

# THE UK'S NET ZERO INVESTMENT GAP

A short report for E3G and WWF

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There is currently a gap between the government's ambitions on net zero and the flows of public and private investment<sup>1</sup> expected in the 2020s.<sup>2</sup>

E3G and WWF commissioned Frontier Economics to assess the gap between existing policies and the investment required in the 2020s to be on a pathway to meeting net zero by 2050. The purpose of the exercise was not to carry out a comprehensive analysis but to demonstrate the importance of establishing a robust mechanism for tracking investment flows.

The Climate Change Committee estimates that £329bn of investment will be required this decade in four key sectors<sup>3</sup> - electricity supply, surface transport, buildings, and manufacturing and construction. We compared this sum with estimates of investment expected under committed and planned policies announced by the government.<sup>4</sup> We judge that the government has clear policies in place to deliver 16–22% of the needed investment, through either direct funding or a return on investment that is contracted and underpinned by a consumer levy.

We categorise investment as planned if no direct funding has been committed and/or details of government policy are still being drawn up. We estimate planned investment at £165bn-174bn, half of the required total. Investments in this category are particularly uncertain given the potential for policies to change with a new administration and the unproven outcome of policies yet to be implemented.

Overall, our research shows that the government has made substantial investments in some sectors and established policy mechanisms that have proven capable of leveraging private investment. However, in all areas a significant scale-up is likely to be needed. Our high-level analysis of the key sectors suggests that the gap could be £81bn-111bn, or 25-34% of the total investment required in these sectors this decade.

Further action is needed across the board, but our research points to the largest gap being in buildings. In most cases, scaling up existing and planned policies should be a priority, but major new initiatives are also necessary, particularly in buildings, where policy commitment and stability will be crucial.

We recommend that the government carries out detailed, transparent and regular evaluations of the investment gap to ensure that policies continue to be developed to make up the shortfall. E3G and WWF hope the government will follow this recommendation and use its own assessment of the investment gap to set out a detailed net zero investment plan and keep it regularly updated.

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<sup>1</sup> Public investment is from the UK government; private investment could be from either UK sources or global markets.

<sup>2</sup> House of Lords Economic Affairs Committee (2021) *Investing in energy – price, security and the transition to Net Zero*

<sup>3</sup> Climate Change Committee (2020) *Sixth Carbon Budget*, Balanced Pathway Scenario

<sup>4</sup> The analysis was completed in August 2022.

The full report is expected to be published in the next couple of months.

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