

Passing the net zero test

How to achieve policy coherence
on climate change



About this report

Net zero is a huge national mission that will require policies from the whole of government to pull in the same direction. This report, which draws on a roundtable held in February 2022, explores how that can be achieved.

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Introduction

The transition to net zero requires action across a wide range of policies and at all levels of government. The Climate Change Committee (CCC) and the Treasury have made clear that the change will happen at least cost only with clear, stable and well-designed policies in place – and, crucially, if other policies do not inadvertently undermine the transition.

This does not mean eliminating policies not focused on net zero – government will still need to make policy across a huge range of areas. But it is important that net zero considerations are properly understood and considered before any policy decisions are made.

A lack of joined-up policy making has often undermined cross-government ambitions. In 2020 we identified policy incoherence as a key barrier to progress on climate change: progress on electric vehicles, for instance, has often been undermined by unsupportive tax policies and stop-start subsidies, progress on decarbonising homes by weak building standards and lack of investment in energy efficiency.¹

One proposal to help ensure alignment is to have a “net zero test for public policy”. The World Wide Fund for Nature (WWF) has already developed its own net zero test² for fiscal decisions, while the CCC has recommended a more general test applying to all policy to make sure decisions, including planning decisions, align with government’s climate targets.³

In the *Net Zero Strategy*, the government recognised the importance of embedding net zero in government and all its decisions. It said it would use the Environment Act 2021 to require departments to reflect climate change in policy making.⁴

On 12 May 2022 the government finally published its draft environmental principles policy statement setting out how “ministers of the Crown” (in practice, departments and in some cases arm’s length bodies) should give effect to the requirement to “have due regard” to those principles when making policy.⁵ It makes clear that the impact on CO₂ emissions and the potential contribution to the net zero target should be taken into account. It also makes clear that the principles apply to policy making (for example, legislation or strategies) but not to individual decisions.

The policy statement does not make any specific exemptions beyond individual decisions, but the explanatory notes published alongside the consultation made it clear that tax policy and spending allocations (though not the programmes themselves) would be explicitly exempt.⁶

The strategy also asserted that “ensuring spending decisions contribute to net zero is a major priority for HM Treasury”.⁷ The Institute for Government has argued before that this should be extended to tax decisions, and the Treasury’s own *Net Zero Review*, published alongside the strategy, recognises that fiscal events are important for progress on net zero, but notes there is no internationally agreed methodology for assessing their impacts.⁸

Last year the Environment Audit Committee recommended a “Net Zero stress test” on the 2021 budget and all subsequent fiscal events, and the development of “nature tests” to be applied to spending decisions.⁹ In a subsequent letter to the chancellor it went further, recommending that “the introduction of forecasts of the carbon and biodiversity impact of policies at each fiscal event, as part of a Net Zero test, would be one means whereby the Treasury could demonstrate its continuing commitment to integrating the lessons of the Dasgupta Review into policymaking”.¹⁰

There is a long history of governments developing mechanisms to try to achieve a degree of policy alignment across government. This is not confined to the UK.

This paper draws on a roundtable held with officials and external experts in February 2022 and looks at experience of attempting to use policy tests and duties in the UK and beyond, what a net zero test could look like, its benefits and disadvantages. It then makes recommendations on how a test comprising both emissions measurement and wider guidance to policy makers could be designed, and wider steps the government should take to ensure that it achieves policy coherence.

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Existing policy tests

The government already asks departments to take account of net zero in policy development

There is a variety of ways government departments are already asked to factor in the impact of their policy decisions on carbon emissions.

Regulatory impact assessments¹¹ – under review by the government as part of its post-Brexit re-examination¹² of the Better Regulation Framework – include a requirement on departments to estimate the impact of new policies on CO₂ emissions. That need not be a barrier, and the assessments themselves have been buttressed with other measures to reduce regulatory burdens such as ‘one in, one out’ and ‘one in, two out’ requirements on departments. Their scope is also limited: assessments are required only for changes that have implications for business or third sector organisations, but not ones that only affect other parts of government, or citizens.

In its *Net Zero Review*,¹³ the Treasury suggested it would make certain moves aimed at “embedding” net zero. Responding to recommendations from the National Audit Office and the Public Accounts Committee, the Treasury said it recognised “that fiscal events are key opportunities to ensure that climate change is appropriately prioritised in decision-making”. It pointed out that it had asked departments to submit assessments of the greenhouse gas impacts of their spending bids as part of the 2021 spending review – and would look to learn the lessons from that.

A key difficulty will be raising the quality and consistency of departmental assessments and it would be helpful if the Treasury review could include an assessment of what is needed to do this. It would also be good if it could include a view on how far this approach enabled it to take an overview of how consistent the outcome of the spending review was with the government’s net zero strategy – and if not, what would achieve this.

The last Labour government introduced public service agreements¹⁴ on climate change mitigation and adaptation, which were laid out alongside the outcomes of their comprehensive spending reviews – but the lion’s share of the responsibility lay with the lead department and they did not act as a particularly effective way of driving performance more widely. These commitments were also reflected in the extensive list of local authority indicators. These were all dispensed with when the coalition government abandoned what it regarded as micro-management – but there are some suggestions that their presence might have been useful in achieving consistent reporting and in persuading local councils to take action.

The Treasury’s *Green Book*¹⁵ requires departments to include environmental impacts in any appraisal of a policy or project. It notes that this applies to direct energy consumption but also potentially the cost of “producing inputs”. The Department for Business, Energy and Industrial Strategy (BEIS) also produces periodically updated carbon values,¹⁶ designed to reflect the social cost of carbon emissions, for departments to use in their policy appraisals.

One weakness of relying on the *Green Book* approach is that it works on a project-by-project basis, which means approval decisions fail to take account of the broader emissions picture. Project carbon costs are modelled, but there is no requirement for officials to consider them within the context of the government's wider portfolio. While spending bids will have a 'strategic case', these are often far from comprehensive.

One participant explained how the broader picture was not taken into account even for large projects like HS2 and the A14 road improvement.¹⁷ The environmental statements of road-building schemes, for example, will typically state that they account for a negligible percentage (even less than 0.01%) of the UK's overall carbon budget over a five-year period and therefore would not have a "material impact" on the UK's targets.¹⁸ But there is no attempt as part of the *Green Book* process to add all these amounts up and assess whether taken together they are in line with carbon budgets and climate targets.

The Planning Act 2008,¹⁹ which introduced 'national policy statements', set out a requirement that the "reasons" that accompanied a policy should include an explanation of how the policy "takes account of Government policy relating to the mitigation of, and adaptation to, climate change". It was the failure to do this that led to the successful judicial review by Greenpeace of the government's policy statement on Heathrow expansion in February 2020.²⁰

In addition, the government has taken steps to align some UK regulators with its net zero objectives. In the *Net Zero Strategy* the government set out the approach it is taking to these important bodies – the Competition and Markets Authority, the National Infrastructure Commission and Ofgem.²¹ Financial regulators (Bank of England, Prudential Regulation Authority, Financial Conduct Authority) have also had requirements to consider net zero targets incorporated into their remit letters from the Treasury.²²

The framework agreement for the UK Infrastructure Bank²³ has incorporated net zero requirements and provided the precedent for ministers to make a similar commitment on the new Advanced Research and Innovation Agency (ARIA).²⁴

But while these various measures are steps in the right direction, and help take account of the emissions resulting from individual policy choices, none forces a re-examination of a policy to ensure it is compatible with net zero, nor do they require government to make an explicit statement that it has assessed how the policy is to be squared with its net zero objective. That is what 'policy tests' deployed in other areas have been designed to achieve.

Tests have been used in other areas to achieve policy alignment

There is no shortage of examples of policy tests, or 'duties' – both in the UK and elsewhere – designed to ensure that any new policy decisions do not undermine existing objectives. Table 1 sets out some existing tests that UK government departments are supposed to apply their policies to achieve this.

Table 1 **Policy tests or duties in the UK**

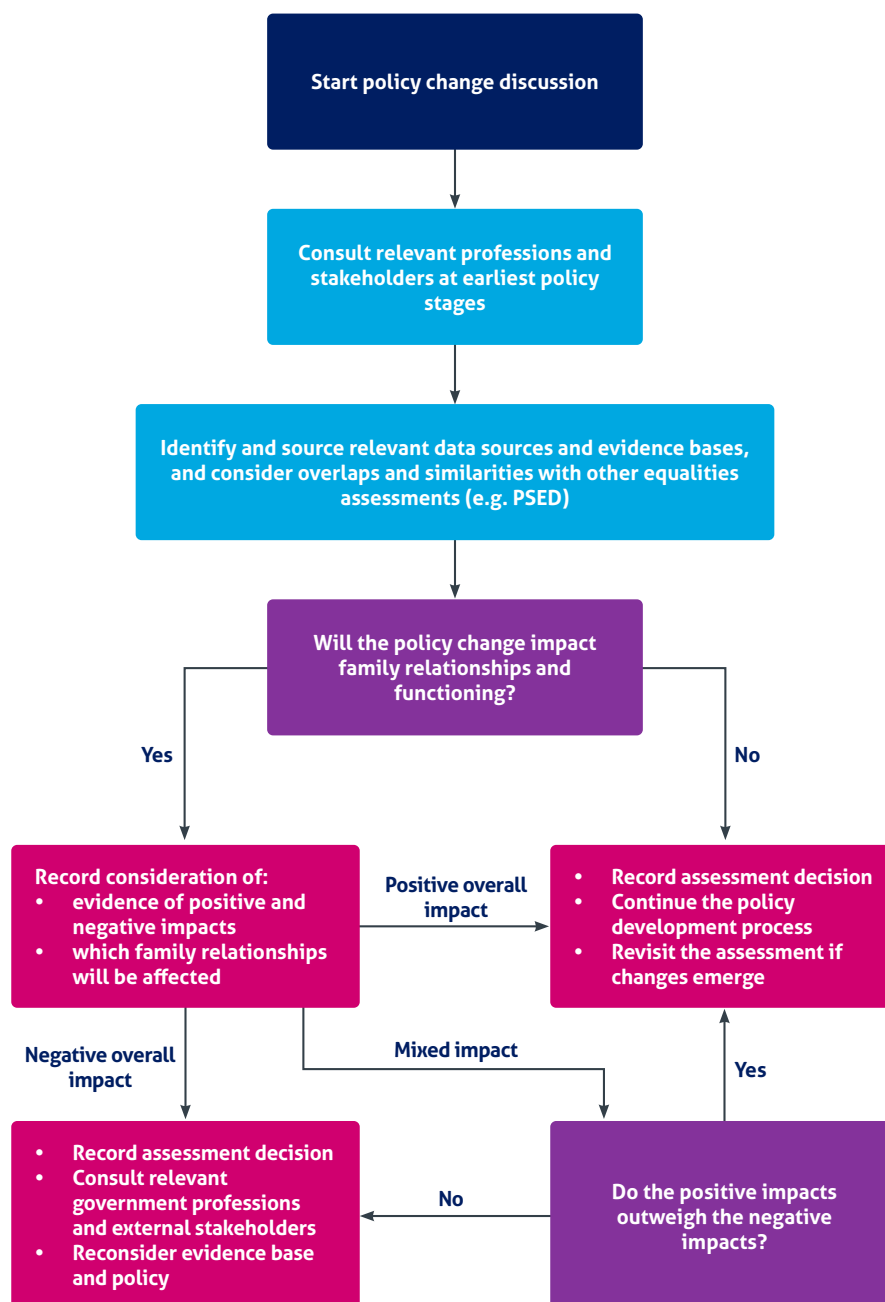
Requirement	Rationale	Outcomes
<p>Public sector equality duty (PSED)</p>	<p>The first public sector equality duty related to race and was introduced in 2001 in response to the Stephen Lawrence Inquiry. Duties on disability (2006) and gender (2007) followed, before a single duty was introduced encompassing all of the characteristics protected under the Equality Act 2010. The aims were to:</p> <ul style="list-style-type: none"> • Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010 • Advance equality of opportunity between people from different groups • Foster good relations between people from different groups.²⁵ 	<p>A review of the PSED in 2013 suggested that it was too early to make a final judgment about its impact, but that while there was “broad support for the principles behind the Duty” challenges lay in its adoption, which varied considerably between organisations. It noted that “due regard” was open to interpretation and had led to uncertainty and some public bodies adopting an overly risk-averse approach.²⁶ A House of Lords select committee concluded in 2016 that the PSED was fundamentally flawed as public bodies could be compliant with the duty without making any progress towards its aims and recommended that it be amended.²⁷</p>
<p>Family Test</p>	<p>The Family Test was introduced in 2014 in England. It requires policy makers to consider five questions that assess the impact a policy might have on family life and relationships. Guidance suggests it should be considered in any domestic policy making that might have a potential impact on families. It is not a statutory requirement, although two attempts were made by MPs, in 2015 and 2017, to make it one. Assessments are supposed to be documented but these do not have to be published.²⁸</p>	<p>A 2016 review of the Family Test by several charities concluded that most departments showed limited commitment to its implementation and that responses were varied. The review also expressed concern about the lack of a transparent mechanism to record that the test had been applied, which made it impossible to assess how it was incorporated into policy making. It recommended putting the test on a statutory footing and requiring departments to publish a record of their assessments.²⁹ Fresh guidance was issued after a review by the Department for Work and Pensions in 2018-19 but the test itself remains unchanged.³⁰</p>

<p>Regulatory impact assessments (RIA)</p>	<p>Impact assessments are generally required for regulation that will affect the private sector, civil society organisations or public services. They cover economic, social and environmental impacts. The government also has obligations under free trade agreements to conduct impact assessments on regulation that might impact trade.³¹</p>	<p>A Regulatory Policy Committee review in 2020 suggested that mandatory final stage impact assessments had increased the amount of evidence presented alongside policy proposals as well as accountability and transparency. However, it also noted that some impact assessments could be overly limited in scope, not considering the broader potential effects of a policy, lacking proportionate evidence and produced on overly short timescales.³² It singled out net zero as a potential area of focus.³³</p>
<p>European Convention on Human Rights (ECHR)</p>	<p>The Human Rights Act (1998) requires the secretary of state for the relevant department to state in the Commons that in their view a bill is compatible with the ECHR or that the government wishes to proceed with the bill anyway. Policy makers must consider the impact of legislation on ECHR rights.³⁴</p>	<p>A report by the Joint Committee on Human Rights, published in July 2021, suggested that the ECHR had improved respect for human rights and enabled marginalised groups to enforce their rights. It concluded that the potential issues identified by the government ahead of its independent review into the Human Rights Act – the relationship between domestic courts and the European Court of Human Rights, the impact on the relationship between the judiciary, executive and parliament, and the implications of the way the Act applies outside the UK – were not problematic and that the Act should not be changed.³⁵ The independent review proposed a number of specific reforms.³⁶</p>
<p>Criminal Offences Gateway/Justice Impact Test</p>	<p>The Criminal Offences Gateway was introduced to prevent the creation of unnecessary new criminal offences. Policy makers were required to seek Gateway clearance from the Ministry of Justice if planned legislation would create, repeal or amend an offence. It was repealed in 2015. Policy makers creating new offences now have to apply the Justice Impact Test. It requires them to think about whether policies might have an impact on the justice system more widely, as well as in relation to the creation of new or amended offences.³⁷</p>	<p>No specific reviews or evaluations of the Criminal Offences Gateway or Justice Impact Test were found. A statistics bulletin from the Ministry of Justice stated that the number of new offences created in the year to May 2014 was 60.7% lower than the number created in the year to 2010 before the Criminal Offences Gateway was introduced, although it did not attribute this directly to the gateway.³⁸</p>

<p>New burdens doctrine</p>	<p>The new burdens doctrine requires all Whitehall departments to “justify why new duties, powers, targets and other bureaucratic burdens should be placed on local authorities”. Costs must be assessed and fully funded.³⁹</p>	<p>An NAO review of the new burdens doctrine in 2015 found that departments took the cost assessment process seriously but struggled to accurately assess costs in some cases or be clear about the level of uncertainty around cost estimates. It also suggested that there was a lack of transparency around assessments and that previous assessments should be reviewed more often.⁴⁰</p>
<p>Environmental impact assessments (EIA)</p>	<p>Environmental impact assessments are designed to ensure that a local planning authority takes into account environmental effects when making planning decisions. The guidance states that EIAs should apply only to projects likely to have significant effects on the environment and “will only apply to a small proportion of projects considered”.⁴¹</p>	<p>An Institute of Environmental Management and Assessment review in 2011 argued that EIAs had “enhanced the consideration of environmental and social issues” but suggested a number of procedural improvements to improve consistency and quality.⁴² An academic survey of professionals involved in EIAs in 2012 also found that it was perceived to raise environmental awareness and have a moderate impact on the incorporation of environmental concerns into decision making.⁴³</p>

The most notable thing about these tests is that they are all aimed at avoiding inadvertent negative consequences – harm avoidance. But they are also designed to prompt policy makers to think whether there is a better way of achieving their principal policy objective. The Family Test in particular illustrates this. Its accompanying guidance states that the test “aims to help policy makers think about how new and changed policy might impact upon family life and family relationships”, describing it as “a holistic approach to develop better, well-rounded policy options for decision makers to consider” and as “a tool to raise awareness of potential impacts and support effective decisions during policy making”. The guidance also says that assessment should start early, the judgments recorded and be repeated through the policy process. Lastly, it sets out how to integrate the Family Test into the policy process (see Figure 1).⁴⁴

Figure 1 **Family Test**



Source: Institute for Government of [to come].

But guidance for others recognises the risk that they become a meaningless compliance exercise. The guidance on the PSED states: “The Equality Duty is not a matter of box-ticking; it must be exercised in substance, with rigour and with an open mind in such a way that it influences the final decision.” A review by the House of Lords Select Committee on the 2010 Equality Act concluded that the duty as then specified was too easy to ignore (the recommended strengthening has not happened):

“When the Government and public authorities are formulating their policies, they have a duty to ‘have due regard’ to the need to eliminate discrimination and advance equality of opportunity. This wording allows them to consider all the evidence, but still to pursue plainly discriminatory policies. We recommend that the wording should be strengthened, so that the discriminatory consequences of their decisions can no longer be ignored.”⁴⁵

This makes clear that the existence of tests or duties, or the requirement for impact assessments, is not enough on its own to prevent perverse decisions. In her *Lessons Learned Review* on the Windrush scandal, Wendy Williams commented:

“It is striking in reading the documentation disclosed during this review and in conducting interviews that a very limited degree of focus was placed by senior policy officials on the public sector equality duty and the apparently limited understanding of the interrelationship between equality law and immigration law.”⁴⁶

Other governments have developed tests on net zero or sustainability

While the UK has experience of policy tests as outlined above, few bar the EIAs and to an extent RIAs look specifically at decarbonisation. Below we set out some examples of how other countries use policy tests as part of their emissions reduction strategies (Table 2, overleaf – although robust evidence on the difference these have made to policy development appears limited).

Table 2 **International examples of tests on climate or sustainable development**

Test	Rationale	Outcomes
Climate implications of policy assessment (CIPA) (New Zealand)	<p>Since 2019 certain government agencies in New Zealand have been required to do a climate implications of policy assessment (CIPA) for policies going to cabinet that are likely to have an impact on greenhouse gas emissions above certain thresholds. This is designed to allow New Zealand to monitor and report on how cabinet decisions will impact greenhouse gas emissions.⁴⁷</p>	<p>A full CIPA was reportedly completed on only eight policies during 2020, with 29 proposals having more limited 'qualitative' CIPAs completed; 141 proposals were assessed as not requiring a CIPA. The climate change minister suggested this was generally a positive sign as it meant few proposals were being put forward that would have a significant emissions impact, but successfully lobbied for the emissions threshold for policies requiring a CIPA to be lowered in July 2020.⁴⁸</p>
Climate Strategy 2050 (Austria)	<p>Austria's climate strategy stated that proposed legislation at the federal and provincial level would be subject to "a mandatory climate review" to "prevent undesired adverse effects on the climate".⁴⁹</p>	<p>Limited evidence</p>
Environmental management system (Sweden)	<p>Introduced in 1999, Sweden's environmental management system integrates environmental considerations into government decisions by "identifying and taking account of the environmental effects of decisions during their preparation".⁵⁰</p>	<p>Limited evidence</p>

<p>Green Budget (France)</p>	<p>Starting with the 2020 budget, France introduced a <i>budget vert</i>, which is published a few months in advance of the budget and sets out its impact on climate change, adaptation, water management, waste, pollution and biodiversity. All spending or income is marked as 'green', 'mixed', 'neutral', or 'brown'. In 2022, €32.5bn was classified as 'green' and €10.8bn 'brown', with €4.5bn 'mixed', leaving the vast majority 'neutral'.⁵¹</p>	<p>The French government has acknowledged that the methodology of the green budget needs to be improved, and stated that this is a step towards a more concrete assessment of environmental impact.⁵²</p>
<p>Well-being of Future Generations (Wales) Act 2015 (Wales)</p>	<p>The Well-being of Future Generations (Wales) Act requires public bodies to carry out sustainable development – acting to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. Public bodies are required to take into account the impact decisions could have on people living in Wales in the future, as well as to set and publish well-being objectives designed to maximise their contributions to achieving Wales's overall well-being goals.⁵³</p>	<p>The Senedd's Public Accounts Committee reviewed the Act in 2020 and suggested that public bodies had not done enough to change their organisational cultures or build awareness among their service users, and that the Welsh government was too slow to implement it internally and make it clear to public bodies that it expected them to do so as well. It, however, suggested that more progress has been made since 2017 with more emphasis from the first minister and permanent secretary and structural changes made in support of the Act.⁵⁴ The future generations commissioner reported in 2019 that the Act was driving some innovation but that these were isolated examples rather than a change in overall approach. Similarly, while progress was being made in some areas there was variation in how public bodies were applying the Act.⁵⁵</p>

There are pros and cons to a conventional policy test on net zero

The government is already publishing a raft of policies to deliver its net zero target. The challenge it faces is to ensure those policy choices the most cost effective options and minimise other unintended consequences. The key question is whether a net zero test would help to achieve this and lead to better policy making.

In this section we look at what the characteristics of a test could look like. To be effective a test would need to be three things: usable, useful and used. It could also go beyond ensuring consequences were examined to look at how opportunities could be maximised.

A usable test needs to produce consistent results

A huge advantage of climate change policy is that there is a common currency with which to measure impacts: emissions. While other tests – for example, the impacts on families or equality – require some nuanced judgments and have no simple metric, there are already well-established methods for measuring emissions impacts in the *Green Book* appraisal process. These methods would form an important component of any net zero test. Crucially, they make different sorts of policy intervention comparable (although there are questions about how regularly and consistently these are used to a high standard by policy makers).

There would need to be clear guidance on what emissions are in scope and what are not, and how far they should attempt to model the dynamic implications of any change they make. This is important because changes in one area that appear to reduce emissions could increase them in another or have wider system impacts. However, policy makers would also need to meet whatever the government finally decides for the guidance on applying environmental principles and be compatible with the long-term environmental targets. They would need to know, for example, how far they need to take account of inputs as well as impacts, including both negative impacts and/or co-benefits (for example, on jobs, health, security and cost), what timescales they should apply to those impacts and how they should model potential behavioural change. This is already an issue with the net zero commitments that government is asking businesses to make; for example, to be able to bid for government contracts – they need to be clear what they are being asked to take responsibility for.

And if the test is to be used in local government, decision makers need to know where they can access reliable expertise. Many local authorities have set ambitious net zero targets but not yet developed clear plans for how they will meet them, or even measure progress on reducing emissions. The methodology and results need to be sufficiently transparent so as to command external acceptance. A consistency in approach would be one of the big benefits of a standardised test.

It also needs to be clear what decisions need to be tested, and when this is not required. There may be large areas of government activity where climate impacts are so remote or de minimis that it does not make sense to apply the test – for example, on welfare benefits or education spending.

To be useful the consequences of applying the test should be clear

Policy makers inside government told us that the net zero goal had galvanised internal thinking in a way in which the previous 80% reduction target had not, simply because it left no hiding place. People could no longer argue that 'their' emissions were part of the residual 20% (even if the new strategy is based on a 'net' target, so does not assume emissions are eliminated entirely).

However, the 2050 target is a long way off, and during the transition there will be policy decisions that appear to go in the wrong direction that government will still want to take – not least at the moment when it is prioritising security of supply and affordability alongside net zero. So a test would need to show how, for example, expansion of UK gas or oil production is squared with the ultimate objective of net zero. A useful test would need to prevent every policy being de facto exempted from compliance with net zero. It would also need to make clear how the policy maker would be expected to respond to a negative assessment. So, while transparency is a useful discipline in itself, to be of real, practical use any policy test should be clear on what is supposed to happen next if the impacts are material.

A policy test needs to be used well

The biggest roadblock in the way of a useful policy test comes with the attitude of the user and, more importantly, the ultimate decision maker. If the latter is not committed to net zero, there is a high risk that any test will be regarded as an annoying compliance exercise at the end of the policy process – for example, when regulatory impact assessments are commissioned after key decisions have already been made, and are regarded by ministers as a hurdle to get over. This can lead officials to see working out how to get round them as a test of their ingenuity, and the test ending up as an exercise in post hoc rationalisation. This was a big theme that emerged from former civil servants at our roundtable.

So a test needs to be viewed as a helpful tool, which the policy maker willingly uses early in the process to help consider options and provoke a rethink where necessary. It needs to be light touch enough not to be seen as introducing unnecessary bureaucracy or delaying decisions, while not being so weak as to be completely ignored. It may also need to come with support or training, given many policy makers using it will have limited knowledge on how climate and nature as systemic issues may touch on their own policy fields.

A test on its own will not prevent decisions inconsistent with net zero

The existence of the public sector equality duty did not stop the Windrush scandal. Successive governments have struggled to pare back the regulatory burden on business despite the long-standing requirement for regulatory impact assessments – and have sought to supplement it with other blunt devices such as 'one in, one out' or 'one in, two out' rules – where a condition of proceeding with a regulation is to ditch

one or two existing ones – which again can be undermined by gaming by departments. So a net zero policy test would not necessarily have stopped a department determined to press ahead with questionable policies such as opening a new coal mine,⁵⁶ or the Treasury's recent cuts to domestic air passenger duty (more on which below).

As the UK reduces its emissions towards its 2050 goal (and even that is a net goal), it would be hard to demonstrate conclusively that any individual policy was inconsistent with the overall goal, even if it generated additional emissions. A simplistic test can also have unintended negative consequences: variations on the 'one in, one out' rule were cited by civil servants to the Grenfell Tower Inquiry⁵⁷ as reasons why the department did not tighten up building regulations.

Gaming happens even where there is an external enforcement mechanism, though that can be an important extra discipline, particularly if the enforcer can demand a re-examination of the policy. Regulatory impact assessments have to be submitted to the Regulatory Policy Committee – but their main task is to challenge the quality of the assessment, not to impose an alternative policy. Other policy tests are self-judged – though where there is a legal obligation to apply a duty they open up the possibility of judicial review.

A conventional test applies only to new policy – not to existing policies and programmes

Many of the most perverse effects come not from new policy, much of which will be developed with a 'net zero consciousness', but from policies, programmes and processes that were introduced before the government committed to net zero. A test on new policy reduces the risk of adding to the stock of existing policies that make net zero more difficult, but does nothing to tackle that stock itself.

The government should take a phased approach

The analysis above suggests there is a case for building on existing appraisal techniques and encouraging departments to assess early on how far they can ensure that their policies are compatible with net zero and make the most of opportunities to tweak their policies to promote it.

The first aim of such a test would be to avoid the government unwittingly making decisions that undermine its net zero credibility by flagging risks as well as to identify opportunities for making faster progress. Internally it can be a device to make sure that impacts are flushed out before final decisions are made and that there is the sort of collective discussion that seemed to be missing when the COP president was blindsided by the initial decision on the Cumbria coal mine.

It could also help with the presentation of policy. The Treasury came in for a lot of criticism at the time of the 2021 autumn budget when it announced cuts to domestic air passenger duty while raising it on long-haul flights, to promote connectivity between different parts of the UK. The Treasury estimated that this would generate an extra 22,000 flights annually, but did not publicly assess the net impact on emissions and the measure was widely criticised as incompatible with its net zero objectives.

The Institute for Fiscal Studies pointed out that because domestic aviation emissions are caught within the domestic emissions trading regime, which caps the overall level of UK emissions, the chancellor's measure would raise the average carbon price, so changing the *composition* of domestic carbon emissions but not the level.*

Given the likely difficulty of communicating policy decisions on a goal as wide-ranging as achieving net zero to the public, using a test transparently could help provide clarity. Business representatives also told us that a test would be welcomed by their sector for the greater certainty over decision making it could provide.

A tool designed to help policy makers rather than one that carried a statutory obligation might seem a weak place to start. But this would allow a test to be properly developed, that could potentially be applied to existing policies as well as new ones, and would avoid the risk of being seen immediately as an unwelcome compliance burden. If central government can develop an effective net zero test, and refine it as it gets feedback from those applying it, it could also be used by local government. That would also overcome the current government's reluctance to expose itself any further to the risk of challenge in the courts.

By starting with a voluntary test on individual measures, the aim should be to make it an integral and useful part of the policy process, aimed at looking for opportunities to design policy to help ease the path to net zero from the start, as well as ensuring any adverse impacts are mitigated as far as possible. There is widespread enthusiasm among officials for making progress and this would be a way of channelling that enthusiasm into tangible policy results.

As the test was refined and became more robust over time, the government could decide to put it on a statutory basis. But even that offers no guarantees, and if the government is going to properly embed net zero – as it claimed in the *Net Zero Strategy* it wanted to do – it needs to go further and strengthen its processes for achieving this. We look at those possibilities below.

* The UK Emissions Trading System (ETS) is covered in more detail in our October 2021 report *Net zero and the tax system* (pp. 8–10).

Wider changes are needed to ensure policy alignment with net zero

A test can play a helpful role in ensuring that net zero implications are fully considered early in the policy process. But it should be considered alongside a wider set of changes that will be needed to ensure policy coherence.

Transparency about the planned trajectory for emissions reduction is critical to holding the government to account for progress

In its *Net Zero Strategy* the government produced three scenarios for emissions reduction. But it did not make clear what trajectory it was aiming at, nor what policy and behavioural changes would deliver it – meaning there is no baseline against which to judge policy decisions. It said that it would set out “milestones” and produce an annual update of progress, which will help to an extent.

It may be that there is more internal clarity. But if the Climate Change Committee and parliament are to be able to hold government departments to account they need to understand what the government is assuming will happen to deliver its net zero goal. Otherwise the government will simply be able to claim that any move is already taken into account.

For any decision that looks like a significant deviation from the trajectory, the government needs to be able to explain how it plans to get back on track so people can judge whether the government has thought through the impact of any temporary net zero passes.

The government should press on with its plans to assess major fiscal events for compatibility with net zero – and consider the case for institutional bolstering

As the Treasury acknowledged in its net zero review, there is a case for assessing the carbon impact of fiscal events. It is assessing the way this worked in the spending review and pointed out that environmental tax measures (for which the Treasury has a very narrow definition⁵⁸) were assessed for the March 2021 budget. It has said that “HMRC is exploring options to further strengthen the analytical approach to monitoring, evaluating and quantifying the environmental impacts of tax measures, including their wider impacts”, which would be a useful development.

The government needs to build on this work and make a clear commitment to publishing an assessment of the impact of both spending reviews and budgets on its net zero trajectories.

It should consider going further still. The Environmental Audit Committee (EAC), in its letter to the chancellor, pointed to evidence from Andy King, of the Office for Budget Responsibility. He contrasted the OBR, which was tasked with producing updated fiscal forecasts, taking account not just of measures announced in the fiscal event but also the impacts of other policy announcements made since the last one, and of changes in the economy, with the lack of similar forecasts of progress on reducing carbon emissions.

The degree of transparency – and particularly quantification – in this independent monitoring and assessment of overall performance against fiscal rules goes beyond the equivalent role played by the Climate Change Committee in respect of net zero. The various government and CCC ‘pathways’ to net zero do not have the same status as the OBR’s current-policy forecasts for fiscal outcomes, nor is there an emissions ‘scorecard’ monitoring positive and negative policy influences on future emissions in the same way as the budget ‘scorecard’ records the impact on public sector net borrowing of all policies announced since the previous forecast (the latter being the issue raised by the EAC in its letter).

In its *Net Zero Strategy* the government committed “to provide a public update every year on progress in the previous year against the delivery pathway to net zero set out in this Strategy”, including progress against interim targets and indicators, commentary on contextual changes affecting the pathway, and a summary of progress against policies and proposals in the net zero strategy. The government needs to stick to this commitment and include in its assessment a view on how changes in energy prices will affect its future projections for emissions. This is particularly important at a time when prices are high and volatile.

In its *Net Zero Review*, the Treasury noted the significant economic implications of the transition and said that it was “therefore committed to continuing to build the necessary modelling capabilities to develop further its understanding of the transition to net zero.” This capability needs to be brought together with the progress update so the government can better understand the economic, fiscal and emissions implications of the path that the UK is on.

There is an interesting question of whether that capability sits best in the Treasury or whether, like economic forecasting has since 2010, it should sit at arm’s length. One model for this could be the Danish Environmental Economics Council,⁵⁹ set up in 2007, which sits between their Economic Council (equivalent to the OBR) and their Climate Change Council (equivalent to the Climate Change Committee) and is responsible for advising on the economic and environmental implications of economic and policy developments. A UK government pursuing net zero, and managing the economic implications, should consider whether it needs to establish such an independent body.

The government should audit existing policies for compatibility with net zero

The emissions pathway will reflect the impact of existing as well as new policies – and more so by existing ones in the short term. Departments have policies and programmes that may have the unintended effect of locking the UK into higher CO₂ consumption than intended. The government could ease the path to net zero by asking two questions of existing policies:

- Is this policy making it harder to get to net zero by incentivising or locking the UK into higher emissions than would be entailed by alternative policy choices?
- Is there scope for changing this policy to make it more compatible with the goal of net zero?

It would make sense for these reviews to be subject to challenge from the centre – as has happened, for example, on plans for regulatory reform when departments were required to defend their plans at a 'star chamber' convened by the Cabinet Office. This task could fall to the prime minister's delivery unit, which has ensuring progress on net zero as one of the five prime ministerial priorities it is supposed to track.

Any new policy with significant impacts on net zero should be considered collectively

There needs to be an internal process to ensure that any policy with significant implications for the government's ability (or indeed perceived ability) to deliver its net zero targets has to be discussed collectively, even if it lies squarely within the responsibility of one department and would not normally require collective agreement. The current approach has led to confusing messages coming out of different departments. In current structures this could mean in the Climate Change Action Implementation Committee,⁶⁰ with the chair (currently COP president Alok Sharma) able to refer any decision to the higher-level Climate Change Strategy Committee⁶¹ chaired by the prime minister, who is ultimately responsible for overall government strategy.

The net zero test should act as a trigger for this sort of collective discussion. This would mean that a department that assessed that a policy would have a significant impact on the government's ability to deliver its net zero target would need to ensure there was collective sign-off before it proceeded.

Net zero policies need to be tested for fairness and cumulative impact on households and businesses

In much of this paper we have focused on the need for policies to be checked to ensure the implications for net zero are understood. But if public consent is to be maintained for the transition to net zero, particularly in an environment of heightened concern about energy prices, the government must also ensure that its policies are seen to be fair and avoid imposing excessive and unmanageable burdens on households or businesses. That means that it will be important to track not just the impacts of individual policies, but also to keep on top of the cumulative impacts of policy changes.

The Treasury's *Net Zero Review* ducked the issue of who pays by arguing that future technology challenges made it too uncertain to model. It did warn that there might be risks to business competitiveness if UK firms faced higher carbon taxes than elsewhere. As those decisions are made, the government will need to come clean on the implications for households as well as businesses and how it intends to support those who may struggle. This includes both near- and long-term implications given the substantial costs to the public and the public purse overall if decisions are taken to delay investment in net zero: the OBR in its *Fiscal risks report* noted the escalating costs of delayed investment/policies and concluded that "early decisive action to tackle carbon emissions could halve the overall fiscal cost of getting to net zero".⁶²

The government needs to make sure that the duties of arm's length bodies are aligned with net zero

Many government functions are outsourced to arm's length bodies – and these need clear guidance from government on the overall strategic context. So the government needs to give these bodies clear duties to enable the government's strategy on net zero but also clear guidance on how to make the political trade-offs inherent in delivering the strategy.

The government has already made a start by giving the National Infrastructure Commission a net zero duty, which it is taking seriously. But this needs to apply across the economic regulators as well, and include those overseeing the provision of financial services.

Adaptation needs to be built into early stage policy and project decision making as well

If anything there is less policy alignment around the need to factor in resilience to climate change impacts than around net zero itself, where the government's targets are well publicised – it is also much harder because there is no single metric or common benchmark against which to measure robustness of plans. At the moment in the UK consideration of adaptation largely applies to significant capital investments and planning decisions but over time the need to ensure policies take account of adaptation will apply increasingly widely. The Climate Change Committee has repeatedly criticised the lack of progress in planning to deal with the impacts of climate change.

Policy makers will need to treat net zero and nature as systemic policy challenges

The effectiveness of any test will also depend on the know-how of the user. The Government Skills and Curriculum Unit is introducing climate skills training, but this may need to be broadened further⁶³ and is likely to be particularly important for policy makers with no background in dealing with environmental and energy issues. There also would need to be an efficient way to help officers in local government to build back capacity which has been lost over the last decade.

Conclusion

The government faces a massive challenge in delivering its ambitious targets for net zero – one that concerns about security of energy supply and affordability have made simultaneously more urgent but also more fraught to deliver.

That means the government needs to bolster its policy armoury to ensure that it sticks to the least-cost path towards net zero and receives public support for this. In this paper we suggest that a usable and well-used method for policy makers across central and potentially local government to understand the implications of their decisions for net zero could be a useful addition. To ease the transition, in the first instance that should be a voluntary test that is quick to put in place, rather than a statutory obligation.

No test will be perfect but that is not an argument against it. If used in the way we suggest, its principal purpose should be to ensure that net zero is considered early enough in the policy making process to be taken into account before final commitments are made and that existing policies are subjected to a retrospective test of compatibility with net zero.

But the government should also follow up its proposals on 'embedding net zero' and set out clear overall internal processes that will both ensure internal policy coherence and delivery of key commitments, but also be transparent so that external bodies can keep track of progress. That will also offer greater certainty to all the private sector decision makers who will play a critical role in delivering net zero and who are deterred by policy inconsistency. But no amount of process can be a substitute for determined leadership from the top of government. That is necessary, if not sufficient, for coherent action.

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