

THE CARBON TRUST'S NET ZERO INTELLIGENCE UNIT

Response to UK Government's Net Zero Review call for evidence

27 October 2022

About the Net Zero Intelligence Unit

The Carbon Trust's Net Zero Intelligence Unit welcomes the opportunity to respond to this call for evidence. The Net Zero Intelligence Unit provides experience-led insights to accelerate global progress towards Net Zero. The Carbon Trust is a mission-driven climate consultancy with over 20 years' experience of partnering with businesses, governments and financial institutions to drive real change towards a decarbonised future.

To date, the Carbon Trust's experts globally have supported over 3,000 organisations with climate action planning, setting over 200 science-based targets and guiding cities across five continents on their journey to Net Zero. The Net Zero Intelligence Unit works to share the Carbon Trust's expert experience of how governments, companies and financial institutions can accelerate towards Net Zero and deliver broader benefits along the way.

Overview of our response

Our response to this call for evidence focusses on areas where the Carbon Trust has significant experience and expertise. In particular we stress the following key points:

1. With effective, joined-up action from government, businesses and financial institutions, Net Zero can deliver long-term growth and new business opportunities for the UK.
2. Achieving Net Zero requires long-term planning, far beyond the usual business-as-usual planning horizon, and so businesses need guidance and certainty to unlock the opportunities of Net Zero.
3. Local authorities play a critical role in delivering the local growth opportunities of Net Zero, as local targets have implications for local businesses and public sector supply chains, however cities and regions are currently constrained by limited resources and inefficient funding streams.

We would welcome the opportunity to discuss our evidence in more detail with Chris Skidmore MP, the Secretary of State or other BEIS Ministers.

Responses to overarching questions

Q.2. What challenges and obstacles have you identified to decarbonisation?

Net Zero is the most comprehensive approach we have to securing a liveable planet. Achieving global Net Zero by the middle of the century and ensuring global emissions are on the right downward trajectory by 2030 is absolutely critical to limiting global warming to 1.5 degrees in

line with the Paris Agreement. Failing to achieve that, and therefore allowing warming of more than 1.5 degrees, would lead to devastating climate impacts that threaten global security and stability and bring huge economic costs. Net Zero promises a more stable future for the environment and the economy. However, challenges to achieving this all-important target remain. The Net Zero Intelligence Unit has identified five overarching, systems-wide challenges:

1. Confusion about what Net Zero means
2. Greenwashing
3. Financial misalignment
4. Corporate uncertainty
5. Concerns around fairness

To accelerate progress towards Net Zero, governments, businesses and financial institutions should therefore be focussed on ensuring the following five **enabling conditions** are built into any action they take:

1. **Awareness:** Ensuring everyone knows what Net Zero really means and how they can act. This means focusing on real, actual, and rapid decarbonisation, without significant reliance on offsets or removals. A clear communication campaign in coordination with standard-setting institutions – relevant to both business and consumers – would be one way of doing this.
2. **Governance:** Ensuring Net Zero targets are followed with genuinely meaningful 1.5 degrees-aligned action. This would require strengthening requirements for measurement, reporting, and verification for businesses and organisations of a certain size and capability.
3. **Finance:** Ensuring public and private financial flows are aligned with Net Zero to drive progress. This would include creating clarity for investors regarding what is net zero-aligned or not (e.g. through a taxonomy), and harnessing the influencing power of government by strengthening and raising the bar of green procurement.
4. **Technology and innovation:** Ensuring support for innovation and deployment of new technologies and business models that can accelerate progress towards Net Zero, especially the deep reductions required from 2030, including in hard-to-abate sectors. This can be in the form of innovation programmes and support for R&D.
5. **A Just Transition:** Ensuring socio-economic factors are accounted for to enable Net Zero to deliver a more equitable world. This includes ensuring citizens (especially lower-income brackets) are protected and supported, especially in those sectors that are at greater risk from the transition away from fossil fuels.

This response draws on the Carbon Trust's 20 years of pioneering decarbonisation by partnering with businesses, governments and financial institutions to demonstrate how meaningful change can be achieved through a focus on these five enabling conditions.

Q.4. What more could government do to support businesses, consumers and other actors to decarbonise?

Businesses produce the goods and services we need to get to Net Zero. In driving innovation and competition, they influence how low carbon technologies are deployed across supply chains and consumer markets. If Net Zero is a green industrial revolution, businesses are key to its success and government must ensure that they are enabled to act.

While the business case for action on Net Zero is clear, it alone is not enough to ensure businesses play their role in meeting the UK's target. For businesses to really engage with the emissions reductions initiatives needed, policy instruments must be in place to support action on technology and business model innovation. For instance, the Carbon Trust's experience of working with corporates in the apparel industry in the UK demonstrated that the government could do more to facilitate a circular economy by embedding Net Zero thinking into waste infrastructure policies. Such actions would lengthen the business planning horizon and incentivise investment in solutions.

To improve the governance of Net Zero and discourage greenwashing, government could introduce mandatory Net Zero targets and, eventually, mandatory measurement, reporting and verification (MRV) of value chain emissions and emissions reductions implementation plans. These steps would help to drive the right action from companies that have not yet set targets. The government should also consider mechanisms for identifying companies that are greenwashing, as the corporate/third sector cannot 'police' all claims to achieving Net Zero.

Coordinated international action on introducing carbon pricing and carbon border adjustment mechanisms, alongside financial redistribution to citizens to ensure a just transition, is a key policy mechanism that should be explored. Gradual implementation of a tax on carbon and waste would create a powerful incentive for decarbonisation, with mechanisms to ensure a level playing field for UK companies and protecting consumers.

Responses to questions for businesses

Q. 9. What barriers do you face in decarbonising your business and its operations?

The Carbon Trust drives corporate sustainability across the world, partnering with businesses to set science-based targets, reduce climate impact and transition to a low carbon economy. This experience has helped the Carbon Trust to identify systemic barriers to business decarbonisation.

For businesses, policy and technological uncertainty is a significant barrier to Net Zero. While various processes and efficiencies exist to enable early-stage decarbonisation across scopes 1, 2 and 3, the technologies and measures that are needed to enable deep decarbonisation beyond 2030, particularly in several energy-intensive sectors, are not straightforward for businesses to access or develop. They are either very expensive or involve technology that isn't yet fully scalable or available on the market.

Equally, initiatives to develop and deploy these technologies and measures are often difficult for companies to control as they sit within the value chain, or are reliant on broader changes (at a society or infrastructure level) that companies cannot individually influence. This requires government-supported, sector-wide action, or sector/industry-wide incentives to align action (e.g. via carbon pricing).

This corporate uncertainty not only makes achieving targets beyond 2030 very challenging, but it also prevents some companies from setting those targets in the first place. The planning for these types of projects also sits beyond the normal business planning horizon, meaning that companies have to act far in advance of seeing the benefit – a big departure from business-as-usual ways of working. At an organisational level these challenges also translate into the

everyday, as decarbonisation needs to become part of all employees' roles to enable the business to transform.

Responses to questions for local government, communities and other organisations delivering net zero locally

Q. 24. What are the biggest barriers you face in decarbonising / enabling your communities and areas to decarbonise?

The Carbon Trust works with national and sub-national bodies to facilitate the efficient and low-emission operation of cities around the world. The Carbon Trust has a strong history of supporting local authorities in the UK with Net Zero climate action planning, implementation, and local energy. This experience has given the Carbon Trust a keen awareness of the biggest barriers to decarbonisation for cities and regions, of which we highlight four here:

1. Insufficient internal resources and capacity

Local authorities (LAs) in the UK consistently lack the resources and capacity needed to deliver on Net Zero. Often, LAs have just one official responsible for delivering Net Zero, and that official may also hold a number of other responsibilities that compete for their resource. This makes it challenging for LAs to integrate Net Zero policies into wider policymaking processes. BEIS has targeted this resource challenge by introducing Local Energy Hubs. While this dedicated approach to local resource is welcome, Local Energy Hubs in their current form do not go far enough to alleviate the resource pressures LAs face.

2. Difficulty accessing finance

There remains a funding gap for LAs in the UK's Net Zero strategy, as outlined by the Climate Change Committee (CCC) in 2021. In particular, access to the finance needed to support the development of Net Zero projects through feasibility studies and business case development is a barrier for LAs. While the UK Government has committed funding for capital finance, the lack of development finance means that there is a weak pipeline of projects. Initiatives such as the Public Sector Low Carbon Skills Fund are very welcome, but they should be expanded to facilitate the development of more low-carbon projects. Furthermore, the processes required for accessing finance are often lengthy and require significant resource, which LAs often lack capacity for.

3. Lack of clarity on roles and responsibilities

Delivering Net Zero will require national, devolved, regional and local administrations to play different roles, but currently there is a lack of clarity on where responsibilities lie, and a lack of coordination between different levels of government. Local authorities are in an ideal position to deliver the local growth opportunities of Net Zero, as local targets and net zero plans have implications for local businesses, job creation, skills, and public sector supply chains, but currently there is no clarity on what role local authorities are expected to play. A centralised framework could help to provide clarity on carbon accounting and reporting requirements, as well as accelerating the pace of change towards Net Zero by introducing statutory duties for LAs to deliver local solutions. There is significant evidence to support the central role that LAs could play in defining and delivering cost-effective local plans for Net Zero, in a way that delivers against local economic growth priorities. For example, there is strong evidence to

support LAs taking on a central role in heat and buildings decarbonisation (including heat pump rollout, energy efficiency retrofit and heat networks), building on the existing role that they play in transport planning and decarbonisation. Where responsibilities are given to LAs, these must be matched with the appropriate funding and, if necessary, devolution of powers.

Q. 25. What has worked well? Please share examples of any successful place-based net zero projects

The Carbon Trust has experience of delivering many place-based Net Zero projects for local authorities. In particular, we have found that zoning policies, the Public Sector Decarbonisation Scheme and the Welsh Government's Public Sector Net Zero reporting are models for success, but their potential could be unlocked even further.

Zoning policies

Zoning policies, such as those used to identify and designate areas suitable for heat networks, help to de-risk investment in much-needed technology by avoiding stifling investment and reducing the risk of stranded assets. The Carbon Trust has successfully helped Lambeth Council to conduct spatial analysis to identify heat network zones. Zoning policies such as this could bring significant benefits for the development and deployment of more low carbon technologies, if they were to be replicated for other asset types such as heat pumps, hydrogen and energy efficiency. This would help LAs to capitalise on their ability to deliver tailored solutions to local areas by channelling financial flows towards low-cost technologies that enable cost-effective decarbonisation in that local context.

Public Sector Decarbonisation Scheme (PSDS)

PSDS provides important funding for LAs to deliver low carbon heating and energy efficiency measures in public buildings. However, the application process is highly complex, and the amount of funding available remains too limited to deliver the scale of decarbonisation needed. It is therefore very welcome that the PSDS is accompanied by the Public Sector Low Carbon Skills Fund, which is essential to alleviate the resourcing and capacity barrier to delivering on Net Zero that we highlighted in response to Q. 24. We hope that further phases of funding will be made available through both the Public Sector Low Carbon Skills Fund and PSDS to ensure that public sector decarbonisation is maximised.

Welsh Public Sector Net Zero reporting

A reporting framework has been developed by Welsh Government to set standards and collate carbon data for public bodies in Wales. The approach provides a guide for estimating carbon (including indirect emissions) and delivers an annual baseline for the whole public sector in Wales. Whilst it is recognised that the scheme needs to evolve and overcome barriers, it has been well supported with more than three quarters of public bodies initially reporting. It is widely acknowledged as an essential part of achieving the public sector Net Zero target in Wales. We believe that a similar system could be set up for LAs in England, which would provide a clear and consistent approach for Net Zero emissions reporting. Proper management and an understanding of progress will be impossible without this.

Q. 26. How does the planning system affect your efforts to decarbonise?

Within current planning regulations, it remains possible to build a home that will later require retrofitting to meet the low-carbon standards needed for Net Zero. The Future Homes Standard, which will require new buildings to be constructed with low carbon heating and to high standards of energy efficiency from 2025, should have more robust interim targets to support earlier adoption of these modern methods of construction, and to unlock early investment in skills and supply chains that will lay the foundations for scaled up deployment from the mid-2020s. Stronger interim targets would help to develop the evidence-base needed to identify which areas are suited for certain types of technologies, ensuring that progress towards Net Zero is catalysed and investment in technologies is concentrated in areas where they can really deliver low cost and low carbon benefits.

Q. 27. How can the design of net zero policies, programmes, and funding schemes be improved to make it easier to deliver in your area?

While there are a large number of different funding pots available to LAs, this process could be improved in two key ways to aid delivery of net zero. Firstly, LAs want longer term certainty over what funding is available to enable innovation and long-term planning for more complex investments. Secondly, LAs would benefit from a streamlined number of funds that are broader in scope. Not only would this improve the efficiency of accessing funding, it would also help to encourage the systems-thinking needed to ensure Net Zero solutions are robust and cost-effective.