Sustainability First

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To: NZRengagement@hmtreasury.gov.uk

Dear Review team

HMT Net Zero Review – Interim Report

Sustainability First is a think tank and charity that works in the energy, water and waste sectors. We have significant experience of consumer and public interest issues, with a focus on social and environmental concerns (see www.sustainabilityfirst.org.uk).

We welcome publication of HMT's Interim Report and appreciate the opportunity to provide comments ahead of your final report later this year. Questions of fairness and affordability in the context of the Net Zero transition are central to our work and we have recently published a short Viewpoint paper summarising our thinking in this space which we hope will help inform both BEIS's Call for Evidence and also your own work. The Viewpoint is attached for ease of reference and is available on the Sustainability First website here and we would be happy to take you through the underlying research in more detail if that would be helpful.

We recognise the difficulties in articulating clearly what the distributional impacts of Net Zero will be given that they depend heavily on the particular policies developed. That said, we think the framework you provide at paragraph 7.25 is very helpful, setting out the different ways in which distributional impacts could be addressed as part of policy or mitigated separately. This mirrors our own thinking in terms of the ideas we set out in our "What is Fair?" paper referenced in the Viewpoint. However, one challenge we have highlighted is where different parts of government are responsible for the policy itself and for the mitigation.

We also welcome the picture you painted of carbon footprints by income decile and by demographic. Building a shared understanding of the current position is clearly a key first step in working through what the impacts of different policy approaches would be. In our response to Ofgem's revised impact assessment methodology (and the associated technical paper) we welcomed the steps they were taking but raised some significant concerns around their methodology. We have encouraged Ofgem to host a wider discussion on their approach to build confidence around it. Given the HMT analysis uses the same underlying data source (the LCF survey) there may be value in a joint session, ahead of you producing your final report.

Notwithstanding these potential concerns, there are some clear messages that come out from your own initial analysis in particular around buildings which account for 50% of the costs of meeting net zero (albeit only 18% of emissions) and also make-up the largest part of the carbon footprint for those on lowest incomes (and, as your graphs show, older people). While a strength of the HMT work is that it looks broadly across the economy there would seem to be a strong case for a particular focus on the distributional impacts around domestic heat decarbonisation in your final report, recognising also the damaging health and other impacts when people cannot afford to adequately heat their homes. A report on smart electric storage heating, to which Sustainability First

contributed, highlights the need for a clearer focus on the 2 million (typically low income) households who currently use electric heating and the importance of “horses for courses” in terms of policy in this area, as a part of managing the distributional impacts.

Linked to this we have flagged through our “PIAG” work the potential for smart meter data to be used to help understand distributional impacts of policies, using actual energy consumption linked to demographics. We look forward to BEIS’s UK Energy Data Strategy which we hope will extend to demand side data.

Finally, the Viewpoint notes the importance of inter-generational impacts which are touched on very briefly in your interim report but which in our view need a clearer framework for addressing. When it is complete, we will share with you the results of the work we mention that Frontier Economics are doing for us (pro bono) in this area. As a part of this we have stressed the need to look at the net zero transition alongside other structural changes in society, including the impacts of climate change itself in terms of flooding and urban heat, alongside post-Covid economic impacts and developments in digital technology / AI.

If you want to know any more about any of these areas of work please do get in touch.

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