



## BEIS COMMITTEE INQUIRY: NET ZERO GOVERNANCE

Issued 27 August 2021

ICAEW welcomes the opportunity to comment on the inquiry *Net Zero Governance* published by the Business, Energy and Industrial Strategy (BEIS) Committee on 24 June 2021, a copy of which is available from this [link](#).

We fully support the BEIS Committee's inquiry into the governance structure for achieving net zero; a proper governance structure will be the foundation upon which success will hinge. Currently, no appropriate governance structure is in place, which severely limits the ability of the UK to deliver on its net zero ambitions and targets. There is a distinct lack of clarity, lack of co-ordination, both within Whitehall and between central government and other key actors, such as the four nations, local authorities and business; and apparent lack of capacity to deliver. The UK successfully delivered the Olympics precisely because it addressed these three issues of clarity, co-ordination and capacity. If net zero is to happen, it needs that Olympic drive and spirit a hundred-fold.

To overcome a lack of appropriate governance, the Government should establish a single Net Zero Implementation Board, based in the Cabinet Office and charged with overall cross-governmental responsibility. BEIS should not be the lead Department for delivering net zero. The Implementation Board should be headed by a Cabinet Minister, with joint Ministerial allocation to the Cabinet Office and HM Treasury. Membership of the Board should also include First Ministers of the devolved administrations, Mayors, other local authority leaders and the private sector.

Parliamentary scrutiny of net zero is fragmented. A dedicated Net Zero Select Committee should be established to hold Ministers to account and provide Parliament with an evaluation about progress.

Government needs to start providing much more clarity and detail to the private sector. Businesses urgently need a detailed plan. Not a list of measures which might be done, but a clear plan as to how we get to net zero in key parts of the economy like energy, housing and transport. The later we leave the delivery of a plan, the more difficult and more expensive a transition to net zero will be. Delay means businesses have a reduced amount of time to build up skills, investment and capability.

To engrain net zero into government spending decisions, an assessment on how the decision contributes towards the UK delivering its net zero ambitions should be included.

This response of 27 August 2021 has been prepared by ICAEW's Public Sector team, which supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 8,000 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants and others to promote the need for effective financial management, audit and assurance, financial reporting and governance across the public sector to ensure public money is spent wisely.

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## KEY POINTS

### Climate must be a priority

1. We welcome this inquiry into the Government's governance structure to deliver net zero. The transition to net zero will be challenging, both politically and economically, as some of the old ways of operating are phased out. There will be winners and losers but if we don't get this right, ultimately we will all be losers.
2. It is vitally important that a solid foundation is put in place to achieve the UK's ambition of net zero by 2050 and having a robust, inclusive and accountable governance structure is key to that. Chartered accountants play a role in managing, advising and reporting and should be a key part of the transition and we would welcome further dialogue in the future.

### Cross-government responsibility

3. The Government is, in our view, still operating too much in silos and we recommend having one Net Zero Implementation Board with overall cross-governmental responsibility. This board must have the authority to make decisions that could potentially affect departments and must be directly accountable to Parliament.
4. Some policies put in place for net zero may directly contravene objectives of some other departments or local authorities. Thought will need to go into how conflicting priorities will be resolved.

### Detail is currently lacking

5. The Government's ambitions to be a global leader in net zero, directed by the Prime Minister's clear personal interest, is admirable and could provide the foundation of strong governance and clarity. However, the Government's current modus operandi in relation to net zero seems more focused on generating headlines with ad hoc announcements rather than producing a clear and detailed strategy and plan (policy frameworks). We have seen plenty of target setting and feel-good commitments but little in the way of actual detail. The recently published hydrogen strategy is a start but crucial sectors such as transport and heating are missing.
6. COP26 could be used as a target date by which the plan for delivery of net zero should be in place – both in terms of the public and private sector roadmaps, but also the model for central government governance that other nations could adapt.
7. Businesses urgently need a detailed plan. Not a list of measures which might be done, but a clear plan as to how we get to net zero in key parts of the economy. We need a systems approach, as understood by engineers. This means that the plan is sourced on a sector-by-sector basis, and that issues regarding synergies and trade-offs are debated and decided upon.
8. A delay in producing a plan means that businesses have a reduced amount of time to respond and gear up skills, investment and capability into their workforce, operations and supply chain. The later we leave the delivery of a plan, the more difficult and more expensive a transition to net zero will be to achieve.

## ANSWERS TO SPECIFIC QUESTIONS

### Question 1

***What are the key requirements for a governance structure that can deliver cross-Government climate action at the pace, scale and over the duration required to meet the carbon budgets and the 2050 net zero target?***

9. Given the importance the Government has attached to achieving net zero, we would argue that the governance is severely lacking in light of the most important long term social and economic challenges the country faces. There is a distinct lack of clarity, lack of co-ordination and apparent lack of capacity.
10. The UK successfully delivered the Olympics precisely because it addressed these three issues of clarity, co-ordination and capacity. If net zero is to happen, it needs that Olympic drive and spirit a hundred-fold. The longer we leave it, achieving net zero will be more difficult, more costly and will undermine both the UK's competitiveness, job generating ability and will be regressive in that the poorest in society will be hit the hardest.
11. Currently there is no clear governance structure and different government departments are acting in silos. To address this, we urge the establishment of a single Net Zero Implementation Board, based in the Cabinet Office, with overall cross-governmental responsibility. This board should take on responsibility for responding to the recommendations/reports from the Climate Change Committee and must be accountable to Parliament. Decision making by this body must be made with authority – and the cost implications must be dealt with by HMT via budgeting.

### Question 1a.

***Are the Government's existing net zero governance structures effective in this role, both in terms of co-ordination across Whitehall, and coordination with the devolved administrations and local and regional authorities?***

12. No. We find it very surprising, but telling, that the BEIS consultation does not provide information on the existing net zero governance structures. We had to look to an NAO report (*Achieving net zero*, page 30) to find an NAO compiled structure, which is, in our view, incomplete. The lack of clarity on existing governance structures is hindering and delaying progress.
13. The NAO recently set out in a report that local authorities need a single point of contact in central government (*NAO report*). Many local authorities have declared climate emergencies and they have an important part to play, as a result of the sector's powers and responsibilities for waste, local transport and social housing, and through their influence in local communities. The NAO report states that "*there are serious weaknesses in central government's approach to working with local authorities on decarbonisation, stemming from a lack of clarity over local authorities' overall roles, piecemeal funding, and diffuse accountabilities. This hampers local authorities' ability to plan effectively for the long-term, build skills and capacity, and prioritise effort. It creates significant risks to value for money as spending is likely to increase quickly.*"
14. It is not clear how central government is working with devolved administrations. The United Kingdom should work together on this and have a single set of rules, processes and targets.

If net zero is handled like COVID-19 with different rules coming into play at different times, it will undermine confidence and ultimately slow down progress.

#### **Question 1b.**

***What alternative governance structures could be established to coordinate and deliver cross-Government action on climate change more effectively?***

15. BEIS is not the department to lead on net zero in our opinion. There needs to be a strong and capable team, sat in the centre of government, coordinating action and addressing Treasury concerns about costs and adverse impact upon revenue. That being the case, a high-profile Net Zero unit, powered by the Implementation Board, needs to be established in the Cabinet Office, headed by a senior Cabinet Minister that sits in both the Cabinet Office and the Treasury. This joint Ministerial appointment is necessary both to drive governmental coordination via the Cabinet Office, as well as addressing the Treasury's concerns about costs.
16. Public sector and private sector stakeholders must be involved in the decision-making process via the Implementation Board. There is a distinct lack of coordination between central and local government, and between the four nations of the UK. We would recommend that a strong governance structure aimed at delivering a successful transition to net zero should ensure membership of the Implementation Board includes First Ministers of the four nations and Mayors, as well as representatives of local authorities and the private sector.
17. Since this is a cross government ambition it can't possibly be the responsibility of only one department. The impact of the actions of one department on another government entity or department must also be taken into consideration. For example, the consequences of HMRC increasing landfill tax leads to greater unregulated tipping, which local government has to pay for. Climate change responsibilities must be held jointly by a number of departments and how the activity and spend in one department directly or indirectly affects the activity and spend in another department must be a key consideration in delivering effective climate change action.

#### **Question 1c.**

***What metrics should the Government use to measure their progress towards net zero?***

18. The metrics used should be in line with those used by the private sector and adapted as appropriate. These metrics must be capable of being independently audited to ensure trust and accountability. Leaders in central and local government must understand these metrics and their role in achieving the KPIs.
19. Regarding the reporting of climate related information including metrics, KPIs etc, these need to be developed for all government entities since having consistent and comparable information will be very important. At the Whole of Government level, it should be able to report on total progress towards net zero by the public sector. The ESG reporting landscape is developing at pace and we note that BEIS has recently mandated TCFD disclosures for the private sector. We also believe that public sector entities should be adopting these disclosure requirements.

#### **Question 2**

***What governance structures would enable HM Treasury to give greater priority to the net zero target and the carbon budgets in its financial and economic decisions?***

20. If there were a steering group set up to manage the net zero target, then clearly HMT would be part of this group and as such the net zero target and carbon budgets would naturally be given greater priority.

**Question 2a.**

***How could HMT better ensure that spending decisions contribute to achieving net zero in the long term?***

21. HMT has recently revised the Green Book and these revisions were expected to ensure that net zero ambitions were incorporated into spending decisions. However, HMT's role is not to micromanage spending projects. It is essential if considerations of sustainability and climate change are engrained into decision making into account that all approved spending must take net zero into consideration, spelling out clearly how the decision contributes towards the UK delivering its net zero ambitions.
22. HMT have recently created new teams concentrating on balance sheet management – having a longer-term view of public sector financial sustainability. Net zero could be incorporated into the balance sheet management priorities - particularly if a long-term fiscal planning approach were adopted.

**Question 3**

***What signals and support does business need from the Government in order to deliver cross-economy decarbonisation in line with the carbon budgets and the net zero target? What delivery function should Government provide itself and are relevant regulatory bodies mandated and resourced effectively to deliver on Government priorities?***

***a) How do policy and regulatory signals and support vary between Government Departments (and how have they varied over time)? How is this affecting business activity on climate change?***

***b) Should Ofgem play a greater role in delivering on net zero and, if so, what changes are required to deliver this?***

23. Businesses require clarity and stable frameworks, to ensure that they can invest in capacity, training and product development – this is happening only on an ad hoc basis at the moment.
24. Businesses urgently need a detailed plan. Not a list of measures which might be done, but a clear plan as to how we get to net zero in key parts of the economy like energy, housing and transport. For the last two, the absence of any announcements of this is limiting the scope to deliver the necessary changes to decarbonise the housing and transport sectors.
25. We need a systems approach, as understood by engineers. This means that the plan is sourced on a sector-by-sector basis, and that issues regarding synergies and trade-offs are debated and decided upon. We don't seem to have this at all.
26. We have mentioned the Olympics as a successful example of what can be achieved. Another good example is the development of the UK offshore wind sector. The factors at play within this specific sector – long-term and stable frameworks, consensus across governments of different complexions, industrial policies emphasising co-operation between government and business, and strong governance via the Offshore Wind Industrial Council – means that we are now world leaders in this field, creating jobs in formerly deindustrialised areas in the north and east of the UK. As a result, the cost of energy produced by this sector has come down by about two-thirds. The UK offshore wind sector should act as a blue-print in how government can nurture fledgling industries with the right subsidies and tax incentives.
27. In our view, Ofgem has a key role to play in enabling the transition to net zero. We recommend amending Ofgem's statutory mandates



(<https://www.ofgem.gov.uk/publications/our-powers-and-duties>) to include achieving net zero as one of its objectives, similar to how it has to ensure long-term security of supply.

#### Question 4

***The BEIS Committee will be working with the Environmental Audit Committee on this inquiry and inviting guests from other select committees. We are also interested in comments on the effectiveness of current parliamentary scrutiny arrangements for climate change and proposals to improve this.***

28. The phrasing of the question clearly indicates that a cross governmental approach must be adopted if the net zero target is to be achieved and indeed if that ambition is to be appropriately scrutinised by parliament.
29. However, parliamentary scrutiny of the path to net zero is somewhat fragmented in our view. A dedicated Net Zero Select Committee should be established to hold Ministers to account and to provide Parliament with an evaluation about progress against milestones. To this effect, we would also recommend that the Climate Change Committee inform the Net Zero Select Committee as part of their role in advising the UK Government on emissions targets and to report to Parliament on progress made in reducing greenhouse gas emissions.
30. The current method of holding to account those charged with governance via various select committees has variable success. In our view the biggest stumbling block is a tendency for not following up any poor departmental responses to the various actions coming out of select committee hearings. Indeed, departments need to act on the committee reports much more effectively and there needs to be much better follow up. There appear to be no consequences for poor performance or non-performance which should be reviewed.
31. Lastly, it will be probable that select committees will need to start bringing in more expert advice to measure and assess progress in relation to net zero given some of the technical aspects of this subject matter. We recommend that government considers how this expertise might be resourced.

#### Other points to note

##### Late reports

32. Already several key reports are late and there appears to be no pressure upon government to produce these in a timelier fashion. Examples of missing reports include the Greening Government Commitments for 2021-2026 and HMT's final net zero report. Both were promised in Spring 2021. Whilst there have been other pressing commitments arising from the pandemic, the net zero commitment must be classified as of huge priority.

##### People: skills, knowledge and experience

33. The BEIS select committee, in reviewing the net zero governance structure, should also be asking themselves who is going to do the work. The governance structure itself is only a framework to allocate tasks and responsibilities to people and to establish reporting lines. It will all ultimately come down to there being sufficient capacity and capability.
34. Given the strains placed on the civil service during COVID-19, Brexit and the 2008/09 financial crisis we have some concern whether there are enough specialists in place and whether training will be provided to up-skill the workforce to be equipped for the challenges ahead. Given the long-term nature of achieving net zero, the Government should not seek to plug skills shortages by paying for consultants, as is the current preferred option.

35. To put this into context, most financial institutions have already started recruiting talent in and around ESG (Environmental, Social and Governance). PwC recently **announced** that it will be recruiting 100,000 people over the next five years in a major ESG push.

### Processes

36. There need to be effective channels through which collaboration can be facilitated, both within government but also between private and public sectors. Sharing experience, learning by doing and incorporating a feedback loop to enable policies to adapt in light of new evidence/data will be very important.
37. We do not believe that the private sector should move at a different pace to the Government; greater coordination between government and business is essential to ensuring that progress is made.

### Building trust

38. As this inquiry has highlighted, the Government could be more transparent in how it is structured to tackle climate change. And whilst BEIS has overall responsibility for net zero, a further nine other departments either lead or co-lead other policy areas in relation to net zero.
39. Accountability and transparency will be very important since these attributes build trust. Getting to net zero will involve winners and losers and making difficult choices and will require a change in behaviour from everyone and that is why having public buy-in is so important. The Government needs to be honest and upfront about some of the changes. For example, some negative climate externalities may need to be taxed differently to change consumer behaviour – and government needs to be transparent about their future tax policy.