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ESG's role in the transition to net zero, 14 November 2023

With James Alexander, CEO of the UK Sustainable Investment and Finance Association; and Jacques Morris, Team Leader at the Transition Plan Task Force

Introduction

The call for the Government to introduce a "stable and certain" sustainable finance and investment strategy featured throughout this roundtable. The session was held a week in advance of the Autumn Budget Statement on 22 November and benefitted from a series of recommendations and calls for action. The imperative for the UK is to take an intelligent data-led approach to mobilising capital towards net zero projects while asserting international leadership through landmark initiatives like the Transition Plan Taskforce.

James Alexander

Jacques Morris

Key takeaways

The Transition Plan taskforce (TPT) – "UK at the head of global work"

- Co-chaired by the Treasury Lords Minister and Aviva CEO, Amanda Blunt, the Taskforce is made up of 150 individuals from numerous organisations - "a really strong indication of the momentum across the UK economy behind transition plans and the desire for more guidance".
- CEOs recognise transition plans gear whole companies "beyond the sustainability team" towards lowering their carbon footprint.
- Transition plans enable investors to understand exposure to risks, and future company positions, leading to better-informed capital allocation decisions.
- The "TPT delivers high-quality standardised information". The Taskforce's Disclosure Framework, released in October sits above the ISSB's "baseline" disclosure standards forming the foundation (see the APPG's July roundtable).
- The TPT's work is unique, enabling the "UK to position itself as the real leader globally on sustainable finance".

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Building a larger sustainable finance market

- The Glasgow Financial Alliance for Net Zero, formed at COP26, comprises 160 companies with over $70 trillion in assets under management, but without a larger volume of sustainable projects, the investment in waiting cannot be allocated.
- The UK can't outspend the EU and the US, and can't undercut – e.g. Morocco and Egypt, "but can outsmart" by establishing a market that creates value-performing capital.

The Autumn Statement – "likely to be disappointed"

- The UK cannot compete with US and EU spending, nevertheless "the UK needs to respond to America's Inflation Reduction Act". In the Autumn Statement, the Government is advised to show how much public finance is being committed, embedded within a defined strategy. We are seeing commitments – e.g. the £500m subsidy to TATA's battery plant in Somerset – but it is not clear what the Government's methodology is
- A quick fix giving much-needed "policy certainty" would be to raise the strike price on wind power under the Contracts for Difference regime, following September's auction that received no bids.
- Planning is a major issue with renewables. A wind turbine can be installed in less than two years, but planning takes 10. As part of September's net zero announcement, the Prime Minister said nationally significant infrastructure projects would be fast-tracked. More ambition and detail in the Autumn Statement would be welcome.
- Solar and wind projects are often "investments that are ready to go". What about the projects we don't know about? "We need independent tracking of financial flows to understand where the investment gaps are, why they exist", enabling the Government to update policy and mobilise capital.
- The Prime Minister's net zero announcement in September framed transition as "costing the taxpayer". We must keep countering this narrative as it's "simply not true, not today and certainly not in 2050". Several participants said they anticipated disappointment with the Autumn Statement, expecting the narrative from September to continue. Faced with this vision, investors that have been doing "good work", will be limited in their ability to carry on. Similarly, recent claims by a cabinet minister that ESG investing is "immoral" need to be taken seriously and countered.

A uniquely human issue –"Can't make it just about regulation"

- "Any mention of sustainability was nowhere to be seen" in the Chancellor's July Mansion House speech, largely dedicated to pensions; and if you're considering pensions alongside quality of life decades into the future, "investments cannot ignore sustainability".
- There is a significant lack of sustainable pension schemes available on the market.
- Pension funds are at the top of the pyramid. Trustees face significant jeopardy in their decision-making, as a consequence, they are likely to be reluctant to defy their advisors who "you might even consider being slightly above them on that pyramid". Advisors should be encouraged to incorporate ESG/sustainability considerations into their guidance.
- The Government is advised to publish guidance – "a small step for big gain".

Issues raised

Public institutions

- The way public finance institutions – e.g. the UK Infrastructure Bank – use the TPT framework/UK Green Taxonomy can act as both a steer and example of best practice "sending a really strong signal" for the private sector.
- The UK Infrastructure Bank and the British Business Bank can also directly support companies, particularly SMEs, in unlocking supply chain reporting issues. Even in a "constrained fiscal environment", these institutions can invest in new technologies and skills.
- These institutions along with some branches of Government can support businesses by harmonising their sustainability rules and requirements. The British Business Bank, UK Export Finance, and Cabinet Office procurement rules all require different pieces of sustainability information.

SMEs

- Smaller businesses intuitively struggle to see the cost of transition as an investment the way larger businesses do.
- Further down the supply chain, companies are not thinking of ESG as a priority. The key is to engage with them and eventually trust the data. Smaller companies find supplying data with sufficient accuracy challenging. Frameworks have made it easier, but trust remains a major issue.
- A problem with data throughout the value chain is that consultants can assure the process, but not the data itself – "it's not granular enough, it's not assurable enough". Rather than confusing SMEs with vast frameworks, it is better to engage with them and identify their 3-4 material data points and "make the value case for them".

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