

A UK Net Zero Investment Plan for Green Growth

Summary

A UK Net Zero Investment Plan is needed to catalyse private finance to deliver green growth in the UK economy. It would set out how government will align policy, regulation, and strategic public spending to signal a clear pathway to a net zero, nature positive economy.

Investing in a net zero economy is a solution to the cost of living and energy crises, and will power growth in the industries of the future. The financial sector has the capability and desire to bring about green growth. But they can't do it alone. The financial sector needs clear and consistent signals about the government's commitment to decarbonisation, and the decarbonisation pathways of the real economy businesses in which they invest, to whom they lend, and whose activities they underwrite. This is why Legal and General, Aviva, Scottish Widows, Kingfisher and 25 other major companies and industry associations have called for a Net Zero Investment Plan¹. Once again, this would see the UK leading the world on climate policy.



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Why a Net Zero Investment Plan is needed

During a challenging economic environment and the cost of living crisis, the net zero and nature-positive² transition offers the potential for green growth, green jobs, and secure, cheap energy.

An estimated \$32 trillion³ of investment is needed this decade, globally, to tackle climate change alone.

Catalysing this private investment in the green transition could unlock new business opportunities worth £40 billion of gross value add - over 1% GDP – to the UK economy per year.⁴ The UK's low carbon economy could grow by 11% per year and the global export market for low-carbon products could be worth up to £1.8 trillion by 2030.⁵

This would directly benefit the British public, creating almost 500,000 jobs supported by the domestic and export-led low carbon opportunities,⁶ and help to tackle inflation – research shows that upgrading UK homes with the right combination of low-carbon technologies and energy efficiency measures could increase their value by £10,000 on average and reduce household's energy bills by over £1,800 per year.⁷

If the UK doesn't lean into the green transition, the UK will miss out on the export opportunities that come from being a leader in growing industries. Moreover, we'll be vulnerable to significant

climate and nature risks which threaten the foundations of our economy and financial stability.⁸ The Bank of England estimates that UK GDP will be 5 times lower in 2050 if no action on climate is taken, compared to taking early action.⁹ Delaying climate action to 2030 would double the required investment to at least £64 billion per year from 2030, likely forcing higher taxes.¹⁰ There are huge upsides to driving the net zero investment now, while avoiding significant downsides.

The UK has so far positioned itself to capture this global economic opportunity. The UK was one of the first major economies to commit to a legally binding target to reach net zero emissions by 2050.¹¹ The Net Zero Strategy set up the right ambitions to decarbonise all sectors of the UK economy. At COP26, Rishi Sunak announced the Government's vision for the UK to become the world's first net zero financial centre, leaning into the UK's globally recognised financial leadership and reach.

Now is the time to make these ambitions deliver by financing the green transition and creating future facing industries. A Net Zero Investment Plan can deliver this by quantifying investment gaps and identifying market barriers, setting out how government policy, regulation, and spending will support private finance and give investors the confidence to close those gaps. In other words, a whole of economy approach, where government and the private sector are pulling in the same direction, is needed. Industry, civil society¹² and experts,¹³ including the Climate Change Committee's (CCC) Advisory Committee on Finance¹⁴ have highlighted the need for this.

What is a Net Zero Investment Plan

A Net Zero Investment Plan would set out a comprehensive financing strategy to assess, track, and scale-up (largely) private finance in the net zero transition, consistent with the Paris Agreement, while delivering wider benefits such as improved energy security and alleviating the rising cost of living¹⁵. It will help secure economic stability and confidence in the UK economy

This system-wide and sector-tailored approach aims to provide a bridge between the economic opportunities that exist within the real economy and the supply of net zero finance from the UK's global financial centre. The right policy environment could make £900bn of insurance and pension investment available for green financing in the UK, substantially reducing the amount of public spending needed to deliver net zero.¹⁶

The Net Zero Investment Plan would constitute these key components:

1 Assessment of total investment needed across sectors of the UK economy to deliver on the 6th Carbon Budget, building on the CCC's existing assessment in 2020¹⁷. This should include an assessment of what investment in natural capital and nature-based solutions will be needed to deliver net zero commitments, and build the resilience of the UK economy - for example to climate and supply chain shocks.

2 Tracking of financial flows across the economy (public and private), to identify where investment is falling short of the assessed need. This function should be carried out regularly by an independent body (such as the OBR). While we already have investment pathways from the CCC, and we have committed to a net zero financial centre, we currently have no cross-sector assessment to understand whether this is being met and whether capital flows are flowing to the most beneficial areas of the economy.¹⁸ Introducing a *Net Zero Delivery Tracker* for fiscal events, which would enable HMT to assess if public investment is getting the UK on track to achieve our net zero and nature goals, would support the Government in this regard.¹⁹

3 A comprehensive, strategic financing plan to close the gaps between required and actual financial flows. This plan would consider how to catalyse the full breadth of financing available across the economy, including primary investment (e.g. to retrofit a building), secondary markets (e.g. investment and lending portfolios), and utilise existing public financing mechanisms, notably the British Business Bank and the UK Infrastructure Bank. It would clearly set out how strategic public finance, regulation and policy will be used to leverage in private finance to close these gaps, including developing innovative financing strategies that would focus on the

specific challenges across the net zero and nature-positive landscape (e.g. buildings, high-carbon industries, and nature-based adaptation).

4 Align government governance structures with this whole of economy approach, requiring each department to understand how to deliver the Net Zero Investment Plan, based on the sectoral pathways they are responsible for and making commensurate adjustments to policy and practice. Some plans already exist in this space, but have been developed in an ad hoc manner; therefore, the aim would be to make these plans consistent and coherent. They must cover operational emissions associated with the department as well as information on the way in which the policies that they are responsible for are driving the net zero transition and green growth.²⁰

The UK's leading financial centre is an asset to be leveraged in building a prosperous, climate-secure economy, and future facing industries with huge export potential. A Net Zero Investment Plan will help signal the government's clear intent to the market and allow the government to systematically use its levers to channel billions of pounds of private finance. The investment potential exists and we must not waste time in unlocking it.



Endnotes

- 1 <https://www.e3g.org/news/investors-managing-3-trillion-in-assets-call-on-uk-government-to-deliver-net-zero-investment-plan/>
- 2 “Nature positive” refers to the objective of halting and reversing nature loss by 2030, from a 2020 baseline. <https://www.naturepositive.org/>
- 3 An estimated \$125tr of investment is required just to tackle climate change, of which \$32tr is needed this decade. GFANZ, <https://www.gfanzero.com/netzerofinancing>
- 4 Vivid Economics report prepared for WWF, *Keeping us Competitive: An Investment Strategy for Net Zero*, Feb 2020. https://www.wwf.org.uk/sites/default/files/2020-06/Keepingus_competitive.pdf
- 5 UK Board of Trade, *Green Trade*, July 2021. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1008120/board-of-trade-report-green-trade.pdf
- 6 Same as footnote 3
- 7 WWF & Scottish Power, *Better Homes, Cooler Planet: How Low-Carbon Technologies Can Reduce Bills and Increase House Value*, Aug 2022. https://www.wwf.org.uk/sites/default/files/2022-08/Better_Home%2C_Cooler_Planet_Report.pdf
- 8 Bank for International Settlements, *The green swan; Central banking and financial stability in the age of climate change*. <https://www.bis.org/publ/othp31.pdf>
- 9 Bank of England, *Key Elements of the 2021 Biennial Exploratory Scenario: Financial Risks from Climate Change*. <https://www.bankofengland.co.uk/stress-testing/2021/key-elements-2021-biennial-exploratory-scenario-financial-risks-climate-change>
- 10 Same as footnote 3
- 11 Over 90% of global GDP has since been captured by national government net-zero targets.
- 12 E3G, *A UK Net Zero Financial System*. <https://9tj4025o153byww26jdkao0x-wpengine.netdna-ssl.com/wp-content/uploads/A-UK-Net-Zero-Finance-System-Key-Elements-for-the-Green-Finance-Strategy.pdf>
- 13 75 leaders from civil society and academia called on the government to align financial flows with a 1.5C pathway. <https://positivemoney.org/2022/07/joint-statement-green-finance-strategy/and> <http://positivemoney.org/wp-content/uploads/2022/07/GF-Strategy-Joint-Statement-final-for-upload.pdf>
- 14 In 2020, the recommendations of the CCC’s Advisory Group on Finance included “a regular assessment of investment needs and financial flow for climate action in the UK”, and “setting net zero and sustainability goals for public institutions”. CCC Advisory Group of Finance, *The Road to Net Zero Finance*, 2020, <https://www.theccc.org.uk/publication/the-road-to-net-zero-finance-sixth-carbon-budget-advisory-group/>
- 15 Including evolving science Intergovernmental Panel on Climate Change (IPCC), notably: <https://www.ipcc.ch/sr15/chapter/spm/>; https://www.ipcc.ch/report/ar6/wg2/downloads/report/IPCC_AR6_WGII_SummaryForPolicymakers.pdf
- 16 Association of British Insurers, *Climate Change Roadmap*, 2022. <https://www.abi.org.uk/about-the-abi/sustainability/climate-change-roadmap/>
- 17 Climate Change Committee, *The Sixth Carbon Budget: The UK’s Path to Net Zero*, Dec 2020. <https://www.theccc.org.uk/wp-content/uploads/2020/12/The-Sixth-Carbon-Budget-The-UKs-path-to-Net-Zero.pdf>
- 18 The Office of National Statistics (ONS) does maintain a set of environmental accounts, which includes investment flows, but this does not cover all the sectors needed for net-zero. See: <https://www.ons.gov.uk/economy/environmentalaccounts/bulletins/finalestimates/2018>
- 19 For more detail see WWF Net Zero Test publication: <https://www.wwf.org.uk/learn/net-zero-test>
- 20 For more detail, see elements of Aviva and WWF recommendations (pgs. 8-10): <https://www.wwf.org.uk/sites/default/files/2022-05/Aligning-the-UK-Financial-System-to-Net-Zero.pdf>

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