Dear Mary,

GREEN FINANCE INQUIRY: follow up points

We would like to extend our gratitude to the Environmental Audit Committee for conducting a thorough green finance inquiry. Green finance can play a vital role in delivering our international and domestic clean growth objectives while driving economic growth, and we are determined that the UK will continue to be a world leader in this area.

At the Environmental Audit Committee hearing on 21 February we agreed to write to you to clarify the following points:

1. Investment in clean energy innovation as a proportion of total research and development (R&D) spending

The Government is committed to increasing support for R&D as a key pillar of our Industrial Strategy. We announced a major uplift of £4.7 billion of additional funding in November 2016, followed by a further £2.3 billion in last year’s budget – a total increase of £7 billion over five years – and have committed to raise total R&D investment to 2.4% of GDP by 2027. This increase is already benefiting clean growth innovation – for example the £246 million support for the Faraday Challenge forms part of our £2.5 billion clean growth innovation programme outlined in the Clean Growth Strategy.

2. Green bonds

According to the Climate Bonds Initiative (CBI), the global labelled green bond market has grown from $0.8bn in 2007 to $155bn in 2017. Green bonds currently listed on the London Stock Exchange total $20.33bn across seven currencies, demonstrating the strength of UK capital markets for raising international green finance.

The Committee quoted the CBI figures for green bond issuances from companies incorporated in Germany and France. According to Bloomberg, the $25bn of German green bond issuances include $16bn by KfW, the government-owned development bank. KfW is also the second largest green bond issuer globally after the European Investment Bank. The $41bn figure quoted for French green bond issuances includes the $7.5bn sovereign and over $2bn of sub-sovereign/regional green bonds.

We are keen to increase issuances by UK corporates and we are pleased to have seen increased activity in this area recently, including issuances by Anglian Water, Barclays, Thames Tideway and SSE in recent months, totalling over $2bn. We have asked the Green
Finance Taskforce to consider if and how the government might support the growth of domestic green bond issuances.

3. Environmental considerations in contract-based workplace pensions regulation

Regulation of contract-based workplace pensions is a matter for the independent regulator, the Financial Conduct Authority (FCA). In December 2017, the Department for Work and Pensions (DWP) and the Department for Culture, Media and Sports (DCMS) published a combined Government and FCA interim response. In this, the FCA welcomed the Law Commission’s report, which it saw as consistent with other areas of ongoing work, and stated it was considering the Law Commission’s recommendations.

The FCA is collaborating with DWP and DCMS on a final response to the Law Commission’s recommendations. DWP and DCMS intend to publish this by June 2018.

4. The Adaptation Reporting Power, and the role of the financial regulators

The Adaptation Reporting Power was introduced under the Climate Change Act 2008 and provides for infrastructure operators and public bodies to report on how they are addressing current and future climate impacts. The Adaptation Sub-Committee of the Committee on Climate Change recommended to government that there should be greater coverage of financial services through the exercise of the Adaptation Reporting Power. As such, we have invited the Financial Regulators, including the Financial Conduct Authority, the Pensions Regulator and the Financial Reporting Council, to consider participating in future reporting. We value our relationship with these independent regulators, and we will discuss the role that adaptation reporting can play. We will consider the outcome of Defra’s consultation and set out the position in the final ARP Strategy when it is laid in Parliament this summer. Where reporting is not suitable, we will work with regulators to consider, as part of Government’s National Adaptation Programme, an effective long term approach to integrating the consideration of climate change impact as part of the discharge of their powers and duties.

We look forward to seeing the Committee’s report, and to working with you to maintain and develop the UK’s position as a world leader on green finance.

Yours ever,

CLAIRE PERRY MP
Minister of State for Energy and Clean Growth

JOHN GLEN MP
Economic Secretary to the Treasury