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Investing for a green, prosperous and resilient future: Advancing UK competitiveness through the net zero transition

How to unlock investment for a green and competitive UK

In this important election year, investors are looking for a supportive policy environment that provides the confidence and certainty needed to make long-term investments in the UK’s transition to net zero. The building blocks of a sustainable finance framework are beginning to fall into place, but there is an urgent need to move ahead with swift implementation of key pieces of legislation. And while green industries have been identified by the Government as a core growth sector for the UK economy, more needs to be done to decarbonise key sectors of the real economy and capitalise on the opportunities presented by the transition. Otherwise, the UK risks falling behind not only on delivering its legally-binding net zero targets, but also losing its status as a climate leader in an increasingly competitive global race to attract capital.

This is an opportunity to shift gears, and pivot permanently towards decarbonisation, channelling efforts into the effective delivery and implementation of policies which support this. The challenge ahead extends beyond securing the UK’s standing as a climate leader; it involves maintaining climate ambition while navigating through an uncertain geopolitical landscape. Success depends on near-term decisive actions and well-designed policies, effective coordination between relevant stakeholders, and a renewed commitment by the next Government to achieving net zero goals, with a particular emphasis on prioritising decarbonisation within the real economy. Doing this early in the next government’s term will see the added benefit of opening up avenues for increased private finance towards the low-carbon transition, fostering a more sustainable and resilient future.

IIGCC has worked with our investor members to determine key policy recommendations for the next government.

Investors call on policymakers to accelerate the UK’s transition to a competitive, energy-secure, resilient, and climate-neutral economy by prioritising the following five areas:

| A | Develop a whole-of-government approach with a centralised strategy to facilitate delivery of net zero targets. |
| B | Devise a comprehensive green industrial strategy that supports the decarbonisation of the UK economy and boosts economic competitiveness. |
| C | Increase the UK’s adaptation and resilience to growing climate impacts. |
| D | Embed the delivery of a nature-positive transition into the UK policy framework. |
| E | Implement a supportive financial regulatory environment which facilitates capital flows towards climate and nature goals. |
Five areas and 10 key policy asks:

A  Develop a whole-of-government approach with a centralised strategy to facilitate delivery of net zero targets.
   1. Establish an overarching whole-of-economy transition plan for the UK, based on the UK’s Nationally Determined Contribution (NDC), and underpinned by credible and comprehensive sectoral decarbonisation pathways.
   2. Improve implementation and collaboration between government departments, regulators, and local and regional authorities, and empower UK institutions essential for decarbonisation.

B  Devise a comprehensive green industrial strategy that supports the decarbonisation of the UK economy and boosts economic competitiveness.
   3. Implement policies and incentives to encourage greater investment in low carbon energy technologies, while reducing barriers to entry and facilitating private finance.
   4. Provide a UK response to the US’s Inflation Reduction Act and the EU’s Green Deal Industrial Plan to channel investment to key sectors.
   5. Ensure a just transition through dedicated resources to help with the upskilling and retraining of workers.

C  Increase the UK’s adaptation and resilience to growing climate impacts.
   6. Fortify the UK against the physical impacts of climate change through developing a clear policy roadmap to drive strategic investment in adaptation and resilience.

D  Embed the delivery of a nature-positive transition into the UK policy framework.
   7. Integrate the protection and restoration of nature and biodiversity into UK policy.

E  Implement a supportive financial regulatory environment which facilitates capital flows towards climate and nature goals.
   8. Swiftly implement key sustainable finance policies to increase transparency and support reorientation of capital towards the UK’s climate and nature objectives.
   9. Establish UK as a leading hub for transition finance.
  10. Ensure interoperability of UK policies and regulation with international frameworks.

Timeframe guidance: The recommendations have been assigned short- and medium-term timeframes based roughly on the estimated ease of implementation and/or whether the recommendations apply to existing or new policy initiatives.
A Develop a whole-of-government approach with a centralised strategy to facilitate delivery of net zero targets

1 Establish an overarching whole-of-economy transition plan for the UK, based on the UK’s Nationally Determined Contribution (NDC), and underpinned by credible and comprehensive sectoral decarbonisation pathways.

Current barriers:
The UK has committed to achieving net zero emissions by 2050 and to cut its greenhouse gas emissions by at least 68% by 2030, compared to 1990 levels. However, bridging the delivery gap between its 2030 NDC emission reduction target and current decarbonisation plans poses a significant challenge. Approximately half of the emission reductions required to meet the 2030 target are at risk or have insufficient delivery plans. The government’s net zero investment roadmaps, while technology-specific, lack the necessary detail on the investment requirements of key sectors. There is a pressing need for more consistent sector-level transitions and financing roadmaps, grounded in the UK carbon budget, to provide holistic understanding of the country’s transition and its financing needs.

Recommendations:

- **Short term:** The Government should commit to implementing a comprehensive whole economy transition plan, supported by corporates and investors. This plan should reframe the NDC as a holistic strategy for transitioning the entire UK economy, incorporating credible sectoral decarbonisation pathways which provide investors with the necessary detail as to how key sectors of the economy will transition. The plan would provide a benchmark for entity-level transition plans within specific sectors, providing clarity and guidance on the timing and methods of sector-wide transitions.

- **Short term:** Sectoral decarbonisation pathways should be overlaid with investment roadmaps that provide transparency over investment gaps and flows, accompanied by targeted policy interventions to incentivise private investment to close these gaps.

- **Short term:** Reject the carryover of any surplus emissions reductions from the Third Carbon Budget, as recommended by the Climate Change Committee (CCC). Carrying over surplus emissions would put the 2030 NDC and the Sixth Carbon Budget at serious risk.¹
2. Improve implementation and collaboration between government departments, regulators, and local and regional authorities, and empower UK institutions essential for decarbonisation.

Current barriers:
The Government’s current approach to achieving net zero is decentralised and marked by inconsistency, changes and delays. A centralised strategy to take forward the UK’s climate policy commitments is lacking. Various departments, including Her Majesty’s Treasure (HMT), Department for Energy Security and Net Zero (DESNZ), Department for Transport (DFT), Department for Business and Trade (DBT), and Department for Environment, Food & Rural Affairs (DEFRA), hold responsibility for different aspects of the transition, yet there is little coordination among them. Consequently, there is often an unclear division of labour between them, lack of clarity on timelines for implementation and a lack of understanding of how government policies align with regulations set by bodies like the Financial Conduct Authority (FCA) and the Financial Reporting Council (FRC). Furthermore, organisations like the Green Technical Advisory Group (GTAG) and the CCC, which provide objective advice on addressing climate challenges, face an uncertain future. These issues highlight the urgent need for a more coordinated approach and effective national governance.

Recommendations:
- **Short-medium term:** Integrate climate change policy across government departments through the creation of a centralised government unit (e.g. a net zero taskforce) that establishes longer term policy clarity across Whitehall. Establish regular engagement with stakeholders, including investors, to monitor whether policies are having the desired impact, urgently address any unintended consequences of policy developments, and facilitate constructive dialogue on the intricacies of decarbonising sectors.
- **Short-term:** Establish a permanent home for the GTAG as an advisory board to the government to ensure ongoing, high-quality advice on the development and implementation of the Green Taxonomy. Allocate resources, funding, and responsibilities to support GTAG through the implementation stage.
- **Short-term:** Appoint a new independent Chair and CEO for the CCC to provide decisive leadership and reinforce its capacity to deliver objective advice.
B Devise a comprehensive green industrial strategy that supports the decarbonisation of the UK economy and boosts economic competitiveness

3 Implement policies and incentives to encourage greater investment in low carbon energy technologies, while reducing barriers to entry and facilitating private finance.

Current barriers:

The UK has decarbonised faster than any other G7 economy and cut emissions by around 46% since 1990. A significant driver of this has been a shift in the UK’s power system away from coal, which now only represents less than 2% of the UK’s electricity generation and is soon to be phased out entirely.2 Whilst a success story, this means that future long-term energy system decarbonisation must be driven by a further and significant reduction in the usage of other fossil fuels, including gas. In recent years, investors have seen mixed policy signals on the energy transition, for instance through changes to oil and gas licenses and clean energy subsidies, as well as a roll back of planned energy efficiency measures.

The country has a target for a decarbonised power system by 2035 – a goal that remains possible but not at the current pace of delivery.3 There are significant roadblocks such as slow approval processes for planning permissions for new renewable projects and challenges connecting renewables to the existing grid which prevent the UK from reaching its renewable energy potential.4 Initiatives such as the Contracts for Difference (CfD) scheme have helped increase renewable energy projects in the UK, however recently there has been a period of stagnation, with the last auction round securing no new wind energy projects, largely due to the low strike price which the industry believes is no longer cost reflective. A high renewable energy windfall tax, set at 45% until March 2028, compared to a similar tax for oil and gas, which is set at a lower 35%, deters investment in much-needed renewable energy projects.5 Meanwhile, in the US and EU, financial incentives and supportive regulations for renewable energy mean that the UK is falling behind its peers and is in danger of losing any leadership potential and economic opportunity in clean energy.6

Recommendations:

- **Short term:** Demonstrate a commitment to increasing energy resilience and security through a transition to lower carbon energy sources by halting the issuance of new oil and gas licenses, removing fossil fuel tax breaks and instead considering supporting research and innovation in clean technology.

- **Short to medium term:** Maintain commitment to expansion and overhaul of the UK transmission network grid as recommended in the Winser Review (2023).7

- **Short to medium term:** Rapidly reform planning rules to unblock essential upgrades to the electricity grid and other Net Zero infrastructure. Implement the recommendation by the CCC that the planning system should have an overarching requirement to ensure planning decisions give full regard to Net Zero.
**Short term:** Clarify the roles and responsibilities of different players in our energy system, such as regulators, DESNZ, energy companies, and local authorities and promote more joined up working between them to allow faster implementation.

**Short term:** To encourage private investment in renewables and maximise the benefits for the industry and consumers, the government needs to reform the current CfD scheme through policies such as ring-fenced budgets for each technology, clear deployment targets, and more supportive and reflective parameters that consider changing economic circumstances, interest rates, and supply chain costs.

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4. **Provide a UK response to the US’s Inflation Reduction Act and the EU’s Green Deal Industrial Plan to channel investment to key sectors.**

**Current barriers:**

The lack of coherent policy or a robust green industrial strategy leaves the UK trailing in the rapid global race towards low-emissions technologies. While the US’s Inflation Reduction Act allocated $369 billion for green infrastructure and the EU’s Green Deal Industrial Plan earmarked $270 billion for Europe’s green transition, the UK’s lack of a comparable response squanders economic opportunities inherent in the transition to net zero, endangering its international competitiveness. To fully realise the economic benefits of a transition to net zero, the UK government needs to utilise policy to facilitate financing for decarbonisation across various sectors. Current lack of investment in the UK economy is perpetuating low growth. To rectify this, the UK government must identify priority sectors for decarbonisation to achieve net zero and employ targeted policies and leverage public finance tools in order to mitigate risks and attract private capital. Given the UK’s fiscal constraints compared to the US and the EU, a selective approach is necessary to focus attention and resources on the key sectors requiring urgent attention.

**Recommendations:**

- **Short term:** Focus efforts on key high-emitting industries whose decarbonisation is most essential to reach net zero. Create industry forums which foster closer collaboration among government, businesses, and investors. These forums will serve as crucial platforms for aligning strategies, unlocking financing opportunities, and garnering insights into the policy landscape necessary for driving sustainable investment and decarbonisation efforts.

- **Short-medium term:** Utilise public financing tools, such as state investment banks (UKIB, BBB, SNIB) and state grants to catalyse private financing for green investment projects that would not otherwise be possible, due to barriers such as high cost of entry or perceived level of risk.

- **Short term:** Design sector-specific financing mechanisms tailored to the unique needs and challenges of key industries undergoing decarbonisation. These mechanisms could include blended finance mechanisms, tax incentives, and risk-sharing arrangements to encourage private sector investment.

- **Medium term:** Accelerate the development and upscaling of low-emission technologies by strategically investing in research and development in key decarbonisation sectors.
Ensure a just transition through dedicated resources to help with the upskilling and retraining of workers.

**Current barriers:**

The net zero narrative needs to be understood and reframed in a way that underscores its positive impact on the economy and citizens, rather than reenforcing the negative public perception that the transition will disproportionately harm certain regions and demographics. To build public trust and galvanise support for a whole-economy decarbonisation, the government must focus on a just transition. The energy transition is confronted with a significant shortage of skilled workers, with reports indicating that approximately 200,000 individuals will require training for green energy jobs to maintain momentum in the UK’s transition. This necessitates an inclusive approach tailored to meet the evolving needs of workers in all the sectors affected by the country’s transition to net zero to avoid further opposition from the UK population.

**Recommendations:**

- **Short-term:** Work with local and regional governments to create policies that incorporate fairness and equality and ensure regular engagement with affected stakeholders. A key component of this will be establishing metrics and monitoring mechanisms, as well as adequate funding instruments to ensure a just transition.

- **Medium-term:** The Green Jobs Delivery Group can be used to foster collaboration across industries and cultivate the necessary skills and capabilities crucial for the energy transition.

- **Medium-term:** Ensure there is knowledge sharing and partnership between the public and private sectors to make sure no part of the UK workforce is left behind. This entails dedicating resources to upskill and retrain people in ‘high carbon’ jobs, such as the existing oil and gas workforce, and increasing efforts to attract new workers into ‘low carbon’ jobs, such as in the renewable energy sector and electric vehicle industry to generate a steady stream of skilled professionals.
Increase the UK’s adaptation and resilience to growing climate impacts

Fortify the UK against the physical impacts of climate change through developing a clear policy roadmap to drive strategic investment in adaptation and resilience.

Current barriers:

In the UK, there is an urgent need to swiftly implement adaptation measures, as the country’s infrastructure is highly vulnerable to physical climate risks. The latest adaptation progress report from the CCC underscores the need for substantial upgrades in critical infrastructure systems, such as energy grids, transport networks, water, and telecoms systems, to withstand threats like rainfall and rising sea levels.¹⁰

Latest estimates indicate that an annual investment ranging from £0.5 to £1 billion over the next decade is imperative to meet the UK’s adaptation goals.¹¹ While there has been a heightened focus from many private sector institutions on climate-proofing their investments and better monitoring the impact of climate on their portfolios, there remain barriers to scaling up of adaptation finance. Firstly, adaptation projects often fail to generate investable or bankable cash flows, thereby deterring non-public entities from investing. Secondly, a shortage of information regarding physical climate risks and the associated benefits for both private and public sectors can reduce market interest in adaptation initiatives. Finally, the perceived risk of capital flight resulting from disclosures regarding physical risks serves as an additional deterrent to private sector involvement in conducting thorough assessments of physical climate risks.

Recommendations:

- **Short-term:** Develop a clear roadmap for climate adaptation in the UK, including an assessment of the financing needs, building on the work of the CCC. Specifically, the next government must commit to delivering on the actions set out in the Third National Adaptation Programme (NAP3).

- **Short-term:** Mandate physical climate risk assessments for critical publicly financed infrastructure investments (e.g. rail, energy, and water) and develop appropriate interventions, including working with regulators where appropriate, to increase resilience and reduce risk of disruption and damage.

- **Medium Term:** Strengthen adaptation disclosure requirements for UK businesses across the sustainability disclosure regime and promote industry-developed adaptation metrics and approaches.

- **Medium Term:** Identify barriers to adaptation finance and build capacity with private sector and multinational partners. This can be achieved by developing frameworks that measure, address, and mitigate physical climate risks and quantify resilience benefits. Integrating adaptation and resilience metrics into financial decision-making processes would enable a thorough assessment cost-benefit analysis for investing in adaptation.
Embed the delivery of a nature-positive transition into the UK policy framework

Integrate the protection and restoration of nature and biodiversity into UK policy.

Current barriers:

Investing in the protection and restoration of nature and biodiversity is essential for mitigating climate change and also for ensuring food security, safeguarding ecosystem services, and human well-being. The UK is currently in the bottom 10% of nations globally in terms of how well-preserved biodiversity is. Neglecting nature-related risks could carry substantial macroeconomic consequences and potentially trigger global financial instability. However, recent estimates reveal a substantial finance gap of roughly £56 billion between current public spending and the necessary funding required to meet the country’s nature-related outcomes in the next ten years. The Government committed to protecting 30% of the land and sea in the UK for nature’s recovery by 2030, however a report from the House of Lords’ Environment and Climate Change Committee indicated that only 6.5% of land in England is currently protected. The UK needs to move towards enhancing, not weakening environmental protections to avoid missing targets like this. Despite acknowledging the significance of nature and biodiversity in combating climate change, the UK has yet to provide clear indications of how and when corresponding policies will be implemented.

Recommendations:

- **Short term:** Swiftly publish the Land Use Framework to provide a mechanism for identifying and protecting critical habitats, biodiversity hotspots, and ecosystem services.
- **Short term:** Establish a Biodiversity and Nature Forum to foster collaboration, dialogue, and collective action on key biodiversity and nature-related issues in the UK. This should serve as a platform for engaging stakeholders from government, businesses, investors, academia, and local authorities, to address pressing challenges and opportunities for channelling funding towards biodiversity conservation and nature-based solutions.
- **Short term:** Commit to mandatory disclosure of key biodiversity and nature indicators under UK SDS. Work with the Taskforce on Nature-related Financial Disclosures (TNFD) and ISSB to ensure interoperability between disclosure frameworks.
- **Short-term:** Develop a clear roadmap for nature and biodiversity policy in the UK, with sector-specific targets and an assessment of financing needs.
- **Short term:** Acknowledge the urgency of addressing biodiversity loss and commit to urgent action to meet the 30% biodiversity protection target by 2030. Ensure DEFRA promptly publishes a plan on how to meet and measure the 30 by 30 target, following its 2022 public consultation.
- **Medium term:** Revisit existing agricultural policies and subsidies to check alignment with UK’s climate goals, including the Environmental Improvement Plan (2023). Revise agricultural support schemes to incentivise and reward stakeholders for adopting sustainable land management practices and nature-based solutions that enhance biodiversity, soil health, and ecosystem resilience.
Implement a supportive financial regulatory environment which facilitates capital flows towards climate and nature goals

Swiftly implement key sustainable finance policies to increase transparency and support reorientation of capital towards the UK’s climate and nature objectives.

Current barriers:

While efforts are underway to establish the groundwork for a sustainable finance framework, it is crucial to expedite the implementation of key pieces of legislation. Currently, there is a lack of clarity and transparency regarding timelines for consultations and crucial deliverables outlined in the Green Finance Strategy (GFS), such as transition plan disclosures and the UK Green Taxonomy. There needs to be a more streamlined approach from government with signposting of key deliverables and transparent monitoring of progress against objectives. This transparency is vital for instilling investor confidence and directing capital towards decarbonisation efforts. Finally, it is imperative that nature and biodiversity are fully integrated into climate policy and strategy, rather than treated merely as add-ons.

Interoperability of frameworks is another key concern for investors. The international disclosure landscape is complex and convoluted. Investors need clear signals as to the approach the UK government will take with regulation and interoperability of frameworks across the jurisdictions they operate in – this will provide investor confidence and help attract investors to the UK. GTAG estimates that 80% of UK listed firms and all UK investors who market products to European clients will need to conform to the EU Taxonomy, so alignment of the UK Taxonomy is essential.

Recommendations:

- **Short term:** Swiftly deliver the UK Green Taxonomy consultation, building on the recommendations of the Green Technical Advisory Group (GTAG), and incorporate stakeholder feedback through a timely and transparent process. Consider accelerating the timeline for mandatory reporting against a UK Green Taxonomy as part of the Sustainability Disclosure Standards (SDS) regime to provide investors with decision-useful information on a timelier basis. Currently, the Government intends for reporting to be voluntary for a period of at least two years.

- **Short term:** Ensure effective and transparent coordination and implementation of sustainability disclosures between government departments and regulators (including through the UK Sustainability Policy and Implementation Committee).

- **Short term:** Deliver the consultation on UK SDS for corporates. The SDS should incorporate IFRS 1 and IFRS 2 as a baseline on which more detailed, UK-specific standards are built, including transition plan disclosures that align with the Transition Plan Taskforce (TPT) framework.
Establish UK as a leading hub for transition finance.

Current barriers:
A lack of common definitions and approaches to transition finance presents a significant barrier to the UK’s ambition to become a leading hub for transition finance. This lack of standardisation is compounded by concerns surrounding carbon lock-in and greenwashing practices, which undermine investor confidence and hinder the pursuit of transition-focused investment strategies. Transition finance is poised to play a crucial role in facilitating a comprehensive transition of the entire economy towards net zero emissions. Particularly for high-carbon companies and sectors, whose transition will have the most substantial impact on the UK’s emissions reductions, transition finance offers a vital mechanism for catalysing sustainable change. However, without clear and consistent frameworks for identifying and assessing transition projects, investors face challenges in distinguishing genuine transition initiatives from those that may perpetuate carbon-intensive practices under the guise of sustainability. Moreover, investors require comprehensive, credible, and mandatory disclosures of transition plans from companies and financial institutions. These disclosures are pivotal for informed investment decisions and for aligning capital with the overarching goal of whole-economy decarbonisation.

Recommendations:

- **Short term**: Develop a definition for transition finance that is principles-based and allows for evolution and innovation in the market, while also being sufficiently prescriptive as to provide the market with certainty. The focus of the concept should centre on financing for high emission sectors (including hard-to-abate sectors), underpinned by timebound, credible criteria and safeguards.

- **Short term**: Commit to delivering on the Transition Finance Market Review’s recommendations, when finalised. The findings should be informed by the Review’s outreach programme with wider stakeholders, including investors, with opportunities for participation in the programme clearly communicated.

- **Short term**: Move away from current ‘comply or explain’ regime for transition plan disclosures towards mandatory requirements operating on an economy-wide basis, based on the TPT framework.

- **Short term**: Introduce financial incentives and support mechanisms to encourage investment in transition projects. This could include tax incentives, grants, or low-interest loans for projects aligned with transition objectives.

- **Medium term**: Foster collaboration between the public and private sectors to mobilise resources. Facilitate dialogue and collaboration between investors, industry, and government to build confidence and trust in transition-focused investment strategies.
Ensure interoperability of UK policies and regulation with international frameworks.

Current barriers:
Interoperability of frameworks is a key concern for investors. The international disclosure landscape is complex and convoluted. Investors need clear signals as to the approach the UK government will take with regulation and interoperability of frameworks across the jurisdictions they operate in – this will provide investor confidence and help attract investors to the UK. GTAG estimates that 80% of UK listed firms and all UK investors who market products to European clients will need to conform to the EU Taxonomy, so alignment of the UK Taxonomy is essential.

Recommendations:

- **Short term:** Adopt and implement ISSB’s IFRS 1 and IFRS 2 standards in full to promote global interoperability and provide investors with more comparable information on climate-related risks and opportunities. The standards should form part of a ‘building blocks’ approach, serving as the minimum baseline for climate-related disclosures on which additional, UK-specific requirements can build (e.g. SDS).

- **Short term:** Ensure alignment of the UK Green Taxonomy to EU Taxonomy and incorporate regular reviews, as recommended by GTAG, to assess whether adjustments are required to reflect the international taxonomy landscape.
Endnotes

1 https://www.theccc.org.uk/publication/letter-advice-on-the-third-carbon-budget-carry-over/#
2 https://ember-climate.org/insights/research/the-UKs-clean-to-clean-journey/
7 https://assets.publishing.service.gov.uk/media/64c8e96e19f5622360f3c0f0/electricity-networks-commissioner-letter-to-desnz-secretary.pdf
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