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Dear Chair

Decarbonisation of the UK economy and green finance inquiry

In response to the Treasury Select Committee's inquiry into the *'Decarbonisation of the UK economy and green finance'*, the London Sustainable Development Commission would like to submit its recent report on 'Financing for a Future London'[i]–with particular reference to the following question set out in the inquiry: **How might HMT deliver a regionally balanced and 'just' transition across the UK?**

The London Sustainable Development Commission (LSDC) was established in 2002 to provide independent advice to the Mayor of London on ways to make London a sustainable, world-class city. The Commission is an independent body, challenging policymakers to promote a better quality of life for all Londoners, both now and in the future, whilst also considering London's wider global impacts. The Commission is made up of individual experts from the economic, social, environmental and London governance sectors. Commissioners give their time voluntarily, promoting sustainable development, embedding sustainability into London-wide strategies, and helping make sustainability a meaningful and understandable concept for all Londoners.

Background to the LSDC 'Financing for a Future London' Study

This LSDC priorities in our study was to address the issue of how London could secure new routes of financing to set itself on a Net Zero pathway, but do so in a way that ensured the benefits of the investment needed in homes and communities, businesses and high streets, and that would leave no Londoner behind. The digital divide is already well understood, but as the energy transition gathers pace on the road to Net Zero, there is a risk that a similar divide may open up where individuals and communities feel that they have little to benefit from options such as EVs, solar and storage or even investment in cleaner, greener neighbourhoods. The COVID crisis has further highlighted the structural inequalities in our city which will need to be addressed as we recover from the pandemic.

The LSDC established a Green Finance working group in 2017 to look at the actions needed to mobilise both public and private finance to deliver the scale and speed of action to transition to a zero carbon London. Over the course of the research we consulted widely with stakeholders including London's local authorities, major energy companies such as Vattenfall, the Bank of England, BEIS and other leading financial institutions.
This work fed into the LSDC's report, 'Financing for a Future London' launched at a major event at London's Guildhall in March 2020. The LSDC is now working with the Mayor of London to examine how to progress the recommendations in the report and in particular

the establishment of a London Future Finance Facility (LFFF). We anticipate this work to be moving forward in Autumn 2020.

Since the LSDC started this work, the Mayor along with 29 other London local authorities have signed climate emergency declarations. Considerable work is now underway to examine opportunities for decarbonising London including large scale building retrofit programmes and renewable energy initiatives. Key to the future plans are examining new routes for finance as it is clear that the scale of the challenge is such that the Mayor and local authorities do not have the necessary spending powers nor available funding to fully achieve this transition.

The last few months have seen a number of announcements from Government, which are relevant to the LSDC's study and proposals, and bear out some of the concerns raised:

- The need for greater decentralisation of infrastructure funding

The Government's announcement on 8 July 2020 of £3 billion investment in new energy efficiency programmes and jobs is a welcome first step, but the timescales for spend, and limited engagement with regional government in shaping the rollout of the work to be undertaken will severely impact the success of the initiative. The LSDC believe that these new programmes, and further initiatives which are expected to be introduced if the Conservatives full £9.3bn manifesto commitments on energy efficiency are to be kept, will struggle to achieve the Government's stated outcomes – much like the Green Deal retrofit programme before it – without a longer-term strategy based around specific regional programmes, alongside the provision of greater decision-making over local funding by councils and cities.

- A new national infrastructure bank

Recent press stories have highlighted that the Government is preparing to launch a new national infrastructure bank to fill the gap left by the European Investment Bank. The LSDC supports such a move from Government but also firmly believes that to enable any new institution to effectively and swiftly allocate funding to projects, it needs strong local intelligence and oversight of projects. In addition, there is a need to acknowledge the regional and local diversity of costs, barriers and opportunities for decarbonisation. The LSDC believes the LFFF sets out a framework for a new institution which can drive investment at scale into local projects, but also do so in a way which is better able to meet the needs of a 'just transition'.

The Commission's submission to the inquiry follows. LSDC Commissioners would be pleased to meet with the Committee or provide evidence during this inquiry as required.

Yours sincerely

Ashok Sinha (LSDC Chair)

LSDC response to Decarbonisation and Green Finance Inquiry:

Q: How might HMT deliver a regionally balanced and 'just' transition across the UK?

Financing the future

Although the Mayor has prioritised tackling the climate and ecological emergencies, he does not have the power or resources to do this alone. Analysis undertaken for the Mayor has estimated that £1-1.7 trillion[ii] is needed between now and 2050 to deliver green, resilient, more inclusive infrastructure across the capital. This dwarfs the public funds available to the Mayor and London boroughs, and even with increased government funding, the majority must come from private finance. There are three key challenges to channelling this investment:

- Greening finance: Vast sums are already being invested in London infrastructure. Ageing assets will continue to be replaced – whether with clean or dirty ones. We must ensure that capital is diverted away from business-as-usual development, and towards improving our natural environment; retrofitting existing building stock; decommissioning ageing high carbon/carbon intensive assets; developing smart, clean and integrated energy and transport systems; and adapting our cities to the increasing impacts of climate change.
- Financing green: The City is already investing in green initiatives – however, this largely contributes to decarbonising other cities across the world rather than our own. This is perverse and will lead to London conceding a global leadership role unless reversed. It is also likely that the money going into London is primarily for new-build projects – which is positive if those projects meet zero carbon embodied and operational energy targets, but only makes up a small proportion of London's built environment.
- Seizing the opportunity: The finance sector needs to rise to the challenge with innovative new business and investment models.

In order to address these challenges, the LSDC's report, 'Financing for a Future London', argues for three things:

- Coordinate better across London boroughs' fragmented capacity and funding;
- Integrate investment across fragmented ownership and infrastructure (e.g. energy, waste, water, transport sectors);
- Capture the value of social, environmental and economic co-benefits that are not properly valued under the current financial system. (For example, this would help overcome the barriers to investing in green space mentioned above, where the huge untapped benefits of investment are not currently available as cash returns to those responsible for their upkeep. Here the United Nations Sustainable Development Goals (UN SDGs) framework formally adopted by the UK Government in 2015, should also be used to monitor the co-benefits of investment.)

In order to deliver these as part of a just transition, new institutions, approaches and financial mechanisms are needed.

As stated in the LSDC's recent letter to the Prime Minster[iii] the LSDC proposed four steps that should be taken to help achieve a green and fair recovery:

1. Liberate London's ability to innovate through regulatory reform, especially in the interconnected areas of clean technology and housing. Increasing London's control over energy efficiency and building regulations as well as over London's share of the funding available to promote home retrofit, will lead to faster and greater progress while lowering long-term energy costs. Not only will it protect the poorest households from fuel poverty and health conditions that might link to Covid-19, but it will also boost local businesses at a critical time for rebooting the economy and enable London to trial and hone different approaches in a way that would be beneficial to the rest of the country.

2. Enable the Mayor and boroughs to retain and raise more finance for investing in business and communities. For example, Londoners contribute £82 million to the Governments ECO fund for energy efficiency (13% of the £640m total), but only get £27 million back (4%). London will do better, faster, with more devolved powers. For example, - retention and control of a greater proportion of business rates would allow for, amongst other things, targeted support for London's growing clean technology sector. An acceleration in the growth rate of new clean technology businesses will catalyse clean growth across the UK as London's best start-ups begin to move outside the capital. Fiscal devolution would also give more scope to invest in London's poorest communities – some of the poorest in the UK, by delivering enhanced wellbeing through inclusive regeneration. If London is to realise its potential to be a world leader in inclusive job and wealth creation in the new markets of the 21st century, its leaders need to have the same fiscal tools as their international counterparts to enable innovation to strengthen communities.

3. Help London be the pre-eminent finance hub to build back better, for London, the UK and the world. The City is exceptionally well-placed to deliver large scale investment in new businesses and jobs, and in new spatial and infrastructure developments, with a zero carbon, circular economy at their core. Earlier this year the LSDC published our proposals for a London Future Finance Facility which could work in partnership with a National Investment Bank to build strong sustainable infrastructure pipelines that give the private sector clarity on where to invest. Pump-primed by the Government, this body would facilitate the creation of a pipeline of aggregated, de-risked projects to attract large-scale private investment. The City has the capacity to finance a sustainable London and UK and become the global leader in sustainability finance; and it is scarcely conceivable that the goals of a green and fair recovery, meeting the United Nations Sustainable Development Goals (UN SDGs), and addressing the climate and ecological emergencies will be met unless this happens.

4. Embed the UN Sustainable Development Goals (SDGs) within the recovery package. The UN SDGs have been developed precisely because of the need for a coherent, internationally-agreed framework that integrates economic, environmental and social policy. The SDGs include a clear set of metrics by which progress can be measured and improvements identified. These Goals apply to all countries, not just developing ones, and the UK is rightly committed to meeting them at home and helping to meet them abroad. The disruption of public policy due to Covid-19 and the need to look again at all policy areas to meet the challenges of the recovery present a unique opportunity to

incorporate the SDGs as guiderails for action and reporting. This is a unique chance for the UK to take a world leading stance, as well as benefit from the improved policy coherence that putting the SDGs at the heart of recovery planning will provide.

Together these 4 pillars could form the foundation of an exciting new future for London - and the rest of the UK. This can be the moment we fundamentally restructured the way we do business, transforming the fortunes of the present generation and many generations to come.

Why are these four steps needed?
As noted in the LSDC's recent insights paper on the SDGs[iv] **i**nvesting in a greener economic recovery will create more jobs, productivity and growth than bailouts to polluting industries. We must invest in skills and jobs that promote equality and inclusivity and deliver a 'just transition'..

The need for a green and fair recovery
As noted above, the impact of COVID-19 is likely to cause a major recession and significant unemployment, whilst exacerbating existing inequalities. Meanwhile, climate and ecological emergencies have not gone away, and the policy and investment decisions we make now must lock in a zero-carbon, circular economy. But a green and fair recovery is not just the right thing to do: it is the most economically advantageous approach, as explored below.

A fair recovery
Analysis of the SDG data currently being compiled for London shows that 28% of Londoners live in poverty, compared with 22% of UK. It also shows that London's GVA (productivity) has increased by 27% since 2010, we need to tackle huge inequality in how that increase was distributed. It also shows that although income inequality has dropped slightly over the last five years, February 2020 data shows that the top 10% earn 9.7 times more than the lowest 10%.

The SDGs indicator analysis also shows that whilst London's unemployment rates fell from 6.3% in 2015 to 4.3% in 2019, the proportion of zero-hours contracts rose from 2.1% to 2.5%, whilst 19.8% of workers in 2019 were paid below the London Living Wage. (However, by May 2020, unemployment in London had risen to 5.1%; London was hit harder by job losses than the UK average, with women and 25-34 year-olds most affected.)

Vivid Economics analysed global bailouts in April 2020, and found that "In all cases, a significant portion of the bailout package will provide predominantly private benefits (e.g. to shareholders and executives) with no direct benefit to taxpayers." The LSDC believe State interventions must prioritise communities – not redistribute taxpayers' money away from ordinary people, worsening inequality.

A jobs-centred recovery
As noted above, investing in 21st century jobs such as making our buildings, transport systems and neighbourhoods zero carbon can help the 'just transition', tackling inequality by boosting education and skills. Research shows that up to 40,000 new jobs (a net gain of 12,000) could be created in London by 2030 through circular economy initiatives alone[v], and

100,000 from domestic retrofits as noted above. A McKinsey report found that 77 jobs in renewable energy can be created for every 27 in fossil fuels, per $10 million invested – although based on US data, this is still likely to be relevant to London[vi].

Green growth = stronger growth
Green investment creates more jobs and GDP growth than traditional (polluting) investment, based on analysing the success of 169 fiscal stimulus packages implemented after the 2008 financial crisis[vii].

This view was supported by 231 senior economists from banks and government, surveyed in the same research. They propose the following key policies, which in addition to the community and environmental benefits outlined above, have the following economic benefits:

- Building efficiency retrofits - especially good in the short-term, as pre-existing retrofit programmes can be rapidly scaled up to create 'shovel ready' projects.
- Clean physical infrastructure projects and R&D – these have good medium to long-term benefits.
- Investing in natural capital (i.e. green spaces and London's green belt which has muli-functional roles and benefits) – especially benefits local economies, as it is labour intensive but cannot be delivered offshore but can also be done in a socially-distanced way during the pandemic.
- Investment in education and training – this unlocks future jobs and can help tackle inequality.

Green bailouts
Like many others, the LSDC believe corporate bailouts must have social and environmental lending criteria. For example, Air France-KLM are required to halve their carbon emissions by 2030 as a condition of their €11bn bailout by the French government[viii]. It is welcome that the Department for Transport recently announced their 'Jet Zero Council' to decarbonise aviation[ix].

But the Bank of England has given £1.8bn to airlines and £750m to oil companies with no green strings, according to data they published on 3rd June 2020[x] – despite the Bank's Governor writing the following day that we must invest in a green recovery to tackle the climate emergency[xi]. National government must reverse this trend immediately, by making any stimulus / bailout packages conditional on verifiable plans to deliver climate targets and a just transition whilst considering avoiding locking in business models and infrastructure that cause catastrophic climate change.

Instead, we need to finance new green businesses. London is Europe's leading start-up capital, and we should capitalise on this to build the just transition – creating the high-quality jobs of the future, whilst delivering green products and services.

Conclusion

The main task of public policy now, in order to deliver decarbonisation in a just way, is to increase flow of capital investment (public and private - occasionally blended). That flow has to be directed well, delivered with a strong sense of place and with socially equitable outcomes. Public support of new infrastructure, housing, more green spaces for health and recreation all have to be based on deep knowledge of place and that is best understood regionally and locally and best implemented through distributed powers.

We know, because we have learned by doing, that we can dramatically reduce carbon pollution in the production and use of power and increase economic efficiency. In 10 years we have taken coal out of our grid, built an offshore wind industry employing many from deprived areas, and reduced power costs. We need to keep going and get to scale through collaboration and partnership over the coming decade with a greater focus on what needs to be done at the local level. The operating costs of a clean power system are low, the security benefits high and we must build resilience to climate change into all our macro economic and local infrastructure decisions. Together with that we must ensure that the benefits of this change are felt by those who most need them and that no one is left behind as we continue on the pathway to a zero carbon future.

That is why our proposals for London focus on creating demand for low carbon solutions to public goods problems, institutional structures designed to increase flow of capital such as the London Future Finance Facility proposed within our report, and distributed powers enabling accountable decisions to be taken tutored by knowledge of people and place.

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