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PUTTING WORDS INTO ACTION
PRIORITIES FOR THE 2021 SPENDING REVIEW
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As the UK recovers from the COVID-19 pandemic, it has an opportunity to build an economy that is stronger, greener, and fairer. Swift and proactive action to finance the net zero transition will be critical to meet the UK's national and international commitments and support private finance to seize the investment opportunities of tomorrow. The right level of public investment in critical sectors like housing will ensure the transition is affordable for everyone across the UK.

The Net Zero Strategy set out an ambitious plan for a Net Zero UK. However, the proof of the pudding is in the eating. The green investment commitments in the 2021 Comprehensive Spending Review will be the real test of the Government's commitment to climate. With £16 billion of financing from Green Gilt Issuances now committed to green, there is no excuse for inaction.

The following priorities, covering finance, homes, the oil and gas industry and international climate spending, are critical to ensure the upcoming Comprehensive Spending Review in 2021 delivers net zero fairly, sustainably and at the required pace:

- 1. Increase finance commitments to net zero and take a strategic approach to finance governance and delivery for the transition**
- 2. Invest in a green homes infrastructure plan to create 190,000 jobs, protect consumers from volatile gas prices and reduce emissions**
- 3. Enable UK's oil and gas regions to transition effectively by investing in re-training programs and redirecting subsidies towards funding renewables projects in affected regions**



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4. Reinstate the mandatory 0.7% GNI foreign aid target and protect International Climate Finance spend

There will, of course, be other sectors, including transport, nature, and land-use, that will also need action at the Spending Review if climate commitments are to be met. However in this briefing we are focusing on the issues that may be most salient to the Government's levelling up and global agendas.

Priorities for the Comprehensive Spending Review 2021

1. Increase finance commitments to net zero and take a strategic approach to finance governance and delivery for the transition

- > **In the Spending Review 2021, the UK should at minimum commit to doubling public investment levels on net zero across the board - a level commensurate with the CCC's assessment of UK investment needs¹.** This investment should be front-loaded to lower the fiscal burden² and maximise the co-benefits of the transition – including sustainable job creation³ and biodiversity protection⁴.
- > **To complement an increased green financing commitment in the Spending Review, the Treasury should ensure it delivers the Net Zero Financial System it announced in the Net Zero Strategy,⁵ as part of the Green Finance Review in 2022. This should include a comprehensive action plan** which makes use of the government's full toolbox – including public finance and economic management, institutional levers, financial standard-setting, private sector regulation, and a comprehensive diplomatic strategy. **A plan for financing the UK's targets is critical to provide businesses and individuals with the certainty needed to unlock large scale and long-term private investment in net zero** and cement the UK's position as a global beacon for green finance.

2. Invest in a green homes infrastructure plan

- > **Homes are responsible for 14% of UK emissions and** represent the most significant spending and delivery gap between what the Climate Change Committee says is necessary to deliver net zero and what the Government has committed. **Investing in energy efficiency and heat decarbonisation is therefore essential to delivering the**

¹ The CCC recommends that additional investment scales up from £10bn per year in 2020, increasing to £50bn per year in 2030 through to 2050. However, changing technology curves are likely to lower the cost of investment over time.

² **The Office of Budget Responsibility highlighting the benefits of early action and investment, stating that the fiscal cost of achieving net zero by 2050 will be twice as high to the UK if the government delays acting until 2030**

³ The IMF suggests that investing in "job-rich, highly productive, and greener activities", could generate a multiplier of 2.7 in additional output for economies

⁴ **In line with the Government's recent commitment to 'nature-positive' future in response to Dasgupta review, UK Government (2021)**

⁵ <https://www.e3g.org/publications/financing-the-net-zero-transition/>



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net zero agenda. The Treasury must close this gap to deliver the benefits associated with healthier homes and cheaper fuel bills. Investing at the required level now could create 190,000 jobs to 2030 and protect consumers from future volatility in the international gas market.

- > **Close the investment gap to get on track for net zero homes, prioritising spending on homes through the £16bn green gilt commitment.** While some welcome progress was made with the publication of the Heat & Buildings Strategy (H&BS), the weakest link across all areas was on funding. Of the £9.2bn promised on heat and energy efficiency in the 2019 Conservative manifesto, there remains a £2bn gap after the H&BS announcements, including £1.4bn for the Homes Upgrade Grant, £0.4bn for the Public Sector Decarbonisation Scheme and £0.2bn for the Social Housing Decarbonisation Scheme.
 - > EEIG analysis from earlier this year estimated that £11.8bn of public investment would be needed this Parliament (2020/2021 to 2024-2025) for domestic energy efficiency and heat pumps to get on track to meet the Climate Change Committee’s (CCC) ‘balanced pathway’ to net zero.⁶ Even with the new funding commitments in the H&BS, there remains a £9.75bn shortfall. **The major missing component is £3.6bn for an energy efficiency subsidy scheme** open to all homes, helping make progress on decarbonising owner-occupier homes. This is particularly concerning in light of new analysis which finds that of those living in inefficient homes who are on mid- to low-incomes, 80% have no access to the only nationwide energy efficiency scheme, the Energy Company Obligation (ECO), which is targeted at fuel poor households.⁷ On top of this, **EEIG estimates £4.15bn is still needed for heat pumps.**
 - > **Pave the way to green finance at scale with attractive incentives that spur action and investment.** Through the Budget, introduce Green Stamp Duty and 0% VAT on renovation products and services for greener homes to leverage additional private finance and support new innovative financial products and services which are already being developed by the UK’s leading banks and building societies – supporting market growth and private investment.
 - > **Ensure affordable finance for energy efficient, low carbon homes is available to all through the new UK Infrastructure Bank.** Offer concessional finance, for instance 0% loans, and blended finance through retail banks, with interest offset by the UK Infrastructure Bank and supported by ‘cash back’ or grants.⁸
- 3. Enable UK’s oil and gas regions to transition effectively by investing in re-training programs and redirecting subsidies towards funding renewables projects in affected regions**
- > **Reallocate funding used for tax breaks and subsidies to the oil and gas industry into transition funding.** Currently, these tax breaks and subsidies represent a third of the decommissioning bill for oil and gas - £18bn over the next 50 years - and could be

⁶ See <https://www.theeeig.co.uk/news/2021-budget-and-spending-review-better-buildings-investment-plan/>

⁷ <https://www.e3g.org/publications/responding-to-uk-gas-crisis/>

⁸ https://www.theeeig.co.uk/media/1109/eeig_2021-budget-and-spending-review_0721.pdf



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reimplemented as pots that are available to oil and gas regions committing to net-zero emissions plans. Prioritise local authorities and regional recipients, as well as universities, and companies in clean energy technologies that offer retraining programmes.

- > **Invest in re-training and re-skilling programs and create an ‘Offshore training passport’**, to allow workers to transition more quickly into adjacent, more future-proof sectors.
 - > **Fund a world leading “deep sea clean energy hub”** comprised of oil and gas regions across UK nations, focussing on building innovation and industries around offshore wind, ocean energy and carbon capture and storage.
4. **Immediately reinstate the mandatory 0.7% GNI foreign aid target and protect International Climate Finance spend**
- > **Immediately reinstate the mandatory 0.7% GNI foreign aid target and restore the UK’s leading soft power assets.** Cuts in Overseas Development Aid have resulted in a loss of c. £4bn when compared with 2019, jeopardising what is one of the UK’s most important soft power assets – UK Aid. This makes a negligible difference to national debt but threatens to have a far greater negative impact on the UK’s standing as a global soft power superpower – in a year in which the UK holds both the G7 and COP26 Presidencies and is seeking to advance Global Britain following the UK’s exit from the EU. **Bilateral Overseas Development Aid spending should be protected in countries key to delivering on climate** – as should other development funding which supports the delivery of the \$100bn⁹.
 - > **Protect pipeline budget allocated to programmes that will deliver on UK COP26 priorities and priorities outlined in the Integrated Review**, regarding accelerating the global transition to net zero and sustainable use of natural resources.
 - > **Commit to solidifying staffing and expenditure on climate diplomacy**, commensurate with need, at the FCDO and the COP26 Unit. Maintaining this network in the coming years will be crucial to securing the UK’s COP26 legacy and to delivering on the vision for climate set out in the Integrated Review, as well as ensuring UK Government has the comprehensive UK and in-country networks necessary to deliver the £11.6bn ICF spend efficiently, effectively and providing good value for money for the UK taxpayer.

Conclusion

With COP26 fast approaching, the UK must set out how it will manage the economic transition to climate safety by 2050. By investing now, the UK can build a green recovery and ensure the transition is smooth, affordable, and fair. Without immediate and

⁹ The UK’s £11.6bn International Climate Finance (ICF) spend (over five years) – which includes financial support to deliver on the UK G7 commitment to contribute to developed economies meeting the \$100bn p.a. climate finance pledge - will be drawn solely from the ODA budget. Whilst the ICF spend is protected, cuts continue to be made to long-term projects that facilitate the effective delivery of this spend.



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substantial investment in net zero however, the costs of unmitigated climate change will be increasingly disruptive to the British economy. A strategic and proactive approach to financing the transition is needed to avoid the costs and capture the benefits - hundreds of thousands of jobs, cheaper and warmer homes, new industrial opportunities, world-leading financial and trade systems, and cheaper power - to level up across the whole of the UK.

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About E3G

E3G is an independent climate change think tank accelerating the transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

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