government view regulation as a 'catalyst' of capital flows to priority areas rather than a barrier to unleashing the country's competitiveness.

What is their case to support this? Well, the argument goes that the UK's financial system should increasingly be recognising climate-related risks and opportunities as financial risks and opportunities. New regulatory tools to

FIG. 1: KEY INVESTMENT PILLARS OF THE GREEN PROSPERITY PLAN

INTERVENTION	GOVERNMENT EXPENDITURE	ESTIMATED LEVERAGED INVESTMENT	TOTAL	PER ANNUM TOTAL (OVER THIS PARLIAMENT)
National Wealth Fund	£7.3bn	£21.9bn	£29.2bn	£5.84bn
GB Energy	£8.3bn	£60bn	£68.3bn	£13.66bn*
Warm Homes Plan	£6.6bn	TBC	≥£6.6bn	≥£1.32bn
			≥£104.1bn	**≥£20.82bn**

*This assumes the total leverage is achieved in this parliament (2024-29) alone, which is not clear from government estimates. In reality, this estimated amount is likely to be leveraged over a longer period of GB Energy's life (if achieved at all).

provide transparency through disclosure on climate-related credentials should thus reflect this, enabling investors to better allocate their capital toward climate-related opportunities and away from emerging risks. Yes, this brings a corporate reporting burden, but the benefits from enhanced transparency, they believe, will be reaped in terms of better competition in sustainable finance markets, greater trust in products, and tackling aspects of greenwashing currently holding back more efficient capital flows.

Such an argument would imply, therefore, that a new administration have stepped in keen not just to subsidise their way to a clean transition (in part given the limited fiscal space), but also to generate a regulatory framework which they believe will give investors (including those outside the country) the "certainty they need" to channel more of their money into green investments in the UK. This lies at the heart of their approach to closing the green investment gap.

"WORLD-LEADING REGULATORY FRAMEWORK": DEPLOYING THE STICK IN PRACTICE

So what exactly are the government likely to demonstrate in the months ahead toward achieving this "world-leading regulatory framework"?

While non-exhaustive, there are three key pillars of movement to watch closely in the immediate future (Fig. 2).

Climate Disclosures

The government will look to create new Sustainability Disclosure Standards, likely aligned closely with the International Sustainability Standards Board (ISSB) standards. The direction of travel will seemingly be to mandate reporting against these standards for businesses with significant operations in the UK, so that investors have a full view of the sustainability credentials of companies they invest in or might wish to invest in. They (and the Financial Conduct Authority (FCA), which is on board and would play a role in enforcing these rules) hope this will nudge capital toward climate-friendly companies and away from those with "not-so-green" credentials.

The impact this will have on companies operating in the UK will be shaped by a variety of policy decisions the government have ahead of them. Firstly, on the treatment of non-listed companies and those outside the FCA's regulatory perimeter. A government more ideologically wedded to robust disclosures may take an EU-style approach here and require companies (both UK and non-UK) which meet certain revenue, asset and employee thresholds to disclose against the standards regardless of sector or whether they are publicly listed on UK markets. Secondly, as the ISSB brings out more standards beyond climate (such as on nature), the government will need to make decisions on whether to mandate reporting against these additional standards. It is likely that a government which see the climate and nature agendas as interlocked would indeed proceed down this route. These considerations would increase not only the number of companies in scope, but also the scale of reporting required.

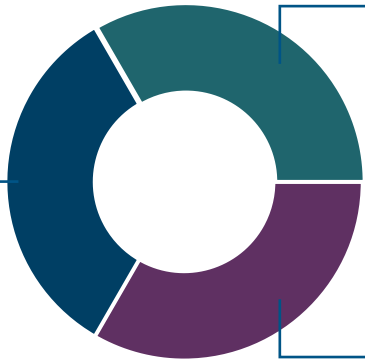
Green Taxonomy

A green taxonomy is, in short, a classification system for helping investors understand which of their investments are 'green'. It is about clearly signposting which investments in the UK can justifiably be labelled as sustainable, and which cannot.

The previous government aimed to progress this measure, although they lost steam as they attempted to work out how to introduce a scheme which balanced simplicity with interoperability with other taxonomies (such as the EU's). Starmer's government, critical of delays under the previous administration, has set out to complete the taxonomy as a priority and will outline mandatory reporting requirements for companies and investors.

While committed to pursuing a taxonomy, teething problems with using the EU's equivalent tool (currently being ironed out) will be watched closely, as will Mario Draghi's recent report on EU competitiveness, which cited the EU's framework as a strain on corporates. As the UK government weighs up the merits of interoperability with the

FIG. 2: MAJOR PLANKS OF A NEW REGULATORY REGIME



EU's approach, the question at the front of their mind will therefore be whether close alignment with their neighbours on this regulatory tool (and others) could actually reduce burdens for companies with significant operations in both jurisdictions.

Climate Transition Plans

While the government's approach to sustainability disclosures described above will simply mandate transparency on climate-related risks and opportunities, they will go further in requiring financial institutions and listed companies to publish their carbon footprint and adopt 1.5-C aligned transition plans. Trailed in Labour's general-election manifesto, the requirements will likely follow a specific Transition Plan Taskforce disclosure framework which was commissioned by the previous government and released in October 2023.

This is an important additional requirement for companies to consider (beyond wider disclosures) because it requires them to outline any climate-related targets they possess and show how they are meeting these through specific decarbonisation levers. It will also look to understand where corporates are contributing to an economy-wide low-greenhouse-gas transition. Again, the intention here in part is to allow investors to more easily reallocate their capital to decarbonised or decarbonis*ing* companies should they wish to, as well as nudge companies into more ambitious decarbonisation trajectories through mandatory disclosures.

FINAL REFLECTIONS: REGULATION AS A CATALYTIC LEVER

The destination is set: a "world-leading" regulatory environment to channel finance into green outcomes will play a central role in the new government's green finance agenda. The route to reach the destination, as above, still needs some ironing out around the edges and alignment with the EU's evolving framework will be front of minds.

However, when the government talk about the crucial need to create a more "robust" regulatory framework, companies should not see this as principally indicative of a move to get an out-of-control sector back in line (as regulation might be used elsewhere). Rather, this government see such regulation as potentially unleashing a flow of green capital from investors who would now be apparently emboldened by a mass of climate-related information.

Regulation here is as much about 'stimulating', 'unlocking', and 'catalysing' a shift in green finance as the overt subsidies embodied in the GPP. This is important, because it implies a vision of companies less 'scared off' by regulation than attracted to a UK where the green investment opportunities are clear for all to see.

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