



Green Technical Advisory Group



Applying the UK Green Taxonomy to wider policies: the value case and options



Preface

While this paper is one of the later papers to be published by GTAG, it was actually one of the first to be developed. Right from the start, GTAG members saw the potential opportunity for the taxonomy to have a wider application in guiding both public and private capital toward sustainable economic activity. Indeed, one of the messages GTAG heard during its engagement with the market is that, while a UK Green Taxonomy, well executed, can help redirect private capital to truly sustainable investments and deal with greenwashing concerns, investor confidence in the UK as an attractive place to invest in green solutions will be further strengthened if public fiscal and policy decisions are also guided by taxonomy-aligned decision-making.

This sentiment holds true for two reasons. The first is that the government is itself an actor in financial markets, and public bodies can in different contexts act as delivery bodies, investors and consumers. Although the public sector was not originally explicitly mentioned as a user or beneficiary of the taxonomy, it is reasonable to anticipate that public sector financial actors will interact with the taxonomy in similar ways to private sector actors when carrying out the same activities. For example, making pension fund investments or operating nationalised firms. Thus, it is a significant missed opportunity to create a definition of ‘green’ investments that applies only to private sector actors.

Second, and linked to this, is that capital is global and it will have escaped no one’s attention that in the past year both the US and Europe have significantly ramped up efforts to attract global capital to fuel their own green industrial revolutions. The multibillion dollar subsidy scheme ushered in by the USA’s Inflation Reduction Act is being met with proposals to ease state aid restrictions on investments in renewable energy and wider industry decarbonisation. The UK can’t and shouldn’t compete on quantity of subsidy but can compete on building a stable and attractive investment environment by defining what ‘good’ looks like, starting with a set of agreed definitions of green – a taxonomy in other words.



This paper sets out how the scope and impact of the taxonomy could be widened to achieve this goal. We build on the commitments already made by the Government, which include aligning the Greening Finance Framework for the green gilt with the taxonomy; the Chancellor advising that the UK Infrastructure Bank should align with the UK Green Taxonomy; and the Financial Conduct Authority factoring the taxonomy into its new sustainability disclosures and sustainable investment labels. As the UK Government moves to consult on the approach and design of the taxonomy in Autumn 2023, there is an opportunity for the UK Government to consider the other policy areas the taxonomy could support – underpinning and strengthening the green finance policy and regulatory framework.

As climate record after climate record is smashed with flood and wildfires seemingly a constant in the news, there is no time to waste in seizing opportunities to signal how and where capital needs to be deployed to accelerate the transition to a net zero and resilient economy through private and public capital and policy working in tandem. This paper sets out how a usable UK Green Taxonomy can – more broadly deployed - help make that vision a reality.

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Key Messages

GTAG has mapped out how the taxonomy could be deployed to underpin other policy areas and this document sets out some of the key opportunities identified by GTAG. As a next step, GTAG advises that HM Treasury (HMT) should consider each recommendation and form an opinion on which can be actioned as they are and under what timeframe, and which would benefit from more detailed thinking as to how the taxonomy link could be developed in practice.

HM Government (HMG) should clarify as early as possible that an independent “institutional home” for the UK Green Taxonomy will be established, to provide the taxonomy with separation from the policy process while allowing it to support and underpin the policy areas identified in this paper. GTAG will set out further details on approaches to and the remit for the institutional home in a separate paper.

HMG should engage with the “Policy Owner” in each area identified. GTAG acknowledges that some of the areas identified will be more straightforward to implement once the “institutional home” for the taxonomy has been agreed, while others will need to be taken forward by groups across government. Although the main actor to implement specific policy links will often be various government departments and regulators, GTAG has also provided suggestions for other relevant bodies that HMG may wish to engage with in the section ‘Suggested Policy Areas for Taxonomy Application’.

HMG should provide clarity to the market on the developing green finance policy landscape by publishing and maintaining a “Policy Links Diagram” similar to Figure 1. This will ensure the market understands the remit of different policies, and how they interact. GTAG has proposed a diagram showing how the taxonomy relates to other areas, but notes this is a starting point that HMG can leverage.

Recommendations

The recommendations for each policy area are set out on the following pages. GTAG advises that HMT should consider each recommendation and decide which can be actioned and under what timeframe, and which would benefit from more detailed thinking.

It should be noted that GTAG has already provided advice to the relevant bodies on policy areas 5 and 6 (the Transition Plan Taskforce (TPT) and FCA, respectively), and is indirectly involved in providing advice on other policy areas identified.

The policy areas have been grouped by the two core purposes, and then categorised by sub-categories. These are set out in the below key.

KEY:

Core Purpose 1: Promote market integrity, consumer protection and the avoidance of greenwashing.	
Promoting integrity through Government policy	Government Policy
Promoting integrity through tracking progress towards achieving goals	Tracking Progress
Consumer protection / preventing greenwashing	Consumer Protection

Core Purpose 2: Mobilise capital to facilitate achievement of UK environmental policy goals, and/or track progress towards achieving these goals.	
Mobilising capital in national public finance	Public Finance
Mobilising capital in local public finance	Local Public Finance
Mobilising capital in the private sector	Private Sector
Mobilising capital abroad	Foreign Investment

Policy Area	Recommendation	Policy Owner	Category
1	UKIB: UKIB should announce that investment decisions will use the taxonomy as a screen, to help classify the sustainability and impact of investments (Done – in strategic plan)	UKIB/HMT	Public finance
2	BBB: BBB should announce that investment decisions will use the taxonomy as a screen, to help classify the sustainability and impact of investments.	BBB/HMT	Public finance
3	Green Gilts: HM Treasury and the Debt Management Office should make the taxonomy the guiding framework for green gilt use of proceeds, using a phased approach until all environmental objectives have been addressed. All green eligible expenditure categories that fall under climate change mitigation and climate change adaptation environmental objectives should be consistent with the relevant taxonomy TSC. (Intention to do this announced – Green Finance Framework)	HMT/DMO	Public finance
4	SDR: Require corporate disclosures of taxonomy alignment and eligibility through the SDR, to be set out in the upcoming consultation from DBT, and simultaneously work for international alignment and standards.	DBT	Government Policy
5	Transition Plans: Current and planned taxonomy-alignment and eligibility should be a key component in the developing transition plans framework, as per GTAG’s advice to the TPT submitted Feb 2023.	TPT/HMT/DBT	Government Policy
6	FCA Labels and Disclosure Regime: Current taxonomy alignment should be a key metric in the FCA’s labels and disclosures regime, as per GTAG’s advice to FCA submitted June 2022 and Jan 2023.	FCA	Consumer Protection
7	Net-Zero Test: Announce that the government intends to ensure that public investments are consistent with net-zero targets with the environmental objectives of the taxonomy being used as a key part in a “Budget Tagging Tool” developed as part of a Net-Zero Test. Set out timetable for future work on this including initial pilot phase and expansion to include the other four taxonomy environmental objectives and how it will incorporate the review process.	HMT	Government Policy
8	Local Authority Finance – Technical Assistance: Provide advice for local authorities to be able to use the taxonomy to assess borrowing and capital spend requirements. Provide education for local authorities on this, including how this will support access to UKIB finance and other Government finance.	DLUCH/LGA	Local Public Finance
9	Local Authority Finance – PWLB: PWLB should announce intention to report percentage of lending for capital projects that are aligned to taxonomy, as a transparency tool. This will help encourage local councils to embed use and understanding of the classification system.	HMT/DMO	Local Public Finance
10	Local Authorities - Net-Zero Test: This should form the second part of Policy Area 8. Provide advice for local authorities to be able to use a net-zero test to assess all policy decisions. This rollout should mirror that of Policy Area 7.	HMT/DLUCH/LGA	Government Policy

Policy Area	Recommendation	Policy Owner	Category
11	NIC and IPA: The National Infrastructure Commission ('NIC') and Infrastructure and Projects Authority ('IPA') to use the taxonomy to embed net-zero and resilience expectations for all future advice to the UK Government on infrastructure priorities.	NIC/IPA	Public Finance / Private Sector
12	Tracking Green Financial Flows: When delivering the Net Zero Strategy commitment to track green financial flows, use the taxonomy to define 'green'.	HMT/Gov Depts.	Tracking Progress
13	Net-Zero Test – Sectoral Use Case: Address investment needs for sectoral transition in Green Finance Strategy, with reference to the taxonomy support for tracking green financial flows by sector.	HMT/Gov Depts.	Government Policy
14	Planning: Announce an intention to incentivise taxonomy-aligned activities within the planning process where relevant, by a pre-specified date.	DLUCH	Government Policy
15	Green Bond Standard: HMT should announce plans for a voluntary Green Bond Standard, aligning use of proceeds to the UK Green Taxonomy, building on green gilt framework, as recommended in Policy Area 3. This must factor in GTAG advice on grandfathering before any announcements are made.	HMT	Private Sector
16	Tracking Green Financial Flows – Wider than Net-Zero: Integrate investment indicators (based on tracking of green financial flows) into a broader suite of indicators for tracking progress against the Environment Plan targets and UK carbon budgets.	HMT/Gov Depts.	Tracking Progress
17	Overseas Development Aid: HMT and FCDO should conduct initial scoping investigations on the best way to make UK ODA support a global net-zero transition and the potential role of the taxonomy in incentivising this, including changes to the current framework for evaluating new aid allocations. This should include reference to GTAG international interoperability advice.	HMT/FCDO	Foreign Investment
18	Public Procurement: Government procurement processes and contracts should announce plans to incentivise or require that procured activities and products are taxonomy-aligned, where relevant (i.e. where contract is large enough and if activity is taxonomy eligible).	HMT	Private Sector
19	Big Nature Impact Fund: Defra should update the mandate for the Big Nature Impact Fund, such that all NbS investments will be taxonomy-aligned in its 2023 Nature Impact Investment strategy.	DEFRA	Private Sector
20	High Quality Carbon Offsets: HMG should consider activities which are aligned and verified with the climate change mitigation criteria as eligible for carbon offset accreditation. This would complement existing codes such as the Peatland Code and the Woodland Carbon Code. This would ensure the environmental integrity of the carbon offset, the actual purchase of carbon credits would not be considered a taxonomy-aligned activity or investment.	DEFRA/Gov Depts.	Private Sector

Background



Background

This paper contains advice from the Green Technical Advisory Group ('GTAG') to HM Treasury ('HMT'), and sets out the value case for considering applying the UK Green Taxonomy ('the taxonomy') to UK policy decisions. This builds on the recommendations on taxonomy uses as set out in the GTAG October advice paper, GTAG: Advice on the development of a UK Green Taxonomy¹.

Several policy areas have already been identified by HM Government (HMG) and the Financial Conduct Authority (FCA) as either definitely or potentially factoring in the taxonomy, including: aligning the Greening Finance Framework for the green gilt with the taxonomy²; the Chancellor advising that the UK Infrastructure Bank should align with the UK Green Taxonomy³; and the FCA factoring the taxonomy into its new sustainability disclosures and sustainable investment labels⁴. Following the publication of the Green Finance Strategy in March 2023, the relevance of the taxonomy to some of these use cases has become more visible to the market. So this presents a timely opportunity for the UK Government to provide further clarity on the role of the UK Green Taxonomy in the green finance policy and regulatory framework, by clarifying the other policy areas that it should underpin and support.

GTAG has therefore identified additional potential policy areas that the taxonomy could be applied to in the future, and these additional use cases are presented in this paper. This is a non-exhaustive list, and HMG should look at each of these recommendations in turn, as well as consider which other policy areas the taxonomy could support, with implementation led by HMG departments and relevant bodies, potentially supported by an external advisory group.

It is important to note that the implementation of any recommendations and use cases in this paper is at the discretion of HMG. However, if the UK has a usable UK Green Taxonomy, then it can and should be used to underpin other policy documents that influence financial services and the real economy.

The UK Green Taxonomy in itself is not a tool to be used to achieve the policy objectives that the areas set out in this paper seek to solve, but it is instead a complementary tool to support these policies in achieving their outcomes. Thus, it both underpins and strengthens these policies.

GTAG anticipates that a set of science-based, government-backed definitions for sustainable economic activities would be required for the policy areas in this paper, even in the absence of a UK Green Taxonomy. GTAG advises that the UK Green Taxonomy, once published, should be leveraged to support the policy areas by providing the necessary clarity on definitions to enable the policies to be as effective, efficient and impactful as possible.

Discussion of further policy use cases by GTAG members highlighted the importance of identifying the purpose of the use case as the most important variable for deciding whether the use case should be prioritised by government. These purposes should be agreed at an early stage in order to avoid 'mission creep'. There was a concern that if new purposes were added at a later stage this could lead to distortion of the taxonomy tool to fit the new use cases, with an accompanying risk of reducing its integrity. Across a broad range of different use cases, GTAG has therefore identified two core purposes which can be used to categorise and prioritise different policy use cases, and categorised them under relevant sub-categories.

¹ <https://www.greenfinanceinstitute.co.uk/wp-content/uploads/2022/10/GTAG-Advice-on-the-development-of-a-UK-Green-Taxonomy.pdf>
² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1002578/20210630_UK_Government_Green_Financing_Framework.pdf

³ <https://www.gov.uk/government/publications/chancellors-letter-to-the-uk-infrastructure-bank>

⁴ <https://www.fca.org.uk/publication/discussion/dp21-4.pdf>

Categorisation of policy use cases by purpose: the two core purposes

1. **Promote market integrity, consumer protection and the avoidance of greenwashing.**
2. **Mobilise capital to facilitate achievement of UK environmental policy goals, and/or track progress towards achieving these goals.**

Some other types of categorisation for policy use cases were considered by the group and deemed important but not primary for the purposes of prioritisation. They include:

- a) Whether the use case relates to public or private finance/investment/actors.
- b) Whether the use case could realistically be implemented over a short-term (1 year), medium term (1-3 years) or long-term (3+ years) timeframe.

The above points were considered relevant for descriptions of policy areas set out in this paper but not suitable for the overall categorisation. This is because policy areas in this paper apply to different actors, as is clearly stated when discussing each policy area, and the timelines may vary depending on progress of the policy areas, other tools and processes, and political support for policies.

Other relevant considerations raised by GTAG members included:

- c) The rapid emergence of policy use cases for taxonomies in other jurisdictions where UK companies operate, e.g. taxonomy reporting under the EU Sustainable Finance Disclosure Regulation (SFDR) and references to taxonomy in the International Sustainability Standards Board (ISSB) sustainability reporting standard, as well as links to other UK policy tools such as mandatory disclosure of climate transition plans and the Environmental Improvement Plan.
- d) The fact that the taxonomy as a single policy tool will not be relevant to all areas of policy-making and may be only one of several tools that will be applied to some policy use cases.
- e) The importance of avoiding politicisation of the technical content of the taxonomy. This could potentially be a risk for use cases related to public finance and investment.
- f) Applying the taxonomy to policy use cases at the current point in the UK transition - where there is low coverage within the UK economy of taxonomy-compliant economic activities, and within financial markets of taxonomy-compliant investment products - could provide a negative signal. On the flipside, the negative signal involved if the taxonomy is not used to support relevant public policy areas, at a time when HMG

will be asking investors to use the taxonomy and report against it via Sustainability Disclosure Requirements (SDR).

- g) The different policy use cases which might arise if the taxonomy was extended beyond its current form. This paper notes that this will be a consideration for the government to consider in the future, but only addresses use cases relevant to the taxonomy as it is today (i.e. categorising economic activities which are 'green' in the context of climate change.)

These points were factored into the discussions around the specific policy areas in this paper, categorised against sub-categories of the two major overarching objectives.

In parallel to this policy analysis, a recommendation has been made for the creation of an independent institutional home for the taxonomy, which was endorsed by all GTAG members. This directly addresses the concern raised in point e) above, the importance of avoiding politicisation of the technical content of the taxonomy, which was repeated often during the development of this paper. GTAG is exploring this question further in a different workstream. GTAG will set out more detailed advice on this point in a future research paper on the future of the taxonomy. Advice on the coverage question has been provided through GTAG's paper on expanding taxonomy coverage.

The need for clarity on how the different sustainable finance policies interlink is often raised by market actors. HMG could address this concern by publishing and maintaining a short explainer, which could include a "Policy Links Diagram". This would provide clarity as to how existing relevant policies are related, including the UK Green Taxonomy, Transition Plans, SDR and more, and which can be updated on an ongoing basis, as other policies are announced and enter law. GTAG has created a first version of this in Figure 1.

GTAG View on the Potential Role of the UK Green Taxonomy in Supporting the Wider Green Finance Regulatory Landscape

The UK Green Taxonomy will underpin and support a robust regulatory framework that will enable the UK to become a Net Zero-aligned financial centre

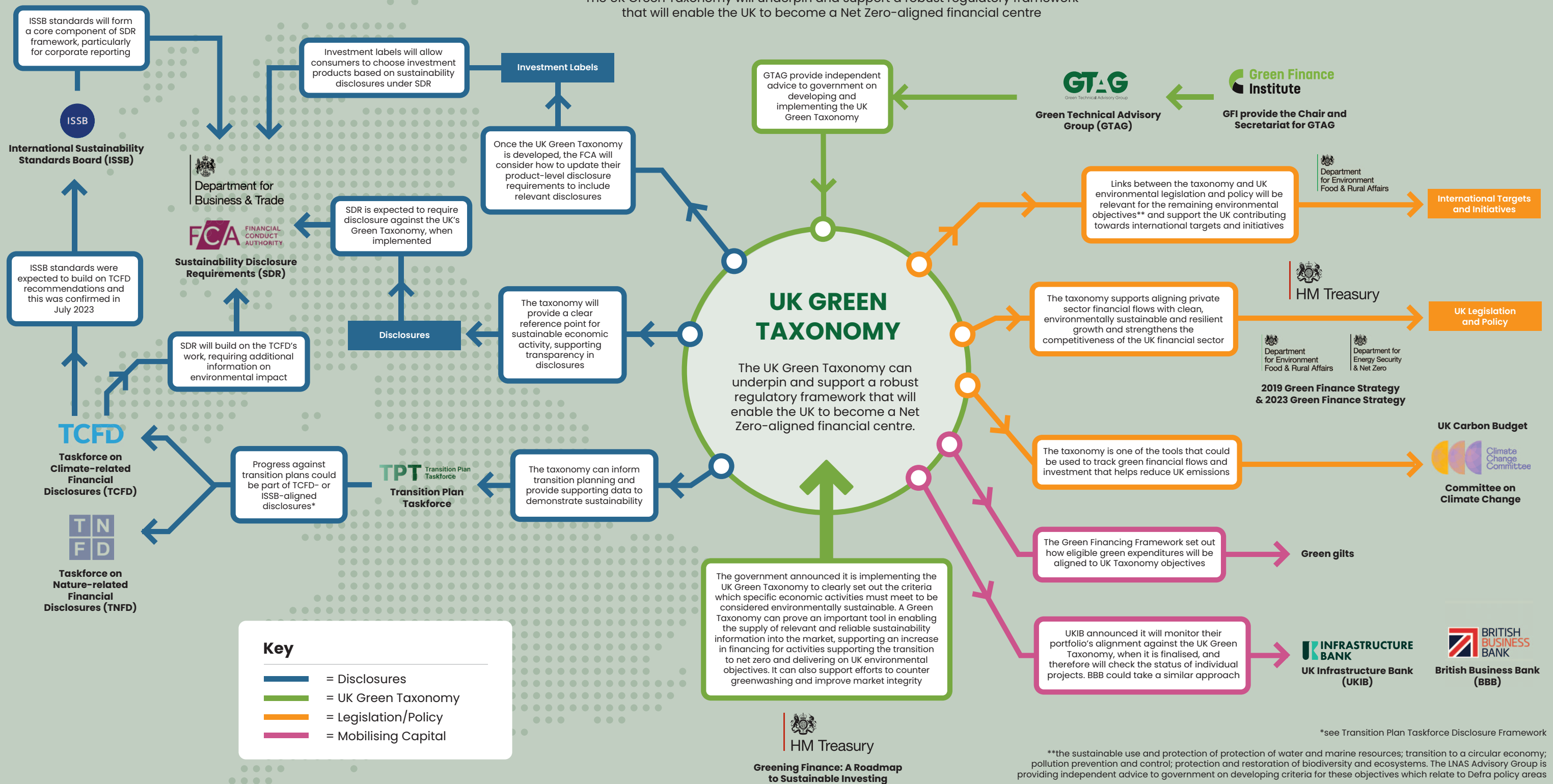
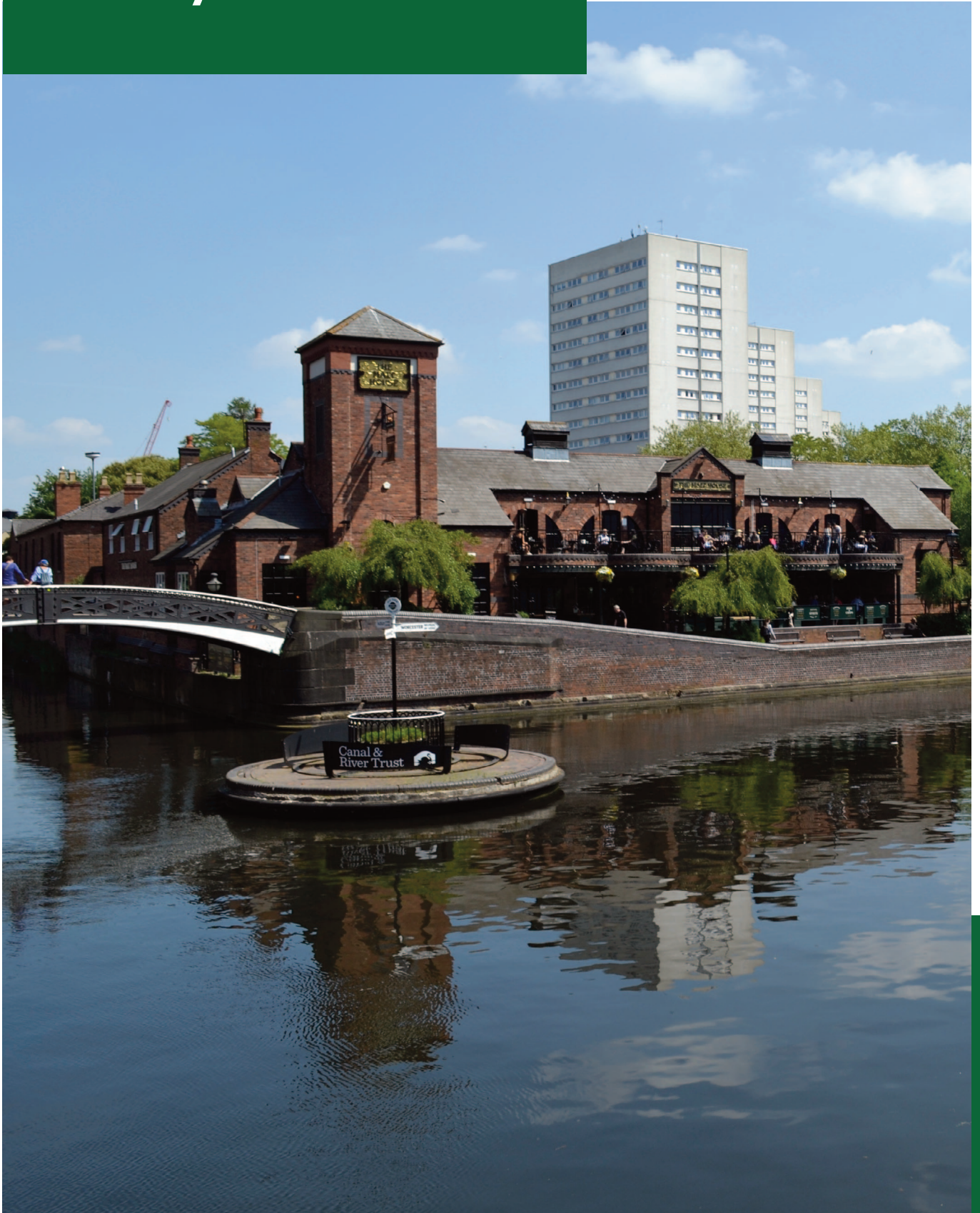


Figure 1: GTAG View on the Potential Role of the UK Green Taxonomy in Supporting the Wider Green Finance Regulatory Landscape. Other areas which could also be included are sectoral roadmaps and links to stewardship tools, e.g. investor guidance.

Policy Context



Policy Context

This paper contains advice from the GTAG to HMT, setting out the value case for considering applying the Taxonomy to wider UK policy decisions. In Q1 2023, the UK published its new Green Finance Strategy, confirming that later this year the UK will take forward a substantial portfolio of green finance legislation and regulation, as part of its wider push to green the financial sector and make the UK a net-zero financial centre. This advice aims to support HM Treasury in deciding whether, and how, to integrate the taxonomy into policy decisions beyond the use cases which have already been agreed.

In 2021, GTAG submitted advice to HMT about use cases for the taxonomy. ‘Government and local authorities’ were identified as a ‘primary focus’ user group, alongside ‘Public and private companies and LLPs’. Several specific policy use cases were identified, which were each assigned a priority level of high, medium or low.

In this paper, GTAG members have reviewed and updated the list created in 2021 and published in the October 2022 advice paper⁵, following more detailed discussions in GTAG on this topic. Specific potential policy use cases are outlined in greater detail and then matched to two core objectives. The advantages and disadvantages of applying the taxonomy to policy decisions have also been considered, as well as some of the specific governance issues that would need to be taken into consideration for public sector users of the taxonomy.

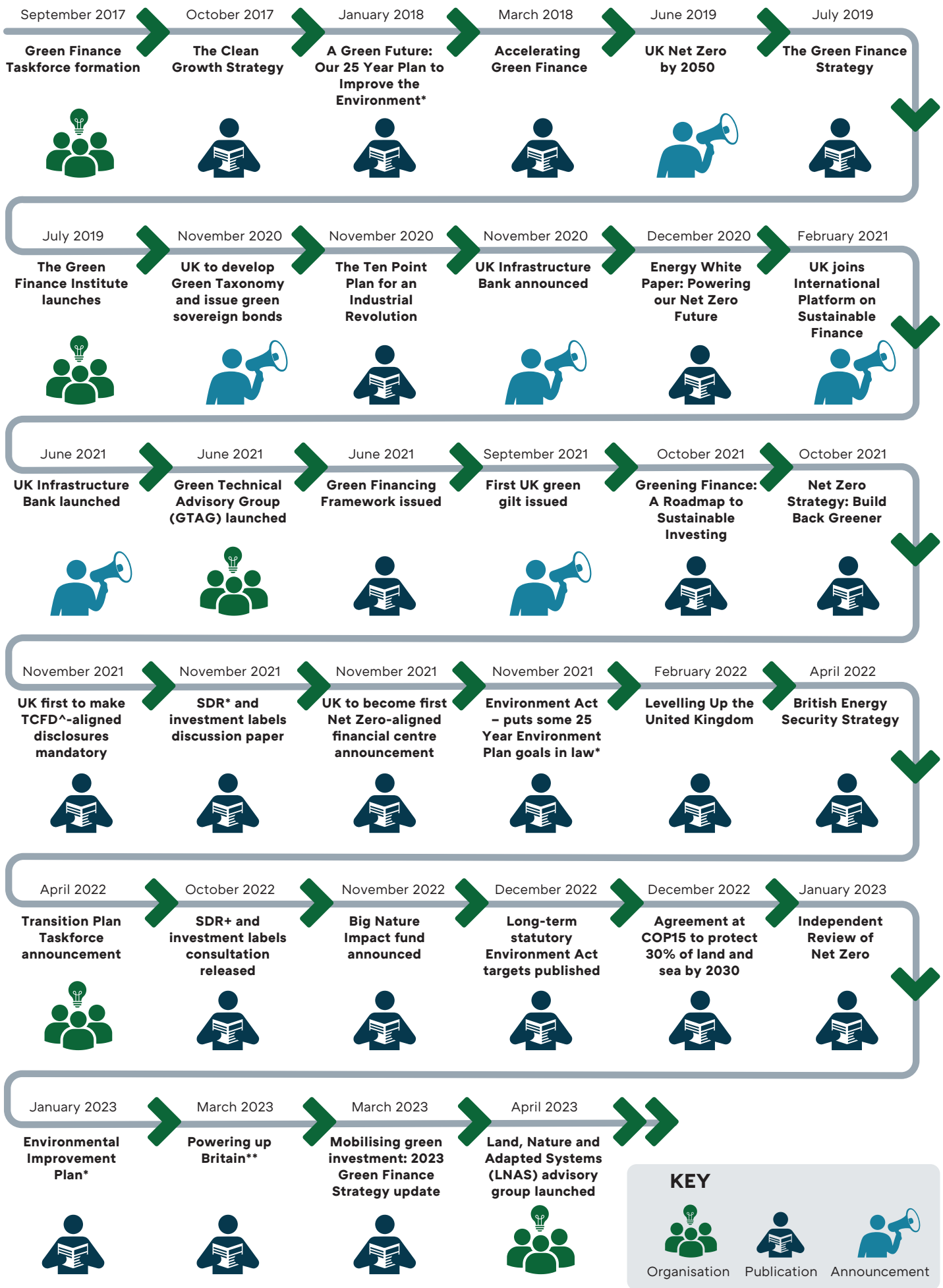
Green Finance Policy Progress

Over the last five years, HMG green finance policy has developed considerably, with a series of policy papers, announcements and taskforces being published/announced. A timeline of these events to May 2023 is shown in Figure 2, with HMT’s initial consultation on the taxonomy expected to be the next major publication. The Green Finance Strategy update was also released this year, confirming this consultation will occur in Autumn 2023. Now that the taxonomy’s future is more certain, this is a good opportunity for HMT to further clarify and solidify its links to other policies. The recommendations within this paper align with many of the policy positions outlined within published HMG papers and announcements.



⁵ <https://www.greenfinanceinstitute.co.uk/wp-content/uploads/2022/10/GTAG-Advice-on-the-development-of-a-UK-Green-Taxonomy.pdf>

Figure 2: Timeline illustrating UK policy papers, government announcements and taskforce formation

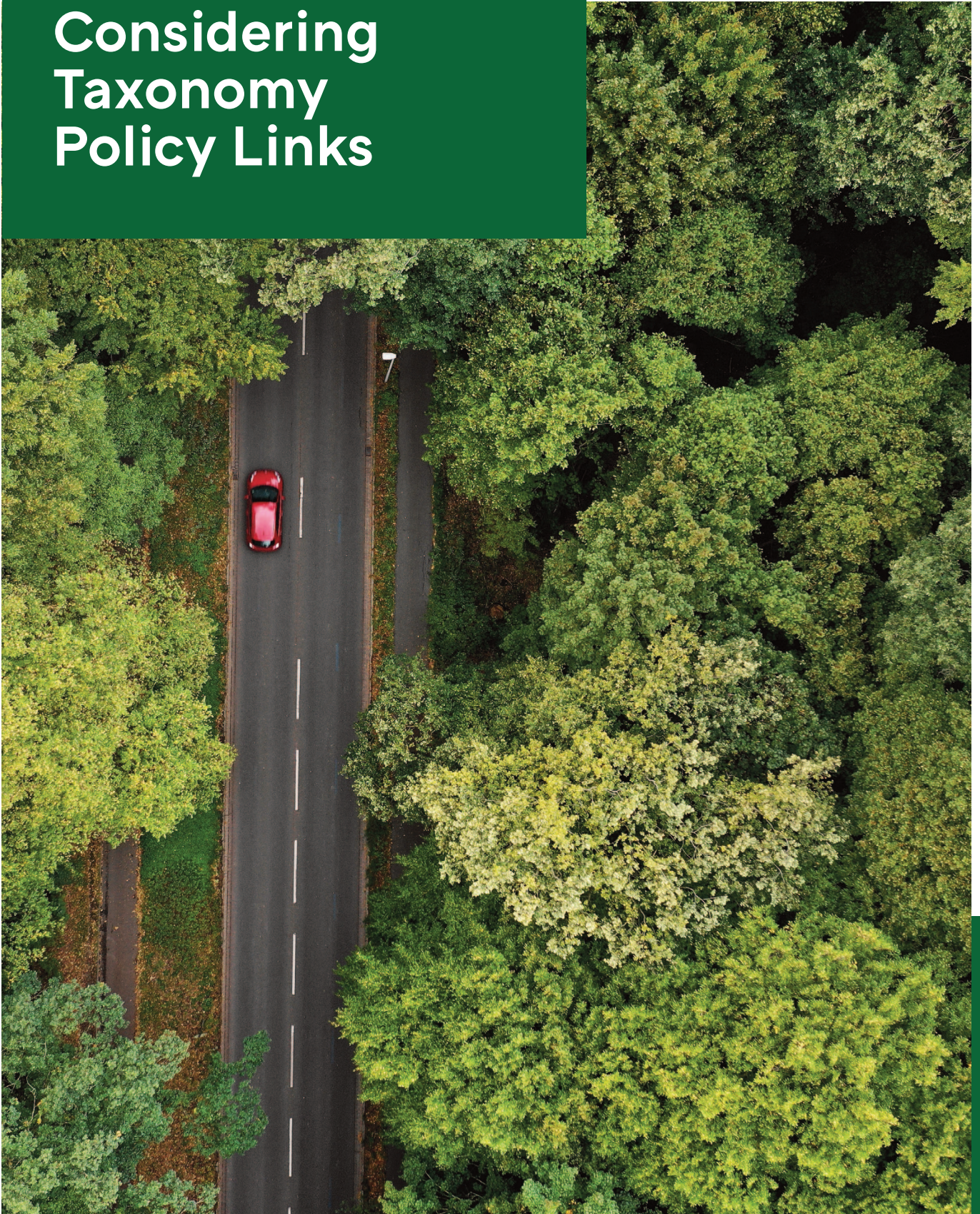


KEY

- Organisation
- Publication
- Announcement

* Only applies to England
 ** A package of 43 documents relating to climate and energy policy were released on the same day
 + Sustainability Disclosure Requirements (SDR)
 ^ Taskforce on Climate-related Financial Disclosures (TCFD)

Rationale for Considering Taxonomy Policy Links



Rationale for Considering Taxonomy Policy Links

The UK Green Taxonomy was announced in June 2021 as part of government's efforts to improve the environment, accelerate the transition to net zero and create green jobs. On 18th October 2021, the UK government published its Green Finance Roadmap, Greening Finance: A Roadmap to Sustainable Investing. The document confirmed that the taxonomy will apply to corporates, assets owners and managers and to investment products. In March 2023, the UK government published its updated Green Finance Strategy, confirming the first taxonomy consultation will take place in autumn 2023, and that mandatory reporting under SDR will be preceded by a two-year voluntary reporting period.

GTAG has advised that the primary purpose of the taxonomy is two-fold: guiding the market in deploying primary capital to support the delivery of the UK's wider Net Zero and environmental goals (here and, as possible, through overseas investment) and in doing so 'green' companies' activities. This will then help with the second purpose: to address greenwashing – unsubstantiated or exaggerated claims that an investment is environmentally friendly – by companies and investors while driving the process of shifting the UK economy onto a more sustainable footing. This is consistent with HMT comments on the taxonomy⁶ and directly informs the two core purposes set out in this paper.

The government is itself an actor in financial markets, and public bodies can in different contexts act as delivery bodies, investors and consumers. Although the public sector was not originally explicitly mentioned as a user or beneficiary of the taxonomy it is reasonable to anticipate that public sector financial actors will interact with the taxonomy in similar ways to private sector actors when carrying out the same activities, e.g. making pension fund investments, or operating nationalised firms.

Therefore, it is not credible to create a definition of 'green' investments which applies only to private sector actors.

Local authorities are also an important constituent in ensuring the UK meets its net-zero goals. Although only typically responsible for c.2-5% of direct local emissions, the Government's Net Zero Strategy highlighted that 82% of all emissions in the UK are within the "scope of influence" of local authorities.

This highlights the important need to ensure local authority borrowing, capital spend and policy decisions are also consistent with the UK's transition and net-zero targets.

The impossibility of ringfencing private market interactions raises question of whether and how the taxonomy should be used in relation to market roles which are unique to government and are not shared by private firms. These include: setting public budget allocations and managing fiscal risks, taking public debt offerings to market, and operating public banks. **It is not realistic to expect that stakeholders will accept for long that a definition of 'green' investment can be used by public actors in some contexts but ignored in others.** In fact, higher expectations for policy coherence and environmental integrity are likely to be placed on use of public money than on private decision-making.

The difference between public and private finance is in any case not always clear cut, particularly in the context of infrastructure investment which is likely to include some element of blended finance or de-risking instrument. **In this context it could be unhelpful and a disincentive to private sector investment for the public sector to apply different green transparency standards to its own decision-making.** This is a view that has been shared with GTAG through discussions with market participants.

⁶ <https://www.gov.uk/government/news/new-independent-group-to-help-tackle-greenwashing>

In addition to making financial decisions and allocations, government has a unique responsibility to set policy and to create legislation and regulations. As new policy priorities and tools emerge in the future there will increasingly be a need for government to consider whether and how these new policies, mechanisms and rules should take account of, or make use of, the existing taxonomy.

Used appropriately, the taxonomy can offer multiple benefits to the impact of new policies and rules. For example:

- Enabling tracking of green financial flows in relation to the sectoral pathways set out in the Net Zero Strategy;
- Supporting the measurement of progress against environmental policy targets, including the UK's legally binding carbon budgets and environmental improvement targets;
- Ensuring that public spending is doing no harm (in the context of environmental and social sustainability); and
- Ensuring that public spending is being directed towards climate and nature positive outcomes (e.g. if a net-zero test screening mechanism was adopted).



Tension over the environmental integrity to be expected of public spending and new policy tools came to the fore in the European Union in 2020-21 as Member States debated whether the EU Sustainable Taxonomy could or should be used to guide recovery spending, together with associated borrowing through a new European bond issuance. Both of these were use cases that had not been anticipated when that taxonomy was first developed. **The UK has an opportunity to learn from this European experience and to apply foresight to future UK use cases.**

In all potential public sector use cases it will be important to consider governance and accountability. For private sector actors the government is defining best practice and creating rules and disclosure standards to ensure that greenwashing is avoided. Depending on the context, these accountability mechanisms may not apply to public sector use cases. **This means that there could be a credibility risk to public sector use unless appropriate governance measures are put in place.** This challenge has also been raised in the EU context.

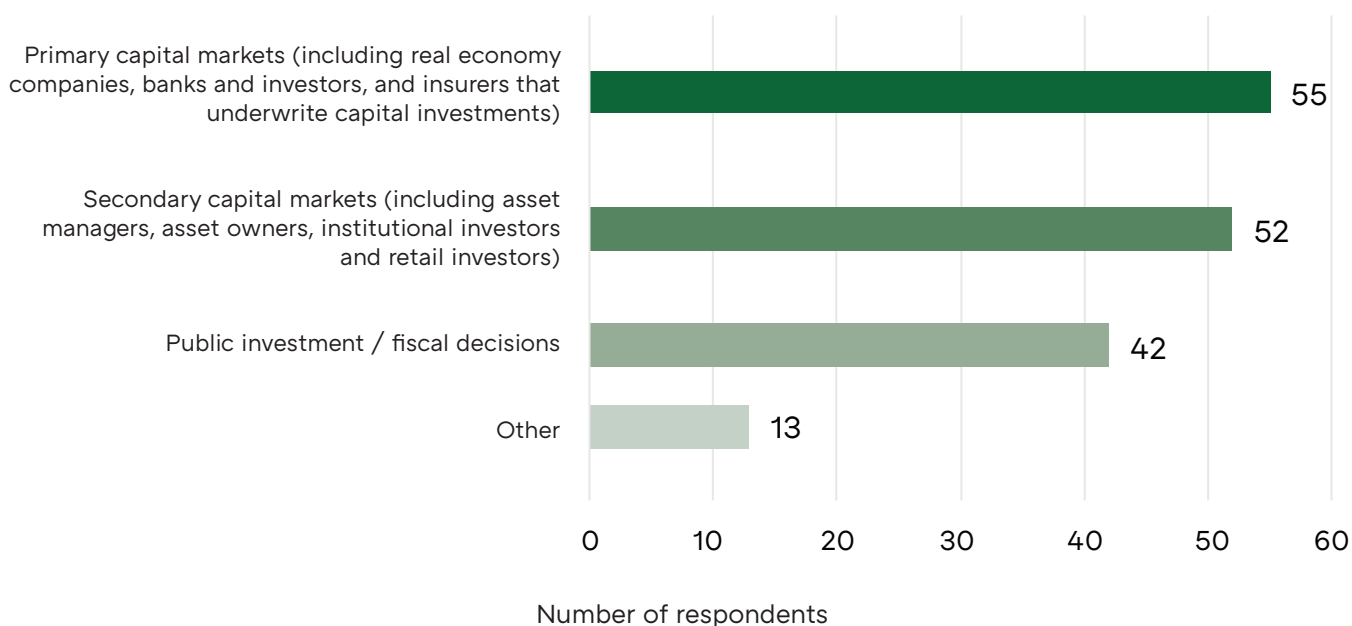
In late 2021, the GTAG commissioned a market survey. A total of 120 responses were received; this included 89 financial services respondents. In this survey 42 respondents said that the green taxonomy should be designed to apply to, and should seek to influence, public investments and fiscal decisions. The comparable number of respondents supporting this approach to the taxonomy for primary and secondary capital markets were respectively 55 and 52. **Individual comments noted that all stakeholders who finance the economy can use the taxonomy to influence their decision-making, but also expressed concerns about politicisation of the taxonomy process as has occurred in the EU, potentially threatening the taxonomy's scientific integrity.**⁷

⁷ It should be noted that private sector organisations broadly welcomed the EU's plans to align public recovery spending with the taxonomy, but member states were not as welcoming, given the different contexts of the different member states, which led to the politicisation. E.g. Stephanie Pfeifer, CEO of IIGCC, said at the time that alignment with the green finance taxonomy "will ensure public money is helping support a cleaner, more resilient future".

Figure 3: **Figure from GTAG Market Survey. Answers for ‘Other’ included “the retail investor in making their investment decisions” and “private companies”. Total respondents: 60.**

Whose investment decisions should the green taxonomy be designed to apply to and seek to influence?

(Multiple selections allowed)



Other international taxonomies are also now making it clear that the taxonomy will also guide policy makers. As part of its ongoing monitoring of international taxonomy development, GTAG keeps track of progress of all taxonomies around the world. **Of the 47 taxonomies being developed at the time of writing, only the Climate Bonds Initiative, ISO, Japan, MDBs-IDFC Common Principles, Russia, and Taiwan do not state the intention to guide policymakers** or have limited country-specific influence due to their status as non-government institutions. In other words, 41 out of the 47 taxonomies currently under development have either stated outright or implied that they aim for their respective taxonomies to be used to guide policymakers and authorities, or they are in the early stages of development and have yet to make such an intention clear. **As such, the UK should start to develop its thinking on where and how the taxonomy will apply to policy.**

Suggested Policy Areas for Taxonomy Application



Suggested Policy Areas for Taxonomy Application

In this section of the paper, GTAG elaborate on each of the identified use cases and in each case provide the following information:

- Which of the two core policy purposes and relevant sub-categories that the use case supports
- How the taxonomy would be applied
- Whether the taxonomy would be critical to the success of this use case, or whether it would be one of several inputs required to achieve this objective
- Pros and cons of using the taxonomy and any mitigations that could address the cons
- Organisations which would be the main actor for this use case, and other relevant bodies
- GTAG recommendation on next steps for the taxonomy link to this use case

Policy Area 1: Guiding Investments of the UK Infrastructure Bank		Public Finance
<p>How Application Would Work: UKIB will monitor performance of portfolio against the taxonomy, and longer-term UKIB's net zero investment decisions will factor taxonomy-alignment into decision making.</p> <p><i>This monitoring of portfolio performance against a common set of definitions cannot be done successfully without using the UK Green Taxonomy.</i></p>		
<p>Pros</p> <ul style="list-style-type: none"> ✓ Policy coherence leading to reduced complexity for market actors. ✓ UKIB would mobilise private finance towards net-zero activities, by co-investing into taxonomy-aligned investments ✓ In-line with Chancellor's "strategic steer" letter to UKIB.⁸ ✓ UKIB would work with local authorities to green their spending, by adding taxonomy-conditional onto the £4bn set aside for local authority lending. 	<p>Cons</p> <ul style="list-style-type: none"> ✗ Project pipeline may not be sufficient, at least initially, for all investments to be taxonomy-aligned. ✗ If investment options too restrictive as a result of applying the taxonomy as a screen, could restrict 'transition' investments that might otherwise have been funded. ✗ Local authorities may lack the capacity and expertise to factor taxonomy-alignment into the process of application for UKIB finance. 	<p>Mitigations</p> <ul style="list-style-type: none"> - Focus UKIB's activities on 'market making' role in order to build project pipeline. - UKIB could be expected to explain how each investment supports planned transition towards taxonomy-aligned economic activities, in-line with Transition Plans (see Policy Area 5). - Provide technical assistance to local authorities as well as financing.
<p>GTAG Recommendation: UKIB should announce that they will monitor the portfolio's alignment against the taxonomy (done – in strategic plan)⁹. Longer term, UKIB should formally use the taxonomy as a screen to help classify the sustainability and impact of investments.</p>		<p>Relevant Bodies: UKIB HMT Local Authorities</p>

⁸ <https://www.gov.uk/government/publications/chancellors-letter-to-the-uk-infrastructure-bank>

⁹ https://www.ukib.org.uk/sites/default/files/2022-06/UKIB%20Strategic%20Plan%202022%20-%20Full_1.pdf

Policy Area 2: Guiding investments of British Business Bank		Public Finance
How Application Would Work: BBB's net-zero investments would be taxonomy-aligned.		
<i>This monitoring of portfolio performance against a common set of definitions cannot be done successfully without using the UK Green Taxonomy.</i>		
Pros <ul style="list-style-type: none"> ✓ Policy coherence leading to reduced complexity for market actors. ✓ BBB would mobilise private finance towards net-zero activities. ✓ BBB would socialise taxonomy approach among SMEs. 	Cons <ul style="list-style-type: none"> ✗ If investment options too restrictive as a result of applying the taxonomy as a screen, could restrict 'transition' investments that might otherwise have been funded. ✗ Engaging with taxonomy will be more burdensome for SMEs. 	Mitigations <ul style="list-style-type: none"> - BBB could be expected to explain how each investment supports planned transition towards taxonomy-aligned economic activities. - Expectations on SMEs could be 'light touch'. HMG could consider providing assistance to SMEs in the near-term.
GTAG Recommendation: BBB should announce that they will monitor portfolio's alignment against the taxonomy, and that longer term, investment decisions will use the taxonomy as a screen to help classify the sustainability and impact of investments.		Relevant Depts/Bodies: BBB Local authorities Regional investment bodies

Policy Area 3: Strengthening the green credentials of UK green gilts		Public Finance
How Application Would Work: Green gilt programme use of proceeds would align with taxonomy.		
<i>This aligning of programme use of proceeds against a common set of definitions cannot be done successfully without using the UK Green Taxonomy.</i>		
Pros <ul style="list-style-type: none"> ✓ Policy coherence leading to reduced complexity for market actors. ✓ Green gilts would mobilise private finance towards net-zero and Environment Plan-consistent activities. ✓ UK would demonstrate public investment in net-zero target. ✓ UK would set gold standard for green sovereign bonds. 	Cons <ul style="list-style-type: none"> ✗ All taxonomy activities, and other environmental objectives, will not be added into the taxonomy legally until later in the implementation process. ✗ Project pipeline may not be sufficient, at least initially, for all investments to be taxonomy-aligned, given breadth of investment options and policy priorities for HMG. ✗ If investment options are too restrictive as a result of applying a developing taxonomy as a screen, this could restrict 'transition' investments that might otherwise have been funded. 	Mitigations <ul style="list-style-type: none"> - Take a phased approach to adopting the taxonomy (i.e. climate elements first). - Reporting both eligibility and alignment of investments to taxonomy – which should match. i.e. 100% of eligible investments should be aligned. - Use UKIB and BBB, as well as the green gilt mechanism itself and the National Infrastructure Strategy, to catalyse the creation of a strong pipeline of green projects in the UK.
GTAG Recommendation: HM Treasury and the Debt Management Office should make the taxonomy the guiding framework for green gilt use of proceeds, using a phased approach until all environmental objectives have been addressed. All green eligible expenditure categories that comprise taxonomy eligible activities should be aligned with the relevant taxonomy TSC. (Intention to do this announced – Green Finance Framework)¹⁰		Relevant Depts/Bodies: HMT DMO NIC IPA

¹⁰ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1002578/20210630_UK_Government_Green_Financing_Framework.pdf

Policy Area 4: Supporting the integrity of sustainability disclosures		Government Policy
How Application Would Work:		
Ask companies to report information about the alignment of their business activities and investments with the taxonomy.		
<i>This reporting against a common set of definitions cannot be done successfully without using the UK Green Taxonomy.</i>		
Pros <ul style="list-style-type: none"> ✓ Policy coherence (already signposted in Greening Finance Roadmap and Green Finance Strategy, through the Sustainability Disclosure Requirements ('SDR')) ✓ Standardisation of company disclosures, enabling aggregation and tracking of national progress against net-zero target, and combatting greenwashing. ✓ Clear signal to market participants about the government's intention to meet net-zero target. 	Cons <ul style="list-style-type: none"> ✗ Risk of duplication and regulatory burden for UK firms which also need to report against taxonomies of other jurisdictions, with additional complexity involved if there is divergence between taxonomies. 	Mitigations <ul style="list-style-type: none"> - Maximise policy coherence across UK disclosure requirements when developing SDR. - Promote international interoperability through IPSF and other fora. - Promote hierarchy of interoperability in countries without taxonomies / with taxonomies under development, and follow other GTAG advice on promoting international interoperability.¹¹ - Negotiate equivalence with EU where possible.
GTAG Recommendation: Request corporate disclosures of taxonomy alignment through the SDR, to be set out in an upcoming consultation, and simultaneously work for international alignment and standards.		Relevant Bodies: DBT, EU PSF, TPT, GFANZ, IPSF, ISSB, G20 SFWG

Policy Area 5: Supporting the integrity of net-zero transition plans		Government Policy
How Application Would Work:		
Ask companies to report information about the alignment of their transition plans against the taxonomy.		
<i>The UK Green Taxonomy would be one of several metrics included in transition plans. Note, the Transition Plan Taskforce are still to determine exactly how taxonomies are referenced in their framework.</i>		
Pros <ul style="list-style-type: none"> ✓ Policy coherence (already signposted through announcement of the Transition Plan Taskforce (TPT)¹²) ✓ Standardisation of company disclosures, enabling aggregation and tracking of national progress against net-zero target, and combatting greenwashing. ✓ Clear signal to market participants about the government's intention to meet net-zero target. 	Cons <ul style="list-style-type: none"> ✗ Risk of duplication and regulatory burden for UK firms which also need to report against taxonomies of other jurisdictions, with additional complexity involved if there is divergence between taxonomies. 	Mitigations <ul style="list-style-type: none"> - Maximise policy coherence across UK disclosure requirements when developing SDR. - Promote interoperability of both taxonomies and transition plans through IPSF and other fora.
GTAG Recommendation: Current and planned taxonomy-alignment should be a key component in the developing transition plans framework.		Relevant Bodies: DBT, DESNZ, EU PSF, TPT, GFANZ, IPSF, ISSB, G20 SFWG

¹¹ <https://www.greenfinanceinstitute.co.uk/wp-content/uploads/2023/02/GFI-GTAG-INTERNATIONAL-INTEROPERABILITY-REPORT.pdf>

¹² <https://www.reuters.com/world/uk/britain-moves-ahead-with-mandatory-climate-plans-companies-2022-04-24/>



Policy Area 6: Improve consumer choice and confidence, e.g. by using the taxonomy as an input to develop a green kitemark or regulated label for UK financial products		Consumer Protection
How Application Would Work: The taxonomy to be used as an input to delivering the FCA’s planned client-facing and consumer-facing entity- and product-level sustainability disclosure requirements and classification and labelling system for sustainable investment products.		
<i>The UK Green Taxonomy would be one of several metrics included in FCA labels and disclosures.</i>		
Pros <ul style="list-style-type: none"> ✓ Policy coherence (already signposted by FCA in DP21/4¹³) ✓ Standardisation of disclosures, enabling informed investment decisions by all types of investors. ✓ Clear signal to market participants about the government’s intent to meet net-zero target. ✓ Combats growing greenwashing and litigation risk. 	Cons <ul style="list-style-type: none"> ✗ Risk of overcomplication in development of the requirements. ✗ Lack of understanding by retail investors may hinder impact and even prove counterproductive. ✗ Firms may lack resources and understanding to implement in the near-term. ✗ Risk of punishment for green firms if label does not apply to all market actors. 	Mitigations <ul style="list-style-type: none"> - GTAG should work closely with the FCA and Disclosures and Labelling Advisory Group (‘DLAG’) in development. - Education for investors and firms should be provided, with clear timeline for implementation. - Ensure all firms in the space should use such labels.
GTAG Recommendation: Current taxonomy alignment should be a key metric in the FCA’s labels and disclosures regime, as per GTAG’s advice to FCA submitted June 2022 and Jan 2023.		Relevant Bodies: FCA, DLAG, GTAG, HMT, Industry bodies

¹³ <https://www.fca.org.uk/publication/discussion/dp21-4.pdf>

How Application Would Work:

Use the taxonomy to assess whether public investments make a significant contribution to climate change mitigation and adaptation, while the other four environmental objectives are under development, and whether they do any Significant Harm to the UK’s broader sustainability goals. This should be done through a new Budget Tagging Tool, that could be complemented by a tool measuring the emissions impact. Bodies such as the CCC, future taxonomy “Institutional Home” and/or OBR could be given responsibility for oversight.

This budget tagging exercise can only be done using the UK Green Taxonomy, or will require more subjective definitions that are less independent of the policy development process.

Pros	Cons	Mitigations
<ul style="list-style-type: none"> ✓ Demonstrate government leadership on net zero and show that taxpayers’ money is being used to support stated policy goals. ✓ Support delivery of the UK’s net zero and adaptation targets. ✓ Signal joined up approach (across public and private finance) to financing net-zero in the 2022 Green Finance Strategy. ✓ Consistent with recommendations from the Committee on Climate Change (CCC)¹⁴. 	<ul style="list-style-type: none"> ✗ Assessment process could be complex and it may be difficult to take into account trade-offs with other policy priorities. ✗ Political dynamics resulting from trade-offs could come to compromise science-based approach, weakening impact of taxonomy for private sector actors. ✗ If creating such a screening process it may be better to wait until the taxonomy contains more elements than just climate mitigation and adaptation. 	<ul style="list-style-type: none"> - Maintain science-base for taxonomy as a key principle, And broaden taxonomy scope to reflecting UK’s greening economy more fulsomely. - Test will be informative but not binding if negative impact. Certain policies will be deemed neutral. The process and result of assessment should however be made public for transparency sake. - Conduct internal trials of assessment before deciding whether to go ahead with ongoing public assessment. - Set out future timeline that includes anticipated future elements of taxonomy (other four environment objectives, and potentially social elements).

GTAG Recommendation:
Announce that the government intends to ensure that public investments are consistent with net-zero targets with the environmental objectives of the taxonomy being used as a key part in a “Budget Tagging Tool” developed as part of a Net-Zero Test. Set out timetable for future work on this including initial pilot phase and expansion to include remaining activities and taxonomy environmental objectives, and how it will incorporate the review process.

Relevant Bodies:
Government departments.
Public bodies and agencies including UKIB.
CCC
OBR

¹⁴ <https://www.theccc.org.uk/2021/06/24/time-is-running-out-for-realistic-climate-commitments/>

Policy Area 8: Local Authority Technical Assistance		Local Public Finance
<p>How Application Would Work: Alongside the need for wider Local Authority technical assistance support to create investable propositions, and to provide training on emerging green finance initiatives, regulations and products, training on the UK Green Taxonomy should be conducted. With the UKIB using the UK Green Taxonomy to assess potential investments, the requirement for large financial institutions to report against the taxonomy, and the other potential policy links of the UK Green Taxonomy, this will be useful for Local Authority officers to understand to access finance for climate projects.</p>		
<p><i>The UK Green Taxonomy would be one of several emerging policies and initiatives that Local Authorities should be provided assistance on, both in terms of training and technical assistance.</i></p>		
<p>Pros</p> <ul style="list-style-type: none"> ✓ UK Green Taxonomy will underpin financing available to Local Authorities, and may inform wider decision making. Therefore support and training is required. ✓ Support delivery of the UK's net zero and adaptation targets. ✓ Signal joined up approach (across public and private finance) to financing net-zero in the 2022 Green Finance Strategy. 	<p>Cons</p> <ul style="list-style-type: none"> ✗ Local Authorities may lack resources to engage with training. 	<p>Mitigations</p> <ul style="list-style-type: none"> - Training does not need to be compulsory, and technical assistance support will assist with resource constraints.
<p>GTAG Recommendation: Provide training for local authorities to be able to use the taxonomy to assess borrowing and capital spend requirements, including how this will support access to UKIB finance, private finance and other Government finance. Any technical assistance support being developed by Government or related organisations should also support on taxonomy understanding.</p>		<p>Relevant Bodies: Government departments. Local Authorities, LGA, UK100, Public bodies and agencies including UKIB. CCC</p>
Policy Area 9: Strengthening the green credentials of local authority borrowing (through Public Works Loans Board, green bonds and local climate bonds) and capital spending		Local Public Finance
<p>How Application Would Work: Local Authorities to use the taxonomy to determine use of proceeds from borrowing. Capital spending to also be tagged using Net-Zero Test, incorporating the taxonomy.</p>		
<p><i>This aligning of use of proceeds against a common set of definitions cannot be done successfully without using the UK Green Taxonomy.</i></p>		
<p>Pros</p> <ul style="list-style-type: none"> ✓ Ensure consistency in public finance earmarked for climate investments. ✓ Signal joined up approach (across public and private finance) to financing net-zero in the 2022 Green Finance Strategy. ✓ Demonstrate local authority leadership on place-based net-zero investments. ✓ Support delivery of the UK's net zero and adaptation targets. 	<p>Cons</p> <ul style="list-style-type: none"> ✗ Local authorities may lack the expertise, capacity and resources to engage with taxonomy requirements attached to borrowing. ✗ Cost of Local Authority compliance (data collation and provision) would be funded out of shrinking budgets. 	<p>Mitigations</p> <ul style="list-style-type: none"> - Roll out training for local authorities. Provide funding, technical assistance (see Policy Area 8) and early-stage financing via UKIB. - Government could provide support for Local Authorities willing to engage with taxonomy reporting against borrowing during initial rollout.
<p>GTAG Recommendation: PWLB should announce intention to report percentage of lending for capital projects that are aligned to taxonomy, as a transparency tool. This will help encourage local councils to embed use and understanding of the classification system.</p>		<p>Relevant Bodies: DMO, HMT, DLUCH, Local Authorities, LGA, UK100, Public bodies and agencies including UKIB. CCC</p>

Policy Area 10: Local Authority Net-Zero Test for all policy decisions screen

Government Policy

How Application Would Work:

Support Local Authorities in using the taxonomy as part of a Net-Zero Test for all policy decisions. Building on the progress already being made by Local Authorities in this space, this would ensure a consistent approach across Local Authorities. This would also include using a Budget Tagging Tool for green budgeting at Local Authority level.

This budget tagging exercise can only be done using the UK Green Taxonomy, for comparability and consistency between Local Authorities.

Pros

- ✓ Demonstrate local authority leadership on place-based net-zero transition and policy coherence.
- ✓ Support delivery of the UK’s net zero and adaptation targets.
- ✓ Begin to act upon National Audit Office’s recommendations to improve collaboration between HMG and local authorities on net-zero.
- ✓ Local Authorities are already developing such tests. Fragmentation is not beneficial – a consistent approach will make assessment and tracking of progress easier.
- ✓ Local authorities can be used as a test-bed for national level Net-Zero Test.

Cons

- ✗ Assessment process could be complex and it may be difficult to take into account trade-offs with other policy priorities.
- ✗ Local authorities may lack the expertise, capacity and resources to develop and adequately use a Net-Zero Test.
- ✗ If creating such a screening process it may be better to wait until the taxonomy contains more elements than just climate mitigation and adaptation.

Mitigations

- Test will be informative but not binding if negative impact. Certain policies will be deemed neutral. The process and result of assessment should however be made public for transparency sake.
- Develop the Net-Zero Test alongside a working group of leading Local Authorities, who will run a pilot phase of the Net-Zero Test.
- Roll out training for local authorities. Provide funding, technical assistance (see Policy Area 8) and early-stage financing via UKIB.
- Set out future timeline that includes anticipated future elements of taxonomy (other four environment objectives, and potentially social elements).

GTAG Recommendation:

Provide advice for local authorities to be able to use a net-zero test to assess all policy decisions. This rollout should mirror that of Policy Area 7.

Relevant Bodies:

Government departments. Local Authorities, LGA, UK100, Public bodies and agencies including UKIB. CCC

Policy Area 11: Underpinning planning advice by the National Infrastructure Commission and project delivery planning by the Infrastructure and Projects Authority		Public Finance
<p>How Application Would Work: The NIC and IPA can assess infrastructure development and address resilience concerns using the Adaptation Taxonomy in their advice to HMG. Align UK infrastructure goals with net zero and resilience goals.</p> <p><i>The UK Green Taxonomy would be one input into such planning advice provided by the NIC and IPA.</i></p>		
<p>Pros</p> <ul style="list-style-type: none"> ✓ Would support development of a pipeline of net-zero projects in UK. ✓ Blended investment approaches would have a common framework for all actors, reducing transaction cost and complexity ✓ New UK infrastructure would be future-proofed. 	<p>Cons</p> <ul style="list-style-type: none"> ✗ Project pipeline may not be sufficient, at least initially, for all investments to be taxonomy-aligned. ✗ If investment options too restrictive as a result of applying the taxonomy as a screen, could restrict ‘transition’ investments that might otherwise have been funded. ✗ The ability to achieve this will depend on how aligned the adaptation taxonomy is to UK legal frameworks. 	<p>Mitigations</p> <ul style="list-style-type: none"> - Use UKIB and BBB, as well as the green gilt mechanism itself, the National Infrastructure Strategy and the upcoming National Adaptation Programme update, to catalyse the creation of a strong pipeline of green projects in the UK. - Commission GTAG to assess the usability and suitability of the Adaptation Taxonomy in more detail.
<p>GTAG Recommendation: The National Infrastructure Commission (‘NIC’) and Infrastructure and Projects Authority (‘IPA’) to use the taxonomy to embed net-zero and resilience expectations for all future advice to the UK Government on infrastructure priorities.</p>		<p>Relevant Bodies: NIC, IPA, UKIB, Local Authorities, GTAG Adaptation Working Group</p>

Policy Area 12: Monitoring UK green financial flows to Net Zero Strategy sectoral priorities		Tracking Progress
<p>How Application Would Work: Government would conduct annual assessment of green financial flows, using the taxonomy to define ‘green’. The Committee on Climate Change has stated the UK needs an extra £50bn going towards low carbon investment annually, by 2030, to meet the 6th carbon budget¹⁵. Tracking progress in greening financial flows will provide valuable information to the Government and to the market on progress being made in delivering the investment needed.</p> <p><i>This tagging exercise can only be done using the UK Green Taxonomy, or will require more subjective definitions that are less independent of the policy development process.</i></p>		
<p>Pros</p> <ul style="list-style-type: none"> ✓ Policy coherence – the taxonomy defines green investment so it makes sense to use it when delivering commitment made in Net Zero Strategy. ✓ Enables the government to assess genuine progress against targets. ✓ Informing future policy by identifying investment gaps and areas where intervention is needed. ✓ Formalises a process that NGOs and academic outfits such as I4CE and the Climate Policy Institute are already undertaking from disparate data sources. ✓ Enables parity of approach with EU which is also setting up this capacity via the Platform. 	<p>Cons</p> <ul style="list-style-type: none"> ✗ Credibility risk if not all UK financial flows are counted when assessment of green flows is made. ✗ Substantial effort required for ongoing tracking work for which HMT may not currently have capacity. 	<p>Mitigations</p> <ul style="list-style-type: none"> - Include all financial flows in assessment (e.g. including both public and private flows) - Delegate this function to an independent statutory body e.g. CCC or OBR.
<p>GTAG Recommendation: When delivering the Net Zero Strategy commitment to track green financial flows, use the taxonomy to define ‘green’.</p>		<p>Relevant Bodies: HMT, DESNZ, Financial Institutions, Real Economy, Local Authorities, OBR, GFI, CGFI, CCC</p>

¹⁵ <https://www.theccc.org.uk/wp-content/uploads/2020/12/The-Sixth-Carbon-Budget-The-UKs-path-to-Net-Zero.pdf>

Policy Area 13: Net-Zero Test – Sectoral Use Case		Government Policy
<p>How Application Would Work: Screen sectoral regulation, incentives and general policy decisions in an ex-ante fashion using a net zero test underpinned by taxonomy and green financial flows tracking.</p>		
<p><i>Such an exercise would require the UK Green Taxonomy and financial flows to function.</i></p>		
<p>Pros</p> <ul style="list-style-type: none"> ✓ Demonstrate government leadership on net zero and show that taxpayers’ money is being used to support stated policy goals. ✓ Enables government to "course correct" policy and interventions when certain sectors are not mobilising enough capital, as well as allowing assessment of where public support can begin to be phased out due to adequate levels of capital mobilisation ✓ Support delivery of the UK’s net zero and adaptation targets. ✓ Signal joined up approach (across public and private finance) to financing net-zero in the 2022 Green Finance Strategy. 	<p>Cons</p> <ul style="list-style-type: none"> ✗ Taxonomy will not be sufficient on its own to inform sectoral policy where net-zero technologies do not yet exist, or where there is no viable sectoral pathway to net-zero. 	<p>Mitigations</p> <ul style="list-style-type: none"> - Define UK sectoral transition pathways to net zero, including investment gaps. - Use taxonomy to inform policy alongside other tools such as transition plans, innovation projects.
<p>GTAG Recommendation: Address investment needs for sectoral transition in Green Finance Strategy, with reference to the taxonomy support for tracking green financial flows by sector.</p>		<p>Relevant Bodies: HMT, DESNZ, DBT, Industry Groups, CCC, UKIB</p>

Policy Area 14: Underpinning planning decisions at local authority level		Government Policy
<p>How Application Would Work: Incentivise taxonomy-aligned activities within the planning process.</p>		
<p><i>The UK Green Taxonomy would be one input into the sustainability considerations in the planning process.</i></p>		
<p>Pros</p> <ul style="list-style-type: none"> ✓ Ensures local-level consideration of UK net zero and adaptation targets. ✓ Provides net-zero upskilling incentives to ‘enabling’ firms including architects, builders. 	<p>Cons</p> <ul style="list-style-type: none"> ✗ Local Authorities and enabling firms may not at present have the necessary capacity and skills to focus on taxonomy-aligned projects. ✗ Adjusting the planning process is slow and complex. 	<p>Mitigations</p> <ul style="list-style-type: none"> - Support training and capacity-building in Local Authorities and wider market, including through UKIB and BBB.
<p>GTAG Recommendation: Announce an intention to incentivise taxonomy-aligned activities within the planning process by a pre-specified date.</p>		<p>Relevant Bodies: Local Authorities, UKIB, UK100, LGA</p>

Policy Area 15: Develop a wider Green Bond Standard, expanding upon the green gilt framework		Private Sector
<p>How Application Would Work: The Government would use the taxonomy to underpin a Green Bond Standard, building on the progress made with the planned taxonomy application for the green gilt programme. The standard should be voluntary in the first instance, and look to complement existing standards. This would support alignment of private sector issuances of green bonds.¹⁶</p>		
<p><i>This aligning of programme use of proceeds against a common set of definitions cannot be done successfully without using the UK Green Taxonomy.</i></p>		
<p>Pros</p> <ul style="list-style-type: none"> ✓ Policy coherence – the taxonomy defines green investment so it makes sense to enable corporations to issue green bonds aligned to the taxonomy. ✓ Complements the green gilt programme, which many green bonds issued in sterling may choose to use when pricing (noting the UK Government’s plans for a “green yield curve”)¹⁷. ✓ Standardises a process that is currently underpinned by industry-led principles. ✓ Green bond market is growing, so good time to bring in standardised guidance. 	<p>Cons</p> <ul style="list-style-type: none"> ✗ Risk fragmentation of the international market, if UK taxonomy deviates from other taxonomies. ✗ May lead to issuers choosing different jurisdictions to issue in, which are less stringent ✗ Has a “cooling effect” on the wider green bond market, as issuers stop green bond issuance in-line with existing principles, while waiting for development of the Standard. ✗ Minimal real-economy coverage of the UK Taxonomy may restrict potential use of proceeds. 	<p>Mitigations</p> <ul style="list-style-type: none"> - Ensure international interoperability as much as possible. Advice provided in GTAG’s paper ‘Promoting the international interoperability of a UK Green Taxonomy’. - Voluntary in the first instance, to ensure no unintended consequences - Ensure existing bonds are correctly recognised. GTAG to provide advice later this year through on approaches to grandfathering. - Expand taxonomy coverage. GTAG providing advice on this.
<p>GTAG Recommendation: HMT should announce plans for a voluntary Green Bond Standard, aligning use of proceeds to the UK Green Taxonomy, building on green gilt framework. Must factor in GTAG advice on grandfathering before any announcements are made.</p>		<p>Relevant Bodies: HMT, DMO, Financial Institutions, GTAG</p>

Policy Area 16: Measuring progress towards Environment Plan targets and UK carbon budgets		Tracking Progress
<p>How Application Would Work: Use tracking of taxonomy-aligned green financial flows (Policy Areas 12 and 13) as an indicator for progress against different UK environmental targets. This will require breaking down green financial flows between different environmental objectives.</p>		
<p><i>Such an exercise would require the UK Green Taxonomy and financial flows to function.</i></p>		
<p>Pros</p> <ul style="list-style-type: none"> ✓ Financial investment is a useful progress indicator, although must be complemented by indicators of change on the ground. ✓ Allows granular tracking of progress, to inform more targeted policymaking to ensure alignment with net-zero targets. 	<p>Cons</p> <ul style="list-style-type: none"> ✗ Risk of focusing too much on this indicator at the expense of assessing change on the ground. ✗ Granular details time consuming to provide. 	<p>Mitigations</p> <ul style="list-style-type: none"> - Establish a cross-governmental dashboard approach for tracking progress against the UK’s environmental goals.
<p>GTAG Recommendation: Integrate investment indicators (based on tracking of green financial flows) into a broader suite of indicators for tracking progress against the Environment Plan targets and UK carbon budgets.</p>		<p>Relevant Bodies: GFI, Regulators, HMT, DEFRA, CCC</p>

¹⁶ The EU has recently introduced its Green Bond Standard into law. This will require green bonds in the EU to align minimum 85% of use of proceeds with the EU Taxonomy.

¹⁷ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1033194/Green_Gilt_Investor_Presentation.pdf

Policy Area 17: Encouraging foreign countries transition to net zero by using the taxonomy to underpin Overseas Development Aid decisions		Foreign Investment
How Application Would Work: Integrate the taxonomy into the decision-making process for international aid allocations.		
<i>The UK Green Taxonomy would be one factor taken into consideration when making decisions on international aid allocations. Local taxonomies would also be an important input.</i>		
Pros <ul style="list-style-type: none"> ✓ Enables the UK to champion net-zero transition and support transition in other countries. ✓ Enables the UK to support wider environmental (and potentially social) objectives abroad, enhancing the credibility and sustainability of UK aid. 	Cons <ul style="list-style-type: none"> ✗ Risk of inappropriate trade-offs against humanitarian aid objectives. ✗ Alignment with the green taxonomy will not be the best way to support investment in 'transition' activities for countries that are some way from having a net zero economy. ✗ International interoperability of taxonomies may hinder impact. 	Mitigations <ul style="list-style-type: none"> - Set out a strategic approach to using Overseas Development Aid to support a global net-zero transition. - Take a thoughtful approach to the role that definitions of green investment can play overall in incentivising the greening of UK aid. - Ask GTAG to provide further advice on treatment of developing economies by the international taxonomy reporting regimes.
GTAG Recommendation: HMT and FCDO should conduct initial scoping investigations on the best way to make UK ODA support a global net-zero transition and the potential role of the taxonomy in incentivising this, including changes to the current framework for evaluating new aid allocations. This should include reference to GTAG international interoperability advice.		Relevant Bodies: HMT, DBT, DESNZ, FCDO, DEFRA GTAG

Policy Area 18: Supplier requirements for public procurement		Private Sector
How Application Would Work: Government procurement processes and contracts (both national and local) would incentivise or require that procured activities and products were taxonomy-aligned.		
<i>The UK Green Taxonomy could either be one input into the decision making process, or a fundamental requirement.</i>		
Pros <ul style="list-style-type: none"> ✓ Powerful lever to set expectations and change market behaviour towards net-zero. 	Cons <ul style="list-style-type: none"> ✗ Large public procurement contracts already require that firms have transition plans – does this add anything useful? ✗ Difficult to assess taxonomy alignment of many goods and services. 	Mitigations <ul style="list-style-type: none"> - Adjust guidance for current transition plan requirement to include expectations that the company's activities will be assessed with reference to the taxonomy. - Consider applying the current requirements to smaller contracts.
GTAG Recommendation: Government procurement processes and contracts should announce plans to incentivise or require that procured activities and products are taxonomy-aligned, where relevant (i.e. where contract is large enough and if activity is taxonomy eligible).		Relevant Bodies: HMT, DLUCH, Government departments, Local authorities



Policy Area 19: Guiding Investments of the UK Big Nature Impact Fund		Private Sector
<p>How Application Would Work: Nature positive investments from the ‘Big Nature Impact Fund’ would be taxonomy-aligned.</p> <p><i>This monitoring of portfolio performance against a common set of definitions cannot be done successfully without using the UK Green Taxonomy. This will depend on the nature-related TSC which are still to be set out in the UK context.</i></p>		
<p>Pros</p> <ul style="list-style-type: none"> ✓ Policy coherence leading to reduced complexity for market actors. ✓ Finance Earth and Federated Hermes would mobilise blended finance towards high-integrity Nature-based Solutions (NbS), by directing investment into taxonomy-aligned activities. 	<p>Cons</p> <ul style="list-style-type: none"> ✗ Insufficient taxonomy coverage in order to meet UK environmental targets. ✗ Fund pipeline may not be sufficient, at least initially, for all investments to be taxonomy-aligned. 	<p>Mitigations</p> <ul style="list-style-type: none"> - Defra to work closely with Federated Hermes and Finance Earth as their investment strategy develops in tandem with developing nature relevant technical screening criteria, to ensure taxonomy is factored in as early as possible. - Create timetable for phased approach and target year for 100% alignment of investments with taxonomy.
<p>GTAG Recommendation: Federated Hermes and Finance Earth should announce that all NbS investments will be taxonomy-aligned in its 2023 Nature Impact Investment strategy.</p>		<p>Relevant Bodies: Defra, Finance Earth, Federated Hermes</p>

How Application Would Work¹⁸:

Given that a green taxonomy provides a comprehensive framework for evaluating the environmental sustainability of economic activities, the taxonomy can be used to evaluate and classify carbon offset projects based on their environmental sustainability. This provides a common language for stakeholders to assess and compare different carbon offset projects. Activities which are aligned with the climate change mitigation criteria could be used as an indicator to confirm they are eligible carbon offsets

The UK Green Taxonomy could form an important input into the classification system for high integrity carbon markets, alongside other indicators.

Pros	Cons	Mitigations
<ul style="list-style-type: none"> ✓ Can help regulatory bodies, financial institutions, project developers, and independent verifiers or auditors evaluate projects in the absence of existing accredited standards e.g., built environment offsetting schemes. ✓ Provides a comprehensive framework to ensure that the project has a positive impact, beyond carbon removal and reductions, on biodiversity and other environmental factors. ✓ Can help ensure consistency and comparability across different projects and sectors. ✓ Can provide greater transparency and clarity around what constitutes a sustainable carbon offset project. 	<ul style="list-style-type: none"> ✗ Will require an independent body to verify the project against the Taxonomy criteria. At present, Organic Farmers and Growers, Soil Association, and Scottish Agricultural College can verify carbon offset projects against the only two accredited carbon offsetting standards in the UK – the Woodland Carbon Code and the Peatland Code. ✗ Social requirements may not be as robust compared to other available standards. ✗ The actual purchase of carbon credits itself cannot be considered a taxonomy-aligned activity or investment as significant harm has taken place elsewhere. 	<ul style="list-style-type: none"> - Verification and certification of the taxonomy aligned activities should be carried out by accredited third-party verifiers, using internationally recognised methodologies. - Evaluate the minimum social safeguards component of the taxonomy and compare with existing standards. - HMT to clarify that the actual purchase of the credit is not a taxonomy-aligned activity or investment.

GTAG Recommendation:
HMG should consider activities which are aligned and verified with the climate change mitigation criteria as eligible for carbon offset accreditation. This would complement existing codes such as the Peatland Code and the Woodland Carbon Code.

Relevant Bodies:
HMT, Defra, EA, DESNZ

¹⁸ While a Green Taxonomy can provide a framework for evaluating the environmental integrity of carbon offset projects, it is important to note that the Platform on Sustainable Finance has explicitly excluded offsets from their proposals. Their rationale emphasises that offsets should not be considered a means of delivering a substantial contribution to an environmental objective, as they are seen as an add-on compensation to harm elsewhere rather than a direct contribution. Therefore, it is crucial to recognise that the actual purchase of carbon credits is not considered a taxonomy-aligned activity or investment. The focus of the Green Taxonomy is on evaluating the environmental sustainability of projects themselves, rather than the act of purchasing carbon credits.

Conclusion and next steps



Conclusion and next steps

The UK Green Taxonomy will be an important tool to establish clear and objective guidance around delivering sustainable investment. It is therefore imperative that the Taxonomy remains science-based, as doing otherwise will risk confusing market participants and increasing the risk of greenwashing. With significant, and growing, market appetite for green finance, clear signals from the Taxonomy can facilitate the growth of sustainable industry across the whole of the UK.

As the tables above demonstrate, there are several specific policy applications to which this UK Green Taxonomy can be applied – which will in turn have significant co-benefits for other policy objectives across the whole of the UK, and the UK’s environmental targets. Several of the recommendations also focus on local authorities since, as the Government’s Net Zero Strategy highlighted, 82% of all emissions in the UK are within their “scope of influence”.

The confirmation of the upcoming Autumn 2023 taxonomy consultation in the Green Finance Strategy presents an opportunity to pick up and embed these recommendations in the near-term. Internationally, the UK should seek to promote coherence and encourage replication of a comprehensive and strategic approach to financing the transition. Advice on how the taxonomy specifically can help influence this can be found in the GTAG’s international interoperability paper¹⁹.

Potential policy uses are at different levels of maturity. Some have been announced already, whereas some are still highly uncertain and will be based on decisions as to how, and whether, other environmental objectives and social objectives will be included in the UK taxonomy. As a result, the list of potential policy uses will need to be kept under regular review.

¹⁹ <https://www.greenfinanceinstitute.co.uk/wp-content/uploads/2023/02/GFI-GTAG-INTERNATIONAL-INTEROPERABILITY-REPORT.pdf>

Annexes

2021 GTAG Use Cases Table

Figure 4: Use cases and prioritisations identified by GTAG for Government, Local Authorities and Financial Market Regulators in 2021

In Scope or Potential Use case?	Use Case Description (2021)	Use Case Priority
Government and local authorities (primary focus)		
In scope	Strengthen the green credentials of UK sovereign green bonds	High
In scope	Underpinning sectoral policy design to support the net zero strategy	Medium
Potential use case	To underpin the planning advice by the National Infrastructure Commission and project delivery planning by the Infrastructure and Projects Authority	Medium
Potential use case	Mitigation and adaptation taxonomies to underpin planning decisions at local authority level	Low
Potential use case	The taxonomy could guide future UKIB investment strategy and decisions	Medium
Potential use case	Underpin broader public financing decisions for the net zero strategy	Low
Potential use case	Encouraging foreign countries' transition to net zero by using the taxonomy to underpin Overseas Development Aid decisions	Low
Potential use case	Delivering of the levelling up agenda, subject to a social taxonomy being developed	Low
For financial market participants (FMPs) offering financial products in the UK (secondary focus)		
Regulated Firms		
Potential use case	Improve consumer choice and confidence, e.g. by using the taxonomy as an input to develop a green kitemark or regulated label for UK financial products	Low

GTAG Members

Chair: Ingrid Holmes, Green Finance Institute

Users of the taxonomy – Financial Services

- **Faith Ward**, Institutional Investors Group on Climate Change
- **James Alexander**, UK Sustainable Investment and Finance Association
- **Elizabeth Gillam**, International Regulatory Strategy Group

Users of the taxonomy – Non-Financial Services

- **Nick Molho**, (June 2021 – June 2023) Aldersgate Group
- **Rain Newton-Smith**, June 2021 – January 2023
- **Flora Hamilton**, (January 2023 – May 2023), Confederation of British Industry

Taxonomy & Data Experts

- **Mike Thompson** (June 2021 – January 2023),
- **Bea Natzler** (January 2023 – present), Committee on Climate Change
- **Alyssa Heath** (June 2021 – August 2021),
- **Olivia Mooney** (August 2021 – February 2022),
- **Margarita Pirovska** (February 2022 – July 2022),
- **Eliette Riera** (July 2022 – present), Principles for Responsible Investment
- **Prashant Vaze** (June 2021 – March 2022),
- **Anna Creed** (March 2022 – January 2023),
- **Matteo Bigoni** (January 2023 – present), Climate Bonds Initiative
- **Lily Dai**, FTSE Russell, London Stock Exchange Group
- **Nadia Humphreys**, Bloomberg
- **Anna Bond** (June 2021 – January 2022),
- **Katie Spooner** (January 2022 – present), Environment Agency

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- **Paul Fisher**, Cambridge Institute for Sustainability Leadership
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- **Nicola Ranger** (August 2022 – present), Centre for Greening Finance and Investment and Oxford Sustainable Finance Group / University of Oxford
- **Nick Robins**, Grantham Institute / London School of Economics
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- **Kate Levick**, E3G
- **Karen Ellis**, WWF

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- **Rachel Barrett** (August 2022 – present), Linklaters
- **Mark O’Sullivan** (August 2022 – present), PwC
- **Amanda Swaffield** (August 2022 – present), Deloitte
- **Jeffrey Twentyman** (August 2022 – present), Slaughter and May

Observer Group

- HM Treasury
- Department for Energy Security and Net Zero
- Department for Business and Trade
- Financial Conduct Authority
- Bank of England
- Other relevant HMG departments and regulators

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Glossary

BBB	British Business Bank
Carbon Offsets	An action taken to compensate for carbon dioxide emissions, usually by purchasing carbon credits which subsidise emissions reduction elsewhere
DBT	Department for Business and Trade
Defra	Department for Environment, Food & Rural Affairs
DLUCH	Department for Levelling Up, Housing and Communities
DMO	Debt Management Office
FCA	Financial Conduct Authority
FCDO	Foreign, Commonwealth & Development Office
Green Bond Standard	A definition of eligible investment categories that allow debt instruments to be designated as green or sustainable
GTAG	Green Technical Advisory Group
HMG	His Majesty's Government
HMT	His Majesty's Treasury
IDFC	International Development Finance Club
IPA	Infrastructure and Projects Authority
ISO	International Organisation for Standardisation
LGA	Local Government Association
LLPs	Limited Liability Partnerships
MDB	Multilateral Development Bank
NbS	Nature-based solution
Net Zero Test	A test that could be applied to decision-making to determine if an activity, policy or investment aligns with Net Zero
NIC	National Infrastructure Commission
ODA	Overseas Development Assistance
PWLB	Public Works Loan Board
SDR	Sustainability Disclosure Requirements
TPT	Transition Plan Taskforce
UKIB	UK Infrastructure Bank