

Prime Minister
10 Downing Street
London SW1A 2AA
Sent by email only

18 September 2024

Dear Prime Minister

INCENTIVISING PRIVATE INVESTMENT IN CLIMATE ADAPTATION AND RESILIENCE

The Council for Science and Technology (CST) has previously advised the government on how to adopt a whole systems approach to achieve net zero. We are now writing to advise on how government can mobilise further private investment into climate adaptation. Climate mitigation and adaptation must be considered together at a global, national and regional level.

The global average temperature has reached around 1.3°C above pre-industrial levels¹ and this is shifting the UK climate - all the UK's 10 warmest years on record occurred in the 21st century.² With the growing risk that the Paris Agreement is not achieved, we must take action now to protect communities, our economy and the environment.

Finance for adaptation is predominantly provided by the public sector.³ The current global gap between present finance flows and estimated adaptation financing needs and costs is estimated at \$194 billion to \$366 billion per year.⁴ As it is unrealistic to suppose that this gap will be filled with public finance, leveraging private finance is critical.

To support government action, CST recently convened academics, investors and asset managers to discuss the economic and social benefits of climate adaptation and how government can incentivise private investment. This letter provides a summary of the discussions.

¹ Betts et al. (2023). Approaching 1.5 °C: how will we know we've reached this crucial warming mark? *Nature*, 624, 33-35.
<https://doi.org/10.1038/d41586-023-03775-z>

² Kendon et al. (2024). State of the UK Climate 2023. *International Journal of Climatology*, 44, 1–117.
<https://doi.org/10.1002/joc.8553>

³ Climate Policy Initiative (2023). *Global Landscape of Climate Finance 2023*. Available at:
<https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/>.

⁴ UN Environment Programme (2023). *Adaptation Gap Report 2023*. Available at: <https://www.unep.org/resources/adaptation-gap-report-2023>.

Mobilising private investment in climate adaptation will require strong leadership from government, an open dialogue on the difficult future challenges we face and enabling policy incentives. We note the OECD will publish a Climate Adaptation Investment Framework later this year outlining policy interventions to leverage private investment.⁵ From our engagement we propose five immediate areas of action for government beyond plans in the third National Adaptation Programme (NAP3):

1. Cabinet Office should lead in setting a clear, ambitious and compelling vision and strategy for climate adaptation, with intermediate targets and measurable outcomes.

The government's NAP3 lacks a compelling vision and ambitious strategy to address growing climate risks. Stronger leadership from the centre of government is required to galvanise greater policy action on climate adaptation and to set a clear vision. Consistent strong messaging accompanied by stable policies are needed to give investors the clarity and confidence to invest.

We endorse recommendations made by the Climate Change Committee for a refresh of the NAP3 and adaptation governance in this Parliament⁶. Cabinet Office should work with departments to define adaptation targets for each UK sector with costed goals and delivery plans. Plans should outline the role of the public and private sector. This should build on the government's manifesto commitment to mandate UK-regulated financial institutions to develop and implement credible transition plans that at least align with the 1.5°C goal of the Paris Agreement.

2. HM Treasury and the Department for Business and Trade should signal opportunities for private investment in climate adaptation, including in the upcoming Industrial Strategy.

Government has provided clear signals on investment opportunities in climate mitigation from electric vehicles to renewables and battery storage technologies. However, there is a lack of signalling by government on investment opportunities, by sector, for climate adaptation.

Given the UK's comparative advantage in financial services, there will be opportunities in climate adaptation financing and with climate risk insurance products. There is a role for government in encouraging and attracting innovation in these areas, accompanied by policy incentives to catalyse investment.

In addition, there are several R&D opportunities presented by climate adaptation, including not but limited to, low-energy cooling systems and healthtech.

3. Government should incorporate climate resilience within the mandate and priorities of UK regulatory frameworks and bodies to encourage private investment.

⁵ UNFCCC (2024). OECD Climate Adaptation Investment Framework. Available at: <https://unfccc.int/documents/637351>

⁶ Climate Change Committee (2024). Independent Assessment of the Third National Adaptation Programme (NAP3). Available at: <https://www.theccc.org.uk/wp-content/uploads/2024/03/Independent-Assessment-of-the-Third-National-Adaptation-Programme-NAP3.pdf>

Regulatory standards, for example for buildings and infrastructure, stimulate investment and provide clarity to investors about expectations for climate resilience. However, climate change is not systematically included in all of the relevant standards.⁷ In sectors where climate change has been factored into regulatory standards, private investment has been effectively mobilised; for example Ofwat's recent draft determination of water company plans in England and Wales included £6 billion of private investment for securing water supplies between 2025 and 2030.⁸ Each government department should set clear standards for their relevant sectors.

4. HM Treasury and the Department for Business and Trade should work together to leverage private investment through public funding.

The UK Infrastructure Bank, British Business Bank and new National Wealth Fund should include economic prosperity, net zero and adaptation as equal priorities. Blended finance options and bonds should be explored. The Green Book supplementary guidance on accounting for the effects of climate change⁹ should be rigorously applied in all spending and policy decisions by government.

5. The Department for Environment, Food and Rural Affairs should lead efforts to improve the accessibility of data and analysis to inform investment decisions.

Businesses and investors need to rely on assured data and analysis to make decisions. While there are an increasing number of private sector providers of local level weather-related data and climate scenarios, there remains the need both to standardise these and to validate them by independent third parties. There is an opportunity to improve access to data held by the Met Office and other trusted public sources, alongside published guidance and standards on how to use those datasets.

Adapting to climate change and bolstering our resilience will require sustained action across government. We believe that greater resource should be allocated to this within government.

We would be delighted to discuss our advice in more detail with you, or your Ministerial colleagues. We are grateful to Council members, Chief Scientific Advisers, and external experts for supporting this advice.

This letter is copied to the Secretary of State for Environment, Food and Rural Affairs; the Secretary of State for Energy Security and Net Zero; the Chancellor of the Exchequer; the Chancellor of the Duchy of Lancaster; the Secretary of State for Science, Innovation and Technology; the Secretary of State for Business and Trade;

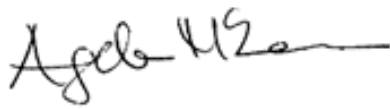
⁷ National Infrastructure Commission (2023). Second National Infrastructure Assessment. Available at: <https://nic.org.uk/app/uploads/Final-NIA-2-Full-Document.pdf>

⁸ Ofwat (2024). Our draft determinations for the 2024 price review. Available at: <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-DD-sector-summary.pdf>

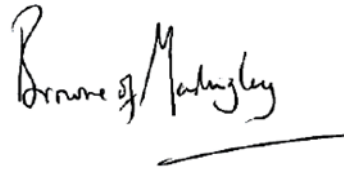
⁹ Defra (2024). Accounting for the effects of climate change. Available at: https://assets.publishing.service.gov.uk/media/6645e47e993111924d9d3655/Accounting_for_the_effects_of_climate_change.pdf

the Secretary of State for Transport; the Secretary of State for Housing, Communities and Local Government; the Secretary of State for Health and Social Care; the Minister of State for Science, Research and Innovation; the Minister for Water and Flooding; the Parliamentary Secretary for the Cabinet Office; the Cabinet Secretary; and the Permanent Secretaries of HM Treasury, the Department for the Environment, Food and Rural Affairs, the Department for Energy Security and Net Zero, the Department for Science, Innovation and Technology, the Department for Business and Trade, the Department for Transport, the Ministry for Housing, Communities and Local Government, and the Department for Health and Social Care.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Angela McLean', with a long horizontal flourish extending to the right.

Dame Angela McLean
Co-chair

A handwritten signature in black ink, appearing to read 'Browne of Madingley', with a long horizontal flourish extending to the right.

Lord Browne of Madingley
Co-chair