



NET ZERO REVIEW: CALL FOR EVIDENCE

Issued 27 October 2022

ICAEW welcomes the opportunity to comment on the Net Zero Review: Call for Evidence published by the Department for Business, Energy and Industrial Strategy on 29 September 2022, a copy of which is available from this [link](#).

For questions on this response please contact our Sustainability team at representations@icaew.com quoting REP 90/22

This ICAEW response of 27 October 2022 was led by the Sustainability Team within ICAEW's Reputation & Influence Directorate and reflects consultation with the Sustainability Committee and members in business. Sustainability describes a world of thriving economies and just societies based on what nature can afford. Members in business, practice, in the private sector as well as chartered accountants acting as private individuals all have a role to play if sustainability goals are to be met. The work being undertaken by ICAEW in this area is to change behaviour to drive sustainable outcomes.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 165,000 chartered accountant members in over 147 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
icaew.com

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

KEY POINTS

1. Uncertainty is a major barrier to achieving net zero. With significant political upheaval and ongoing, even deteriorating economic difficulties, the political and economic landscape has shifted drastically in recent weeks and months, resulting in severe market uncertainty. In addition to the short-term political upheaval, cost-of-living and energy crises, uncertainty comes from the absence of a detailed plan for the transition of the whole of the economy from government. There remains a clear need for a net-zero investment plan, as outlined in the letter to the Chancellor of 19 October signed by 32 organisations including ICAEW. Without stability and certainty, businesses will not act and provide the capital needed for R&D and long-term investment. While we recognise that the energy crisis may well mean the economy will need to consume more hydrocarbons in the short-term, the long-term answer to the immediate crisis and the climate crisis, as well as sustainable economic growth, is renewable energy and a decarbonised economy.
2. SMEs provide half of turnover in the UK private sector, make up 99% of the business population and are the ones that are struggling the most to transition. The UK Government's commitment to reach net zero by 2050 is legally binding through the Climate Change Act. Most businesses are not aware of this and are required to transition to avoid future litigation. Businesses and especially SMEs need greater support in the form of training, sector-specific guidance, and greater access to financial support.
3. One of the most significant ways we can reach net zero is through improving the energy efficiency of buildings, machinery, and transport systems. A strong infrastructure plan looking at energy demand reduction and how households and businesses can affordably make improvements to existing buildings is vital.
4. The medium (2030) to long term (2050) carbon emissions reduction targets set by the UK Government are in anticipation of future innovation and reliance on technologies not currently available, rather than on what is achievable today. Innovation is the key to achieving net zero alongside economic growth. It is paramount the Government provide a stable environment for investment in R&D to flourish. There is great opportunity for the UK to be a global leader in the creation of new technologies, products, and services to deliver a net zero future, creating jobs and prosperity, often in former industrialised regions.

ANSWERS TO SPECIFIC QUESTIONS

OVERARCHING QUESTIONS

Q1. How does net zero enable us to meet our economic growth target of 2.5% a year?

5. Sustainably lifting the UK's growth trajectory is achieved through long-term supply-side reforms and not a short-term dash for growth. Achieving net zero will take huge economic and societal shifts. A disorderly, mismanaged transition can lead to short-term risks, according to this [report](#) carried out by McKinsey&Co. If the phasing down of high emission activities is not carefully matched with the increased roll out of low emission ones, the transition could come with major delays and high economic costs. The risks, however, are matched with great opportunities to develop new low emission products and support services.
6. Historically high growth rates have often coincided with a boom in new energy sources (steam, coal) allowing for increased productivity. However, in more recent decades, UK growth has relied on consumption. Over-consumption is one of the key problems facing our planet today. We consume more than Earth's natural resources can provide sustainably, meaning we are at risk of tipping Earth's systems into terminal decline.
7. The real question is, can economic growth be achieved without harming the environment, including a reduction in GHG emissions? In many respects, the UK has shown that such a

goal is possible. The ONS has shown a decoupling of economic growth from emissions. In the period 1985 to 2016, UK GDP rose by over 70 per cent, while CO2 emissions fell by 34.2 per cent. This decoupling is the result of structural changes in the UK, technological advancement, and compliance with environmental regulations such as the Climate Change Act 2008.

8. With the rhetoric moving away from a consumption led model, the UK has a longstanding need to rebalance how the country grows sustainably. Such economic imbalances continue to leave the UK exposed to major economic shocks such as the Covid pandemic and the cost-of-living crisis.
9. We can achieve economic growth by providing business the opportunity to grow through supply-side reforms. Looking at things through a green lens, this means improving skills, and boosting productivity through incentivising investments in green technology.
10. International trade deals now and into the future will be vital to ensuring growth ambitions are achieved, and the UK's global status and gravitas is assured. A thriving UK green and clean energy sector and boost to British manufacturing, supported by UK Export Finance, will deliver not only economic growth and green jobs, but also energy security. Such jobs may well be located in former industrialised areas such as the North East and Yorkshire & The Humber providing a boost to those regions' economic opportunities.
11. Businesses and households will need to make rational purchase decisions, meaning that net zero alternatives must be as good or better than their polluting alternatives. Government incentives need to be available and ensure the markets, and especially SMEs, have cause and reason to move towards net zero. One example would be an incentive to insulate private properties against heat loss. Not only would this support local economic activity, but it would also contribute to net zero. There are currently no incentives for households to carry out this work, other than to save some money via reduced heat loss and to benefit the climate. These are not enough to warrant the initial outlay for most households.
12. Developing green jobs and filling the skills gap needed to place these jobs would ensure a supply side boost to green growth, in turn boosting the jobs market and ensuring growth alongside delivery of the goal. The Government should strive to close this skills gap with training.
13. Likewise, innovation and the development of new markets, products and services needed to achieve the goal will drive growth. The UK has already significantly increased its renewable energy share and continues to do so. A potential growth market for the UK would be investment in battery storage that could lead to greater number of green jobs and growth.

Q2. What challenges and obstacles have you identified to decarbonisation?

14. A [report](#) from the Green Alliance stated every major sector in the UK needs to close a significant skills gap to enable them to reach net zero. The sectors with the most pressing emissions reductions by 2030 face the most immediate skills shortages, including housing and transport. Along with land use, these sectors already face shortages to deliver the status quo, let alone progress towards net zero.
15. Eighty per cent of the current workforce will still be active in 2030. As well as attracting new green entrants to the jobs market, there should be a focus on transferring existing skills and retraining for the green economy.
16. Part of this upskilling should be around the understanding of scenario analysis and forecasting of climate risk. A key recommendation of the Task Force on Climate-Related Financial Disclosure (TCFD) was around companies quantifying climate risks and uncertainties. Performing scenario analysis is challenging and examples of good company climate forecasts are almost non-existent. Further guidance is required if we expect businesses to produce solid transition plans.

17. The investment culture in the UK needs addressing and should be led by Government. Companies, across the value chain, typically do not look at long term resilience factors or goal plans, and often focus on short-term success. This is to the detriment of achieving long-term goals, such as net zero.
18. A major issue for both households and businesses is the volume of energy inefficient buildings across the UK. Energy efficiency targets set by government have focused primarily on new buildings but fail to address how existing privately owned buildings will be supported. Businesses that do not own the premises are relying on landlords to make improvements. With EPC regulation coming into effect towards the end of the decade for existing tenancies, landlords are not being encouraged to improve buildings sooner.
19. At COP26, global leaders agreed the Glasgow Climate Pact with over 90% of world GDP now subject to net zero commitments. A significant number of these climate commitments - such as replacing diesel engines with batteries - are expected to create significant supply issues, where demand is likely to outstrip the availability of key components such as copper, lithium, nickel and other vital raw materials. Unless a significant new supply of copper becomes available in a timely manner aligned with the timing of net zero commitments, climate goals are likely to create material business disruption for the industrial sectors to become net zero, creating a perception of “green-wishing”.
20. In addition, the current energy crisis is delaying progress on the commitments made under the Glasgow Climate Pact. As we continue to use fossil fuels to meet the immediate energy needs, targets in the future will need to become more aggressive to achieve the UK’s commitment of at least 68% emissions reduction by 2030.
21. For industrial sectors known as “hard to abate” due to the immense challenge of electrification and the costs of transitions, the net zero transition plans rely on undeveloped technologies which are untested, such as green hydrogen and/or carbon capture. There needs to be plans and examples of solutions that industry can do to reduce emissions now with current technology capabilities.

Q3. What opportunities are there for new/amended measures to stimulate or facilitate the transition to net zero in a way that is pro-growth and/or pro-business?

22. Plans for demand reduction are lacking in emphasis, clarity, simplicity, and consistency. Government should aim to regulate solar power for all new commercial buildings, instead of using market incentives in terms of funding and administration of solar. This will give opportunities for manufacturers to innovate and reach net zero goals.
23. Investment zones are being planned which the Government should be commended upon, however these plans can go further. The creation of green innovation zones could help with regional rebalancing, helping to achieve the Government’s levelling up goals.

Q4. What more could government do to support businesses, consumers and other actors to decarbonise?

24. More incentives need to be put in place to help businesses and consumers make climate friendly choices, such as incentives to buy solar, insulate homes, buy electric vehicles. Currently none of these choices would be made using a purely rational economic decision-making process. The Government needs to nudge businesses and consumers to make these choices. This has been done with some success by successive governments, such as with the Feed In Tariff system and the Electric Vehicle incentive scheme. However, such initiatives need to be scaled up and maintained if the UK is to fulfil its net zero ambitions. This should be reinforced through well thought out regulation.
25. The Government should regulate the renewables market to set common standards such as having one common EV charging system. This would allow for greater clarity and over time

reduced production costs. Consumers would not have to worry about what ‘system’ they are buying into, reducing uncertainty.

26. The UK Government and the Treasury have put significant work into developing the UK as a green finance centre, alongside growing, developing, and evolving its regulatory framework. It is clear regulators will play a key role in meeting SDG and net zero targets, and the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) have had their remits revised to include climate change.
27. The FCA have made clear they are committed to adopting the ISSB standards towards a common international corporate reporting standard for sustainability disclosures, which will be the hallmark of a world-leading green finance centre. Furthermore, the Government have endorsed TCFD recommendations around 11 recommended climate-related disclosure requirements, showing their commitment to a well-regulated market. Further to this, the UK Government have made clear, in the Green Finance Road Map, that it will go beyond the ISSB framework to require companies to report on their impacts, and the ICAEW is wholly supportive of this; our answer to the recent consultation can be found [here](#).
28. The Government should ensure the uptake of knowledge is taken into consideration, alongside skills, when formulating their strategy. The Financial Services Skills Commission (FSSC) conducted research which stated the net zero transition will not require an abundance of new skills, and skills needed are already represented within the FSSC’s Future Skills framework for digital skills: innovation, collaboration, adaptability, communication.
29. Therefore, the skills base needed is largely already present, and with some flexibility will be able to adapt to the challenge of providing a net zero economy and the creation of a world-class green finance centre. However, the knowledge angle needs to be explored further to ensure these existing skills are successfully transformed, and expertise in professional judgement and scepticism is built upon.
30. The Government must think about the level in the business hierarchy, from board down, these skills should be present. Clearly, education and training are needed, however for education and skills built-up to be successful, capacity needs to be present to ensure sufficient and identifiable dialogue between finance and sustainability professionals.

Q5. Where and in what areas of policy focus could net zero be achieved in a more economically efficient manner?

31. In summary, the areas policy focus net zero can be achieved are: Levelling Up, Green Finance Strategy, Build Back Better: Our Plan for Growth.
32. ICAEW is committed to and supports the objectives of the Government’s Transition Plan Taskforce. However, we believe that for these to be effective they need to be complemented by a whole economy transition plan as well as plans for the public sector.
33. The Government should publish a ‘Net Zero Investment Plan’ to be delivered under the updated Green Finance Strategy. This should include the following elements:
 - A Net Zero Delivery Tracker to assess the financial flows in support of our climate and nature goals contained in each Budget and Spending Review, as well as the overall package’s impact on progress towards net zero.
 - An assessment of the investment needs for decarbonisation in different sectors, accompanied with clear sectoral transition pathways in the Net Zero Strategy.
 - An assessment of the low carbon investment gap for sectors and how these will be bridged. This should include the public investment required, as well as the suite of policies and regulations needed to inform the decisions of private finance actors.
34. The Office for Budgetary Responsibility (or similar body) could then be given the role to track investments and ensure they are mobilised towards climate goals.

35. This [report](#) by the UK Climate Change Committee (CCC) warned that there are still significant gaps in the UK Government's Net Zero policy, including sustainable land use and the energy efficiency of buildings. The following recommendations were made, which ICAEW supports:
- Introduce a package of measures, including a one-stop-shop for SMEs to get decarbonisation advice with a carbon foot-printing tool, develop a strengthened low-carbon advisor/auditor role for SMEs and develop an effective financing strategy to support SME decarbonisation.
 - Not to delay legislating for listed UK companies and financial institutions to publish transition plans from 2023, including publishing a clear transition plan framework
 - To develop concrete proposals for standardising and regulating the claims corporates can make relating to offsets, for ensuring the quality and additionality of offsets on the market, and for directing carbon offsets to the highest quality and impact projects.

Q6. How should we balance our priorities to maintaining energy security with our commitments to delivering net zero by 2050?

36. Amid the ongoing global energy crisis, we believe that now is the time to accelerate investment into green technologies and climate solutions that will provide the United Kingdom with security of supply, bring down energy bills, foster energy independence and catalyse economic growth. The sharp rise in the cost of living and resulting economic uncertainty has highlighted the urgent need to strengthen the UK's economy and energy security by delivering the net zero transition, on time.
37. We welcome the decision to reinstate the ban on fracking, however, awarding 100 new licenses for North Sea oil and gas exploration, will not have the desired effect of relieving the energy supply pressures in the short term. This will back-load our climate response closer to 2050, rather than investing in renewables that will cut emissions before 2030. Both the [International Energy Agency](#) and the [UCL Energy Institute](#) cited that there can be no new oil and gas developments to meet the net zero target by 2050 and keep global warming to agreed-upon 1.5C targets.
38. Alongside building resilience in the UK's energy sector, the government should seek to reduce the vulnerability of households and businesses to future shocks by accelerating energy efficiency improvements throughout the country. Improving efficiency will help to maintain security by keeping demand in check. Ministers could build on the recent Help to Grow initiatives with a campaign - including financial incentives where appropriate - to improve awareness and capability among SMEs looking to reduce their energy usage.

Q7. What export opportunities does the transition to net zero present for the UK economy or UK businesses?

39. The UK trade gap has widened significantly in recent months, with UK companies, especially SMEs, finding it increasingly difficult to export goods and services. The Government need to refresh its export strategy to prioritise export-led growth in a similar vein to that in Germany, so it is a greater proportion of UK economic growth.
40. Government must ensure the UK is a hub for green finance expertise, and a base to export these skills.
41. We have been a leader in decarbonising our electricity systems – the knowledge and skills the UK has developed to achieve this could also provide export opportunities.
42. As mentioned in question 1, investment and innovation in green and clean technologies will benefit UK exports.

QUESTIONS FOR BUSINESSES

Q8. What growth benefits/opportunities have you had, or do you envisage having, from the net zero transition?

43. The creation of new products will be key, and government should be supporting the market by creating the right ecosystems for the green industrial revolution. In looking at the [Ten Point Plan](#), government could be asking itself what the enabling policy/regulatory conditions for this are to occur. This will be a growth area for Chartered Accountants as they develop expertise in advising business and clients on achieving net zero.
44. As an education provider, ICAEW will be vital in delivering education services for members to upskill in order to meet net zero commitments. ICAEW will be keen to work hand-in-hand with government to promote and develop these new skills.
45. The UK has positioned itself as a leader in green finance, as witnessed by how developments around TCFD largely came from the UK. Glasgow Financial Alliance for Net Zero ([GFANZ](#)) members are showing great leadership in the financial sector. Having strong expertise in the finance sector can lead to greater clarity and security around the quality of transition plans.
46. There may also be opportunities in the services sector for support and assurance around transition plans and broader climate disclosures. Clarity on disclosure requirements does also support sustainable finance.
47. The UK has an established science research ecosystem that is leading on climate and could do more around nature as we currently have not capitalised on this sector and its output. For example, natural capital standards lag behind compatriots such as France. This is relevant due to the interconnectedness of tackling climate change and nature loss. The same malaise cannot be applied to net zero goals.

Q9. What barriers do you face in decarbonising your business and its operations?

48. ICAEW members in business have continually indicated a strong appetite for moving towards a net zero economy, but there are greater barriers for SMEs in the transition.
49. Organisations that do not have the expertise or capacity in house to measure and develop a decarbonisation strategy will need to outsource this. Many SMEs will not have the capital to do this, and therefore support will be needed.
50. Once credible plans have been set, the cost of decarbonising, which for many is to follow the energy efficiency route or improve waste disposal, is too great. Access to finance and bank charges are a growing challenge as businesses are feeling pressures from rising costs and slowing demand. This has been further exacerbated by the current economic landscape with businesses focusing on short-term survival. Government should work with banks and other financial institutions to unlock capital as a means of stimulating growth.
51. For those that do have the capital, barriers are presented in the current supply chain. For example, organisations looking to decarbonise transport fleets are struggling to do so due to a shortage of batteries and other raw materials needed to manufacture electric vehicles. In addition, the availability of charging points will increasingly become an issue as more and more consumers and businesses move away from fossil-fuel powered vehicles.

Q11. What challenges has the net zero transition presented to your business?

52. ICAEW members in business have identified a challenge with incentivising customers to pay more for sustainable products and services. There are costs associated with becoming a sustainable business and the appetite is there, but if businesses are unable to get customers

to understand why this is a business imperative, then profitability takes a hit, and the transition is not financially viable.

53. Another challenge is the range of different legislation across the UK and the devolved nations on sustainability matters. For example, on recycling there are different regimes that the Scottish Government put in place versus Westminster. Having multiple schemes, regulation and bureaucracy associated with achieving the same outcome makes it difficult for businesses to understand where the problems lie and what are the practical solutions.
54. In addition, policy decisions from the Government on the green agenda have been inconsistent over time. Businesses are unsure of the direction of government. Unclear messaging from the top makes it more difficult for businesses to make decisions on the transition.
55. Members have noted varying attitudes towards net zero within their own organisations. Changing behaviours and mindsets so that employees are engaged in a shared vision for net zero as well as embedding this into corporate culture so the transition is not done in silos is something businesses will need to tackle.

Q14. What more could be done to support your business and/or sector to decarbonise?

56. As mentioned in the answer to question 4, it begins as a training and knowledge-based issue before organisations can even start to answer the question of what impact net zero is going to have on them and how to achieve it.
57. Members have identified a lack of understanding across sectors and industries on what the overall impact of decarbonisation will be and what that means to the business. ICAEW have been working with businesses to signpost information that would elevate their understanding of what is relevant to them and support them on this journey, but strong leadership from government in advising businesses would help businesses to navigate this complex environment.
58. Sector-specific guidance with granular details and steps to achieving net zero with short-, medium- and long-term milestones would help disseminate the net zero journey for individual businesses.
59. For landlords looking to invest now in building improvements to make their portfolios net zero, providing capital support to enable that to be made, and recovered over time would be well received.
60. Subsidies for local households to complete vital energy efficiency improvements could then be matched with local tradesman to upskill and carry out the necessary work.

QUESTIONS FOR LOCAL GOVERNMENT, COMMUNITIES AND OTHER ORGANISATIONS DELIVERING NET ZERO LOCALLY

Q24. What are the biggest barriers you face in decarbonising/enabling your communities and areas to decarbonise?

61. Many local authorities have declared a climate emergency and want to play their part in supporting the UK's transition to net zero. However, we believe they are held back by the funding mechanism and the lack of co-ordination between central government departments. The current system requires local authorities to bid for various short-term pots of funding from multiple different government departments. This wastes valuable resources of local authorities in preparing the bids and in government departments in assessing the bids, as well as discouraging the long-term investment required to make a substantial impact. The criteria for awarding the funding are often unclear and risks resulting in areas lacking the expertise to prepare winning bids missing out on playing their part in supporting the transition. We recommend multi-year funding settlements for net zero initiatives on a formula

basis that provide local authorities with the freedom to use their local knowledge to invest in the net zero projects most suitable for their areas.

62. Similarly to points raised in question 2, public sector workers also need training to fill knowledge gaps on sustainability and the impact of climate change on a local level so that they are equipped to serve the communities in which they govern.
63. In order for the public to hold local authorities to account for their contributions to delivering net zero locally, we believe that there needs to be improvements in local authority reporting. We want to see local authorities invest in their financial and non-financial reporting and we endorse the recommendation in the recent National Audit Office report [Measuring and reporting public sector greenhouse gas emissions](#) that the greening government commitments requirements should be extended to local government.

Q27. How can the design of net zero policies, programmes, and funding schemes be improved to make it easier to deliver in your area?

64. Answered in question 24.