



CONSULTATION ON A UK GREEN TAXONOMY

BPF RESPONSE

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February 2025

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BPF RESPONSE TO THE HM TREASURY CONSULTATION

BPF

The British Property Federation (BPF) represents the real estate sector – an industry which contributed more than £116bn to the economy in 2020 and supported more than 2.4 million jobs.

We promote the interests of those with a stake in the UK built environment and represent a broad range of investors, owners, managers and developers of real estate as well as those who support them. Our members have hundreds of billions of pounds of assets under management, including over 100,000 homes and hundreds of millions of square feet of commercial real estate space. Their investments help drive the UK's economic success, provide essential infrastructure and create great places where people can live, work, and relax.

UK GREEN TAXONOMY

We welcome the opportunity to respond to the HM Treasury consultation paper on the case for a UK Green Taxonomy.

Our response focuses on the fundamental question of whether a UK Green Taxonomy would help the real estate sector, and the UK economy more broadly, achieve its sustainability ambitions. Whilst we see value in green taxonomies, **we do not support the introduction of a UK Green Taxonomy** at this stage.

Our views are set out in more detail below.

If you would like to discuss any aspect of our response, please contact Rob Wall (RWall@bpf.org.uk), Assistant Director (Sustainability) at the BPF.

CONSULTATION QUESTIONS

1. To what extent, within the wider context of government policy, including sustainability disclosures, transition planning, transition finance and market practices, is a UK Taxonomy distinctly valuable in supporting the goals of channelling capital and preventing greenwashing?

We see value in green taxonomies: to tackle greenwashing, ensure market integrity on defining sustainable assets, mobilise capital towards sustainable activities and drive better performing buildings.

However, we do not support the introduction of a UK Green Taxonomy at this stage.

We see increasing use of the EU Green Taxonomy within the industry, and by international investors, and are concerned how a UK Taxonomy would work alongside the existing EU Taxonomy.

We are also concerned that a UK Taxonomy would create additional cost and complexity and increase the regulatory burden on businesses.

It is not clear what the Government's ambitions are for a UK Green Taxonomy. If the intention is to establish a UK Taxonomy that is fundamentally different, or maybe more ambitious than the EU Green Taxonomy, this could simply make it harder for UK businesses legitimately to claim that they are investing in sustainability activities and would not mobilise capital towards UK businesses. If it is to be the same as the EU Taxonomy then the value add is unclear for our sector.

However, if the Government is minded to proceed with a UK Green Taxonomy, this must be aligned with the EU Taxonomy although we would encourage Government to take its time to learn from the European experience. In particular, we would encourage awaiting the outcome of the proposed EU Omnibus simplification package, expected in February 2025, as well as associated proposed simplifications to the EU Taxonomy regulation.

We would also encourage the Government to reflect more widely on what other policy levers it can pull to support the goals of channelling capital and preventing greenwashing. The current lack of regulatory certainty and lack of an overarching net zero strategy for the sector is undermining investor confidence and slowing the transition to a more sustainable industry. We would prioritise clarity on future minimum energy efficiency standards for the domestic and non-domestic private rented sectors and clear market signals on EPC

reform, embodied carbon and the rebalancing of gas and electricity prices over the introduction of a UK Green Taxonomy at this stage.

2. What are the specific use cases for a UK Taxonomy which would contribute to the stated goals? This could include through voluntary use cases or through links to government policy and regulation.

3. Is a UK Taxonomy a useful tool in supporting the allocation of transition finance alongside transition planning? If so, explain how, with reference to any specific design features which can facilitate this.

4. How could the success of a UK Taxonomy be evaluated? What measurable key performance indicators could show that a UK Taxonomy is achieving its goals?

We have not responded to these questions but support the response put forward by our sister organisation, the Association of Real Estate Funds (AREF).

5. There are already several sustainable taxonomies in operation in other jurisdictions that UK based companies may interact with. How do respondents currently use different taxonomies (both jurisdictional and internal/market-led) to inform decision making?

Those members with a European footprint have first-hand experience of the EU Green Taxonomy.

Some of our UK based members are also looking in detail at the EU Green Taxonomy as European investors are asking UK-based businesses to report against the EU Green Taxonomy. UK based business are also looking at using the EU Green Taxonomy to compare performance against other European operators.

We also know that, when looking to invest in the UK, European and international investors are using the EU Taxonomy to inform investment decisions.

6. In which areas of the design of a UK Taxonomy would interoperability with these existing taxonomies be most helpful? These could include format, structure and naming, or thresholds and metrics.

If the UK was to proceed with a UK Green Taxonomy, interoperability with existing taxonomies is critical. As a minimum, this must include interoperability with the EU Green Taxonomy.

7. Are there any lessons learned, or best practice from other jurisdictional taxonomies that a potential UK Taxonomy could be informed by?

If the UK was to introduce a UK Green Taxonomy, it must take the opportunity to learn from the EU experience.

Our members have highlighted the following challenges with the EU Green Taxonomy:

- the lack of materiality in some of the criteria, which means collecting and reporting on criteria that are not material to ESG credentials of the asset,
- the complexity of the process,
- the burdensome nature of the process, in particular the reporting and assurance requirements,
- the lack of flexibility, including in the way that criteria are applied, and
- particular challenges with how the taxonomy applies at a corporate level (as opposed to an asset level) and how well the criteria work for residential assets.

As the EU Green Taxonomy is still relatively new, there is an opportunity to watch how this develops over the next couple of years. The key lessons and learnings are only becoming apparent now. It would be a real missed opportunity for the UK Government to rush to a quick decision without taking the time to really learn from the European experience. The EU has recognised that elements of the EU Taxonomy could be streamlined and simplified and is preparing a review of some of the requirements. As a minimum we would encourage the UK Government to await the outcome of the EU Omnibus before proceeding with a UK Taxonomy.

8. What is the preferred scope of a UK Taxonomy in terms of sectors?

If the Government proceeds with a UK Green Taxonomy, it must work with the real estate sector to ensure there is a real understanding of sector-specific issues in the design of the Taxonomy.

9. What environmental objectives should a UK taxonomy focus on (examples listed in paragraph 3.3)? How should these be prioritised?

There is support for environmental objectives that cover climate mitigation, resilience and nature. This allows for a holistic view of assets, although this can raise concerns about materiality. Social objectives are also important for our members although a lot of work would need to be done to define social objectives in any Taxonomy and would be a step too far at this stage.

10. When developing these objectives, what are the key metrics which could be used for companies to demonstrate alignment with a UK Taxonomy?

11. What are the key design features and characteristics which would maximise the potential of a UK Taxonomy to contribute to the stated goals? Please consider usability both for investors and those seeking investment. This may include but not be limited to the level of detail in the criteria and the type of threshold (e.g. quantitative, qualitative, legislative)

12. What are respondents' views on how to incorporate a Do No Significant Harm principle, and how this could work?

13. It is likely a UK Taxonomy would need regular updates, potentially as often as every three years. a. Do you agree with this regularity? b. Would this pose any practical challenges to users of a UK Taxonomy? c. Would this timeframe be appropriate for transition plans?

14. What governance and oversight arrangements should be put in place for ongoing maintenance and updates to accompany a UK Taxonomy?

We have not provided a response to these questions, although we would note that any UK Taxonomy should be responsive to changes in the EU Taxonomy to ensure that the two are dynamically aligned. However, if the Government decides to proceed with a UK Green Taxonomy we would expect Government to publish a technical consultation providing full detail on the design and operation of a UK Taxonomy.