House of Commons

Environmental Audit Committee

Green finance: mobilising investment in clean energy and sustainable development: Government Response to the Committee's Sixth Report

Ninth Special Report of Session 2017–19

Ordered by the House of Commons to be printed 19 July 2018

HC 1450
Published on 30 July 2018
by authority of the House of Commons

Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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Committee staff

The current staff of the Committee are David Slater (Clerk), Nina Foster (Second Clerk), Nicholas Davies (Committee Specialist), Laura Grant (Committee Specialist), Jennifer Maddalena (Committee Researcher), Jonathan Wright (Senior Committee Assistant), Baris Tufekci (Committee Assistant), and Sean Kinsey (Media Officer).

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Ninth Special Report

The Environmental Audit Committee published its Sixth Report of Session 2017–19, *Green finance: mobilising investment in clean energy and sustainable development*, (HC 617) on 16 May 2018. The response from the Government, and an accompanying letter from the Rt Hon Claire Perry MP and John Glen MP, were received on 13 July 2018 and are appended below.

Appendix 1: Letter from the Rt Hon Claire Perry MP and John Glen MP

Please find enclosed with this letter our Government response to the first of your Committee's two reports on green finance. Thank you and the Committee for your excellent report and leadership in this area. Both reports represent valuable resources as we consider how to accelerate the growth of green finance and achieve our ambitions of continued global leadership for this sector.

Our response to your report 'Green Finance: Mobilising investment in clean energy and sustainable development' sets out the work we are doing to drive the investment needed to deliver our Clean Growth Strategy, as we seek to build on our progress to date of leading the G7 in growing our economy while reducing our emissions on a per person basis.

The Green Finance Taskforce published its report 'Accelerating Green Finance' earlier this year. We are considering its recommendations and will respond in due course, recognising the need for decisive action.

Green finance is central to the delivery of our Clean Growth Strategy and our Industrial Strategy objectives, and we are determined to capitalise on the global opportunity arising from the transition to a low-carbon and resilient economy. We welcome your expertise as we seek to ensure we continue to lead the world in green finance.

13 July 2018

Appendix 2: Government Response

Introduction

1. The Government welcomes the Committee's inquiry into green finance, and its report on mobilising investment in clean energy and sustainable development.

2. Green finance is a key priority for the Government – to support delivery of our ambitious Clean Growth Strategy, to drive UK economic benefit as part of our Industrial Strategy, and to enable the global transition to a low carbon economy. Managing climate-related risk whilst capturing new investment opportunities will help us meet our objectives of ensuring that our economy is resilient and best placed to seize global opportunities.

3. Our domestic climate change commitments, and the global targets of the Paris Agreement, present a great investment opportunity for the private sector as we seek to maximise the UK's advantage from the global shift to clean growth.

4. The UK is a world leader in delivering clean growth. We have cut our emissions by more than 40% since 1990, whilst growing our economy by more than two thirds over the same time period – the best performance in the G7 on a per person basis.

5. We have a globally renowned financial services sector, providing £119 billion to the UK economy, 6.5% of total economic output and employing more than 1.1 million people.

6. These strengths have helped to make the UK a world leader in green finance. Over 70 green bonds have been listed on the London Stock Exchange, raising more than US$22 billion in seven currencies, and the UK Government was one of the first in the world to endorse the recommendations of the Financial Stability Board's (FSB's) Task Force on Climate-related Financial Disclosures.

7. We established the Green Finance Taskforce to build on these strengths and consolidate our international leadership. The Taskforce published its report 'Accelerating Green Finance' at the end of March, outlining a set of wide ranging and ambitious recommendations formulated in consultation with over 140 organisations.[1] We are currently considering the Taskforce's recommendations in advance of responding to them.

Chapter 1 – The Investment Challenge

Response to report's findings

8. We welcome the report's findings that the Renewables Obligation, Feed in Tariffs and Contracts for Difference have driven investment in new renewable electricity capacity and have led to the cost of generating electricity from renewables falling rapidly.

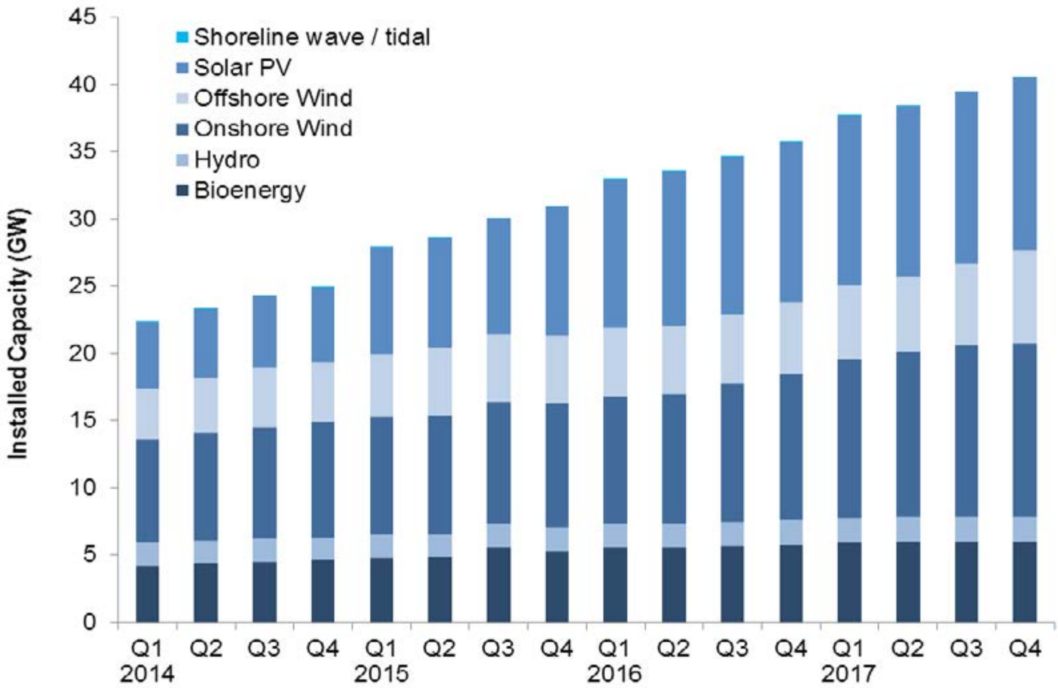
9. The success of our approach is reflected in both reductions in the costs of key technologies – for example, the halving in the cost of offshore wind in two years – and

1 https://www.gov.uk/government/publications/accelerating-green-finance-green-finance-taskforce-report

the rapid decarbonisation of our power system. 2017 was our greenest year ever. Low carbon generation comprised more than half of UK generation for the first time, reaching a record high 50.4% share.[2]

10. As set out in the Clean Growth Strategy, we want a diverse electricity system that supplies our homes and businesses with secure, affordable and clean power. We collect a wealth of data on these objectives, including on energy production, capacity, and the role of renewables, which are published quarterly.[3] At the end of 2017, the UK's renewable electricity capacity totalled 40.5GW, an increase of 13% on that installed at the end of 2016.

Figure 1: Renewable electricity capacity (as at end of quarter)



11. Our policies are continuing to drive investment, and we have a strong trajectory of additional capacity coming on line over the coming years, with over 8GW of additional capacity secured through the Contracts for Difference commissioning from 2018 onwards.[4] We have set out a clear future pipeline of investment through our commitment to provide up to £557 million for future Contracts for Difference, providing industry with the confidence they need to invest in bringing forward new projects. We are driving investment in new nuclear power, through the development of the first new nuclear power station in a generation at Hinkley Point C, and our commitment to enter into negotiations in relation to the proposed Wylfa Newydd project. The Capacity Market is proving effective in driving investment in a wider range of technologies to ensure security of supply at least cost.

2 https://www.gov.uk/government/statistics/electricity-section-5-energy-trends
3 https://www.gov.uk/government/statistics/energy-trends-section-6-renewables
4 https://lowcarboncontracts.uk/cfds

12. Investments are cyclical in nature and figures are distorted by the movements of individual large projects. Investment figures also do not show the whole picture as we are getting more for less: as costs of renewables come down, it costs less to deliver the same or more power generation.

Chapter 2 – Policies to Secure Investment

Recommendation 1 (Paragraph 40):

Given that these budgets are only a few years away, Ministers must urgently plug this policy gap and publish a delivery plan to secure the investment needed to meet the fourth and fifth carbon budgets—without relying on carrying over a surplus from previous budgets. It is imperative that the Government responds to the Green Finance Taskforce's recommendations promptly and produces a delivery plan in time for the 2018 Budget to show how it intends to deliver the Clean Growth Strategy. Ensuring that we are on track to meet our current carbon budgets is even more important now that the Government has asked the Committee on Climate Change to explore how to strengthen the UK's greenhouse gas targets in the light of the 2015 Paris Agreement aspiration to limit temperature rises to 1.5 degrees.

13. Our ambitious Clean Growth Strategy sets out the right approach to put the UK on an affordable, cost-effective pathway to decarbonising the whole economy in line with the requirements of the Climate Change Act. It includes ambitious proposals for action across the economy, building on our success to date.

14. We outperformed the target emission reductions of our first carbon budget (2008–2012), and we project that we will outperform against our second and third budgets, covering the years 2013 to 2022. The updated projections for the fourth and fifth carbon budgets (including estimates of emission reductions from a subset of Clean Growth Strategy policies and proposals) suggest that we could deliver 97 per cent and 95 per cent of our required performance against 1990 levels, before a number of the policies and proposals in the Clean Growth Strategy are quantified.

15. We are now working to ensure effective delivery of the Clean Growth Strategy, including development and implementation of the full range of policies and proposals it includes. We have set out our milestones for delivery, and will be providing updates on progress on an annual basis through our annual responses to the Committee on Climate Change's progress report, and updates to our emissions projections.

16. We are already making progress on the Paris Agreement, as evidenced by the UK's strong domestic performance.

17. We recently announced our intention to seek the CCC's advice on the implications of the Paris Agreement for the UK's long-term emissions reduction targets, after the release of the Intergovernmental Panel on Climate Change (IPCC) Special Report,[5] and the Clean Growth Strategy made clear that the Government believes the UK will need to legislate for a net zero emissions target at an appropriate point in the future, to provide legal certainty on where the UK is heading.

18. Green finance will be central to delivery of the Clean Growth Strategy, and in September 2016 the Minister for Energy and Clean Growth and the Economic Secretary convened an independent Green Finance Taskforce, comprising senior industry leaders from the finance sector, academia, international institutions and civil society. Within six months the Taskforce consulted over 140 organisations and delivered 30 ambitious recommendations to the Government in its report 'Accelerating Green Finance'.

19. This work has played an important role in shaping an ambitious agenda to capture this global growth opportunity and deliver the investment required to meet the Paris Agreement and our Government's Clean Growth Strategy to 2032.

20. We are determined to maintain the UK's position as a world-leader in green finance in the long term, capitalising on the opportunities arising from Clean Growth. We welcome the Green Finance Taskforce report and its recommendations, and are developing our response to them.

Recommendation 2 (Paragraph 47):

The Government should launch a consultation before the next round of CfD auctions in 2019 to explore how it can continue to encourage new low-carbon generation with fixed-price contracts in the early 2020s, while keeping costs down for consumers.

21. Our sustained support for clean energy has led to dramatic falls in the costs of some renewable electricity generation technologies. For example, government investment in offshore wind has helped to deliver a 50 per cent drop in costs over just the last two years.[6]

22. It is good news for consumers that some technologies are approaching a point where they may not require any form of subsidy.

23. In May 2018, wind developer Energiekontor[7] confirmed that it would begin construction on the UK's first wind farm without government subsidies having reached financial close after securing a Power Purchase Agreement with a consumer goods brand.[8]

24. We note the recommendation to consult on how the Government can continue to encourage new low carbon generation with fixed price contracts. However, there may be a wide range of ways that new low carbon generation can be brought forward as it reaches

5 Correction to the report: The Government has not asked the Committee on Climate Change to explore how to strengthen the UK's greenhouse gas targets in the light of the 2015 Paris Agreement aspiration to limit temperature rises to 1.5 degrees. We recently announced that after the IPCC report is published later this year, we will be seeking advice from the Committee on Climate Change on the implications of the Paris Agreement for the UK's long-term reduction targets.

6 https://www.gov.uk/government/publications/contracts-for-difference-cfd-second-allocation-round-results

7 https://www.energiekontor.co.uk/about-energie-kontor

8 https://renewablesnow.com/news/energiekontor-funds-ppa-backed-82-mw-wind-farm-in-uk-613167/

a level at or below the forecast wholesale electricity price. The Government keeps support for new projects under ongoing review and will continue to engage with stakeholders on potential options of how to bring forward new low carbon generation.

Recommendation 3 (Paragraph 53):

Ministers should set out a trajectory to gradually increase the carbon price—starting after the current freeze on Carbon Price Support comes to an end in 2021—to continue driving investment away from fossil fuel based electricity generation. The Government should also carry out an assessment to consider how extending carbon pricing to cover the whole economy could help us meet our climate change targets.

25. As announced in Autumn Budget 2017,[9] the Government will target a Total Carbon Price, currently made up of the price of the European Union (EU) Emissions Trading Scheme and the Carbon Price Support, until unabated coal is no longer used in power generation. This will deliver a stable carbon price while limiting costs on business. Targeting a total carbon price provides more certainty to business on the overall price that they will pay.

26. Extending a carbon tax across the whole economy would require putting a carbon price on areas such as agriculture, heating and transport. The Government would need to consider the significant practical challenges to implementing this and interaction with other decarbonisation policies in these sectors.

Chapter 3 -Development Finance

Response to report's findings

Green Investment Bank

27. The Government's policy for the Green Investment Bank (GIB) has been a success. Despite concerns from stakeholders prior to the sale, the Bank remains intact and is expanding, it is able to raise its own finance without competing for limited taxpayer funding, and is now free of state aid constraints that would have otherwise continued to inhibit its operations. As the Committee's report notes, a special share protects its green purpose and it has already made a number of important green investments.

28. In further response to the Committee's conclusions:

- The Green Investment Group (GIG), as it is now called, will continue to invest in higher risk projects. The primary purpose of GIB was to prove green investment can be profitable, investing at the higher but nevertheless measured risk / reward end of the investment spectrum.
- The GIB supported only commercially investible projects which would make them a financial return to demonstrate that green investment can be profitable. It was not a policy vehicle in the sense described by the report. Since its sale, the

9 Correction to the report: The Autumn Budget announcement did not say that the Carbon Price Support would cease to be in force after 2025. We will keep this tax under review.

GIB has established new advisory services to help facilitate green focus (such as green reporting), and launched a "pay as you save" investment product to target the energy efficiency market.

- With regard to disruption caused by the sale process, whilst such a sale process will always have the potential to be a distraction, during the year of sale the GIB invested more funding than any previous year. However, the fact that the total transaction value of these investments (i.e. when private sector co-investment is included) was at its lowest, supports the notion that market failures were eroding. The GIB was finding it harder to find projects that were struggling for funding.
- The Government had always intended GIB to have an international focus post-sale. The UK was the first country in the world to establish a green investment bank, and the Government is proud of the fact that it is now leading the way on a global stage. Through its new owner Macquarie, GIG can access significantly more funding than had it remained within public ownership, meaning the risk of reduced UK investment is limited despite GIG's global investment focus.

Dormant Assets

29. The Dormant Assets Scheme, in place since 2011, has already made over £500 million of funds from dormant bank accounts available to good causes. It was announced in January that an additional £330 million of funds would be made available over the next 4 years to help the homeless, disadvantaged young people, local charities and other good causes.

30. The independent Dormant Asset Commission's report to Government in 2017 highlighted the existence of further dormant assets in a range of financial services sectors. The Government has announced four experienced business leaders to convene working groups and explore the potential to expand the scheme within their sectors, and how to best reunite customers with any dormant assets. They will then report back to the Government with recommendations.

31. Funds are distributed between England and the devolved administrations by a formula set out in legislation. In England, funds must be used for financial inclusion and capability, youth or social investment purposes. With the funds available until 2020 allocated to several programmes, the Government's focus is currently on the expansion of the scheme to other asset classes.

Recommendation 4 (Paragraph 83):

The Government should set out how it intends to stimulate development finance for the decarbonisation of local heat, transport and heavy industry. The UK Government should negotiate to maintain our relationship with the European Investment Bank, which would allow riskier early stage green infrastructure projects in the UK continued access to development bank finance.

European Investment Bank

32. The Government is committed to ensuring that infrastructure projects – including clean and renewable technologies – continue to be able to raise the finance they need. As the report states, the European Investment Bank (EIB) has been an important lender to these sectors. The Government considers that it may prove to be in the mutual interest of all sides for the UK to maintain some form of ongoing relationship with the EIB Group after leaving the EU, and we will explore these options with the EU as part of the negotiations on the future relationship.

33. However, the Government will be prepared in the event that that relationship changes significantly. We have already taken steps to increase support for infrastructure and business finance – for example, the Government is investing £200 million into a new Charging Infrastructure Investment Fund to support the transition to zero emission vehicles, while the Infrastructure and Projects Authority, which provides finance support for infrastructure projects, has broadened the £40 billion UK Guarantees Scheme to offer construction guarantees for the first time. The British Business Bank supports small business and venture capital investment, and has raised the limits on the amount it can invest in venture capital funds from 33% up to 50%, and brought forward some of the £400 million additional investment that was announced at Autumn Statement 2016. As of September 2017, the British Business Bank has made investments into at least 45 UK Cleantech companies through its venture capital programmes. We will keep this support under review as the negotiations progress.

Development finance for the decarbonisation of local heat

Renewable Heat

34. To comply with the legally-binding carbon targets set by Parliament under the 2008 Climate Change Act, emissions from heating will need to be eliminated or very significantly reduced by mid-century. At present, heating accounts for around one third UK carbon emissions. The **Renewable Heat Incentive** (RHI) is an important first step towards this goal. It is targeted towards the roughly 15% of the population who are not connected to the gas grid, and provides a financial incentive based on the difference in costs between high- and low-carbon heating technologies.

35. The non-domestic RHI scheme has been open to commercial, industrial, public sector, not for profit and community generators of renewable heat since November 2011. The Domestic scheme has been open since April 2014. The RHI is funded directly from government spending, not through a green levy on energy bills, with budgets assigned as part of the spending review. We ensure that the scheme stays within budget and that it is value for money for the tax payer, both by amending eligibility rules to make best use of funds, and through a cost control framework which has automatic degression (lowering) of tariffs when deployment exceeds anticipated levels.

36. This is transparent to investors, giving them the certainty that there will be available budget for their scheme, whilst keeping flexibility for Ministers to close the scheme should budget cap be reached. The introduction of Assignment of Rights on 27th June

18, will allow investors and installers time to develop their offer to consumers in helping householders overcome the barrier of the initial capital cost of a renewable heating system, and improve access to the scheme for consumers less able to pay.

Heat Networks

37. Heat networks provide long and steady returns. We recognise that Local Authorities can play a key role in facilitating the development of low carbon projects on the ground with the Department funding £17m of development costs over the last 4 years in partnership with two thirds of Councils in England and Wales. Alongside the funding, we have a sustained campaign to improve the capacity and capability of local authority project managers (and fund external PMs where the local authority doesn't feel they have sufficient capability internally) which has included:

- Support to enable the local authority to become an intelligent client and improve the economic performance of networks;
- Providing detailed guidance on the finance available to public and private sector sponsors; and
- Making the case for the benefits of bringing in external funding and detailing how to procure third party finance.

38. This investment has effectively created an investment prospectus for heat networks in the UK. Since 2015, increasing the volume of investment into the market has been a core workstream, with work to:

- improve the transparency of the investment opportunity by regularly publishing a pipeline.
- better understand the investor offer (now published with initial investors).
- learn lessons from other types of infrastructure (for an investor audience).

39. The Heat Networks Investment Project is a capital investment programme, using grants and loans (corporate and project) to provide gap funding, enabling project sponsors and investors to reach financial close in the knowledge the overall project return will meet their investment criteria. Two elements have been designed to address the investment challenge:

- Capital funding includes funding for commercialisation, recognising the need for development funding in order to reach financial close.
- The procurement of a Delivery Partner with a clear investment mandate, including the requirement to bring in third-party funding alongside (and without if the project allows) government investment in order to help create a step change in the volume of this type if investment in the market. The expectation is for up to £1 billion of additional third party and other funding to be invested on top of the HNIP budget.

Strategic Options for Heat

40. Over the long-term the transition to low-carbon heating will involve investment in low carbon technologies across the economy. At this stage it is not clear which will be most cost effective at the scale required to meet our 2050 climate goals but there are a range of technologies with the potential to contribute to this transition. The Government is supporting innovation and demonstrations in a range of low carbon heating technologies, and innovative business models, helping to reduce investment risk and bring new technologies to market.

Development finance for the decarbonisation of Business and Industry

41. The Industrial Heat Recovery Support Programme will provide development funding to increase industry confidence in identifying and investing in opportunities for recovering and reusing waste heat from industrial processes, helping to develop the business case for further investment, either by the project sponsor or by a third party. This will increase the deployment of recoverable heat technologies in industry and lead to a reduction in carbon emissions, enabling industry to re-use heat on-site or sell it to a third party, leading to the more efficient and productive use of energy, lower fuel bills or a new revenue stream for industry. The programme is estimated to deliver industrial energy bill savings of up to around £0.5 billion, with carbon savings of up to 6 million tonnes over the course of its lifetime. It will therefore make a significant contribution to delivering clean economic growth and maximising the economic benefits from the UK’s transition to a low carbon economy.

42. Clean growth is a vital part of delivering our Industrial Strategy. The strength of the UK offer is based on our ability to trade and compete at a global scale and our ambition in this regard is set out in the Clean Growth Strategy, where we aim to enable improvements in business energy efficiency by at least 20% by 2030. The potential for further energy efficiency in businesses and industry is significant - up to £6 billion could be saved by 2030 through investment in cost-effective energy efficiency technologies in buildings and industrial processes.

43. As well as reducing bills across the UK, building the energy efficiency market places UK businesses and industry in a prime position to further increase the export of knowledge, skills and products to other countries. It would also involve greater flows of external finance, a sector where the UK is already a market leader. For example, the UK energy services market is estimated to have a potential annual size of €1 billion per year and would require significantly more third party finance than we see currently. We estimate that it could require an additional £23 billion of private sector investment to deliver the range of measures which will be needed to meet this level of ambition. We are developing a package of measures to support businesses to improve how productively they use energy, and will consult on this in 2018.

Recommendation 5 (Paragraph 87):

The Government should explore how to create partnerships with local authorities to provide technical and development expertise to enable more towns and cities to access

finance for green projects. The Government should set out in its response to this report the concrete steps it will be taking to work with local government to increase access to green finance at a local level.

44. The Government recognises that local delivery is critical to achieve objectives set out in our Industrial Strategy and Clean Growth Strategy. The Department for Business, Energy and Industrial Strategy (BEIS) has recently launched a £7 million Local Energy Programme, which has supported all Local Enterprise Partnerships in England to develop local energy strategies and includes £4.8 million of funding to finance five Local Energy Hubs across England. The Hubs consist of teams of energy project managers, with access to the necessary legal and financial expertise to facilitate investment into clean growth projects. They will undertake the initial stages of project development to help attract investment, including the necessary development finance.

45. The Government is committed to empowering local communities. Community energy projects are an important part of a clean, secure and affordable energy system. Since 2013 the Government has supported Community Energy by funding a joint Defra / BEIS Rural Community Energy Fund (RCEF). The Government has also funded a local authority best practice community energy programme with Bristol City, and funding the Community Energy Hub, a digital platform owned and run by the community energy sector to enable peer networking and knowledge transfer.

46. As highlighted in the Clean Growth Strategy, the Government has already given additional powers and responsibilities through the Cities and Local Government Devolution Act 2016. A number of Local Devolution deals have been agreed between government and local areas including Cornwall, Sheffield, Greater Manchester and Liverpool. Many of the Local Devolution deals incorporate energy commitments; including support for home energy efficiency, deep geothermal, tidal power and community energy initiatives.

47. The Government has recently launched a new initiative for research and industry to develop future smart energy systems and prove their use at scale. Led by Innovate UK and the Engineering and Physical Sciences Research Council (EPSRC), the Industrial Strategy Challenge Fund 'Prospering From the Energy Revolution' challenge will bring together businesses, research, and expertise to develop and demonstrate new approaches to provide cleaner, cheaper energy. An initial £41.5 million will fund up to five ground-breaking, localised energy system demonstrators and projects that develop novel concepts that could revolutionise local energy provision.

48. Outside of central government, in April 2018 the Government introduced a voluntary wider public and higher education sector target of a 30% reduction in greenhouse gases by 2020/21, against a 2009/10 baseline. We will review progress against this voluntary target by 2020, with a view to moving to a more ambitious target during the 2020s.

49. Energy efficiency is supported by a revolving interest-free loan scheme for the public sector, managed by Salix Finance. As of 2017, the loan scheme has funded over 16,000 projects, improving public sector and higher education buildings for its users and is projected to save the sector around £55 million on energy bills this year. As at end 2017/18, the loan scheme administrator manages £210 million, and this will rise to £385 million by 2020. This revolving loan scheme will continue to be recycled to at least 2025. The Government is also supporting development of the energy services market,

currently working with Local Partnerships to provide capacity support to public bodies across England to access an energy services procurement framework under the Re-Fit programme. Similar support is provided by the Greater London Authority in London.

50. Some areas of energy policy, including energy efficiency delivery, are devolved to Scotland, Wales and Northern Ireland where the national governments have responsibility and set out their own strategies and policies.

Chapter 4 – Green Financial Products

Response to report's findings

Green Mortgages

51. The Government recognises that green mortgages are only one part of the solution for building a market for energy efficiency. The experience of the Green Deal showed that one single financial product is unlikely to suit the needs of all consumers. Our Call for Evidence on Building a Market for Energy Efficiency, published in October 2017 alongside the Clean Growth Strategy, contained a broad range of demand and supply policy options for financing energy efficiency. Following an evaluation of the responses to this call, we will publish an action plan on additional market-based measures later in 2018.

52. We are also considering the recommendations proposed by the Green Finance Taskforce on how the Government could support lenders to offer green mortgages, as well as unsecured green loans, to help consumers improve the energy performance of their homes.

53. With regards to the link between loan performance and energy efficiency, we agree that further research in this space would be beneficial. We are currently working with the academic community to support such research. Following the release of the Energy Performance Certificates (EPCs) bulk data as part of the industry-led LENDERS project, banks now have access to the data required to study these effects themselves, as Barclays highlighted in their evidence to the EAC.

54. Furthermore, it is important to note that developing a business case for green mortgages need not rely on proving a link between default rates and energy performance, nor do green mortgages necessarily need to include a preferential interest rate. A green mortgage should be defined as any secured lending product taking into account the energy efficiency of a property and/or providing funding for energy efficiency upgrades to the property. Other mechanisms than changes to default rates – such as the fiscal incentives proposed by the Taskforce, or the opportunity to securitise these loans into green bonds – could provide the supply-side incentive for lenders to offer these products.

55. As noted by the Green Finance Taskforce, a useful first step all banks could take [towards either of these routes] would be the 'green tagging' of their current loan book – matching loans to EPC data. We would also note that since the EAC held its evidence hearings, Barclays have now launched a 'Green Home Mortgage' product, with a lower interest rate for the most energy efficient properties, indicating that a business case can successfully be made for these products in the UK.

Recommendation 6 (Paragraph 113) and Recommendation 7 (Paragraph 115):

Ministers must outline a timetable for the introduction of authoritative standards on green financial products—including bonds—that can give investors' confidence they provide additional green benefits. Liaising with our EU partners will be necessary to ensure that the UK's efforts in this cohere with the proposals set out in the Commission's Action Plan on Sustainable Finance. If Europe-wide standards are adopted, it would make sense to continue to utilise them after we leave the EU.

The Government should explore how a Sovereign Green Bond could be directly tied to achieving its Clean Growth Strategy and include its analysis in the delivery plan it must bring forward in time for Budget 2018 to show how it intends to plug the shortfall in achieving our fourth and fifth carbon budgets.

56. The most efficient way for the Government to borrow from financial markets is by issuing gilts. This ensures that the Government gets the best value for money for taxpayers, by borrowing on a large scale, issuing gilts to a benchmark size of around £20 billion to develop deep and liquid markets. This borrowing supports investment across government – for example our £2.5 billion investment to support low carbon innovation between 2015 and 2021.

57. The UK already has a well-established private sector green bond market, facilitated by the London Stock Exchange's comprehensive specialist offering. There are now over 70 green bonds listed on the LSE in seven currencies, worth over $22 billion.

58. The Government continues to consider alternative methods of financing, including a sovereign green bond as recommended by the Green Finance Taskforce. Before issuing a new type of sovereign bond, such as a green bond, the Government would need to be satisfied that they would provide cost-effective financing for the taxpayer, and there would be sustainable demand. The Government is developing its response to the Green Finance Taskforce recommendations.

59. The Government recognises the role greater transparency and understanding of labels and products can play in accelerating the growth of green finance. This is why we announced plans last year to work with the BSI on green finance management standards. The development of green financial product standards, including green bond standards, is due to be addressed through the European Commission's Action Plan on sustainable finance.

60. As long as the UK remains an EU Member State, we will continue to engage fully with ongoing EU business. The Government is focused on ensuring we have a clear UK regulatory regime through the Withdrawal Bill that maintains the present framework, and on delivering a bold new economic partnership with the EU through ongoing negotiations.