TOR: Developing and piloting a net-zero test

**1. Name of Programme Team:**

Climate Change Team – WWF-UK

**2. Name of Project:**

A net-zero test for Treasury

**3. Purpose of project:**

This project seeks to develop and pilot a net-zero test that could be used by the UK Treasury to: (a) systematically assess the carbon impacts (emissions) associated with UK public spending, (b) inform budgetary decision-making, and (c) provide a basis for it to report and track alignment of public spending with the UK’s with emissions reductions pathway and carbon budgets.

**4. Background Information:**

We are in the midst of the sharpest economic contraction in our history. As we emerge from the pandemic, we confront the huge task of stimulating a swift economic recovery. However, this also represents an opportunity to choose how to shape that recovery: in the words of the Prime Minister: to build back a greener and more beautiful Britain. And, as the Governor of the Bank of England recently pointed out, as Covid changes the structure of our economy, the shock of the pandemic has the potential to unlock Britain’s productivity puzzle and trigger a post-crisis surge in investment.

The choices made about how to allocate that investment matter. After the financial crisis of 2008 the UK experienced a poor productivity performance, not helped by the austerity and lack of capital expenditure [[1]](#footnote-2)￼. To avoid a similar outcome this time, we need to invest in the future.[[2]](#footnote-3) There is abundant evidence that the best way to stimulate the economy is by government investing in green sectors, policies and technologies. A green recovery will create a higher number of jobs than investment in grey and legacy sectors such as fossil fuels, it will build our resilience to climate change, create economic opportunities in industries of the future, and offer substantially greater economic returns in the more immediate term.

The Climate Change Act, 2008 sets a target for emissions reductions by 2050 (against a 1990 baseline) and a requirement for five year carbon budgets to be set and met on the way to that target. From June 2019, that 2050 target was increased from 80% to ‘at least 100%’ – in other words, committing the UK to net-zero emissions by 2050. The fourth and fifth carbon budgets are already in place (taking us to 2032), and represent a trajectory to 80%, not net-zero – and the UK is not currently on track to meet these budgets. WWF’s view is that this is a primary reason why the net zero test is needed, to enhance assessment and disclosure around the role of public spending in the UK’s GHG emissions, and provide a basis on which to help prioritise spending to help put the UK on track.

WWF is calling on the Treasury to apply a net zero test to UK public spending (i.e. annual budgets and spending reviews), to provide a framework for it to: (a) systematically assess the carbon impacts (emissions) associated with UK public spending, (b) inform budgetary decision-making, and (c) provide a basis for it to report and track alignment of public spending with the UK net zero emissions pathway targets/budgets.

Applying the test to *all* areas of government spending (i.e. the whole spending package) is important, because a budget that includes zero/low carbon emission investments (e.g. home insulation, EVs, solar) and carbon negative investments (e.g. restoration of forests/peatlands), could still be contributing significantly to UK emissions due to investment in higher carbon sectors (e.g. fossil fuel subsides, and ‘brown’ infrastructure, such as roadbuilding programmes).

In this way, the net zero test would provide a means for the Treasury to identify which areas of public spending are contributing most to UK emissions, to help prioritise budgetary allocations across all areas of the economy to reduce overall emissions, provide a basis on which it could report publicly and track alignment of UK public spending with emissions reduction targets.

Several other countries are already routinely assessing and reporting on the environmental impacts of national budgets, and the tools/approaches to do this kind of analysis are rapidly improving. For example, France undertook a comprehensive analysis for its 2021 budget, assessing all areas of spend and tax according to impacts (+ and/or -) on climate, waste, waste, pollution and biodiversity (in line with EU taxonomy).[[3]](#footnote-4) There is thus significant potential for the UK to learn from internationally experience, and apply the results of this kind of analysis to inform its ambitious domestic climate goals.

As a member of the Coalition of Finance Ministers for Climate Action, the UK has also committed to the Helsinki principles, one of which is  “Integrating climate change into macroeconomic, fiscal and budgetary policies”. With several key policy meetings in 2021 being hosted by the UK, including the G7 and COP26, it has an important opportunity to commit to and start making reforms, both to remain on top of global best-practice and enable it to demonstrate global leadership, and to ensure the UK is on a net zero pathway.

**5. Project Objectives**

This overall aim of the project is to develop and pilot a net-zero test that could be applied by the UK Treasury to provide it with a means to: (a) systematically assess the carbon impacts (emissions) associated with UK public spending, (b) inform budgetary decision-making, and (c) provide a basis for it to report and track alignment of public spending with the UK’s net zero emissions pathway.

Specific project objectives are to:

1. Review existing tools/approaches/mechanisms of relevance to development of a net zero test.
2. **Phase 1:** Develop a prototype net zero test methodology to enable assessment of the carbon impacts (emissions) associated with individual spending allocations, and the overall aggregate carbon emissions of the whole public spending package, and enable analysis of alignment with UK emissions pathway targets.
3. **Phase 2:** Demonstrate the application of this methodology by applying it to an agreed, plausible public spending package e.g. the budget, using a quantitative spreadsheet model or similar
4. Provide recommendations to guide WWF’s subsequent policy advocacy work around the net zero test and how it could be introduced into government policy/procedures.

**Key considerations in developing a net zero test for the UK:**

* Consultants should review existing tools/approaches of relevance from other countries and initiatives (e.g. France), and consider their potential applicability for use/adaptation in the UK. However, examples like this also illustrate the complexities/challenges involved (e.g. interlinkages between climate and nature impacts, impacts of spending vs taxation, how to consider imported emissions etc) and highlight that the need for further refinement/development. There is also significant potential to draw on the wider international knowledge exchange taking place through the OECD’s Paris Collaborative in Green Budgeting, which provides guidance on greening budgetary processes.[[4]](#footnote-5)
* Consultants should also explore how a net zero test would align / link with existing Treasury tools/frameworks, including [Green Book](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf), which provides “guidance to help officials develop transparent, objective, evidence-based appraisal and evaluation of proposals to inform decision-makers”. For climate emissions and related environmental impacts, the Green Book refers officials to BEIS advice – [Valuation of Energy Use and Greenhouse Gas](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/794737/valuation-of-energy-use-and-greenhouse-gas-emissions-for-appraisal-2018.pdf) – which offers guidance as to “how analysts should quantify and value energy use and emissions of greenhouse gases (GHGs) ... to aid the assessment of proposals that have a direct impact on energy use and supply, and those with an indirect impact through planning, land use change, construction or the introduction of new products that use energy”. To date, application of Green Book has been generally limited to discrete projects/proposals, and has had limited or no use in terms of cumulative assessment of impacts across wider government policies/programmes/spending.
* Consultants should also consider alignment/linkages to the HMT/BEIS guidance on GHGs, which sets out in detail how to calculate greenhouse gas emissions (a critical element of the process for determining the emissions pathway to net-zero). It refers to ensuring that measurement is done in a way that supports assessment of delivery of carbon budgets. We propose that this is the principal gap which a net zero test would fill – by requiring (a) that all fiscal decisions are tested against a net-zero pathway, and (b) that a spending decision is based on how it contributes towards the UK’s cumulative emissions against a pathway to net-zero emissions by 2050.
* The Committee on Climate Change (CCC) has published its advice on the sixth carbon budget, and the Government is due to publish a Comprehensive Net-Zero Strategy ahead of COP26.  The CCC’s advice sets out a pathway to net-zero by 2050, and provides a measure against which the results of the net zero test could be compared.  The net zero test is applied to the whole package, rather than an individual spending line
* In terms of how a net zero test could be governed/administered in the UK, consultants are requested to consider options and provide recommendations. Arguably embedding routine analysis of the carbon (and other environmental impacts) of spending in Treasury’s budgetary procedures and processes is necessary. However, a range of other bodies would likely need to play key roles. For example, the CCC is responsible for assessing and reporting on government progress and delivery against carbon budgets – as well as the body which essentially sets the budgets which government and Parliament adopt. WWF’s view is that the CCC should have a formal role in more frequently challenging and assessing delivery against those budgets, and which could include a remit to oversee on implementation of a net zero test, and alignment with emissions reduction pathways. The Office for Budget Responsibility (OBR) was established in 2010 as an independent fiscal watchdog providing analysis of the UK’s public finances. Alongside forecasting, evaluating fiscal risks and scrutiny of policy costing, it is responsible for evaluating government delivery against its own fiscal targets and assessing long-term sustainability of public finances. One option that could be explored by the consultants is looking at the role of the OBR and the CCC in reporting.

**6. Outputs**

WWF expects this project to be delivered in the form of a written report (MS Word Document and pdf) and summary presentation (PowerPoint presentation). We may opt to publish the content of the report in full, and/or to produce separately branded materials highlighting the report's key conclusions.

**7. References**

* + [Keeping us Competitive](https://www.wwf.org.uk/updates/uk-investment-strategy-building-back-resilient-and-sustainable-economy)
  + Net-zero briefing on request

**8. Indicative Timeline with Key Deliverables**

Please use contact details below if this timetable presents any issues.

* **10th March 2021**: Closing date for tenders. Respondents to have submitted a proposal outlining a methodological approach to delivering this project, according to the scope and specification, for decision by WWF. Please contact [IODowd@wwf.org.uk](mailto:IODowd@wwf.org.uk) if you have any questions.
* 17th March 2021: WWF decision on preferred proposal.
* 22nd March: Kick-off meeting to refine scope / questions / and timeline.
* End of April: Phase 1 - Ideally build a prototype net zero test methodology by the end of April to feed into net-zero review due in May and a workshop planned by WWF.
* Present this at a workshop with Treasury and other stakeholders to obtain feedback and explore further information sources.
* End of May/ Start of June: Phase 2: Implement the net-zero test methodology to existing spending package throughout May (although we’re happy to discuss timelines)
* Provide final written report ideally be end of June.
* Provide underlying spreadsheet model or similar so the calculations can be reviewed and assessed.
* The consultant will keep the WWF team updated on progress with brief weekly phone calls.

**9. Payment Arrangements**

We invite respondents to indicate their budget requirements for this project within their proposal, WWF’s normal process is to make 100% of payment upon delivery of the requested products, but alternative payment schedules could be considered.

**10. Response to Call for Proposals**

All responses to this call for proposals should be submitted to [IODowd@wwf.org.uk](mailto:IODowd@wwf.org.uk) no later than 17:00 on 10th March 2021.

In their bid, consultants should set out and support with evidence where necessary their proposed approach and methodology, their relevant experience, an outline project plan and full costs and expenses. The response should also note the consultants’ preferred approaches to future advocacy work (see output section) with the report and to how the report would be presented in terms of identity and ownership (see output and copyright sections above).

Responses to the call for proposals will be judged primarily on:

* Value for money
* Understanding of the project brief
* Rigour of proposed methodology
* Focus and detail on investment and policies required to achieve net-zero
* Timeline and deliverables

**11. Contact Details**

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1. https://www.ifs.org.uk/publications/13302 [↑](#footnote-ref-2)
2. https://academic.oup.com/oxrep/article/36/Supplement\_1/S359/5832003 [↑](#footnote-ref-3)
3. [France maps green and brown expenses over 2021 budget proposal – auspicious developments for climate change mainstreaming and sustainable finance | Our Center of Expertise (natixis.com)](https://gsh.cib.natixis.com/our-center-of-expertise/articles/france-maps-green-and-brown-expenses-over-2021-budget-proposal-auspicious-developments-for-climate-change-mainstreaming-and-sustainable-finance) [↑](#footnote-ref-4)
4. [Paris Collaborative on Green Budgeting - OECD](https://www.oecd.org/environment/green-budgeting/) [↑](#footnote-ref-5)