



Business, Energy and Industrial Strategy Committee

House of Commons, London SW1A 0AA

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The Rt Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

25th
June 2019

Dear Philip,

On 24 June the House approved an amendment to the Climate Change Act 2008, to change the 2050 emissions target from "80%" to "100%". The Treasury will play a key role in funding the policies required to deliver this new, legally-binding target.

You will recall that the Stern Review on the Economics of Climate Change, commissioned by HM Treasury (HMT), concluded that failure to limit climate change could result in damage exceeding 20% of GDP. Recent statements by the Committee on Climate Change (CCC), the National Infrastructure Commission (NIC), and the Government have clarified that delivering net zero emissions by 2050 is expected to entail a whole economy cost of 1-2% of GDP. This is the same cost envelope that was estimated necessary to reduce emissions by 80% when Parliament passed the Climate Change Act in 2008. The CCC has estimated that the benefits of net zero emissions arising from improved air quality and improved health alone could potentially fully offset the costs of delivering the target, but it has not quantified an estimate in its report. Analysis by the NIC similarly shows that electricity, heat and transport could be decarbonised by 2050 at net zero cost.

Achieving net zero emissions will nonetheless require substantial investment – and guidance will be needed from Government on the division between public and private spending. The CCC has recommended that HMT conduct a review into how the net zero transition is funded and where the costs will fall, to inform a new strategy to deliver a just transition across society, protecting vulnerable workers and consumers. There is now a unique opportunity for HMT to develop a reputation as a global authority on the economics of climate change.

Recent media reports have created some confusion about HMT's role in delivering the Government's net zero target. Please could you therefore provide the following information to clarify the Government's position and the intended HMT role:

- Can you confirm whether the Government has estimated the cost of net zero at £1 trillion? If so, please could you explain how this was calculated, and why the Government's cost estimates are greater than those calculated by the CCC.
- Do you agree with the CCC's analysis, based on HMT Green Book guidance, that the air quality and health benefits of net zero "would partially or possibly even fully offset the resource costs" of delivering the target?
- What modelling has the Treasury conducted on the public expenditure savings that would arise from a net-zero scenario (for example, through a reduction in NHS expenditure arising from healthier diets, more active lifestyles, increased access to green space, reduced pollution, etc). Please share a summary of initial findings.

- Following the Stern review, what recent modelling has the Treasury conducted on the costs of inaction associated with climate change? Please share a summary of initial findings.
- What plans does HMT have to conduct a review of how the net zero transition is funded, and where the costs will fall, as recommended by the CCC? What are the proposed timeframes for this work, including publication? Please can you confirm whether the review will cover: 1.) how the costs of achieving net zero emissions will be distributed, and the benefits returned, across the whole economy; 2.) an integrated assessment of the full range of policy levers to deliver investment for net zero; 3.) the full period from now to 2050?
- What external consultation or peer review will HMT undertake to ensure the net zero funding review's robustness and transparency, and to ensure public trust in the review's findings?
- Will HMT develop a strategy to ensure that the distribution of costs and benefits is fair, and that a 'just transition' to net zero is delivered across UK society? What are the timeframes for this? Is HMT responsible for determining the definitions of "fair" and "just transition" or will these terms be agreed across Government?
- How, and by whom, will the 5-year review of the net zero target be conducted? Will this include provision to increase the ambition and scope of the target, if targets set by other countries are more ambitious or wide reaching?

It would be helpful to have this information by 5 July, to inform our evidence session with the Interim Minister of State for Energy and Clean Growth, on 10 July.

*Yours,
Rachel Reeves*

Rachel Reeves MP
Chair of the Business, Energy and Industrial Strategy Committee