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## UNLOCKING THE ECONOMIC OPPORTUNITY OF THE 21<sup>ST</sup> CENTURY THE NEED FOR A UK NET ZERO INVESTMENT PLAN

A Net Zero Investment Plan, underpinned by independent tracking of investment flows into the UK's net zero transition, would result in a rapid and dynamic feedback loop of information and action between policymakers and markets to capture the 'economic opportunity of the 21<sup>st</sup> century'<sup>1</sup> – delivering net zero. Strong signals from government will bolster investor confidence and minimise transition costs.

### Summary recommendations

To ensure the government unlocks the immense economic opportunities of net zero and hits our climate targets, it should include the following commitments in the 2023 Green Finance Strategy, due to be published this spring:

1. To empower an independent body (e.g., Office for Budget Responsibility or the Climate Change Committee) to analyse net zero financial flows on an ongoing basis and recommend actions that the government could take to tackle market barriers and leverage the private investment needed to meet the UK's climate targets.
2. To produce a Net Zero Investment Plan by end of 2023, which will:
  - > Set out what actions will be taken to leverage in private investment to ensure planned net zero investment is secured and any investment gap is filled in the most effective and economically efficient way.
  - > Be regularly updated to provide as much certainty as possible to the market about how the government intends to secure private investment.

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<sup>1</sup> UK government, January 2023, **Net Zero Review Final Report**



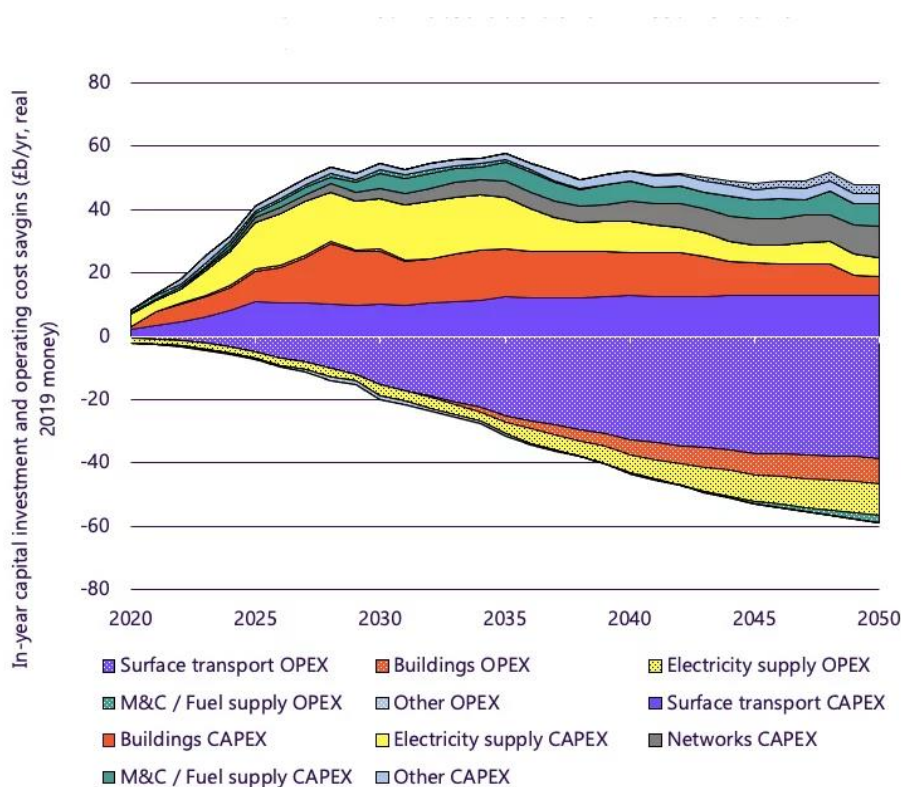
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## Scaling UK net zero investment

The UK’s transition to net zero provides a once-in-a-generation opportunity to create jobs, spur growth, and rebalance the UK’s economy. Government forecasts show that net zero could support 440,000 jobs by 2030,<sup>2</sup> potentially concentrated in disadvantaged areas of the UK.<sup>3</sup> Supplying goods and services for the UK’s transition could be worth £1 trillion a year for UK businesses.<sup>4</sup> However, capturing this economic prize will require rapid action to scale net zero investment.

The investment needs of the transition are significant, with the Climate Change Committee (CCC) estimating that investment levels must increase from c.£10 billion per year in 2020 to £50 billion per year by 2030, before peaking in 2035 at nearly £60 billion per year (see Figure 1).



Source: CCC, 2020, **Sixth Carbon Budget**. LULUCF = land-use, land-use change and forestry. M&C = manufacturing and construction.

Figure 1. Achieving net zero: estimated additional investment by year.

<sup>2</sup> UK government, October 2021, **Net Zero Strategy: Build Back Greener**

<sup>3</sup> Onward, 2021, **Greening the Giants**

<sup>4</sup> McKinsey, October 2021, **Opportunities for UK businesses in the net-zero transition**



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These capital investments will be more than offset by lower operating costs in future years. An important finding in the CCC's 6th Carbon Budget analysis is that at these levels of investment, UK GDP will be 2% higher by 2035 due to reduced fossil fuel imports and increased domestic investment. Moreover, a recent report from the Office for Budget Responsibility (OBR) concluded that 'acting early could halve the net fiscal cost of getting to net zero by 2050 compared to acting late'.<sup>5</sup>

Most of the required up-front investment will come from the private sector. Incentivising private investment at scale will require public policies, regulations, and incentives that aim to close investment gaps, communicated to the market clearly and consistently via, for example, a Net Zero Investment Plan. To do this, the government requires information on where and why investment gaps exist. In other words, there is a need to track economy-wide investment flows into the UK transition over time. A commitment to track green financial flows was made by the UK government within the 2021 Net Zero Strategy.<sup>6</sup> The government also recognised that getting to net zero emissions in the UK will require mobilising public and private finance at pace.

However, while the Net Zero Strategy and subsequent sector roadmaps have included important policies to help leverage private investment, these documents did not include analysis of the current investment gaps, or an assessment of whether the government's existing proposed policies are sufficient to close them. Tackling this data gap will be an essential part of the net zero delivery puzzle.

The forthcoming update to the Green Finance Strategy, due in spring 2023, will refresh the government's framework for making the UK the world leader in green finance. Such an overarching framework strategy for green finance, as vital as it is, does not equate to a Net Zero Investment Plan which systematically sets out how government will incentivise the investment required for the UK's decarbonisation pathways. However, the creation of a Net Zero Investment Plan could be one of the Green Finance Strategy's actions. For example, this could include a commitment to create a plan by the end of 2023 and the provision of a mandate to an independent body (such as OBR or CCC) to track financial flows.

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<sup>5</sup> Office of Budget Responsibility, 2021, [Climate-related measures in the Budget and Spending Review](#)

<sup>6</sup> UK government, 2021, [Net Zero Strategy](#)

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If implemented successfully, a regular cycle of tracking and policy adjustment will reduce the need for public spending whilst maximising economic benefits for the economy and citizens through lower energy bills, green job creation and warmer, cheaper homes. Moreover, as the coverage and quality of sustainability disclosures increases, the quality of the financial flow analysis will also strengthen, as will understanding of policy barriers through qualitative transition plan disclosures.

## The current state of net zero financial flows

A recent report by Frontier Economics<sup>7</sup> undertook a high-level analysis to demonstrate the use case for tracking UK net zero investment flows. This analysis estimated that:

- > The government has clear policies in place to deliver 16–22% of the needed investment to 2030 to be on track for the UK's net zero targets and carbon budgets.
- > The government has 'planned' investment, which could provide 50–53% of the remaining investment required. These are policy ideas and/or investment pledges which have not yet been adopted or allocated in a budget. There is significant uncertainty in the private sector about whether this 'planned' investment will materialise.
- > There remains an investment gap of £81–£111bn to 2030, equivalent to 25–34% of the total investment required in key economic sectors. This is defined as where there is an absence of any policies or investment, either allocated or planned.

Frontier Economics' analysis suggests that the government has made progress in proposing policies and measures to provide and incentivise investment for the climate transition. However, significantly more must be done to provide confidence to businesses and investors that effective policies will be implemented that turn planned investment into actual investment and plug the remaining investment gaps.

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<sup>7</sup> Frontier Economics, September 2022, [The UK's Net Zero Investment Gaps](#)

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## The case for a UK Net Zero Investment Plan

Financial flow data is only as good as its application. It should therefore directly inform the creation of a Net Zero Investment Plan, which sets out a long-term strategy to crowd in the investment needed to get to net zero. Ongoing analysis of investment flows would generate information and analysis that could be used by the government to inform future policy decisions and regularly update sectoral Net Zero Investment Plans.<sup>8</sup> This would provide the policy certainty and stability that the private sector has been calling for, and would encourage the best use of scarce public resources to crowd in private finance.

A UK Net Zero Investment Plan also has strong private sector backing. Companies and institutional investors with more than £3 trillion of assets under management recently communicated to the Chancellor that ‘private investment will only be delivered at the speed and scale required if the Government has in place a clear and robust Net Zero Investment Plan’.<sup>9</sup>

A planned approach to delivering net zero would benefit businesses and investors twofold:

- > **Forge a positive dialogue between businesses, investors, and government.** The opportunity to input into the analysis of financial flows and to benefit from access to continually updated government planning would forge a positive dialogue between business, investors and government on which policies are most successful in unlocking market barriers and supporting investment.
- > **Build market confidence to invest through increased transparency and clear signalling,** due in part to higher quality data and information about the government's plans to incentivise investment, and in part because of increased confidence in the government’s long-term intentions for economic decarbonisation.

Further endorsement was received in Chris Skidmore’s independent Net Zero Review published in January 2023.<sup>10</sup> His 9<sup>th</sup> recommendation, titled ‘Stable environment for business to plan and invest’, calls on the government to:

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<sup>8</sup> E3G, October 2022, [Investors managing £3 trillion in assets call on UK Government to deliver Net Zero Investment Plan](#)

<sup>9</sup> E3G, October 2022, [Investors managing £3 trillion in assets call on UK Government to deliver Net Zero Investment Plan](#)

<sup>10</sup> UK government, January 2023, [Net Zero Review Final Report](#)



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‘Publish an overarching financing strategy covering how existing and future government spending, policies, and regulation will scale up private finance to deliver the UK’s net zero enabled growth and energy security ambitions. This should include setting out the role of UKIB, BBB, BII, IPA and UKEF in the transition.’

The Net Zero Review coupled this with a recommendation that the climate impacts of public spending and tax decisions are considered at each fiscal event, helping to assess public investment flows for net zero. A tool for this exists in the form of a Net Zero Delivery Tracker, created by WWF-UK and used to analyse the climate impacts of the Spring 2021 Budget and Autumn 2021 Budget and Comprehensive Spending Review.<sup>11,12</sup> Government adopting this Tracker and publishing the results would fulfil the Net Zero Review’s recommendation and provide valuable data on the impact of fiscal decisions on net zero, which could then be integrated into the tracking of financial flows.

With the right set of policies, regulations and incentives, government can minimise public spending and maximise private sector buy-in. However, for such a plan to be effective, business and investors have pointed out that it will need to be underpinned by robust, accurate and granular data about investment gaps in every sector of the UK economy. This data would need to be updated regularly.

A one-off Net Zero Investment Plan produced without a regular, independent analysis of financial flows will not allow government or industry to know whether the proposed policies are working practically to crowd in investment. Given the rapidly changing landscape, this is also likely to become quickly outdated, and will not facilitate ongoing, long-term market confidence over the 10–15 years where decarbonisation investment needs to be ramped up considerably. That is why it is so vital for the Net Zero Investment Plan and tracking mechanism for financial flows to work together.

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<sup>11</sup> Climate Change Committee, October 2021, **Independent Assessment of the UK's Net Zero Strategy**

<sup>12</sup> WWF, **Net Zero Test** (accessed January 2023)



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## Why financial flow tracking should be independent

To ensure credibility, the private sector is strongly recommending<sup>13</sup> that an ongoing tracking function should be given to an independent body such as the Office for Budgetary Responsibility (OBR) or the Committee on Climate Change (CCC).

Benefits of having this function undertaken by an independent body include:

- > **Strengthened quality of data and analysis of financial flows.** An independent body could potentially recruit some of the best talent from the private sector and academic bodies to help undertake the analysis. An independent body would also be able to set out data and analysis that is more detailed in some instances than the government might be able to do due to market sensitivity issues government has to account for.
- > **Provide an institutional home for the tracking function to ensure ongoing analysis** is depoliticised and focused on economic analysis. This level of deep, ongoing, and expert analysis would enable net zero flows to be monitored in real time. Recommendations for policies to support investment targets could be rapidly updated in response to economic data. **As the independent body's remit would be to track flows and provide recommendations to achieve the requisite investment, government would retain decision-making power on policy after reflecting on the recommendations**, in light of the full suite of political considerations. Critically however, those decisions would be based on the best possible and most up to date evidence base on financial flows.
- > **Potential to coordinate information flows from other key institutions involved in financing the net zero transition and providing related advice to government.** These include the UK Infrastructure Bank and the National Infrastructure Commission, the British Business Bank, and local and national government bodies.
- > **Provide business and investors with visibility on investment opportunities and the impact of government action to address market barriers.** This would give them greater levels of confidence and certainty, assisting in their decision on whether to invest.
- > **An institutional home outside government would provide a body for business and investors to regularly interact with, creating a positive feedback loop of analysis and knowledge to help develop the most**

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<sup>13</sup> Aviva and WWF, October 2022, [A UK Net Zero Investment Plan for Green Growth](#)





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**accurate, up to date data on net zero investment flows**, as well as an ongoing assessment of the success or not of policy interventions. Given the differing incentives for governments, investors and NGOs, an independent body would be able to engage with the market in a neutral way, and to freely and rapidly point out when changes are needed. Regular and deep interaction with market participants in specific economic sectors would also help to identify the interventions required to tackle market barriers. The government could then respond to these as part of an updated Net Zero Investment Plan to help get investment decisions over the line.

## Case study: a Net Zero Investment Plan for the built environment

Chris Skidmore's Net Zero Review has confirmed that for some critical economic sectors government should provide greater certainty to the market about public investment and policy support over longer time frames. His 8th recommendation stated 'review options for providing longer term certainty to a small number of major priorities for net zero – where we know that long term policy commitment will be essential for success and provide long term opportunities to save money.'

The built environment is a clear case for where this long-term commitment is most critical:

- > **The built environment is responsible for a quarter of the UK's emissions and faces the largest investment gap** according to Frontier Economics analysis.<sup>14</sup> The energy efficiency industry in the UK has suffered a great deal from stop/start policies and uncertain levels of government investment that are only pledged for short amounts of time.
- > **A commitment to introduce stronger regulations to bring buildings up to a higher energy efficiency standard in the future would give the market and investors more confidence** that the market for energy efficiency products will be stable and growing.
- > **The government could additionally signal longer-term support for the Energy Company Obligation, possibly up to 2030 instead of 2026 and other building energy efficiency and decarbonisation capital investment programmes.** This would provide investors and business with greater confidence to invest in plant, machinery and jobs.

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<sup>14</sup> Frontier Economics, September 2022, [The UK's Net Zero Investment Gaps](#)

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## About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at [www.e3g.org](http://www.e3g.org).

## About WWF

WWF is the world's leading independent conservation organisation. Our mission is to create a world where people and wildlife can thrive together. To achieve our mission, we find ways to help transform the future for the world's wildlife, rivers, forests, and seas; pushing for a reduction in carbon emissions that will avoid catastrophic climate change; and proposing measures to help people live sustainably, within the means of our one planet. WWF seeks to address the underlying drivers of climate change and nature loss and has prepared this briefing with the expertise of teams leading on energy policy, net zero transitions, economic growth, and sustainable finance.

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