DELIVERING A RESILIENT, PROSPEROUS, GREEN ECONOMY

A UK RESPONSE TO IRA

SECTION 1: SEIZING THE ECONOMIC OPPORTUNITY

A net zero, nature positive transition is the economic opportunity of the 21st century. By grasping it, we will not only avoid the future costs of inaction, but also capture its benefits, including robust growth in the industries of the future, abundant skilled jobs, and cheaper, more secure energy, as well as increased resilience to climate change.

Rapid progress towards net zero will benefit UK households by reducing energy bills, ensuring they are protected from gas price hikes, and delivering warmer, more comfortable homes. It will also benefit the UK economy - the market opportunity of supplying goods and services to enable the global transition could be worth £1 trillion to UK businesses by 2030 [i], with net zero potentially generating 2% additional growth in UK GDP [ii] and £90 billion in annual economic benefits [iii].

As the US Inflation Reduction Act (IRA) and the EU's Green Deal Investment Plan reshape the green investment landscape, the UK needs to act quickly to avoid being left behind. Given the relative size of the UK economy and the current economic outlook, blanket subsidies are unlikely to be feasible or appropriate. Instead, a targeted approach should be taken to driving the transition to a net zero economy and seizing the opportunities on offer.

This approach should prioritise two elements:

1. **Redesigning fiscal policy** to simultaneously incentivise the transition while generating new sources of revenue and help to ensure a just transition.

2. **Working in strategic partnership with the private sector** to accelerate the transition, while minimising costs to the UK taxpayer, through regulation and targeted incentives. The private sector is expected to provide around 75% of the investment for net zero, along with vital skills, innovation and expertise.

To deliver net zero without breaking the bank, we recommend a balanced package of measures which will:

SAVE MONEY BY:

- Introducing a Net Zero Test for fiscal events (Budgets, Statements, and Spending Reviews) to assess the overall impact of the proposed spending and taxation decisions and ensure they're getting us on track for net zero, not pushing us further off course (see page 5 for details).
- Scaling down or halting investment in areas where progress towards net zero creates a high risk of stranded assets and spiralling costs, such as large-scale investment in the existing gas grid, new large-scale road-building schemes, intensive fossil-fuel heavy agriculture, and airport expansion.
- Investing in things which will reduce demands on taxpayers' money for the long-term, such as insulating public buildings and using them to generate power and future revenue streams through rooftop solar.
- Stopping subsidising fossil fuels: One estimate suggests that in 2015-23, fossil fuel companies were given close to £80bn in support [iv] – which is not only a huge cost to the taxpayer right now but storing up further costs for the future.

RAISE MONEY BY:

- Closing the Investment Allowance loophole in the Energy Profits Levy, for oil and gas infrastructure investment (see page 7 for details).
- Reforming treatment of North Sea oil and gas profits, ensuring that a permanent tax rate of around 78% is introduced, to align with international best practice [v].
- Setting a rising, predictable carbon price trajectory to incentivise green innovation, e.g., through the use of Carbon Price Support and the Emissions Trading Scheme. To ensure a just transition, the proceeds from carbon taxes should be set aside to deliver targeted support for low-income households.
- Introducing a nature recovery levy, reflecting businesses reliance on natural capital, that can be invested in natural infrastructure that in turn protects business and society from the growing costs of climate change effects.

GIVE BACK THOSE SAVINGS AND ENSURE A JUST TRANSITION BY:

- Providing greater financial support for deployment of energy efficiency measures and low-carbon heating in homes, alongside action to ensure vulnerable households do not face unaffordable energy bills (see page 8 for details).

- Funding skills training, both in workplaces and via technical colleges, in the green industries of the future and providing funding to support a 'right to retrain' for workers transitioning from high carbon industries.

- Ensuring universal access to free or discounted local decarbonised public transport.

- Encouraging the creation of good green jobs by linking incentives and public investment for companies to a high-quality clean jobs standard, covering fair wages, terms, and conditions [vi].

- Investing in the financial and social support needed for farmers to cut emissions and transition towards more nature and climate-friendly practices.

SUPERCHARGE PRIVATE CAPITAL TO SUPPORT GREEN GROWTH BY:

- Developing a Net Zero Investment Plan and incentive mechanisms to mobilise private finance for investment priorities, including independent tracking of financial flows to net zero and sectoral investment pathways (see page 10 for details).

- Publishing a nature positive investment strategy for the UK economy, to support the incorporation of nature into company transition plans. This would identify nature investment priorities that most cost effectively deliver our net zero and wider environmental goals, increase our resilience to climate change, and deliver significant health and other economic benefits and mobilise the private sector to finance them (see page 13 for details).

- Making net zero goals and transition plans mandatory for all large private companies. Many businesses are already embracing this due to the competitive advantage it gives them in identifying risks and opportunities and attracting investment and want to see a level playing field that facilitates action across the board.

- Creating a financial regulatory regime that supports the redirection of private capital away from harmful activities to transition-supporting ones.

SECTION 2: FIVE KEY RECOMMENDATIONS IN MORE DEPTH

WHAT IS IT?

We have proposed that government applies a **Net Zero Test at each fiscal event (Budget, Statement or Spending Review) in order to assess the overall impact of spending and taxation decisions** taken on the delivery of net zero goals and publish the results.

WHY SHOULD IT BE DONE?

Adopting a Net Zero Test would enable government to identify opportunities to 'green' neutral tax and spending decisions, to understand if any policies risk undermining the legally-binding net zero target, and to be more transparent about how government spending is supporting the transition.

The Test should not be applied solely on a policy-by-policy basis - it is the cumulative impact of decisions that is most important to assess and understand. Importantly, a policy-by-policy Test would fail to identify the huge opportunities currently being missed to 'green' neutral tax and spending items to crowd in private investment and turbocharge the transition.

Instead, the Test should examine the **aggregate impact** of the tax and spending decisions made at each fiscal event, including Spending Reviews; this enables it to add value, beyond the current Green Book methodology that examines the emissions impact of individual decisions. This approach would enable government to look across the fiscal event and ensure that it is introducing a holistic set of measures to seize the opportunities of the transition and build a more resilient, productive economy.

Applying the Test in this way would enable evidence-based judgement of the cumulative impact of carbon-relevant investments, such as airport expansion or new road building. This helps decision-makers to invest in the infrastructure necessary to deliver sustainable growth, while ensuring that each fiscal package is helping align the UK with a net zero-aligned emissions pathway.

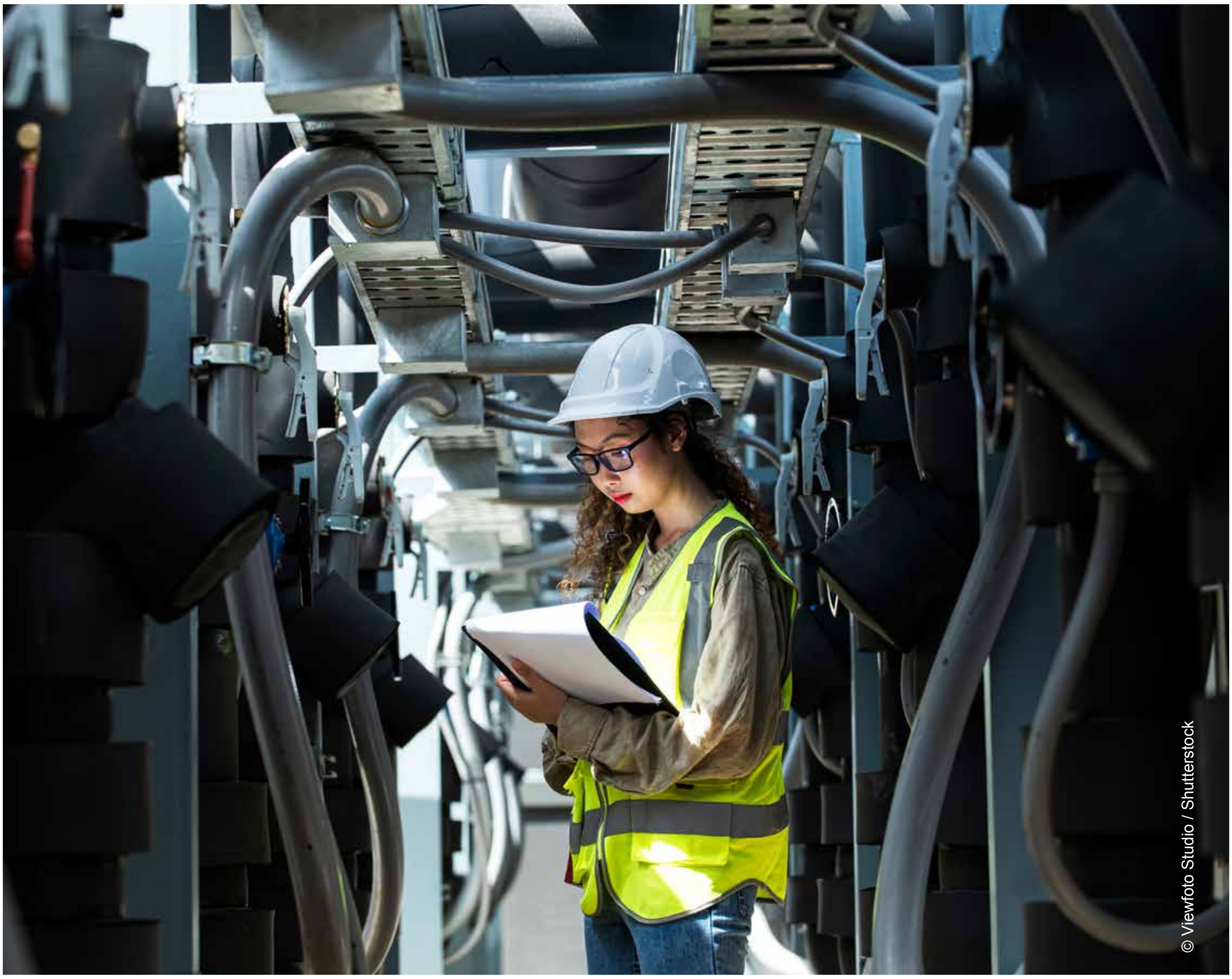
HOW COULD IT BE DONE?

By committing to introduce a Net Zero Test and apply it to all future fiscal events. The Test should be applied before the fiscal event is presented to Parliament, to enable assessment of its overall emissions impact and allow any necessary adjustments to be made. This analysis should be published alongside the fiscal event documents and clearly identify any changes made based on the analysis. We suggest that the process be led by HM Treasury, in coordination with the Climate Change Committee and the Office for Budget Responsibility.

The Test should be similar in scope to the prototype that WWF has developed and applied to three fiscal events. This consists of two elements:

- A budget tagging tool, which tags fiscal policies on whether they have a positive, negative, or neutral impact on several environmental criteria.

- An emissions modelling exercise, which estimates the impact on greenhouse gas emissions of individual policy decisions and the overall fiscal package.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RECOMMENDATION 2: CLOSING THE INVESTMENT ALLOWANCE LOOPHOLE IN THE ENERGY PROFITS LEVY

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WHAT IS IT?

The Energy Profits Levy was introduced in response to the huge profits being made by oil and gas companies due to exceptionally high wholesale gas prices. The Investment Allowance provides companies with partial relief from the Levy in return for investing in oil and gas extraction, as well as higher relief for investment in decarbonisation of oil and gas production. As the Institute for Fiscal Studies has observed, this means that "North Sea investment will be massively subsidised" [vii] and that taxpayers are footing the bill for extraction of new oil and gas.

WHY SHOULD IT BE DONE?

Oil and gas companies are being handed billions in public subsidies to exploit new oil and gas fields, which will do nothing to reduce bills and could blow our carbon budgets. As most of the oil and gas extracted will be sold abroad at a price set by international markets, it will do nothing to lower energy bills or increase the UK's energy security.

In addition, it jeopardises our chances of reaching net zero – the International Energy Agency has made clear that there can be no further exploitation and development of new oil and gas fields if the world is to limit warming to 1.5 degrees, a warning echoed by the IPCC [viii, ix].

The 80% relief for investment in decarbonisation of oil and gas production is also problematic, as it does nothing to drive investment in alternatives to oil and gas. Instead, it merely incentivises companies to continue extraction in a marginally cleaner way, such as by electrifying their platform with a wind turbine, rather than undertaking significant decarbonisation. It means that the £2-3 billion committed by the oil and gas sector to decarbonise under the North Sea Transition Deal will instead be borne by taxpayers if measures are delivered before 2028 – in effect, UK taxpayers are subsidising oil companies to electrify their rigs.

HOW COULD IT BE DONE?

- Reduce the Investment Allowance to 0% for investment in oil and gas extraction.
- Limit eligibility for the 80% decarbonisation element to investments in technologies to replace oil and gas, such as development of green hydrogen infrastructure, not ones to make its extraction marginally cleaner.

RECOMMENDATION 3: TACKLING HIGH ENERGY BILLS AND THEIR ROOT CAUSES

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WHAT IS IT?

Immediate action, followed by a targeted social tariff to protect the vulnerable from high energy bills, alongside a package of measures aimed at the whole population, aimed at accelerating deployment of energy efficiency measures and low-carbon heating, in order to tackle the root causes of high energy bills.

WHY SHOULD IT BE DONE?

While energy bills have fallen somewhat, they remain high. Many vulnerable households have been so hard hit by the cost-of-living crisis that without support they will face a choice between heating and eating this winter.

The UK's housing stock is some of the leakiest in Europe[x], while deployment rates for heat pumps are the lowest in Europe[xi]. Without action to tackle the root causes of high energy bills – the UK's dependence on expensive, imported fossil fuels and energy inefficient homes – families will continue to face high bills and government will continue to face demands for costly blanket support schemes, which provide short-term relief but do not address the underlying problem. It makes no sense to continue to hand taxpayers' money directly to energy firms in exchange for no return on that spend; government should instead prioritise public spending on investment that lowers energy bills for good.

To resolve this, government need to act to protect vulnerable households from unaffordable bills, and introduce a targeted social tariff going forward. Alongside this, a coherent package of incentives, advice, and support must be introduced to encourage the whole population to invest in low-carbon technologies that will permanently reduce their energy bills.

HOW COULD IT BE DONE?

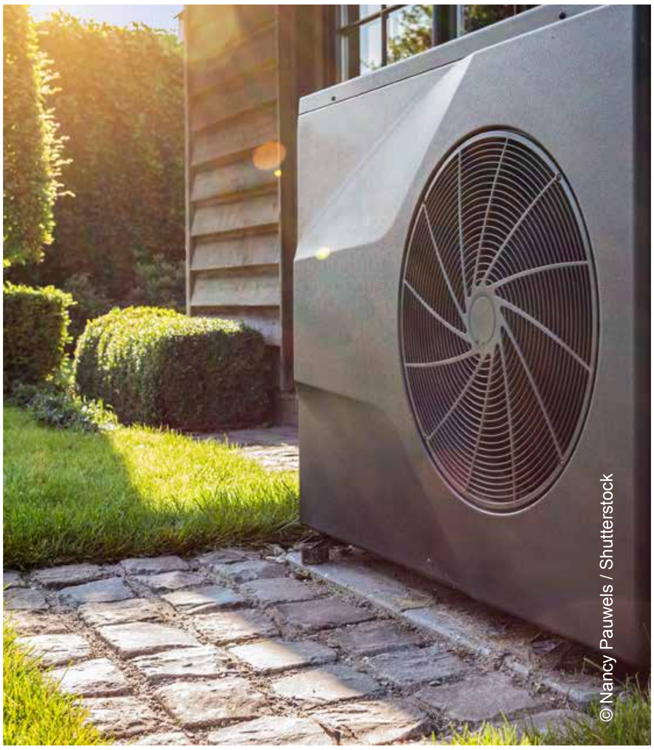
- **Act as quickly as possible to protect vulnerable households from the impact of high energy bills.** This could be achieved through a targeted version of the Energy Bill Support Scheme to provide an energy-related rebate to vulnerable households, a targeted version of the Energy Price Guarantee to reduce the unit rate for these households, or an expansion of the Warm Home Discount [xii]. Any of these options should target households in receipt of means-tested benefits, be solely energy-related, and aim to reduce their bills by at least £400.

- **Introduce a mechanism** to ensure that vulnerable households do not face unaffordable energy bills for winters to come [xiii]. This could be achieved via a social tariff, which is a targeted discount energy deal for qualifying low-income and fuel poor consumers, set below the price of the default tariff price cap. It would need to be additional to the Warm Home Discount and default tariff price cap, not a replacement for them, and mandated across all suppliers. An alternative approach could be to introduce a National Energy Guarantee [xiv], subject to including measures to mitigate any adverse impacts on households with unavoidably high energy need, such as the use of powered medical equipment at home .

- **Introduce a package of incentives, advice and financial support targeted at the whole population to promote adoption of technologies that can reduce bills,** such as solar, heat pumps, insulation, EV chargers and battery storage. It should include:

  - Scaled up support for energy efficiency upgrades and heat pump installations.
  - Action to rebalance policy costs on energy bills.
  - Clear end dates for all homes to reach EPC Band C, complemented with appropriate incentives and support, such as an Energy Savings Stamp Duty.

- This package should build on the lessons of the US IRA – **it must be easy and quick to access and last for an extended period.** It should support both 'able to pay' and fuel poor households to upgrade their homes – it is important to note that enabling vulnerable households to retrofit their homes will reduce the overall cost of the social tariff.



RECOMMENDATION 4: NET ZERO INVESTMENT PLAN

WHAT IS IT?

A proposal to ensure that sufficient private and public investment is flowing in priority sectors to build a resilient, thriving economy and achieve net zero. It is comprised of two elements:

- **An independent body, tasked with tracking private and public financial flows** towards net zero in key sectors and identifying any gaps. The body would also engage with the market to understand barriers to private investment.

- **A series of regularly updated sector financing roadmaps, produced by government,** setting out the specific set of interventions – including policy measures, regulation, incentives, and targeted public investment – that they will take to crowd in the required level of private investment in the sector and deliver the required emissions reductions. These would collectively map onto an overall plan to finance the key requirements of the net zero transition, which could be set out in a regularly updated Net Zero Strategy and Carbon Budget Delivery Plan or be a standalone plan.

WHY SHOULD IT BE DONE?

Green growth is the economic opportunity of the 21st century, and the UK is well-positioned to seize it. Private finance is essential to unlocking this opportunity and tackling the climate and nature crises at the required sale and speed. The Climate Change Committee estimates that UK low-carbon investment will need to scale up to £50 billion per year to deliver net zero [xv], with most of this investment expected to come from the private sector. By encouraging investment in sectors where the UK has a natural advantage, we can seize the opportunities of the transition – market share in key growth industries, a thriving green financial sector, increased energy security and jobs and growth across the country.

But private finance will only be mobilised if government uses all the tools at its disposal, including regulation, incentives, and targeted public spending, to incentivise investment to flow towards public policy priorities. This involves the state taking a more strategic role, creating the necessary foundations and conditions for a dynamic market to thrive. At present, this is not happening – information failures and lack of policy certainty and stability are preventing the market from providing private capital at the quantity and pace required.

Businesses are calling for clear regulation and targeted incentives to guide investment in net zero, with leading UK institutions managing over £3 trillion in AUM calling for government to introduce a Net Zero Investment Plan [xvi]. Doing so will create a supply of sustainable assets to align with investor demand, leveraging private finance to ensure the transition to net zero is cost-effective and happens at the required speed and scale.
It will also enable more efficient allocation of public spending, enabling better identification of barriers and opportunities and more effective action to crowd in private finance. This will unlock a future of good jobs, robust sustainable growth, and lower bills and provide the data and policy detail to underpin a modern industrial strategy.

HOW COULD IT BE DONE?

- Build on the research already being done on financial flow tracking within government, together with international best practice, by **assigning responsibility for the tracking of financial flows to net zero to an independent body.** This would provide the market and government with access to regular, high quality, independent data on whether and where private finance is successfully being leveraged, and where there may be barriers. Commissioning an independent and regular analysis of financial flows would free officials to focus on delivery and problem solving.

- Commit to producing, and updating on a biannual basis, **a series of sector financing roadmaps which set out the interventions that government will ensure that the required level of investment for net zero is realised** and barriers to private investment are removed wherever possible. These roadmaps should collectively map onto an overall plan to finance the key delivery requirements, in terms of technological deployment and emissions reductions pathways, to reach net zero.

WHAT WOULD IT LOOK LIKE IN PRACTICE?

An example sector roadmap for the power sector

The speed with which the UK has decarbonised our power sector is an international success story. In recent years, though, we’ve begun to fall behind other countries. Government has produced a range of power sector decarbonisation proposals and plans, but they are fragmented and insufficiently focused on delivery. To reach zero-carbon power by 2030 and capture the benefits of a sector where we’ve led the world, we need an effective, overarching delivery strategy. A power sector roadmap can fill this gap.

The plan should set out how a secure, zero-carbon power system will be delivered by 2030, including:

- **An assessment of the best-value technology mix to deliver a secure, zero-carbon system,** including investment requirements and deployment pathways with clear MW targets for each technology.

- **The suite of policies,** including public investment, regulation, market reform, and incentives, to deliver and track the investment and deployment **needed to deliver this.** Each policy should clearly quantify its expected impact on deployment figures, private investment leveraged, and emissions reductions realised.

- **Reforms to slash the red tape holding back private sector investment in renewables.** This includes making National Policy Statements more prescriptive and unambiguous, including large onshore wind in the Nationally Significant Infrastructure Projects framework and reforming Treasury rules that arbitrarily limit the number of windfarms contracted through Contracts for Difference auctions [xvii]. It also includes delivering on the National Infrastructure Commission's recommendations [xviii] around better sharing of environmental data and developing a framework of direct benefits for communities hosting nationally significant infrastructure, as well as providing clearer guidelines on how to deliver Biodiversity Net Gain.

- **Reforms to key markets to ensure that they are bringing forward the best-value technology mix across markets** to deliver a secure, decarbonised power system. This includes introducing a clean capacity auction in the Capacity Market, creating a revenue support mechanism for Long Duration Storage, reforming the Wholesale Market to ensure that the price of electricity is not set by the marginal gas plant, and directing the Future System Operator to prioritise zero-carbon plant in procurement and dispatch, where this does not materially impact security of supply and cost.

- A world-leading package of measures to **upskill a new generation of workers** through green technical colleges, employer tax incentives for reskilling, and retraining for affected North Sea workers. Financial support and incentives for the private sector should be tied to requirements around providing good, well-paid jobs and providing training and apprenticeships. Consideration should be given to regional targeting of funding as a way of ensuring the transition is spatially just.

RECOMMENDATION 5: A NATURE POSITIVE STRATEGY FOR THE UK ECONOMY

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WHAT IS IT?

The Government has published a Net Zero Strategy which sets out policies and proposals for decarbonising all sectors of the UK economy to meet the UK's net zero target by 2050. We need a similar economic strategy for delivering our agreed nature goals, including the global nature goals the UK signed up to at the Convention on Biological Diversity Conference (CBD) in 2022, which included a commitment to align the private sector with those goals.

This Strategy would set out how key sectors of the economy need to change to become nature positive, and the associated benefits that will bring; identify nature investment priorities and how that investment can potentially be financed through public or private financing sources; and what policies will be implemented to deliver these outcomes. This strategy should be integrated with the Net Zero Strategy, given the strong interlinkages between the delivery of these two sets of goals.

WHY SHOULD IT BE DONE?

The UK is one of the most nature-depleted countries in the world, and continued nature loss is imposing ever-growing costs and risks on the economy and society in terms of risks of flood and drought, vulnerability to natural disasters, health costs, productivity losses and supply chain disruption, reduced food and energy security, and rising prices. This is widely recognised by the private sector, which consistently rates not only climate change but other environmental risks as among the very top of all risks they face.

Nature also represents one of the most cost-effective ways to tackle climate change and achieve net zero, by halting damaging land-use change, and investing in nature-based solutions. Indeed, modelling shows we will be unable to achieve net zero with addressing nature.

This is increasingly recognised by governments, with commitments made by the UK and many other countries, at the CBD, and as part of the G7 Nature Compact for example, but there remains little clarity on how these commitments will be achieved in practice. It will require a significant change in our economy – a nature positive transition alongside the net zero transition that is now being embarked upon. Indeed, the two should be integrated, given the strong interlinkages. But first it will be necessary to define more clearly what is required to deliver the nature-positive transition, and how that will be achieved, at a national and international level. This will also help the private sector to understand what it needs to do to align with these nature positive goals – something many in business are calling for.

HOW CAN IT BE DONE?

We can learn from the net zero architecture and policy framework that has been developed and replicate those building blocks for nature positive goals. In particular, it will be necessary to identify which are the key sectors of the economy which need to be involved in delivering the transition to a nature positive economy i.e., those which are currently having the most negative impacts on nature, or which could deliver the most nature-related benefits and improvements, with appropriate investment. A good place to start would be a dedicated nature-positive pathway for the agriculture and land use sectors, given that farming (and the wider food system) remains the primary driver of nature-loss both in the UK and globally, with the food system as a whole generating around a third of global greenhouse gas emissions.

Nature positive transition pathways for these sectors can then be developed at the national level, to guide policy and company level action, in just the same way as net zero pathways have been produced for different sectors of the economy by the Climate Change Committee. WWF-UK is currently exploring methodologies for doing this.

The next step would be the identification of the policies to support and drive that transition, including the identification of investment priorities and the potential financing mechanisms to support those investments, both public and private. This should also draw on other relevant work e.g., assessing the biggest nature-related risks and opportunities for the UK economy, identified through natural capital risk assessment exercises, such as the work currently being carried out by the Bank of England, Defra, and the Green Finance Institute [xix].

This would help companies to understand better what they need to do to contribute to delivering nature positive goals when drafting their transition plans – which should also include nature alongside climate goals reflecting guidance coming out of the Treasury's Transition Plan Taskforce - and how policy is going to support and reward or incentivise their efforts.

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