



# NET ZERO TEST

The impacts of the climate emergency are becoming clearer by the day, while nature is in freefall. Urgent action is needed to limit global warming to 1.5°C and the UK must play a leading role.

In this context, WWF-UK is calling on the UK government to apply a Net Zero Test to all spending and taxation decisions in Budgets and Spending Reviews to ensure that the overall package puts us on track to meet our climate and nature goals.

Introducing a Net Zero Test will help HM Treasury to unlock £90 billion of annual benefits from the net-zero transition, including green jobs and export opportunities, warmer, comfier homes, and more woodland and green space for everyone.

## WHAT'S THE PROBLEM?

While the net zero target is now part of UK law, and Government has a way of assessing the emissions impact of individual policies, it hasn't been possible to check how much is being spent on green policies versus polluting ones. There is also no way of assessing if the overall choices made in annual Budgets and Spending Reviews are getting us on track for net zero or taking us in the opposite direction.

## WHAT IS WWF-UK DOING TO SOLVE THIS?

To solve this problem, WWF-UK is creating a Net Zero Test, which will include:

- A budget tagging tool, which highlights tax and spending on green policies and polluting ones in Budgets and Spending Reviews and spotlights policies that will increase emissions
- An emissions assessment tool, which will estimate the overall impact of Budgets and Spending Reviews and assess if they're compatible with a net zero pathway

## GREEN BUDGET TAGGING TOOL AND INITIAL RESULTS

WWF-UK has now completed the design of the budget tagging tool and applied it to the March 2021 Budget.

The results showed that the climate change mitigation policies set out in the March 2021 Budget equate to just £145 million, while policies that will drive up emissions – like the fuel duty freeze – equate to over £40 billion. The tool also highlighted a clear ambition gap – it would cost less than 1% of GDP per year to build a clean, safe, prosperous future for the UK<sup>1</sup>, but climate change mitigation measures in the Budget added up to just 0.01% of GDP.

Delaying the necessary investments by ten years would double the amount of money needed<sup>2</sup>. In the run-up to COP, Government must up its game and find ways to deliver on its climate commitments, like adopting the Net Zero Test.

### WHAT'S NEXT?

WWF-UK is now developing the world-leading emissions assessment tool, which will be launched in autumn alongside a full report.

### WHAT SHOULD GOVERNMENT DO NOW?

If they are to deliver on their climate promises, UK Government must make sure public money is spent on building towards the greener, cleaner future that we all want. This should be done by introducing a Net Zero Test, requiring the Treasury to measure all future spending plans against the UK's climate and environment commitments.

### WHAT CAN INDIVIDUALS DO TO HELP?

This year, we have a historic opportunity, with the UN Climate Summit coming to Glasgow. UK Government – along with other world leaders – have promised to do everything they can to keep our climate as safe as possible, with the stated aim of limiting the rise in global temperatures to 1.5°C.

### WE WON'T FORGET THIS PROMISE.

Together with our supporters, we will be holding governments and businesses to account, making sure they deliver on the promise of a greener, cleaner home for future generations.

## NET-ZERO TEST

Urgent action is needed to limit global warming to 1.5°C and the UK must play a leading role.



Of the 53 spending decisions announced in the 2021 Spring Budget, just two were positive for climate change, while eight were directly negative. To get us on track for net zero, the UK government needs to swing the dial to positive and deliver the green future we all want.

YOU CAN JOIN THE CAMPAIGN AT [WWF.ORG.UK/CLIMATEPROMISES](https://www.wwf.org.uk/climatepromises)

<sup>1</sup> <https://www.theccc.org.uk/wp-content/uploads/2020/12/The-Sixth-Carbon-Budget-The-UKs-path-to-Net-Zero.pdf>

<sup>2</sup> [https://www.wwf.org.uk/sites/default/files/2020-06/Keepingus\\_competitive.pdf](https://www.wwf.org.uk/sites/default/files/2020-06/Keepingus_competitive.pdf)

# Technical Note: Climate budget tagging

WWF is developing a tool, with support and analysis from Vivid Economics, for assessing the alignment of fiscal events with Net Zero, in order to support ambitious and coordinated policymaking and build accountability. The tool will have three components:

1. Budget tagging which assesses whether financial flows are consistent with Net Zero.
2. Aggregating the impact of individual policy decisions to assess the impact of the fiscal events on emissions.
3. Assessing the ambition of policy, to test whether fiscal policy is compatible with achieving Net Zero.

This technical note details the first step in this tool, budget tagging. The budget tagging tool (BTT) allows the user to track and tag relevant expenditure to inform decision making and build accountability.

A review of international best practice informed the development of the BTT. This review included international examples of budget tagging from France, Bangladesh and other countries, as well as recent publications on budget tagging released by UNDP, World Bank and OECD.

The objective of the BTT is to support the UK government and other organisations to better understand the impact of fiscal decision making on emissions and environmental outcomes. It will enable the Treasury to have a better understanding of the impact of their budgets, and to flag policies which have a large impact, especially negatively, on emissions at an early stage. The tool can also be used by civil society in their advocacy to hold the government to account in reaching environmental targets.

## Developing the tool

There are three key decision points which shape the design of the BTT, summarised below.

### Scope

The first decision point is to establish the scope. The decisions around scope determine which budget line items are tagged – for example scope may be limited to certain sectors, administrative levels or only spending decisions (rather than tax changes).

The BTT includes all spending and taxation decisions outlined in annual Budgets. This comprehensive approach reflects that large policy decisions can have a sizeable environmental impact even where they are not targeted at emissions-intensive sectors due to the high baseline emissions intensity of UK economy activity.

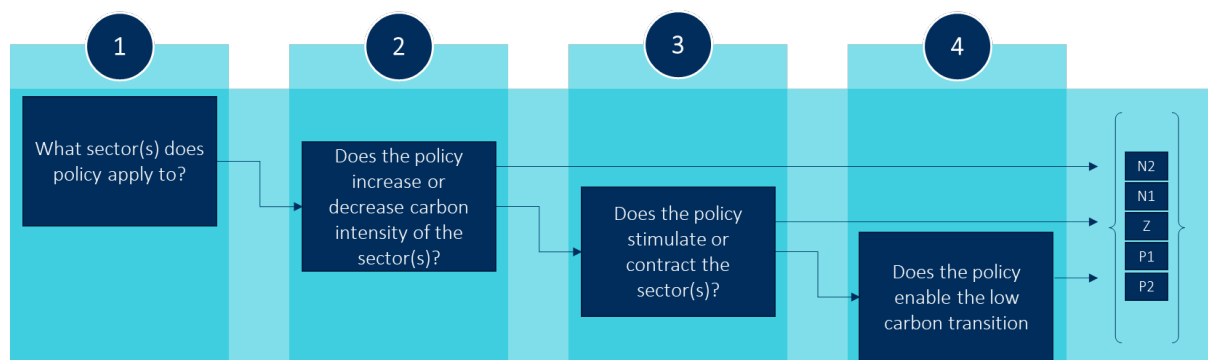
### Defining green

The second decision point is to assign each individual line item a score according to its environmental performance.

In line with the approach adopted by France, the BTT scores budget items according to the EU Taxonomy's six dimensions of 'green'. The EU's Sustainable Finance Taxonomy has six dimensions of 'green': mitigation, adaptation, biodiversity, water management, air pollution and circular economy. All line items are assessed against these six

dimensions to build a comprehensive picture of the environmental impact of policy decisions. Across all six dimensions, budget items are scored with a scale from P2 (positive environmental decisions) to N2 (negative environmental decisions). Given the mitigation focus of this work, there is a more detailed rubric for mitigation impacts, outlined in Figure 1.

Figure 1. Tagging decision tree



Source: Vivid Economics

### Aggregation

The final decision point is developing an overall score for the fiscal event. To create an aggregate score, the absolute net present value of each line item is assigned points according to its individual score. This is then scaled to create an overall score out of 100. Figure 2 summarises the points associated with each individual score. Table 1 provides a simplified example to illustrate the approach. This aggregate score is calculated for each environmental dimension.

This overall score provides an initial insight into the alignment of a fiscal event with a country's climate commitments. The score can range from -100 to +100. A score of +100 would indicate that all commitments made in the budget are likely to support strong positive progress towards environmental outcomes. In contrast, a score of -100 would indicate that all the commitments made are likely to have a strong negative impact on environmental outcomes.

Figure 2. Scores and weighting

| N2  | N1   | Z  | P1   | P2  |
|---|--|--|--|---|
| Strong negative progress towards environmental outcomes | Negative progress towards environmental outcomes | Neutral effect on environmental outcome- not relevant for mitigation | Positive progress towards environmental outcomes | Strong positive progress towards environmental outcomes |
| -5  | -2.5   | 0  | 2.5  | 5   |

Source: Vivid Economics

Table 1 Illustrative example

| Policy               | Absolute Net Present Value | Score | Points | Weighted value                          |
|----------------------|----------------------------|-------|--------|---|
| A                    | 10                         | N1    | -2.5   | -2.5x10=-25                             |
| B                    | 100                        | P1    | 2.5    | 2.5x100=250                             |
| C                    | 1000                       | P2    | 5      | 5x1000=5000                             |
| Summary score (/100) |                            |       |        | $=((-25+250+5000)/(10+100+1000))*20=94$ |

Source: Vivid Economics

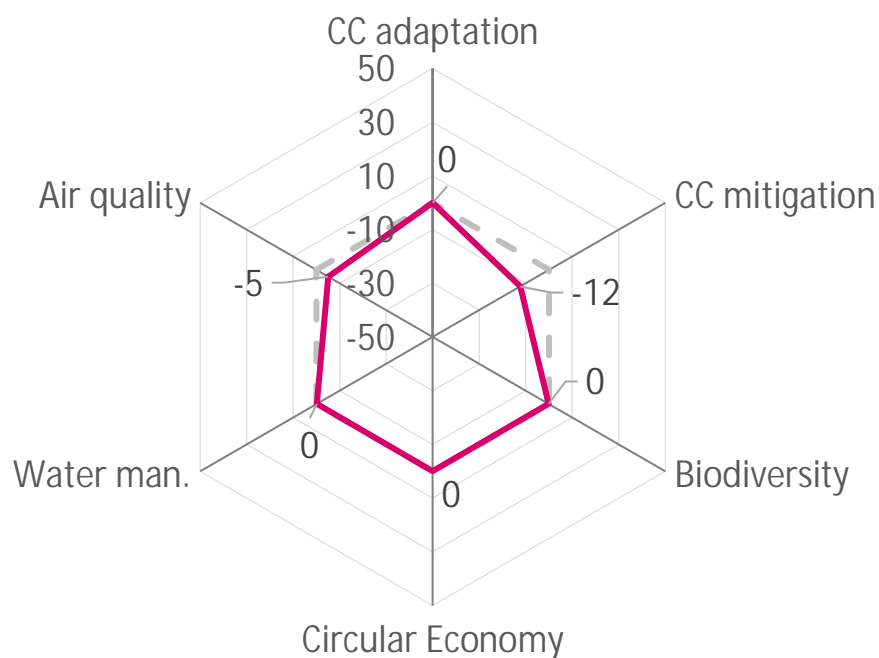
## Applying the tool to UK fiscal policy events

The BTT is designed to assess the alignment of all new spending and taxation decisions announced in annual Budgets with environmental objectives. Although the Budget document contains a large set of described policies, many of these have been previously announced, so the tool only captures new policy decisions and their associated value. This list of Budget line items is categorised to a sector and assigned a score for each environmental dimension (as described in section 1.1.2). The net present value of the line item is used to calculate an overall score for the Budget, as described in section 1.1.3.

The March 2021 Budget had a negative impact on mitigation targets and air quality, but a neutral impact on other environmental outcomes. The analysis of the budget provided the index scores shown in Figure 3. Mitigation had a score of -12, providing an initial indication that the policy decisions announced in the Budget have a negative impact on climate change mitigation. As Figure 3 shows, of the 53 decisions announced in the Budget, 43 are neutral with regard to mitigation. The Budget only included two mitigation-positive policy decisions amounting to £145m, while it also included eight mitigation-negative policy decisions accounting for £41bn. Some summary indicators:

- £145m of mitigation-positive spending decisions were announced at the 2021 Budget. This is equivalent to 0.01% of 2020 GDP. These decisions are expected to be delivered over a six-year period, accounting for the 2020/21 fiscal year out to 2025/26.
- The CCC estimates that between 2020 and 2026 an additional £145bn of capital expenditure is required to deliver the Balanced Net Zero Pathway. The mitigation-positive decisions announced in the 2021 Budget are equivalent to 0.08% of these estimated requirements.
- WWF estimate annual investment needs of £40bn to reach Net Zero. Over a 6 year period, this is equivalent to £240bn. The mitigation-positive decisions announced in the 2021 Budget are equivalent to 0.06% of these estimated requirements.
- However, £41bn of mitigation-negative decisions were announced in the 2021 Budget. This is equivalent to 2.1% of 2020 GDP.

Figure 3 Budget 2021 index results



Source: Vivid Economics

Table 2 Fiscal decision scoring in 2021 Budget

| Score | # Decisions | Absolute value | Example policy decision                                 |
|-------|-------------|----------------|---|
| P2    | 1           | £115m          | Announcement of the UK Emissions Trading Scheme, £115m. |
| P1    | 1           | £30m           | Maintain the Carbon Price Support rate, £30m.           |
| Z     | 43          | £130bn         | Raise corporation tax, £48bn.                           |
| N1    | 4           | £36bn          | Super deduction for capital allowances, £34bn.          |
| N2    | 4           | £5bn           | Freeze in fuel duty, £4.4bn.                            |

Source: Vivid Economics