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### **Treasury decarbonisation funding review**

*Cc: Rt Hon Sajid Javid MP, Rt Hon Andrea Leadsom MP, Rt Hon Kwasi Kwarteng MP*

Dear Simon,

Congratulations on your appointment as Exchequer Secretary. I look forward to your continued support for the UK's efforts to tackle climate change.

I was pleased to hear the recent commitment to take forward our recommendation for a comprehensive Treasury review of how the transition to a net-zero economy by 2050 can be funded fairly. I am writing to set out the Committee's expectations for the review and to offer ongoing support as we develop our advice to Ministers on the sixth carbon budget.

The Treasury review will be crucial in ensuring a successful transition. The key challenge is how the required changes, near-term and long-term, can be funded in a way that distributes costs fairly. My Committee's view is that this must be a priority consideration in public spending decisions. The review should therefore be a key input to next year's spending review and budget, as well as setting the longer-term direction for policy.

As you know, reaching Net Zero will be an immense challenge. Our Net Zero report highlighted the types of changes that are likely to be needed:

- Large-scale roll-out of energy efficiency and low-carbon heating (e.g. heat networks, heat pumps) are needed over the next decade, together with further strategic decisions by 2025 on the roles of hydrogen and electrification, so that all buildings can be decarbonised by 2050.
- The market for electric cars and vans should scale up to 100% of new sales by 2030 or by 2035 at the latest. That will save motorists money and ensure these reach the full stock before 2050.
- The share of electricity from low-carbon sources should increase from around 50% today to over 80% by 2030, then 100% by 2050. Overall electricity generation will need to double in parallel as clean electricity replaces fossil fuels in homes and in transport.
- A significant CO<sub>2</sub> transportation and storage infrastructure to enable carbon capture and storage must be established by 2030 to enable widespread application across industry by 2050. Efficiency, electrification and hydrogen will also be priorities for industry.
- Tree planting rates must at least treble to increase tree cover from 13% now to 17-19% by 2050. Changes are also needed in farming practices to reduce emissions. These and other land use measures will have wider benefits on soil and water quality, air quality and biodiversity.

- Various other challenges, including encouragement of societal changes (e.g. changes in people's diets and travel behaviours) and international coordination (e.g. in the aviation and shipping sectors, international freight and carbon credits and offsets).

It will be for Ministers to decide on the precise policies to drive the transition. If the changes are to proceed at the rate required then an appropriate regime for public funding will be needed and the conditions for private investment must be right. Sufficient certainty will be needed to keep the cost of capital as low as possible.

Crucial to this will be a distribution of costs that is fair, and is also perceived to be fair, so that changes can proceed rapidly with support from society. The example of the 'gilets jaunes' protests in France is evidence of the importance of getting this right.

The Treasury review should therefore develop a **plan for funding decarbonisation and, most importantly, review the distribution of costs for businesses, households and the Exchequer**. This should set out the main areas where action and funding will be required (as summarised above), the principles on which the distribution of costs should be determined and, as far as possible, clarity over how costs will in fact be allocated. This will enable decarbonisation to be delivered while minimising negative impacts on society, particularly the most vulnerable (e.g. low-income households, businesses at risk of offshoring).

The next 10 years are likely to be a key period for public funding as new markets develop and innovation occurs. As such, the review should **consider near-term as well as long-term decarbonisation funding needs and policy implications:**

- The Government cannot make funding commitments that bind future governments, but the review can set out principles to inform the scale and nature of long-term government funding.
- The review should make concrete proposals for action and funding over the next five to ten years, or at least be accompanied by a spending review or budget which does the same. These should include tax and spending levers over which the Treasury has direct control as well as clear indications of where regulation and private investment is required. Outcomes of the review should allow spending plans across all departments to be coordinated and consistent with the drive to Net Zero. This will be vital if credibility is to be maintained, and as a response to the urgent need for change if the Net Zero 2050 target is to be achieved.
- Support for demonstration and learning-by-doing for existing technologies – as has been so effective for offshore wind – will be vital to bring down costs and to develop new UK industry and jobs, alongside science funding for longer-term solutions.
- The volume of additional investment required means that the private sector will need to contribute a significant proportion. The review should identify clear investable propositions (i.e. with suitable risk-return criteria to appeal to the private sector) to bring in the required volume of capital at a relatively low cost.
- The review should take the opportunity to set out plans for managing other impacts on the Exchequer, particularly how to recoup revenue from declining sources (e.g. using road pricing to replace fuel duty).

To ensure that issues of fairness are given due weight, the Treasury review should consider:

- Where the costs of policies are likely to fall and how they can be mitigated where vulnerable groups or industries are likely to be affected. This should include analyses which take account of different impacts by region and local area, and by characteristics that go beyond household income.
- Impacts on jobs and job quality and how to manage them, including consideration of reskilling and retraining. The transition to Net Zero will not only affect costs of living but will also

reshape the wider economy, resulting in more jobs in some areas (e.g. improving energy efficiency of buildings, renewable energy) and a decline in jobs in other areas (e.g. oil and gas). These impacts, like impacts on costs of living, will not be felt evenly between different groups.

- Plans to monitor and to report publicly on progress towards achieving a fair transition and protecting vulnerable groups.
- The benefits of Net Zero and where they fall, which will have implications for individuals, specific regions and the Exchequer (e.g. better air quality would benefit individuals and also result in savings to the NHS).

We look forward to hearing further details on the timing and scope of the review in the forthcoming budget.

Finally, we would like to offer our help. **We plan to publish our advice on the sixth carbon budget, which will set out the path to Net Zero, in September 2020.** My hope is that this date will be useful to Government in informing the Treasury review, ahead of the Glasgow COP26 summit. We would be happy to engage with you and your officials and provide early insights and outputs from our analysis.

Yours ever,

A handwritten signature in black ink, appearing to read 'Deben', with a horizontal line underneath it.

**Lord Deben**

Chair, Committee on Climate Change