Presidential Roundtable Summary: Financing a fair net-zero transition

March 2022

The Net Zero Strategy and Treasury Net Zero Review published by the UK government last year outlined bold plans and ambitious targets to hit net-zero greenhouse gas emissions by 2050. Significantly, the Treasury concluded that a non-fossil-fueled economy will be more prosperous for the UK.

But how do we get to that stage?

At an ICE-hosted Presidential Roundtable, attendees agreed on the huge scale of the challenge we face when financing a fair net-zero transition. Although the government has begun to outline its ambitions and targets, there is a notable gap when it comes to financing and funding.

What is the scale of investment required for net-zero?

The Committee on Climate Change believes that the UK needs to be investing an extra £50 billion a year, and there is not yet a clear framework to help deliver this investment. This level of investment – both public and private – is enormous, but the benefits will be numerous. And if energy prices remain as high as they currently are, the transition to a net-zero energy system will ultimately result in a significant national cost saving.

There is general confidence that the areas that will make the most impact on achieving net-zero are decarbonising energy, heat and transport. But the key is to implement interventions at pace – one or two years in some cases – to build momentum.

The role of local authorities and place-based solutions is essential, particularly in rolling out energy efficiency schemes, EV charging points and heat networks. A national top-down transition as seen in the town gas transition in the 1960s and 1970s is not a realistic proposition. Although central government support would be needed to allow for guidance and regulation, local authorities can lead the way by shaping markets and creating supply chains based on local needs.

Local authorities, in particular, could use social housing to pilot transitional processes, for example in installing heat pumps and creating district heating networks. This would work as a trial run for owner-occupied properties, build up a skilled supply chain, while also helping those who are most dramatically impacted by the cost-of-living crisis.

Cost of living crisis

The crisis in Ukraine is adding to already-high costs of products and services, most notably energy. By the time the energy price cap increases again in October 2022, it is expected that up to half of UK households will be in fuel poverty without targeted support – energy bills are predicted to rise to £3,000 – £4,000 a year. Households not only face continuing cost rises as consumers but industry price hikes are also being seen, such as the recent increase in the price of steel by £50 a tonne.

Figuring out how to finance the net-zero transition becomes an even more pressing problem in the context of this cost-of-living crisis. The government urgently needs to find a balance between protecting consumers, decreasing demand, and increasing supply.

Public support

An increase in the cost of living is a threat to strong public support for the net-zero transition.

Currently, 7 out of 10 consumers support reaching net-zero and are willing to take action to improve the environment and meet targets, especially when they see the local impact of this in the production of cleaner communities and more affordable, warmer homes.

It is vital that this public support continues otherwise we risk setting back the agenda by years. Public support for net-zero must be based on a realistic understanding of the upcoming economic consequences and the infrastructure upheaval needed to achieve it, while the policy frameworks themselves need to be designed to benefit the public and protect livelihoods. In this case, government honesty really is the best policy.

There also needs to be better articulation of how investment in renewable energy, energy efficiency and decarbonising transport is the answer to the cost-of-living crisis, not the cause of it.

Who should pay for it?

Who pays and how to pay for a fair net-zero transition are politically complex questions; it's no surprise the answer is missing from the government's strategies so far. There is broad agreement that the poorest households should not have to shoulder the burden of increasing costs, but where government money is best deployed against where private capital can help is a tricky balance to get right.

Some of the main costs that need to be addressed are transitioning to low carbon heating, building and integrating additional infrastructure such as EV charging points into the network, and building new clean energy generation sources.

The government could fund these through more public borrowing, particularly while interest rates remain generally low – though this could change in the context of rising inflation. Borrowing to fund capital investment could, in turn, crowd in private investment. But it will ultimately need to be paid back, either through tax increases for the public, or a balancing of the books which leaves other essential public services being squeezed.

Increased costs could also fall on businesses. Although private investment can be stimulated through the likes of the UK Infrastructure Bank, it is essential that businesses remain competitive in an international market and don't move their operations out of the UK. Over 600,000 manufacturing jobs would be at risk if companies start leaving the UK for markets that have pro net-zero transition policies and mechanisms in place, particularly on innovation. For this approach to be a success, UK government support would be needed.

One approach almost certain to be taken is a market-based one that relies on consumers spending their money on products that benefit them. The government signals its intention, regulates in order to demonstrate to the market when change is coming, introduces consumer protection and incentivises early adopters in order to build capacity, and then supports those less able to pay.

Questions to take away

- Is the planning system fit for purpose in facilitating our net-zero ambitions? By creating a more efficient process, the pace of delivery for commissioning and building net-zero infrastructure could be sped up, and investment crowded in.

- The Climate Change Committee estimates that over half of the required cuts to emissions to meet net-zero rely on decisions made at local and individual level. What will it take to ensure local authorities are seen by central government as the primary interface for the net-zero transition? And will they be given the appropriate funding and powers?

- Are policymakers looking hard enough at edge cases? Older, rural, poorly insulated off-grid homes that are currently reliant on oil-fired boilers will have to convert to a different system at some point, perhaps at great cost. There is a risk that previously comfortable households will face fuel poverty.