

BEIS Committee Consultation response

Submitted by Policy Connect

Introduction

Policy Connect is a membership-based, not-for-profit, cross-party think tank dedicated to improving people's lives by influencing UK public policy. We bring together parliamentarians and government in collaboration with academia, business and civil society to inform, influence and improve UK public policy through debate, research and innovative thinking. Our work focuses on key policy areas including: health, accessibility, education and skills, industry, technology and innovation, and sustainability. This submission has been compiled by the Sustainability Team.

Evidence

This submission is based on our previous reports and recent policy discussions, and in particular on research carried out during 2021 and discussions with the heat, power and transport sectors. Evidence provided in this submission draws in particular on our ongoing inquiry into a delivery architecture for net zero, co-chaired by Darren Jones MP, Wera Hobhouse MP and Alexander Stafford MP. The report from this inquiry, which will be published in the next couple of months, will provide recommendations on how net zero can be delivered to meet the UK's 2050 target across heating, power and transport. It will explore net zero governance, skills and standards, public engagement, and business models. Part of the evidence base for our forthcoming report are the roundtables with parliamentarians, industry, academia and the third sector which took place in the course of this inquiry. The inquiry will draw on an overall consensus of views to recommend that a delivery authority is required for net zero, to take a long-term view, implement a co-ordinated delivery of government policy, and promote a whole-systems approach to skills and standards, public engagement and business. The final recommendations of the inquiry may vary slightly from the evidence submitted below and we look forward to sharing the published report in due course.

1. What are the key requirements for a governance structure that can deliver cross-Government climate action at the pace, scale and over the duration required to meet the carbon budgets and the 2050 net zero target?

In order for net zero policies to be delivered effectively and consistently across different sectors, it is vital that a coherent delivery strategy is in place. This needs to involve close coordination amongst Whitehall departments as well as with devolved administrations and local and regional authorities. Such coordination is particularly important because of the scale of the challenge of reaching net zero due to the impact it will have on all sections of economic sectors and society, including for example down to individual homeowners and

car users, and consequently across government policy in every department.

At the strategic policy level, the government should adopt a whole-systems, cross-departmental approach to policymaking to deliver its net-zero targets effectively and consistently across the UK. This requires buy-in and alignment across all Whitehall departments, devolved administrations and local and combined authorities.

At the implementation level, any governance structure for the delivery of timely and ambitious climate action requires the ability to make long-term operational decisions, and will need some form of autonomy from day-to-day political and policy drivers in order to be able to address net zero issues effectively over time. By committing to long-term targets and delivery strategies, the government needs to create certainty for people and industry, whilst being responsive and adaptable to feedback from the public and businesses. In order to help government do this, the delivery structure needs to have democratic legitimacy and be receptive to changes in science, evidence and political consensus.

To achieve democratic legitimacy and act long-term, the delivery structure should be set in statute. It also needs to have delegated authority from a number of government departments and be able to work with devolved administrations and local and regional authorities in order to bridge the gap between central policy strategy and local delivery.

Local government can play a vital part in the successful delivery of net zero. Future governance frameworks must recognise this and strike the right balance between bottom-up and top-down policymaking. A particular area where local and regional authorities should take a leading role is in developing and deploying the **net-zero skills** that will be essential for the transition. They should be accorded the responsibility of defining local targets for upskilling and reskilling to create a net-zero labour force, in collaboration with central government so that central skills funding is correctly targeted. Another key area of responsibility for local authorities relates to the technology solutions suitable for different places. Through local area energy plans, local authorities can provide understanding of which technologies and solutions will work best in their area (for example depending on the nature of the housing stock), optimise local infrastructure and provide accountability to residents.

Future governance structures need to be able to create consistency across different areas of government policy. For example, the impact of domestic net zero policies need to take into consideration the external environment to ensure greenhouse gas emissions aren't simply exported abroad (carbon leakage), as HM Treasury (HMT) is considering in its Net Zero Review. The role of the UK on the international stage should be equally in support of delivering net zero and achieving its climate commitments, such as through diplomacy and trade agreements.

a) Are the Government's existing net zero governance structures effective in this role, both in terms of coordination across Whitehall, and coordination with the devolved administrations and local and regional authorities?

Current government strategy to deliver net zero is based on a combination of central targets and policy intention statements; including the Climate Change Act and 2050 net zero target, several white papers and the Prime Minister's Ten Point Plan; as well as sectoral strategies in support of these targets. However, there is no cross-sectoral roadmap and very little in place to encourage coordination across all parts of government and adopt an integrated approach to decarbonising the UK economy, taking into account the cross-cutting

nature of different policy areas at different departments. Nor is there an effective governance structure for making things happen at pace and in a coordinated fashion in localities.

From the evidence gathered in the course of our inquiry, current plans and delivery architecture for meeting net zero targets are under-developed. It was suggested by many that responsibility for delivery of a cross-government route map, which has been agreed by UK and devolved national governments, could be delegated to an independent body. Such a body would need delegated powers to ensure effectiveness, whilst the UK and devolved national government decide the rules and regulations, as well as spending commitments.

Key to the successful delivery of net zero by 2050 will be adequate funding commitments from HM Treasury and putting in place the right incentives to decarbonise the economy. As they put it in their interim report of the Net Zero Review: “[achieving net zero] will be a collective effort, requiring changes from households, businesses and government. It will require substantial investment and significant changes to how people live their lives”.¹

As this indicates, the far-reaching nature of how achieving net zero will impact upon people’s lives means substantive action from across government is essential, at the heart of which leadership from the Prime Minister and funding decisions in HM Treasury have key roles to play. Yet, the intention for the Net Zero Review to assess how climate change considerations “could be incorporated into spending reviews and fiscal events and how to embed the principles of the Net Zero Review into policy making across government” is in itself insufficient to give confidence that a truly integrated approach to net zero will be adopted.²

In the case of heat decarbonisation for example, at present there is a patchwork of policy initiatives, often varying across the UK nations, which reflects the lack of a joined-up approach. In our *Pipeline to 2050* report we highlight the need for coordinated action and joined up policy initiatives to achieve the change required to meet the carbon budgets.³ We call for a systematic approach that joins up all policy aspects and principles needed for the net-zero heat transition; simultaneously drive the actions of all stakeholders whose participation is required in the net-zero heat transition; set long-term policy signals and clear milestones to industry and consumers about what steps need to be taken; and ensure that heat and energy efficiency policy go hand in hand.⁴

The final Net Zero Review and the forthcoming Net Zero Strategy will need to make firm commitments on how to address the interconnected nature of net zero policies and the need for cross-departmental action. Further, it is essential the right structures are in place for effective delivery of net zero policies on the ground. Local government will be vital to the effective delivery of net zero and should be both empowered and enabled to feed into national net zero policy, acting as a gateway between local actors and national strategies.

As cited in our evidence submission to the Environmental Audit Committee’s inquiry into the Mapping the Path to Net Zero for local government, the current absence of key national strategies limits the clarity of expectations about the role of local authorities, particularly the Heat and Buildings Strategy. Recent strategies such as the Energy White Paper (2020), Ten Point Plan (2020), National Infrastructure Strategy (2020) and Hydrogen

¹ HM Treasury (2020), Net Zero Review Interim Report, p. 2

² Ibid. p. 6

³ Policy Connect (2020), Pipeline 2050: Building the Foundations for a Harmonised Heat Strategy, pp. 5-8

⁴ Ibid. p. 9

Strategy (2021) reference local authorities, but are light on detail about the nature of their roles and how they will be expected to carry them out.

For example, the commitment that local authorities will designate heat network zones by 2025 is not expanded upon to explain how this will be co-ordinated.⁵ To meet the UK's 2050 target, the role of local authorities must be more clearly defined as a matter of urgency.⁶ This must be accompanied by the tools to allow them to carry out these roles, including the requisite authority and funding. To deliver net zero on time, engagement between central and local government must embody two key features. It must centre two-way communication and provide guaranteed policies local authorities can depend upon to plan.

b) What alternative governance structures could be established to coordinate and deliver cross-Government action on climate change more effectively?

As part of our inquiry into the delivery architecture for net zero, there was broad support and evidence in favour of a net zero delivery authority for energy, heat and transport to implement policy strategies to meet the UK's 2050 net zero target. There was in addition consensus that this should be a public body operating at arm's length from government, much in the way the Olympic Delivery Authority did in the planning of the 2012 London Olympic Games. However, there are differences; this is a more long-term and complex endeavour and will involve major on-going political, financial and delivery choices. A few considerations for this authority include:

- A delivery authority would help bridge the gap between central and local government, ensuring delivery of net zero policies is effectively and efficiently coordinated.
- A delivery authority would help drive enhanced policy consistency across different departments and layers of government, by highlighting to government how policy inconsistencies are feeding into delivery, as well as over time over the course of different parliaments and administrations.
- Central government would set the authority's deliverables in the shape of long-term targets and policy strategies, but the authority must have sufficient autonomy to make its own implementation decisions to reach these targets.
- A delivery authority should have the mandate to work across the different regions of the UK with devolved administrations and local and combined authorities to ensure the right approach and resources are available consistent with national targets.

Evidence to our 2021 inquiry suggested that a delivery authority could help the centre of government hold all departments, business, industry and local government to account. It would have to have democratic legitimacy for it to have authority and continuity across electoral cycles, and in particular to have multi-level government and cross-party commitment.

To achieve this democratic legitimacy the authority should adopt a 'federal' structure, involving a degree of subsidiarity, with accountability to central government,

⁵ HM Government (2020), Energy White Paper, p.115.

⁶ Policy Connect (2019), Uncomfortable Home Truths: Why Britain Urgently Needs a Low Carbon Heat Strategy, p. 32

constituent devolved administrations of the UK as well as combined/regional authorities in England. A net zero delivery authority would work closely and interdependently with the CCC, Ofgem, Infrastructure Commission, HM Treasury and other official institutions, such as the future UK Infrastructure Bank which will play a central role in progressing the delivery of net zero at a regional and local level. Ministerial responsibility for the delivery authority, for example as a non-departmental public body of HM Treasury, should be considered.

c) What metrics should the Government use to measure their progress towards netzero?

It is important that net zero emission criteria become a standard element of all government decision-making and public spending. Net zero delivery must become an integral part of government policy across all departments, coordinated through long-term strategies and the carbon budgets. A Net Zero Test, which would be a mandatory requirement of public spending, used to assess all spending decisions and policy announcements against climate objectives, would help to measure the government's progress towards meeting the carbon budgets and ensure all relevant Whitehall departments are working together to help meet the UK's climate targets. The implementation of such a Test could then be assessed by the National Audit Office. The CCC has called for such a test in their 2021 Progress Report to Parliament, "to ensure that all Government decisions are compatible with the legislated emissions targets" as part of a comprehensive Net Zero Strategy.⁷

2. What governance structures would enable HM Treasury to give greater priority to the net zero target and the carbon budgets in its financial and economic decisions?

In our 2019 report, *Uncomfortable Home Truths*, we recommend there must be strategic governance and financial structures to drive long-term action to deliver net zero.⁸ Given the role of an independent authority in coordinating the effective delivery of net zero policies, alongside a more whole-systems, cross-departmental approach to setting climate policy, HM Treasury will have a central role to play in working with the delivery authority through setting targets and spending commitments.

The net zero delivery authority should have the full backing of HM Treasury if it is to be taken as seriously as it needs to be; this could be through HMT being one of the departmental sponsors of the authority. One of the CCC's key recommendations for HM Treasury is to ensure all departmental policy decisions, and procurement decisions, are consistent with the Net Zero goal and reflect the latest understanding of climate risks.⁹ A net zero delivery authority with HMT sponsorship would help entrench this approach and a standardisation of procedures in aid of coordinating net zero policymaking and delivery. There is a clear role here for HMT to work in conjunction with the authority to apply the relevant tests and standards to government policy, and as such empower the authority to effectively deliver net zero policies.

⁷ Climate Change Committee (2021), Progress Report to Parliament, p. 30

⁸ Policy Connect (2019), *Uncomfortable Home Truths*, p. 65

⁹ Climate Change Committee (2021), Progress Report to Parliament, p. 194

One of the CCC's recommendations is that HM Treasury must ensure a fair and long-term approach to funding the transition to net zero.¹⁰ At the moment, they are lagging behind in achieving the recommendations set by the CCC and quick progress with the Net Zero Review must be made in order to catch up.¹¹ In particular, the CCC urges priority be given to a number of its recommendations, including¹²:

- Complete the overdue Net Zero Review;
- The spending review(s) should ensure departments are fully equipped to deliver the necessary actions across climate change mitigation and adaptation, during the rest of this Parliament and beyond;
- Increase resources for local government to play a full role in the Net Zero transition;
- Work with BEIS on the Heat and Buildings Strategy to ensure that relative prices favour a shift to low-carbon technologies;
- Develop (with DIT) the option of applying either border carbon tariffs or minimum standards to imports of selected embedded-emission-intense industrial and agricultural products and fuels.

These recommendations support the concept of a more integrated approach to net-zero policymaking and delivery, in which both HM Treasury and a Net Zero Delivery Authority should play a central role.

a) How could HMT better ensure that spending decisions contribute to achieving net zero in the long term?

It's critical that HM Treasury adopts the Net Zero Test referred to above, in all its fiscal decision-making. In their policy recommendations for meeting the Sixth Carbon Budget, the CCC's external policy advisory group notes the importance for HMT to ensure a balance between the need to reduce emissions with fiscal objectives.¹³ A Net Zero Test would help to achieve this, and by working with a net zero delivery authority, HMT should plan for a long-term economic and financial framework in support of net zero delivery.

As part of their recommendations for HM Treasury, the CCC stipulates the following¹⁴:

- HM Treasury should develop a plan for funding decarbonisation and review the distribution of costs for businesses, households and the Exchequer.
- HM Treasury should consider near-term as well as long-term decarbonisation funding needs and policy implications. The review can set out principles to inform the scale and nature of long-term government funding and make concrete proposals for action and funding over the next five to ten years.
- HM Treasury should give due weight to issues of fairness, including assessing: where the costs of policies are likely to fall; impacts on jobs and job quality and how to manage them; plans to monitor and to report publicly on progress towards achieving a fair transition; and the benefits of Net Zero and where they fall.

¹⁰ Ibid. p. 17

¹¹ Ibid. p. 150

¹² Ibid. pp. 194-195

¹³ Climate Change Committee (2020), Policies for the Sixth Carbon Budget and Net Zero, p. 31

¹⁴ Ibid. p. 36

These recommendations are key to delivering net zero and to ensure HM Treasury's spending decisions contribute to this in the long term.

Also part of HM Treasury's spending decision considerations should be how local government receives the appropriate mandate and funds from central government to deliver net zero in their area. A more integrated accountability structure, from Whitehall to the devolved to the local level, will be key to how spending decisions about net zero are made. This is easier said than done, but the new authority could be at the heart of such a structure.

3. What signals and support does business need from the Government in order to deliver cross-economy decarbonisation in line with the carbon budgets and the net zero target? What delivery function should Government provide itself and are relevant regulatory bodies mandated and resourced effectively to deliver on Government priorities?

Critical to delivering net zero is the involvement of business and industry to ensure decarbonisation can take place across the entire economy. From our evidence gathering and policy discussions, the most important signal businesses require from government is clarity and a consistent long-term policy framework to drive business investment and focus. This clarity and consistency should come in the form of detailed government strategies, policy delivery commitments and coherent delivery coordination through the delivery authority. For example, the short-lived nature of policies such as the Green Homes Grant (GHG) has damaged the confidence of many businesses, which now increasingly require guaranteed policy to invest in net zero.

The forthcoming Heat and Buildings Strategy and Net Zero Strategy, backed up with sufficient funding commitments from HM Treasury and the Net Zero Review, will need to set out long-term policy frameworks, providing clarity for businesses and industry to be able to invest and plan for the future. Government strategies, delivery plans and policy decisions need to be clarified and communicated with all stakeholders and sectors in society so that businesses, industry local government can plan ahead on the road to 2050.

A net zero delivery authority will help create an enabling business environment for net zero delivery. It should be in regular dialogue with industry, engage with strategic industry partners and communicate clearly about long-term plans for the delivery of the carbon budgets. This approach, and the role of the delivery authority, must be outcomes-based. To accommodate the rapid changes and development of technology and data in the energy sector, it is important that delivery structures and frameworks are dynamic, while the outcomes and incentives are forward-looking and consistent.

a) How do policy and regulatory signals and support vary between Government Departments (and how have they varied over time)? How is this affecting business activity on climate change?

There has been confusion and disruption to markets and the delivery of net zero measures, due to the inconsistent nature and timeframes of different incentives. In the heating sector for example, there has been a plethora of short-lived and inconsistent consumer schemes, including the Renewable Heat Incentive (RHI) and the GHG.

The RHI did not have the expected uptake, partly because of the high initial cost of purchase and installation of net-zero heat, as well as the uncertainty over returns arising from the system of automatic tariff reductions known as degression. BEIS admitted it had not carried out enough consumer research to understand these barriers prior to launching the scheme.¹⁵

Similarly, the closure of the GHG scheme after just six months of operation created deep uncertainty about energy efficiency policy and its future trajectory amongst consumers and industry, according to evidence given to a Policy Connect roundtable. This was further exacerbated by the design and administration of the scheme and the challenges it created for those attempting to access it. Consequently, the initial enthusiasm of consumers and confidence of businesses has been undermined, potentially jeopardising the uptake of, and support for, future schemes. There will be a lot of work needed to overcome these disappointments, and as we said in *Uncomfortable Home Truths* the government can learn from the initial failure of the condensing gas boiler project.

Replacement schemes to the RHI and GHG are urgently required to harness the consumer demand revealed by past experience, and to ensure the UK meets its net zero targets. Consistency, long-term timescales, and government relationships built on listening and trust should be the core principles of successful replacements. These principles are key for any future incentives, schemes and policy plans, and would help different departments communicate effectively with businesses about its plans for decarbonisation. Setting and communicating a consistent strategy and direction are important tools in aligning business, industry, local authorities and enterprise agencies.

A key element of creating a conducive business environment to deliver net zero is the availability of the right skills at the right points in time. Government must provide clarity for businesses and skills providers to be able to invest in training programmes, apprenticeships and conversion courses, in order to fill skills gaps and provide the jobs needed for the net zero transition. Stronger regulation and incentives are required for new and improved skills and standards, in order to expand the workforce needed to deliver net zero. There is a need for a particular focus on how existing standards may need to be updated, as well as new standards be introduced, for the adequate and at-scale delivery of net zero jobs.

Government must stop all and any decisions that lock in reliance upon fossil fuels, instead shifting focus to bringing down the unit price of renewable forms of energy. As part of a coordinated approach across government departments, aided by a Net Zero Delivery Authority, this is an important principle to adopt which would help create clarity about the long-term direction of policy. The right market signals need to be put in place to ensure the true cost of energy is visible and accessible to energy participants, in terms of production, transportation and carbon impact.

Regulation to ensure fair outcomes will need to be implemented, to ensure a just transition and reduce fuel poverty. As argued in our report *Pipeline to 2050*¹⁶: the poorest households pay proportionately more for policy costs levelled through bills than the richest. As a UKERC study highlighted, while the poorest households spend 10% of their income on heat and power, the richest households only spend 3%, which means that any general

¹⁵ Policy Connect (2019), *Uncomfortable Home Truths*, p. 21

¹⁶ Policy Connect (2020), *Pipeline to 2050*, p.22

increase in energy prices levelled equitably across bills is likely to affect the poor disproportionately.¹⁷

b) Should Ofgem play a greater role in delivering on net zero and, if so, what changes are required to deliver this?

The findings of Ofgem's GB energy system review and the potential need for an Independent Systems Operator will play a key role in how net zero targets are achieved, which will need to be considered by any future delivery structure. It is welcome that Ofgem has announced its net zero innovation competition, but net zero needs to be at the heart of all its decision-making. The distribution network is not well designed for a more distributed system of supply and demand, as will for example be needed for electrification of all domestic vehicles. Ofgem will also need to think carefully about current and future subsidies for different fuel types. Finally, Ofgem will have a key role to play in ensuring a just financial transition for consumers.

4. The BEIS Committee will be working with the Environmental Audit Committee on this inquiry and inviting guests from other select committees. We are also interested in comments on the effectiveness of current parliamentary scrutiny arrangements for climate change and proposals to improve this.

Parliament is doing a very effective job through the different processes and channels of holding government to account, in particular through the work of the different Select Committees and APPGs. If the new net zero delivery authority we propose was based in statute and required to make an annual report to parliament, that would help to strengthen parliamentary scrutiny by increasing the visibility of net zero policy and delivery within government. Whilst different aspects of net zero policy currently fall under the responsibility of different departments, the coordination of implementation and feedback within one authority would make it easier to assess whether different policy strategies are working efficiently and cohesively to reach net zero. Our inquiry also recommends the net zero delivery authority should carry out public engagement about net zero and how to achieve it, thus increasing scrutiny and buy-in among the public.

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