



## Quarterly Economic Briefing: Unlocking green investment in the Midlands

# INSIGHTS

If the UK is to achieve its target of net zero emissions by 2050, the Climate Change Committee estimates that low carbon investment will need to scale up to reach £50-60bn by 2030. The UK government has set ambitious targets and strengthened environmental regulations, but the private sector must also invest in greening our economy. As an industrial heartland, the Midlands has both a clear responsibility and a unique opportunity to address climate change through innovation and investment. So how can we overcome barriers to green investment and make the most of the opportunities of green finance in the Midlands?

The Midlands has long held a reputation for its strong automotive and manufacturing sectors, but the region is also rich in natural capital – worth £330 billion according to recent data from Midlands Engine Observatory.

There is significant potential for the region's expertise in industrial innovation to provide the foundation for taking the lead in green innovation and land-based sectors. However, investment is the key to unlock this potential.

An example of green investment already underway is the **Midlands Forest Network**. Jointly funded by Defra and the National Lottery Heritage Fund, the Midlands Forest Network aims to create an investable proposition for woodland creation by connecting local woodland creation and restoration projects in the region.

By mapping the investment opportunities, coordinating existing smaller projects and prioritising community benefit, the Midlands Forest Network is just one demonstration that the region can and is attracting nature-based investment.

## Mapping barriers and solutions

In September's **Quarterly Economic Briefing hosted by the Midlands Engine**, representatives from across the region discussed how the Midlands can best seize the opportunities of green finance.

The panel comprised of **Arti Bareja**, Net Zero Associate Director for Grant Thornton, **John Everitt**, Chief Executive of the **National Forest Company** and **Anna Bright**, Chief Executive of **Sustainability West Midlands**. All stressed the need for a coordinated approach to

reshaping the economy, highlighting the important roles played by government, investors, businesses, shareholders and consumers alike.

Reflecting on their varied interactions with businesses on the topic of sustainability, the panellists discussed the barriers to green investment and shared their ideas on the conditions that must be created for green finance to thrive in the Midlands and beyond.



Arti Bareja



John Everitt



Anna Bright

## Navigating political uncertainty on the path to net zero

Based on extensive engagement with businesses, the panellists made it clear that the scale of investment needed to achieve net zero requires long-term thinking. This raises concerns about the impact of frequent leadership changes and policy U-turns on green investment.

The path to net zero is a long one, involving significant sums of money and sweeping changes to business models. A clear pathway to net zero, calling for careful long-term planning, is paramount. But mapping out this pathway with enough certainty to facilitate green investment on a large scale is increasingly difficult against a backdrop of political turmoil, three Prime Ministers in the span of 18 months, a spate of policy U-turns, and a general election on the horizon.

While Rishi Sunak recently backtracked on net zero commitments, such as delaying the ban on the sale of petrol and diesel cars and abolishing the energy taskforce, many expect a potential new Labour government to double down on green policies, changing the expectations for businesses yet again.

Furthermore, a pattern of frequent changes damages the credibility of government policy – once there is precedent for moving the goalposts, there is no certainty that they won't move again in the near future. This is particularly problematic in the case of changes to the plan to ban diesel and petrol cars, as transport and mobility have implications for the functioning of the entire economy, so uncertainty in this area has a knock-on effect on planning in other sectors.

## Creating an impetus for change

Going green carries costs for businesses, prompting reflection on how the government can ease the path to net zero for businesses and drive forward change.

Embracing green investment and decarbonisation isn't always a straightforward choice for Midlands businesses. The panellists expressed doubts about whether there is currently enough incentive for companies to overhaul their business models by 2050. Large initial investments and shifting away from tried and tested technologies to new innovations can pose a significant financial risk.

At their core, businesses are profit-making entities, and it remains true that the greenest investments do not always yield the highest profits, which can make it seem like a dilemma between prioritising the green agenda and companies' own objectives. This is where the government needs to step in to incentivise green investment and drive forward the transformation.

This requires a dual approach. There is a role for both regulation to create an impetus for companies to think seriously about how to revamp their business models by 2050, as well as financial instruments to make green investment attractive. The challenge lies in the Treasury's fiscal restraints which limit the scope for subsidies, tax incentives and development funding. This necessitates

outside-the-box thinking to devise innovative financial instruments to de-risk green investment. This is not to say that only the government has a role to play in incentivising greener practices.

Business strategy is shaped by customer and shareholder sentiment, so by setting the expectation of green business practices, we all have the power to influence boardroom decisions and champion greener practices. Crucially, prioritising green investment areas with the greatest public benefit is key to increasing the necessary customer demand to make green investment a straightforwardly good business decision and creating a virtuous cycle where profit and sustainability no longer feel like a trade-off.

Companies need to demonstrate the real public benefits of their green investments to avoid greenwashing. The example was given of corporations responding to public demand for decarbonisation by buying up vast swathes of rural land for tree-planting for the sake of being able to say they offset their carbon emissions.

But in doing so they create problems for rural communities by taking away productive agricultural land. It is therefore vital to take an integrated approach to the costs and benefits of green investments to ensure that they deliver for the public good.



## Recognising wider benefits of green investment

The benefits of investing in areas like forestry go beyond progress toward net zero commitments. Taking into account all the indirect benefits adds up to a significant positive impact compared with other investments, which could be leveraged as a powerful investment incentive.

Looking at the consequences of nature-based investments, such as forestry, reveals benefits far beyond just the obvious timber and hitting tree-planting targets. These range from the added value of natural capital to carbon

sequestration, reducing flood risk and water drainage. Access to woodland also creates opportunities for learning and leisure and tourism.

The inclusive health and wellbeing benefits spill over to other sectors too, because a healthier workforce is a more productive workforce. The creation of habitats also benefits species recovery, counteracting the persistent national trend of accelerating biodiversity loss.



## Taking an integrated approach

Finding sustainable solutions requires collaboration between the public and private sectors, balancing the needs of different sectors and integrating a variety of green technologies and finance solutions.

Needless to say, there is no single area of green investment that can provide the solution to climate change. It's easy to get caught up in the excitement of unlocking the green benefits of a new innovation or land-based investment, but it's also important to focus on the bigger picture of cutting carbon emissions and mitigating climate change in a way that is sustainable for the whole country.

With green innovation, any realistic solution requires investing in a mix of different green technologies in a partnership between consumers, producers and financiers of these

technologies to de-risk green investment as a whole. A varied and dynamic toolbox of financial instruments will also be required in order to tailor solutions to the scale and maturity of specific industries and projects.

This creates an important role for local Growth Hubs in helping businesses navigate a complex investment landscape. It will also be critical to ensure that Growth Hubs are signposted well and are equipped with information on all available finance options.

The same green finance options can also be used to finance decarbonisation in sectors outside the green innovation economy such as food, transport and logistics to ensure the entire economy transitions at the pace needed to reach the net zero.

The panellists agreed the Midlands has huge green potential - the region just needs to tell its story effectively to investors.

With London commanding much of investors' attention, it can be challenging to draw their eyes up to the Midlands, but the region is brimming with untapped green investment potential. The strong transport and mobility, low carbon energy and waste treatment sectors, underpinned by a strong business support network to signpost investment opportunities, can all be leveraged as unique selling points.

The central location, connectivity and large population of the Midlands makes it the ideal setting for nationally important developments. Leisure and wellbeing industries are also growing in the Midlands, as evidenced by recent investment in the National Forest, the National Memorial Arboretum and the National Rehabilitation Centre.

With the pace of green innovation comes an urgency to invest in developing green skills, so the value of the region's strong university sector as a research base and green skills hub cannot be overstated.



Credit: Luke Scott

## Focusing on a growing consensus

Conversations about climate change and net zero can seem bleak as we think about how far we have to go, so the discussion ended by focusing on reasons to stay positive.

The final takeaway was that the growing public consensus around net zero provides fuel for optimism. As recently as the past two decades, the benefits of green policy were still a matter of debate. If sustainability entered the business vocabulary at all, it was assumed to be at odds with profitability.

Since then, a broad consensus has been achieved in the policy arena, matched by

a groundswell of public interest, especially among younger generations, for whom green business has become an expectation.

In the business world, there is a growing understanding that operating sustainably is not only a matter of corporate responsibility, but just good business – it cuts costs, builds resilience and offers a competitive edge.

We are seeing a whole new vocabulary develop around environmental impact and ethical business, and as the number of success stories grows so too will the consensus around the green agenda.