

CST speech at the European House Ambrosetti's virtual spring forum

Good morning everyone.

It's great to have the chance to speak again at an Ambrosetti event, in this most important year for Anglo-Italian partnership, through our respective presidencies of the G7 and G20 and jointly host the COP26 conference.

As Chief Secretary I have responsibility for public expenditure across the UK government.

Finance ministries are often seen within their own governments as risk averse, urging caution and restraint when their colleagues wish to try new, unproven ideas.

Yet covid has shown that we can deliver our services very differently. We needed to take more risk in the pandemic to unlock benefits at pace. And indeed, the absence of failure, often reflects a lack of openness to change, which in itself can be a less visible but greater failure.

It is clear as we look to tackle climate change that we cannot spend our way to net zero. Instead we will need to embrace risk in our approach to regulation, particularly where that tests our political will in terms of the cost to our electorate. And indeed the lessons of covid, and indeed the necessity if we are to recover more quickly from the pandemic, is that we need to embrace more risk, not less. That applies equally if we are to meet the challenge of climate change, which requires governments to also move at a greater pace.

Global Britain & CX G7 Statement

In focusing on risk, some of you may reflect back to the last time I addressed this audience, as the UK's Brexit Secretary. And our exit from the EU was seen by some as carrying the risk of a more inward looking UK. Yet recent policy announcements demonstrate our firm intention is the very opposite – to be more outward looking as part of a more global Britain. For example, recent announcements include our:

- new visa scheme for tech firms that we want to recruit the best talent from abroad, and to make immigration easier for our business community
- we've set up A new Office of Investment to attract the foreign financial support that will help us tackle the big issues of the day
- our commitment to significantly increase R&D investment reflects the Prime Minister's commitment to becoming a science superpower

- and our announcement just yesterday of our second sovereign Sukuk, and our reforms to our Listing Rules, as part of ensuring the UK's financial centre remains forward looking

Our commitment to attracting talent, funding innovation and investment in long term ideas, reflected from policy initiatives such as the new advanced Research & Invention Agency which will fund "high-risk, high-reward" scientific research, reinforces our commitment both to working closely with our European neighbours and also to promote a much more Global Britain.

And central to this ambition is the G7 and COP26.

G7 and COP26

As my colleague, the Chancellor of the Exchequer, set out earlier this week in his event with Minister Franco, our clear objective for the G7 is to put the world on a path towards achieving the goals of the Paris Agreement.

For COP26, this means asking countries to strengthen their carbon reduction targets – consistent with limiting global warming to 1.5 degrees Celsius.

We're also urging countries to set 2030 emissions targets that will put us on a course to reaching that goal. And asking them to increase their commitments to international climate finance to help address the needs of developing countries.

I'm sure we all recognise that we won't achieve these goals by sticking to the same old strategies.

We need to do things differently.

This means adopting new ways of thinking. And I believe central to that it means recalibrating our appetite for risk.

Covid 19 and Climate Change

In meeting the climate change challenge of net zero, risk comes in a number of forms.

Scaling up at pace existing technology, such as in our housing sector, carries both delivery risk for the government but also cost challenges given the post-Covid fiscal position.

Alongside this, the scale of the challenge requires funding for often unproven technologies, including investment in areas such as Carbon Capture and Storage, which we hope will capture the equivalent of 4 million cars' worth of annual emissions, and will play a huge part in helping our key industries make their transition to net zero, but there is much more work that remains to be done to deliver this capability.

Further risk involves how we best align our Government's investment and regulatory decisions, with the essential need to harness private sector

investment in order to meet our carbon budgets.

Doing so also requires that we leverage this green investment to address the social risk of those communities who feel left behind, reflected in the productivity gap within the UK – and we are not alone on that.

Just as the challenge of climate change is one that we share, so is the need to address imbalances within our countries regarding the productivity of different regions if we are to better ensure that the opportunity is as equally distributed alongside the talent. As such, one of the key opportunities of net zero is to ensure that our investment in green technologies better delivers for those areas which have historically not received sufficient inward investment. This has included the UK making changes to our Green Book, the Treasury mechanism by which funding decisions are evaluated. It has involved embracing new policy areas – such as our redesigned offer on freeports to attract inward investment in green jobs in areas linked to ports which that in the past have felt left behind.

And this investment needs to work in harness with the aim of building clusters of green sector expertise in those more deprived regions as reflected in the recent announcements on offshore wind capacity where the UK ambition is to quadruple current installed capacity – already the highest in the world.

Data

In taking a conscious decision as a Finance Ministry to be more open to embracing risk, we equally recognise it requires improvements to the quality of data on which we set our delivery outcomes, how we track the trajectory of that delivery, and crucially our ability to act more quickly should that delivery fail to be realised.

As such, operationally within the Treasury we have sought to challenge what skill sets we need amongst our own officials, in particular embracing new teams of data analysts and computer engineers to enable us to interrogate data both quicker and at a more localised local. We have also encouraged departments to focus more on their legacy IT, and encouraged funding for projects which break down the inter department silos particularly on data sharing.

As such, a conscious decision to accept new approaches and the risks inherent in this needs to be balanced with strengthened capabilities to better inform those decisions. This will become increasingly important as we migrate from those schemes brought forward on public spending, to those on regulation with more visible costs to consumers.

In facing this shared challenge, the public risk appetite is not always what we as politicians expect. For example, when the Prime Minister took the decision to bring forward to 2030 the phasing out of petrol and diesel cars, the political expectation was that this might provoke a strong public and business reaction. In fact both the business community and the public responded very favourably.

That does not negate the requirement to then deliver the infrastructure, including recharging of electric vehicles to facilitate this, but it illustrates the opportunity to harness private investment when the regulatory framework sets expectations effectively.

I want to end by looking forward to November when we will welcome the world to the COP26 conference in Glasgow, to deliver what is needed to meet the climate challenge. This conference will require those in positions of leadership to embrace more risk. Both in the schemes they fund directly and in the regulation that unlocks wider investment.

But the far greater risk would be if those leaders were to remain cautious, and miss the opportunity of Glasgow.

Covid has shown that governments can deliver at a scale and speed which, at more conventional times, would not have been viewed as possible.

We need to apply these lessons from covid as we tackle climate change. Within the UK, our role as a finance ministry is increasingly to help departments to embrace calculated risk, informed by strengthened data analysis and followed by speedier intervention where remediation is required. This includes challenging the conventional caution which has been a characterisation in the past both of finance ministries specifically and governments as a whole.

But in doing so it opens up a more nuanced role for us within the Treasury. Accepting more risk will include some failure, it also unlocks greater potential gains to quicker deadlines. Both the economic recovery from Covid, and meeting the challenge on climate change, requires our Treasury to embrace new ways of working and new data on which to base that work. In turn, this will better enable us to meet the challenges and requirements of our time.

Thanks very much for listening.