

Green Finance: Is Your Business Ready? Future Challenge or Opportunity?

Article By:

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We recently commented on the Government's Clean Air Strategy raising awareness of the potential impact on a wide range of businesses if they failed to plan ahead to ensure compliance.

Hot on the heels of this follows the Government's Green Finance Strategy, launched on 2 July 2019.

This strategy, together with the Clean Air Strategy and other policies whose objective is to take the UK towards carbon neutral targets by 2050, may present significant challenges for many companies, particularly if they fail to plan ahead.

Businesses will have to consider the impact on the environment of business decisions, whether finance will be available to meet their business needs and the impact on the company's financial position if asset valuations are affected.

The earlier companies start to consider how these changes may impact their business and how to address compliance; the best chance they have to survive, and for some, take an early opportunity to prosper.

The Green Finance Strategy covers 3 key areas:

1. Transitioning to a green financial system which recognises the need to integrate climate and environmental factors into mainstream financial decision-making;
2. Accelerating and supporting finance in green investments, supporting clean growth and the environment, at home and abroad; and
3. Capitalising on the UK's strong record in green financial innovation.

What impact will this have on UK businesses?

The Government wants to ensure that when deciding whether to provide finance to a business, decisions take account of financial risks and opportunities from climate and environmental factors.

Businesses will therefore have to consider the environmental impact of what they are seeking to achieve, when seeking financial support for it, and start factoring into future strategies whether their plans meet with climate and environmental objectives.

Failure to consider and work towards meeting these strategies could see a loan application rejected if it does not meet certain parameters.

The strategy also anticipates listed companies and those who own significant assets making climate related disclosures by 2022.

Those companies will have to become conversant with the Financial Stability Board's task force on climate-related financial disclosures and address issues that will arise in connection with that. A number of regulators have made announcements following the Government's Green Finance Strategy including this useful comment by the Financial Reporting Council FRC:

"The Boards of UK companies have a responsibility to consider their impact on the environment and the likely consequences of any business decisions in the long-term. They should therefore address, and where relevant report on, the effects of climate change (both direct and indirect)".

It continues: *"Reporting should set out how the company has taken into account the resilience of the company's business model and its risks, uncertainties and viability in both the immediate and longer-term in light of climate change. Companies should also reflect the current or future impacts of climate change on their financial position, for example in the valuation of their assets, assumptions used in impairment testing, depreciation rates, decommissioning, restoration and other similar liabilities and financial risk disclosures".*

This highlights measures that companies should be taking now to start aligning their business decisions and asset valuations with the purview of Green Finance Strategy.

Opportunity?

The strategy also presents significant opportunity for businesses interested in clean energy because the Government wants to help provide finance to fund investment in that sector.

Funds are also being created which will increase access to finance for new technologies.

The Government also wants to support financial innovation and promote the adoption of green finance products and services. It has set up a Green Home Finance Innovation Fund including offering funds to the private sector to test what green products are attractive to consumers and what can be self-sustaining.

For companies already operating in this sector or those looking to move towards a greener future, additional and more funding will help support that.

Comment

It is important for businesses to look to and plan for the future and prepare for change. Failure to adapt could see margins squeezed if asset valuations are affected and businesses do not meet environmental objectives when seeking new finance

Squire Patton Boggs is already supporting clients across a range of sectors in dealing with decarbonisation and similar issues.

Further reading:

This article touches on some of the changes but to understand the work which the Government is doing now and what is planned for the future the full strategy can be found [here](#).

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