

# Finance, resilience, net zero and nature

The United Nations' latest Interconnected Disaster Risks Report analysed 10 disasters that took place in 2020/2021.

These included the amazon wildfires, the arctic heatwave, the winter storms in Texas and Cyclone Amphan among others.

Disasters were selected for their representation of larger global issues, which have changed or will change our lives across the world.

It said:

“The three most commonly identified root causes shared between these 10 events are human-induced greenhouse gas emissions, insufficient disaster risk management and under-valuing environmental costs and benefits in decision-making.”

–

In England we know that this century, we are likely to see 40-degree heat during the summer, but developers don't have to mitigate against that – not now nor at any point in the future.

The Institution of Civil Engineers' survey “What makes good design?” said the most limiting factors to progress on reducing greenhouse gas emissions and climate adaptation are that “it's not part of the project brief.”

Which might save on immediate costs, but while the short-term rewards are narrowly distributed, the long-term damage is societal.

In May, the Bank of England published its first climate stress tests.

They showed that UK banks and insurers will end up taking on nearly £340 billion worth of climate-related losses by 2050, unless action is taken to curb rising temperatures and sea levels.

Such action will require collaboration between the public and private sectors.

But, around the world, just 5 percent of climate finance goes towards resilience.

Virtually none of that comes from the private sector.

–

The UK's 2021 National Infrastructure and Construction pipeline sets out plans for nearly £650 billion of public and private infrastructure investment

by 2030.

The Infrastructure and Projects Authority has analysed over £200 billion of this, up to 2024/25.

For the equivalent period, England has about £3 billion of public money allocated to flood and coastal defences.

By comparison, this looks like a thin green line of defence.

–

Last year, the Environment Agency completed the government's £2.6 billion, six-year capital flood programme, on time and on budget.

It means 700 flood schemes are better protecting more than 300,000 homes, nearly 600,000 acres of agricultural land, thousands of businesses and major pieces of infrastructure.

The Government has upped the budget of the new programme to a record £5.2 billion.

We know this investment works.

In February, the UK's Meteorological Office named three major storms in one week for the first time.

Sadly, 400 homes flooded, but 50,000 properties were better protected.

The Environment Agency delivers infrastructure that provides resilience to climate change.

But to avoid financial climate chaos, we need all infrastructure to be more resilient.

Businesses and public sector organisations should be encouraged to assess their climate risks and develop plans in response.

If a local council is approving investment in new housing – or roads, or a shopping centre – they must demand that climate resilience runs through the veins of the project.

In its Progress Report to Parliament last week, the Climate Change Committee recommended Defra "Expand the list of organisations reporting under the Adaptation Reporting Power to ensure comprehensive coverage of critical infrastructure and services, such as canals and food supply chains."

Regulation is part of the answer.

Environmental regulation must work in lockstep with financial regulation and economic regulation to ensure incentives and penalties have enough clout to drive change.

–

Today, green finance can help us go further to support regulated businesses to improve.

Investor interest in Environmental, Social and Governance practices, or ESG, widens the scrutiny of companies' environmental performance.

And it provides a growing financial incentive for innovation.

But, as the market for environmental benefits crosses an inflection point, it is exploitable.

In February, I spoke at the National Farmers' Union about how farmers are particularly vulnerable to schemes that promise to monetise activities like carbon offsetting, when we have no widely agreed standards to ensure they are paid fairly.

The danger to us all is even more widespread greenwash.

If we fail to identify and address greenwashing, we allow ourselves false confidence that we are already addressing the causes and treating the symptoms of the climate crisis.

Greenwash makes it more likely that we won't realise this deception until it is too late.

Companies that believe their own greenwash are embedding liability, storing up risk for their investors.

NGOs like ShareAction, Make My Money Matter and ClientEarth must be applauded for their tireless work to call this out.

And the Government's work on a green taxonomy begins to address this.

Providing frameworks and legislation for sustainable disclosure allows everyone to compare like for like – and make informed choices.

The more businesses are transparent about their plans to transition to net zero and prepare for climate shocks, the easier it is to benchmark best practice, set standards and celebrate the companies that really are delivering on their commitments.

The Centre for Greening Finance and Investment is leading by example through targeted research projects to support green finance analytics.

The Green Finance Institute, which I Chair, designs, develops and facilitates portfolios of scalable financial solutions that accelerate sector-specific transitions to a low-carbon future.

–

I also believe the future lies in some form of adaptation standards.

More work is needed to develop a strategic approach to managing climate risks.

Presently, we do not know:

- what the optimum level of investment is for UK climate adaptation, or
- how this should be balanced between the public and private sectors.

The Government could begin to address this by asking the Treasury to commission a review to assess the economics of resilience.

This work would be the equivalent of the 2021 Dasgupta Review into the economics of biodiversity.

It could consider:

- the costs and benefits of resilient investment both nationally and by economic sectors;
- what trajectory that investment should follow; and
- the appropriate balance between public and private investment.

This would help us understand how preparedness for climate shocks supports sustainable economic growth.

It would help to establish an overarching ambition for adaptation investment and a plan to achieve it.

As with the Government's ambition for net zero by 2050, delivering on climate resilience and nature recovery requires robust, consistent and trusted data.

Earlier this year, the Chancellor's letter to the UK Infrastructure Bank sent an important signal about the direction of travel.

It said it is "important that UKIB explores projects that make the UK's infrastructure more resilient to climate change and better adapted to future risks. More broadly, climate risk – including the impact of climate change on financial assets – should help to inform the Bank's decision making."

I want to congratulate the UK Infrastructure Bank on its Strategic Plan out last month.

And I am pleased that Nigel Topping, the UK's High Level Climate Action Champion, who launched the Race to Resilience ahead of COP26 has been appointed to the Board, alongside three others.

–

There is growing evidence of a compelling case for using nature-based solutions alongside or instead of traditional infrastructure.

The Environment Agency and the Green Finance Institute – through its pioneering GFI HIVE initiative – have been working with others to show how this makes money.

Nature-based solutions provide cost-effective adaptation.

For example: natural flood management can also deliver net-zero benefits in

the form of carbon capture.

In May, along with Defra, Natural England and the GFI, we announced the second round of projects funded through the Natural Environment Investment Readiness Fund.

The fund provides grants of up to £100,000 to help organisations develop projects to the stage where they can demonstrate a return on investment.

One of the four pilot schemes is the Wyre Natural Flood Management project.

This reduces flood risk to downstream communities.

Over several years, interventions in the Wyre catchment will include wetland creation, leaky barriers, sloped embankments, alongside peatland and river restoration.

It uses a new financial model which will see the upfront investment repaid through contracts with organisations that benefit from improvements, including water and insurance companies.

It is also the first environmental project eligible for Social Investment Tax Relief, which was brought in by the government in 2014, with the aim of encouraging investment in social enterprises.

The use of Social Investment Tax Relief was successful in helping to bring in high net worth investors to the Wyre project.

A similar style Environmental Investment Tax Relief would be a possible incentive worth exploring in the Green Finance Strategy 2.0.

Once we have established the financial models that work, we can scale them up at pace.

—

Today, I have talked about how finance can help address the climate crisis.

The Green Finance Strategy 2.0 is an opportunity to help set the frameworks for more integration between resilience, reducing emissions and restoring nature.

But, success depends as much on how we choose to operate as it does on financial instruments.

Halfway through COP26, people in Boston, Lincolnshire, were protected from the highest tide of the year by the newly opened Boston Barrier – (the Thames and Hull barriers were also operating).

The Boston Barrier scheme is estimated to deliver over £1.4 billion in economic benefits to the town and surrounding area by encouraging investment, improving resilience and well-being, and by protecting historic assets.

This is important, but I want to talk about how the team did it.

Since the scheme's inception almost £10 million has been invested in the local economy by using local suppliers where possible.

The barrier, designed by a gender balanced team, was also the first major construction project where we mapped work against the UN's Sustainable Development Goals.

The Barrier was also made with 14,000 tonnes of low carbon concrete.

90 percent of the weight of the whole structure.

The learning from this will help us, and others all over the world, to steer large and small infrastructure projects that reduce emissions, help society and drive economic development.

We need to promote such choices, not only so my dedicated colleagues and their partner organisations get credit for their leadership.

But, so we can help investors properly understand the value of preparing for climate shocks and building more resilient communities.

In finance, the importance of disclosure and data cannot be underestimated.

Now, we need to use disclosure and data as a launchpad for deals and delivery.

Thank you.