

NET ZERO TEST

Analysis of how far Autumn Budget and
Comprehensive Spending Review 2021
aligns with UK net zero target



FOR
YOUR
WORLD

NET-ZERO TEST

The impacts of the climate emergency are becoming clearer by the day and nature - a vital ally against climate breakdown - is in freefall. Urgent action is needed to limit global warming to 1.5°C and the UK must play a leading role. Climate policy and economic policy can no longer be viewed in isolation from one another – the net zero transition will cause profound economic and social change. To ensure that the UK seizes the opportunities of the transition and prosperity is distributed across the country, the UK Government needs to better understand the environmental impacts of its spending.

WWF-UK IS CALLING ON THE UK GOVERNMENT TO APPLY A NET ZERO TEST (NZZT) TO ALL SPENDING AND TAXATION DECISIONS IN BUDGETS AND SPENDING REVIEWS

In this context, WWF-UK is calling on the UK Government to apply a Net Zero Test (NZZT) 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. WWF-UK has developed a world-leading Net Zero Test, with the support of Vivid Economics, and applied it to the Autumn Budget and Comprehensive Spending Review (CSR). While the results suggest that this Budget and CSR will drive down emissions in the long term, the policies outlined are still not sufficient to deliver the low-carbon transition required to align with the UK Government's legally binding net zero commitment.

A range of organisations across the economy have expressed support for the Net Zero Test, including CBI, the TUC, the Corporate Leaders Group, Energy-UK, National Grid, and the Climate Change Committee, and the tools to deliver this are now available.

WHAT IS THE PROBLEM?

While the net zero target is part of UK law, and the UK Government has a way of assessing the emissions impact of individual policies, it is currently difficult to ascertain total spending on green policies versus polluting ones. At present, there is also no way of assessing if the overall choices made in Budgets and Spending Reviews are getting us on track for net zero emissions or taking us in the opposite direction. HM Treasury referenced this problem in the recent Net Zero Review, stating that “there is no internationally adopted methodology for assessing and reporting on the climate change impacts of government spending in aggregate.... Nor (for) taxation”.¹

Given that government expenditure represents around 45% of UK national income², it is essential that it is being invested in policies that protect the planet and turbocharge a green economy, not on polluting assets and schemes that cause dangerous climate change and damage people's health.

Report prepared with analytical support from Vivid Economics

WHAT IS WWF-UK DOING TO SOLVE THIS?

WWF-UK has created a Net Zero Test, which is comprised of two elements:

- A budget tagging tool, which provides an assessment of the alignment of spending and taxation policies in Budgets or Spending Reviews with a range of climate and other environmental criteria, showing how much is being spent on green policies versus polluting ones.
- An emissions estimate tool, which estimates the impact of policy decisions outlined in Budgets and Spending Reviews on greenhouse gas emissions, in order to assess the overall impact of fiscal events on progress towards net zero.

The NZT aims to sit alongside and strengthen existing processes for aligning fiscal policy with environmental goals. The Test can incorporate calculations of environmental impacts derived from Green Book assessments and departmental spending proposals submitted into a CSR, as well as estimating emissions where these calculations have not been undertaken. The Test would help HM Treasury comply with the recommendations of the Climate Change Committee to introduce a Net Zero Test³ and of the Public Accounts Committee and National Audit Office to assess the aggregate climate impacts of policies at fiscal events.⁴ Finally, adoption of the NZT would enable the UK to build on its decision to join the OECD Paris Collaborative on Green Budgeting and demonstrate international leadership in this space.

BENEFITS OF ALIGNING SPENDING AND TAXATION WITH NET ZERO

Introducing a Net Zero Test will help government to target investment towards green infrastructure, which could unleash a wave of green private sector spending and unlock £90 billion of annual benefits, including green jobs and export opportunities, warmer homes, and more green space for everyone. Investment in low-carbon infrastructure can boost long-term productivity and has high returns, as every pound spent on low-carbon investment options returns 3-8 times the initial investment.⁵

Investing in net zero is good for communities and can help to deliver the UK Government's levelling up agenda by creating thousands of high-quality green jobs, many in areas that are experiencing high unemployment after the pandemic. As well as being in predominantly low-wage areas, these jobs are better paid than the national average and those in carbon-intensive industries. Many can be created quickly – for example, delivering a net zero building stock would create 350,000 additional jobs in the construction sector by 2028⁶, while investing in public transport, such as electric rail and bus services, could create 230,000 jobs.⁷

The NZT will help government manage the net zero transition to ensure that UK citizens benefit, including health benefits and savings to the NHS from more active travel, reduced air pollution and more access to green space, and financial savings, through reduced energy bills and fuel costs, as well as higher value pensions. It will also enable increased access to green space and thriving wildlife, through expanded and better maintained forests and grasslands and cleaner seas.

SPENDING ON CLIMATE POSITIVE POLICIES INCREASED BUT THE UK GOVERNMENT STILL HAS A LOT OF WORK TO DO - THE AUTUMN BUDGET AND CSR DOES NOT DO ENOUGH TO GET THE UK ON TRACK FOR THE NET ZERO PATHWAY

Investing now can position the UK as a leader in the global markets of the future and build resilience into public finances. Green exports could grow from £5billion to £80billion per annum by 2050, supporting 200,000 export-orientated jobs and a further 270,000 jobs in domestic low-carbon opportunities⁸. Delivering net zero could unlock over £130 billion in annual benefits for the UK, including over £50 billion in business opportunities and £80 billion in co-benefits, including improved health due to cleaner air and warmer homes, as well as improved access to green space.

Acting early will also safeguard the UK from major costs further down the line - delaying for ten years would double the amount of investment to hit the same target⁹, and would risk causing a major recession¹⁰. The UK's Net Zero Pathway will generate enough carbon tax revenues to cover the public costs of the transition twice over, and will reduce public debt, making early action the fiscally responsible course of action.¹¹

RESULTS FROM APPLYING THE TEST TO THE AUTUMN 2021 BUDGET AND COMPREHENSIVE SPENDING REVIEW

WWF-UK applied the Net Zero Test to the Autumn 2021 Budget and Comprehensive Spending Review (CSR). The results present a mixed picture, with investment in energy, transport and Research and Development (R&D) set to deliver emissions reductions and Business Rates support for green technologies and property improvements likely to have a positive impact on climate change mitigation. These reductions, however, are partially undermined by high-carbon policies such as freezing fuel duty, increased investment in new roads and reducing air passenger duty for domestic flights which drive up emissions over the next three years.

The UK Government still has a lot of work to do, as the Autumn Budget and CSR does not do enough to get the UK on track for the Climate Change Committee's (CCC) Balanced Net Zero Pathway. This is for several reasons:

- The Budget includes £55 billion, over four years, of spending on policies that actively work against our climate goals and drive up emissions.
- The majority of positive spend focuses on R&D which, while welcome, has uncertain benefits and does not deliver the near-term emissions reductions of more 'shovel-ready' projects, such as, for example, a properly funded energy efficiency retrofit programme. It is vital that Government take action now to avoid the worst impacts of climate change; as mentioned above, delaying investment for ten years would double the amount needed and create an unnecessary financial burden for future generations.
- The vast majority of spending is still 'neutral', rather than actively supporting the green transition, and there are a number of missed opportunities to green day-to-day government spending, such as ensuring that skills and retraining funding focuses on promoting the skills needed to support the UK's fast-growing green industries.
- There is a clear policy and regulatory gap – further regulation and incentives are needed to stimulate private investment to help deliver the required emissions reductions to meet the Net Zero Pathway.

In addition, future Budgets and Spending Reviews are likely to deliver short-term emissions increases through departmental spend, as well as potentially some carbon-abating policy measures, meaning that the predicted medium-term emissions reductions from this Budget's investments may be undermined.

The Autumn Budget and Comprehensive Spending Review contained spending on climate positive policies, totalling £29 billion per year over four years, as would be expected when deciding departmental spend and following the publication of the Net Zero Strategy ahead of COP26. Most of this spending, however, was on policies whose emissions reduction impacts are relatively uncertain or mixed and do not deliver concrete emissions reductions in the short-term. If these policies deliver, the decisions are estimated to yield a net emissions reduction of 745 MtCO₂e over the extended 25-year assessment period.¹

While this represents a significant reduction, the Budget and Spending Review is forecast to deliver less than 12% of the overall emissions reduction required over that 25-year period to align with the Net Zero Pathway. Public spending will only represent around 25% of the investment needed to deliver net zero, but it is essential that spending is well-targeted and sufficient to deliver the emissions reductions needed. Government also needs to provide stronger regulation and incentives to encourage the private sector to deliver the remaining 75% of investment needed to hit net zero. While the Net Zero Strategy set a direction of travel for each sector, a number of areas lacked sufficiently detailed policies to deliver the transition.

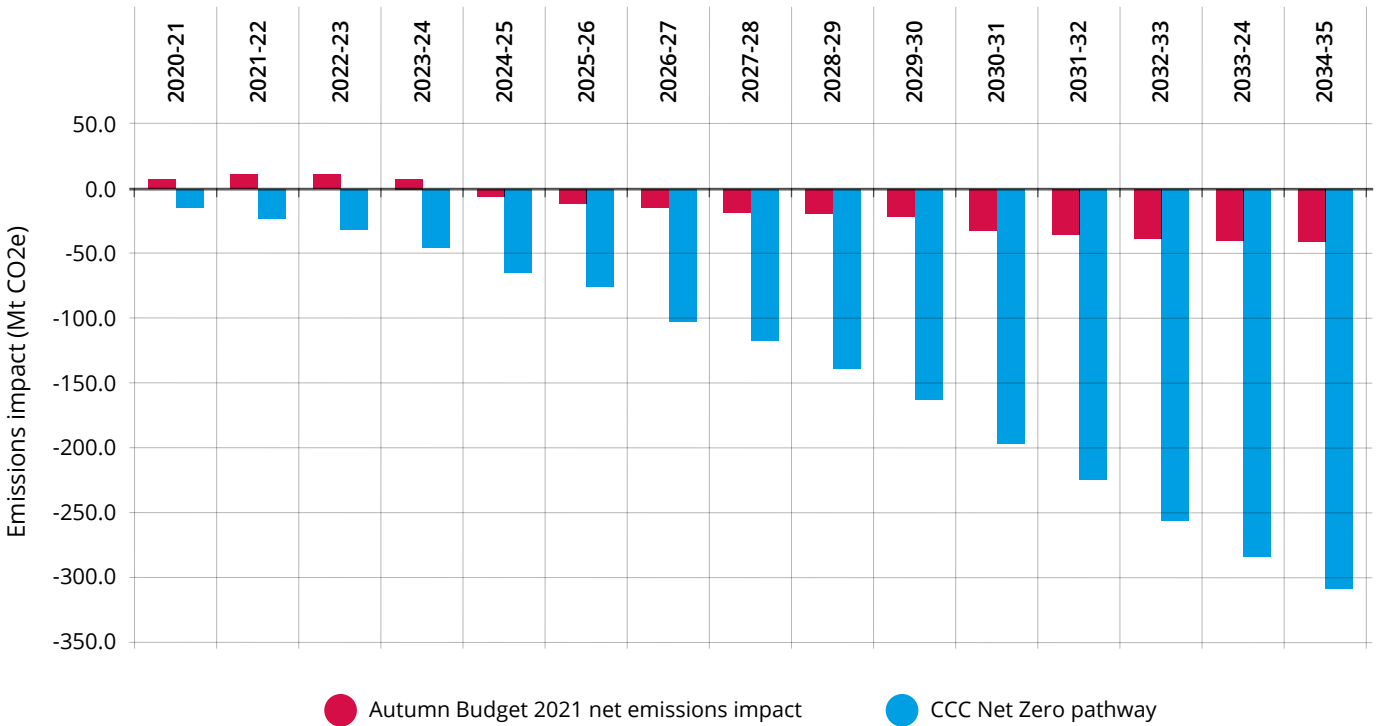
In order to ensure the UK gets and stays on track for net zero, and to unlock the benefits of the transition, outlined above, the UK Government should apply the Net Zero Test to all future fiscal events. This would allow it to understand which policies are driving emissions increases and reduce or compensate for their impact, while introducing green conditionality for departmental spend, requiring departments to consider climate mitigation actions when implementing their spending. For example, the UK Government could have attached green conditionality to funding for skills training, apprenticeships and retraining opportunities for adults, thereby promoting the growth of skills that are essential to the net zero transition and will enable access to good jobs in the UK's fast-growing green industries.

It is essential that any Net Zero Test analysis is published and examined by the Climate Change Committee and Office for Budget Responsibility. This will help to highlight policies that have a higher delivery risk associated with them, such as Carbon Capture Usage and Storage and large-scale nuclear, as well as providing scrutiny where UK Government environmental impact estimates differ greatly from external estimates, such as in relation to the Road Investment Strategy 2020-25.

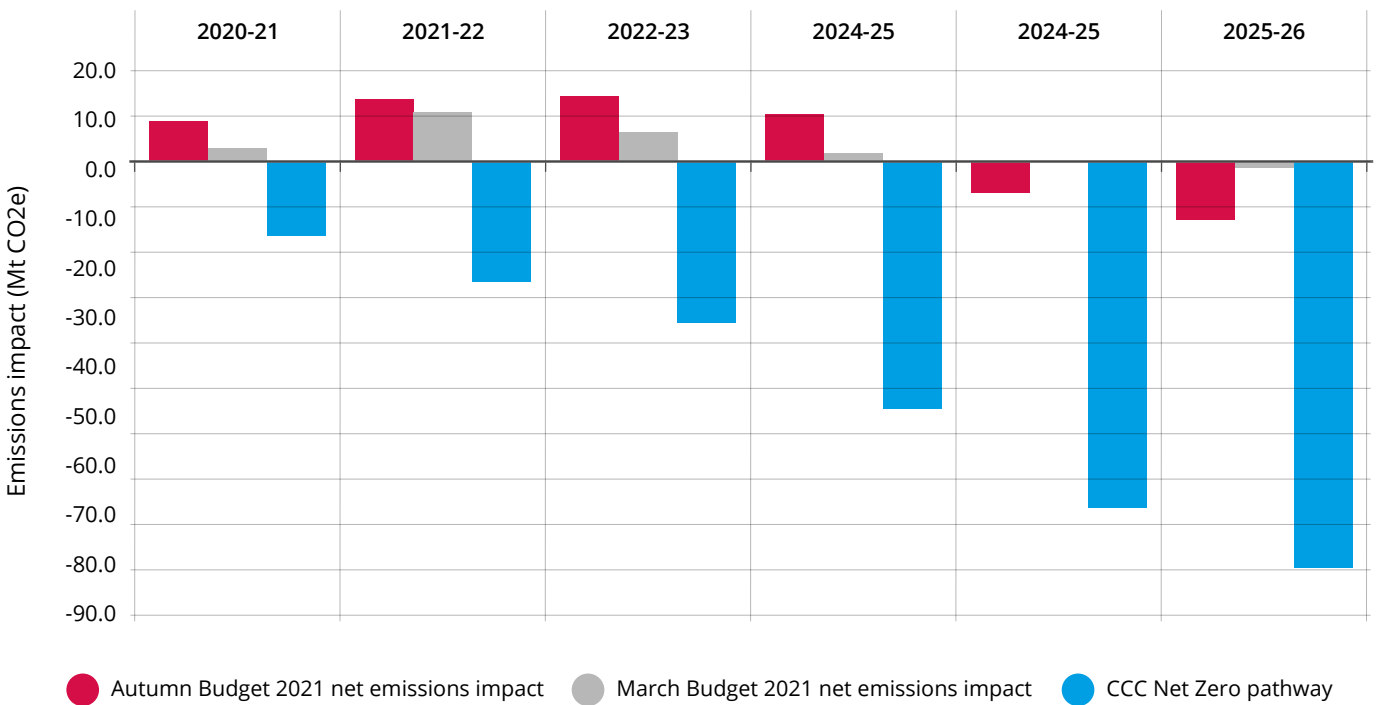
While the results of the Net Zero Test suggest that the Autumn Budget and CSR is considerably more climate positive than the March 2021 Budget, the policies outlined are still not sufficient to deliver the low-carbon transition required to align with the UK Government's legally binding net zero commitment. By adopting a Net Zero Test and applying it to all future fiscal events, the UK Government can track progress and ensure the UK hits its net zero target.

¹ Chosen to reflect emissions reductions stemming from investment in low-carbon infrastructure, which manifest over the medium-term.

COMPARISON OF AUTUMN 2021 BUDGET AND CSR AGAINST CCC NET ZERO PATHWAY



COMPARISON OF MARCH 2021 BUDGET AND AUTUMN 2021 BUDGET AND CSR AGAINST CCC NET ZERO PATHWAY



WHAT SHOULD THE UK GOVERNMENT DO NOW?

If they are to deliver on their climate promises, the 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.

This would mean that, at each Budget or Spending Review:

- Budget tagging is used to undertake a systematic analysis of the alignment of all spending and taxation policies with a range of climate and other environmental criteria.
- Quantitative analysis of carbon emissions is also required for all spending and taxation policies taken within a Budget or Spending Review.
- HMT publishes the results of the above analyses, together with an assessment of whether the overall emissions impact is compliant with a net zero trajectory, and a summary of how the analysis was used to inform the spending/taxation decisions made in the Budget or Spending Review.
- The OBR is responsible, guided by the CCC's professional advice and assessment on carbon budgets, for assessing government delivery against the Net Zero Test, reporting the results to Parliament.



NEXT STEPS FOR IMPLEMENTING THE NET ZERO TEST

To implement the NZT, the Treasury should develop a strategic plan to ensure that:

- Net zero is mainstreamed into fiscal policy by the Treasury committing to **apply a full Net Zero Test**, involving both budget tagging and emissions estimates, **to all future fiscal events**.
- **Departments are supported to adopt the NZT in their own processes for Budget preparation.** The Treasury can support capacity-building among Departments to use the NZT in departmental budgetary processes.
- **The UK engages closely with the OECD Paris Collaborative on Green Budgeting.** This will help to build capacity for integrating climate and environmental objectives into fiscal policy.
- **The quality of inputs to the NZT is iteratively improved.** The ability of the NZT to deliver robust results depends on the information on each Budget line that is entered into it. In particular, the Treasury could:
 - **Encourage a disaggregated expenditure breakdown of large projects**, to isolate the spending which is ‘environmentally relevant’.
 - **Align the NZT with existing approaches for estimating emissions**, to ensure that emissions estimates from Green Book assessments or Spending Review submissions for capital expenditure can be integrated within the NZT. This may include compiling these emissions assessments centrally.
 - **Support capacity-building among departments** to assess emissions accurately and consistently, for example through strengthening guidance and developing clear templates.
- **NZT methodologies are regularly reviewed and refined.** Methodologies for assessing emissions should be regularly reviewed, for example by comparing ex ante estimates of emissions with ex post evaluations. The Treasury could also consider developing a broader set of policy archetypes for the NZT, including archetypes which are more relevant to CSRs, such as large-scale infrastructure projects.
- **Scrutiny of NZT results is facilitated.** In adopting the NZT, the Treasury should ensure there are clear processes for review and validation, for example through engagement with the OBR, to ensure the robustness of the analysis. The Treasury should also consider publishing the results of the NZT to support greater transparency, accountability, and public engagement on how the government is using fiscal policy to delivery net zero and other environmental goals.
- **The NZT is used at key stages of decision-making.** Using the NZT for awareness-raising is likely to have limited impact on aligning fiscal policy with net zero. Instead, the Treasury should utilise the NZT across key stages in the Budget cycle (planning, approval, implementation, and audit).
- **The NZT is extended to encompass to other environmental objectives.** Strong and healthy ecosystems help fight climate change as well as building resilience. The first step in extending the NZT to include other environmental objectives would require developing a clear set of nature-relevant metrics which could be assessed in the policy appraisal process.

WHAT CAN INDIVIDUALS DO TO HELP?

The UK Government has a legal obligation to deliver net zero, which will help limit global warming to 1.5°C and deliver a greener, more prosperous future for you and your children. Add your voice to WWF-UK's campaign below and write to your local MP, asking them to support a Net Zero Test to ensure that public money is spent on policies that protect nature, create jobs, and tackle dangerous climate change, not on the polluting industries of the past.



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