

Aldersgate Group Representation to Spending Review Phase 2

February 2025

Background

The Aldersgate Group is a coalition of major businesses, academic institutions and civil society organisations, driving action for a competitive and environmentally sustainable economy.¹ Our corporate members represent all major sectors and believe that ambitious environmental policies and good regulation are key to unlocking growth and decarbonisation. Among many others, they include Associated British Ports, Aviva Investors, BT, Cemex, Michelin, Netflix, Nestlé, Siemens, SUEZ, Tesco, and Willmott Dixon.

Summary

The 2025 Spending Review must help to create a regulatory and investment environment that drives sustainable business growth. Strengthening planning and regulatory frameworks, properly resourcing local authorities and environmental bodies, and ensuring that public investment leverages private investment will reduce risks and accelerate green development.

We welcome the government's ambition to place decarbonisation at the heart of a new industrial strategy. Strategic investment through the National Wealth Fund should support clean industries and ensure that they flourish. At the same time, strengthening carbon markets and addressing high industrial electricity costs will provide certainty for businesses investing in low-carbon solutions. A thriving green economy also requires investment in skills. Policy certainty will help increase market certainty for businesses to invest and government should ensure support is available for those businesses who are not in a position to invest in skills, in particular SMEs.

In the built environment, policies must drive sustainable housing and demand for low-carbon products, by rebalancing VAT structures to encourage retrofitting, and expanding energy efficiency programmes. Transport policies should help to reduce electric vehicle charging costs, support fleet electrification, and accelerate the transition to low-carbon heavy goods vehicles.

Recognising nature's economic value, we call for a strengthened Environmental Improvement Plan, greater funding for nature-friendly farming, and stronger circular economy policies.

Public engagement will be vital to maintaining support for net zero policies, and therefore to their delivery. A national information campaign should raise awareness of the transition, ensuring communities understand the benefits of renewable energy and sustainable infrastructure.

¹ Individual recommendations cannot be attributed to any single member and the Aldersgate Group takes full responsibility for the views expressed.

Summary of policy recommendations

Policy area	Recommendation
Foundations for low carbon growth	1. Efficiently resource regulators and local authorities (Defra, MHCLG)
	2. Implement carbon market regulation and align with the EU (HMT, DESNZ)
	3. Deliver cleaner, lower cost electricity for businesses (DESNZ)
	4. Inform and engage the public on net zero (DESNZ)
	5. Make better use of public procurement to stimulate demand for low-carbon products and services (Cabinet Office, HMT)
Skills	6. Ensure the skills and training ecosystem effectively supports businesses, especially SMEs, on green skills and training (HMT, DBT)
	7. Support the pipeline of apprenticeships by aligning the Apprenticeship Rate with the National Minimum wage and boosting awareness of apprenticeships (HMT, DfE)
Industry	8. Set out an ambitious green industrial strategy, placing decarbonisation at its heart, with clarity on the underpinning role of foundation sectors and targeted interventions to unlock growth (DBT)
	9. Deploy National Wealth Fund investment through strategic and competitive allocation (NWF, HMT)
	10. Set out a renewed Industrial Decarbonisation Strategy which is aligned with the Industrial Strategy (DESNZ)
	11. Support industrial electrification (DESNZ)
	12. Scale up public and private finance for industrial decarbonisation (HMT, DESNZ)
Built Environment	13. Leverage the 1.5 million homes target as a critical demand driver for sustainable and nature-positive housing, via the Future Homes Standard (Defra, DESNZ, MHCLG)
	14. Ensure that Biodiversity Net Gain is delivering on its intended outcomes, and raise ambition where possible (MHCLG, Defra)

	15. Ensure the Warm Homes Plan addresses a lack of trust in the sector and creates robust incentives for supply chains to grow (MHCLG, DESNZ)
	16. Establish and fund an independent national expert retrofit advice service for England (MHCLG, DESNZ)
	17. Address the imbalance in VAT rates in the construction sector to incentivise building decarbonisation (HMT)
	18. Incentivise home energy upgrades through Stamp Duty Land Tax reform (HMT)
	19. Develop a commercial Property Linked Finance pilot to mobilise investment into buildings (HMT)
Transport	20. Reduce charging costs for all EVs and expand charging infrastructure (DfT, HMT)
	21. Address the capital cost of electric HGVs through government-backed financing and vehicle leasing models (HMT, DfT)
	22. Publish a low carbon fuels strategy and introduce a duty differential for hydrotreated vegetable oil fuels in HGVs (DfT, HMT)
Nature	23. Ensure that the revised Environmental Improvement Plan (EIP) is clearly structured and joined up across government to ensure that targets are deliverable (Defra)
	24. Fund Environmental Land Management Schemes (ELMS) and nature-friendly farming at a level reflection their huge societal value (Defra)
Circular Economy	25. Support the shift to a circular economy with an appropriately resourced strategy (Defra, DBT, DESNZ)

Setting an ambitious and enabling environment for businesses to invest in environmentally sustainable and net zero growth

Through the 2025 Spending Review, the government must reinforce its ambition to drive environmentally sustainable growth throughout the economy. This means strengthening the narrative and frameworks which will unlock and leverage private investment in growth, the clean energy transition and nature recovery. Major businesses in our membership are clear that there need be – and indeed *should* be – no trade-off between measures that drive growth and measures that support environmental recovery and emissions reductions, which themselves are fundamental to our national prosperity.

All departmental settlements must reflect the importance of reducing emissions and providing nature restoration and climate resilience; these aims should be integrated into wider objectives rather than seen as separate or subsidiary. We welcome the work that is being done through developing the industrial strategy and the Clean Energy Mission to link infrastructure and jobs goals with environmental outcomes, and are keen to see further joining up of other strategies in the same way.

Recognising the tight fiscal context, the Spending Review must maximise opportunities to leverage private investment. In some cases, policy certainty will be the primary lever to support this; in other cases, targeted fiscal or regulatory interventions are needed to remove barriers and enable businesses to invest. Public funding also plays an important role, and new public institutions such as GB Energy and the National Wealth Fund must be set up in a way that crowds private investment in, not out.

In this submission we highlight the cross-cutting factors that will support growth in tandem with delivering net zero and nature recovery. These include recognising the role of environmental arms-length bodies as enabling (rather than blocking) new development of all kinds, and supporting them so that they can perform that role efficiently; addressing high electricity costs, which are currently a major deterrent to both decarbonisation and wider business investment across the economy; and supporting the skills development that is desperately needed to support growth in a range of sectors.

Planning and regulation must support growth and good environmental outcomes, reducing delay and investment risk for businesses

Recommendation 1: Efficiently resource regulators and local authorities (Defra, MHCLG)

The government has committed to improving the regulatory and planning system to accelerate green growth, and our members see good regulations as crucial to delivering nature recovery and decarbonisation. However, success can only be achieved if the regulators and local authorities who run these systems are efficiently resourced, with access to the expertise, data and digital tools they need.

Local authorities, regulators and advisory public bodies are experiencing significant challenges with resources, skills and capacity. For example, a freedom of information request to Natural England by Wildlife and Countryside Link highlighted that in 2022-2023, Natural England failed to meet deadlines for 17.1% of Nationally Significant Infrastructure Project (NSIP) applications, due to under-resourcing and workload issues in over a fifth of cases. Natural England and others can improve their turnaround time only if they are resourced to do so.

Resource challenges contribute to planning process delays and uncertainty, undermining confidence in the private sector to invest. For Nationally Significant Infrastructure Projects

(NSIP), resourcing challenges during the planning process may cause reduced or limited participation of statutory consultees at the early stage of a planning application. This can lead to unexpected requests for additional time and information during the formal application process, further increasing uncertainty for developers and creating investment risk. Resourcing challenges can also lead to poorer outcomes. For example, insufficient consultation with statutory consultees and local communities at the early engagement stage of an NSIP application can limit the opportunity to improve a proposal when it is at its most flexible.² Local Planning Authority processes also face substantial resource challenges.

Similarly, limited resources within regulators can impact the development, implementation and enforcement of regulation, which sometimes leads to regulation not fulfilling its purpose. Poorly designed regulations can place a significant cost and capacity burden on businesses at the expense of other business activities. Where regulation is not enforced, it will not deliver the intended outcome and desired level playing field for businesses. Additionally, overstretched regulators will struggle to provide alignment between different regulations, particularly where these are held by different organisations, leading to potential unintended consequences including contradictions or duplications.

Meeting the government's existing and proposed environmental, climate and growth objectives will entail further responsibilities for regulators, local authorities and public advisory bodies. The financial and human resources available must be increased accordingly.³ It will be important to consider a holistic cost-benefit analysis, as good compliance with environmental regulation may have wider and far-reaching benefits such as improved health and wellbeing, and reduce the need for investment in mitigation or costs of non-compliance.

Efficiently resourcing the regulators, local authorities and public advisory bodies needed for the green growth agenda also requires investment in skills development, information and data sharing initiatives and digital tools. Experts such as ecologists, planners and engineers are going to be increasingly in demand from both the private and public sector. The government should also support public bodies to deliver training, attract talent and collaborate with educational providers to close the skills gap. Similarly, investment in information-sharing platforms and initiatives, such as regional planning hubs for renewable energy development, can support public bodies to deliver effective services. It will be important to harness innovation in digital platforms and artificial intelligence to support public bodies. These actions will support public bodies to deliver the services and regulations that will facilitate business investment and drive forward green growth.

Deliver enabling policy and regulation to support businesses to decarbonise and restore nature while remaining competitive

Recommendation 2: Implement carbon market regulation and align with the EU (HMT, DESNZ)

The government should deliver the current programme of reforms to UK carbon markets to maintain UK competitiveness and drive decarbonisation. This includes implementing an effective and fair Carbon Border Adjustment Mechanism (CBAM) to mitigate the risk of carbon leakage (while phasing out free allowances) and ensuring the UK Emissions Trading Scheme (ETS) sends an adequate price signal to incentivise investment in decarbonisation.

² Aldersgate Group, CPRE, RenewableUK (2024) [Electric Dreams: How the Planning System Can Help Deliver the UK's Low-Carbon Energy](#).

³ Aldersgate Group, Frontier Economics (2024) [The Role of Regulation in Restoring Nature and Delivering Net Zero](#).

Carbon price stability is also important to help participants efficiently manage financial risk and to support industrial competitiveness.

The UK ETS provided £5.8 billion in revenue in 2023.⁴ Expansion of the Scheme to other sectors provides an opportunity for additional revenue or, in the case of Greenhouse Gas Removals (GGR), can support the growth of a high potential sector. The revenue from the UK ETS will increase with the phasing out of free allowances. The UK CBAM is expected to raise between £340 million and £1.8 billion depending on its design,⁵ and most importantly will help to maintain UK industry's competitiveness.

We support the linkage of the UK ETS and CBAM to those in the EU. A considered approach to linkage would improve liquidity and price stability, as being part of a bigger market increases the opportunity for trading allowances. Linkage would also ease the compliance burden for UK companies exporting to the EU. The EU is the UK's biggest trade partner, accounting for 41% of UK export.⁶ Reducing trade friction would make the UK more attractive for investment and support growth, enabling businesses to take advantage of the EU's growing market for low carbon products. Moreover, the likely higher carbon price achieved through linkage would have benefits for the HM Treasury. Frontier Economics estimate that if the low UK carbon price persists, HM Treasury would miss out on £3.5-8 billion over 2025-2030 based on recent price differentials between the EU and UK prices.⁷

Recommendation 3: Deliver cleaner, lower cost electricity for businesses (DESNZ)

Planning reform, the 2030 Clean Power mission, and the forthcoming industrial strategy all represent immediate opportunities for the government to address the problem of high energy bills that hamper British businesses across sectors, especially in industry, and slow decarbonisation. Electrification is increasingly emerging as one of the most important pathways for industrial sectors as well as for building and transport decarbonisation. The National Energy System Operator's (NESO) future energy pathways suggest industrial electricity demand will increase substantially, with a 19% and 63% increase by 2050 in two pathways.⁸

While industrial electrification will significantly increase electricity demand, it also has the potential to help balance the grid where industrial sites can offer demand flexibility services. Yet, to do this, many factors need to align, including access to capital investment, affordable electricity, and planning permission. Grid connections are a particular challenge: the government's consultation on industrial electrification found that delays to these were the second most cited barrier for electrification, after electricity costs.⁹ Connecting to the grid is often slow and expensive; and on-site generation is not a realistic option for many businesses. We have already called on government to accelerate reforms that would improve grid connectivity and, in a recent report with RenewableUK and CPRE, the countryside charity, we looked at how the planning system can be used to deliver major grid infrastructure and drive down UK electricity costs.¹⁰

⁴ Office for National Statistics (2024) [UK Environmental Taxes: 2023](#).

⁵ Frontier Economics (2024) [The Carbon Border Adjustment Mechanism: Its Impact on UK Competitiveness and Carbon Pricing](#).

⁶ House of Commons Library (2024) [Geographical Pattern of UK Trade](#).

⁷ Frontier Economics (2024) [Linking UK and EU Carbon Markets](#).

⁸ ESO (2024) [Future Energy Scenarios: ESO Pathways to Net Zero](#).

⁹ Department for Energy Security and Net Zero (2024) [Enabling Industrial Electrification: Call for Evidence on Fuel-Switching to Electricity: Summary of Responses](#).

¹⁰ Aldersgate Group, CPRE, RenewableUK (2024) [Electric Dreams: How the Planning System Can Help Deliver the UK's Low-Carbon Energy](#).

In addition to improving industry's ability to connect to the grid, government must look again at allocation of levy costs, to promote electrification across the economy. Currently, 12% of electricity bills are made up of levies, compared to 2.8% of gas bills. Shifting policy and network costs away from electricity bills will help to reduce electricity costs, both for industrial users and for households, by directly lowering the running costs of low-carbon technologies such as electric arc furnaces, heat pumps, and electric vehicles. Upcoming REMA decisions may also have implications for businesses and industrial energy users, and the government must ensure potential unintended consequences or risks are well understood and mitigated. High energy users need clarity on the timelines and next steps for energy pricing in order to make investment decisions and decarbonise their operations.

Businesses across the country are energy users and must be considered as part of the delivery of the Clean Power Action Plan and Strategic Spatial Energy Plan. Access to low-carbon electricity is essential for businesses' operations and must be incorporated into spatial planning. In parallel, businesses can support the delivery of the Clean Power mission with energy efficiency and flexibility measures, which must be incentivised and harnessed to increase UK competitiveness and for the success of the mission.

Support demand for low-carbon and environmentally sustainable products, services and infrastructure

Recommendation 4: Inform and engage the public on net zero (DESNZ)

Climate Outreach research has found that very few people feel that central or local government have given them clear, relevant information, or consulted them on the policies and technologies being deployed to transition away from fossil fuels.¹¹ We welcome the government's announcement of an upcoming Public Participation Strategy. Communicating how the transition to net zero and new energy infrastructure are delivered and engaging the public and local communities are important to maintain and strengthen support. An ongoing public mandate is needed at a national level and buy-in is required at the project level. Without communication and engagement, this crucial public mandate is potentially at risk with the pace of delivery and scale of new infrastructure needed.

In the planning system, the lack of a clear, publicly conveyed decarbonisation strategy can translate into challenges at the project level. For new renewable or grid infrastructure projects, the onus is currently falling on developers to discuss the need for new energy infrastructure and decarbonisation, and to explain policy choices and their implications for the local community. This reduces the opportunity to discuss project specifics. More granular awareness and understanding of the potential benefits and impacts vary across the country and communities. At the project level, this can contribute to lack of engagement or the spread of misinformation if there is an information vacuum, and in some case can leave space for strong and well-organised opposition.

Working with RenewableUK and CPRE on how to improve the planning system for energy infrastructure, we have recommended that the government should deliver a public campaign to make the case for new renewable energy and grid infrastructure, laying the foundations for positive community engagement.¹² As part of the 2030 clean energy superpower mission, the government should lead a coalition of organisations to deliver a public engagement campaign around the 2030 and 2050 energy targets, making the case for new renewable

¹¹ Climate Outreach (2024) [Britain Talks Climate: Leadership](#).

¹² Aldersgate Group, CPRE, RenewableUK (2024) [Electric Dreams: How the Planning System Can Help Deliver the UK's Low-Carbon Energy](#).

energy and grid infrastructure, setting out benefits and trade-offs, and raising awareness of mechanisms through which the public can participate in the planning system.

Beyond energy infrastructure and thinking more broadly about net zero, a government-led public campaign can help provide the information and support for the public to better understand the options available and the actions they can choose to take. This can support market certainty for low-carbon products and services and help increase confidence to invest in low-carbon sectors. It can also contribute to increasing awareness and uptake of training and upskilling for jobs in clean sectors.

Recommendation 5: Make better use of public procurement to stimulate demand for low-carbon products and services (Cabinet Office, HMT)

Public procurement is a powerful but under-utilised lever. It can drive demand for low-carbon products and services and provide essential contracts for innovative businesses to grow. Resulting business growth will also create positive returns to the public purse.

Public procurement must contribute to delivering social value, including better outcomes for people, climate and nature. It would provide a strong market signal to industry, driving adoption of standards and demand for low-carbon products, the circular economy and environmental protection.

Across many products, services and sectors, public procurement can be sufficient to drive widespread adoption of good practice and standards for climate and nature. Similarly, demand from public procurement can support the scale-up of supply chains for products and services, which would reduce costs and contribute to increasing the competitiveness of low-carbon, circular economy and nature-positive products and services, generating impact beyond the government's public procurement portfolio. Public procurement must be considered as a policy lever to support growth and clean energy as part of the industrial strategy.

An example of such public procurement is the High Speed 2 (HS2) Net Zero Carbon Plan, which set the target to cut emissions from concrete and steel by 50% (tCO₂e/t) by 2030, compared with 2021 levels. As a result of this plan, HS2 Ltd procured a new low carbon concrete product from Cemex, Vertua, which provides a reduction of 42% in CO₂ compared to standard concrete. This contract helped stimulate demand for low carbon products and contribute to market certainty. Cemex have since announced the goal for low carbon concrete and cement products to represent more than half of their cement and concrete sales by 2025.

'Value for money' assessments must incorporate full assessments of societal costs and benefits over the whole life of a project (including the lifetime use of capital infrastructure), to truly maximise returns to the taxpayer. While it can be challenging to assess benefits, procurement decisions should not be driven purely by upfront cost. The Green Book provides guidance to move beyond narrow financial cost-benefit analysis, with a full section on nonmarket valuation and unmonetisable value. This section of guidance should be fully used in every decision and upcoming changes to the Green Book must embed these principles. 'Maximising value for money' should cease to be a driver for short-term decisions and lack of strategic investment; missions can create momentum to incorporate wider benefits into value for money assessments, accelerating implementation of better practice and culture change in procurement teams.

Ensuring a strong skills base to support cross-economy growth

Recommendation 6: Ensure the skills and training ecosystem effectively supports businesses, especially SMEs, on green skills and training (HMT, DBT)

One of the top issues highlighted by Aldersgate Group business members is that the availability and pipeline of skills are key factors in business investment decisions. A lack of both technical (e.g. manufacturing and digital) and soft cross-sectoral (e.g. project management, communication, and systems thinking) skills is undermining business productivity, innovation and growth. For example, research by Kingfisher has found that the UK is on course to face a shortfall of 250,000 tradespeople by 2030, which could cost the UK economy £98 billion in missed GDP growth opportunities.¹³

Retraining and upskilling are costly. Some employers may need help to cover the cost of training and the loss of income while staff are off-the-job (including the cost of backfill). Individuals, meanwhile, may need financial support to complete training as part of the process of transitioning between sectors or industries. To build a future-fit workforce, the government has a crucial role to play in: providing clear policy signals to support businesses and educational providers identify future skills needs; coordinating local authorities, businesses, education providers and devolved authorities to ensure a joined-up approach to skills policy; and ensuring an appropriate level of financial support for businesses (particularly SMEs), education providers, and individuals to incentivise investment in skills and training.

The Aldersgate Group has previously called for the government to increase the Apprenticeship Incentive Payment from £1000 to £3000, as it was during the pandemic, or expanding it to all those aged under 25 not in employment, education or training, to help to boost apprenticeship uptake and investment into youth apprenticeships. To offset this increased cost, the Apprenticeship Incentive Payment could be restricted to just SMEs.¹⁴

Sectors operating with small margins may struggle to increase investment in skills, especially if demand is not clear or strong enough. In other cases, policy certainty or regulatory compliance may provide a sufficient signal to the private sector to invest in skills development. The work of Skills England will be crucial in assessing how skills needs may evolve over time and across different regions, as well as sector-specific and skill-specific understanding of challenges in order to design effective policy interventions.

Recommendation 7: Support the pipeline of apprenticeships by aligning the Apprenticeship Rate with the National Minimum wage and boosting awareness of apprenticeships (HMT, DfE)

If skills shortages are not addressed, the government will struggle to achieve its national mission of kickstarting economic growth. The ability to ‘earn while you learn’ should make apprenticeships an attractive offer for those seeking to upskill for the low-carbon economy, including those from lower socio-economic backgrounds. However, the Apprenticeship Rate, currently set at £6.40 an hour (due to increase to £7.55 from April 2025) for apprentices aged under 19 or aged 19 and over in the first year of their apprenticeship, makes apprenticeships financially unattractive. The Apprenticeship Rate is less than the national minimum wage (£8.60) for 18 to 20-year-olds and is over half the national living wage (£11.44) for those aged 21 and over. Aligning the Apprenticeship Rate with the National Minimum Wage would help make apprenticeship programmes more financially viable, especially for individuals from lower socio-economic backgrounds, and ensure apprentices are not penalised compared to their peers. According to the Low Pay Commission, apprentices are more likely to be underpaid than other workers.

Replacing the Apprenticeship Rate with the National Minimum Wage could add additional cost pressures to businesses, particularly SMEs. However, this risk can be mitigated,

¹³ Kingfisher (2023) [UK to Lose out on £98bn of Growth by 2030 Due to Shortage of Tradespeople.](#)

¹⁴ Aldersgate Group (2024) [Response to Industry and Regulators Committee Inquiry on Skills for the Future: Apprenticeships and Training.](#)

including through measures described under Recommendation 6. It should be noted that most apprentices earn more than the Apprenticeship Rate, but some employers expect apprentices to accept lower pay than non-apprentices. Nearly one in three 16- and 17-year-olds, and nearly one in five 18- year-olds on apprenticeships earn the apprentice minimum wage.¹⁵

To improve awareness of apprenticeships and support employers, the Department for Education should publish clear advice and guidance on topics including how they can deliver off-the-job training flexibly and how to navigate the apprenticeship system.¹⁶ To ensure the information is accessible to SMEs, the government could provide guidance documents and communications materials to large businesses (and public sector bodies with close links to local businesses), who could share them with their supply chains.

Ensuring an ambitious industrial strategy that attracts investment

Recommendation 8: Set out an ambitious green industrial strategy, placing decarbonisation at its heart, with clarity on the underpinning role of foundation sectors and targeted interventions to unlock growth (DBT)

We welcome the government's commitment to developing an industrial strategy to drive growth, support net zero and improve people's lives. Placing decarbonisation at the heart of an industrial strategy is essential to create a resilient and competitive economy.¹⁷ The Modern Industrial Strategy must set out targeted interventions, addressing challenges across the value chains of growth sectors and contributing towards an enabling environment for business growth and investment. The government must consider the wide range of policy levers at its disposal to ensure effective interventions are made, from regulation to public procurement and public investment or blended finance.

Alignment between the industrial strategy and other upcoming strategies including net zero, industrial decarbonisation, infrastructure, trade and circular economy will be important for avoiding unintended consequences and delivering success. The government should seek to deliver strong collaboration across the multiple departments and bodies involved and ensure the strategies have shared goals, priorities and mutually reinforcing frameworks. The Modern Industrial Strategy is a particular opportunity to align priorities around skills, local growth plans and resilient supply chains that can benefit other strategies' outcomes.

As part of the development of the modern Industrial Strategy, the government should commission a supply chain and skills capacity assessment for foundation sectors. Industrial processes are needed to produce goods from electric vehicles to wind turbines, but the role UK industry plays in the supply chain is unclear, as are the opportunities, barriers, and enablers for growth. A study on the UK's skills and supply chain capability in foundations sectors would help identify opportunities for the Industrial Strategy, existing gaps and how to address them. This would inform where policy and financial support from the industrial strategy and National Wealth Fund should be targeted. It would also support workers exiting high-carbon sectors by identifying pathways to new work. This study should build on the example of the 'UK renewables deployment supply chain readiness study'¹⁸, commissioned by DESNZ and published in April 2024, which identified potential supply chain constraints.

¹⁵ Low Pay Commission (2024) [Four Facts about Apprentice Pay from the Latest Data](#).

¹⁶ Aldersgate Group (2024) [Beyond the Levy: Ensuring the Effective Implementation of the Growth and Skills Levy](#).

¹⁷ Aldersgate Group (2024) [Briefing: Placing Decarbonisation at the Heart of Industrial Strategy](#).

¹⁸ DESNZ (2024), [UK renewables deployment supply chain readiness](#).

Recommendation 9: Deploy National Wealth Fund investment through strategic and competitive allocation (NWF, HMT)

The National Wealth Fund (NWF) is essential for the delivery of the industrial strategy and enabling growth. Public investment can play a strategic role, supporting higher-risk and larger innovative projects, crowding in private investment and de-risking future private investment on similar projects. The NWF will send a strong signal to businesses and investors about the opportunities for investment in high-growth sectors and their supply chains in the UK. It will also send signals to training and education providers on the future demand for skills.

The NWF needs to deploy strategic investment at scale to help unlock innovative growth in the UK and deliver a competitive advantage for UK businesses. It will be important for the investment principles of the NWF to recognise the wider value of futureproofing industrial sectors and jobs, beyond just monetary returns. The NWF should be enabled to strategically allocate funds where appropriate, alongside a competitive allocation of funding attracting bids from a range of prospective investors, also open to new market entrants.

Setting a prosperous, low carbon path for heavy industry

Recommendation 10: Set out a renewed Industrial Decarbonisation Strategy which is aligned with the Industrial Strategy (DESNZ)

Industrial sectors are economically important. They contribute 9% of UK GVA, 21% of UK exports, and 7% of employment.¹⁹ They also employ hundreds of thousands of people outside London and the Southeast in jobs paying 11% above the national average.²⁰ Heavy industry also produces many of products needed to supply the government's drive on infrastructure development and the growth driving sectors identified in the Industrial Strategy Green Paper.

There is also a growing international race to invest in the clean industries of the future. The global market for clean technologies grew 50% from 2022–2023 and is projected to exceed \$2.1 trillion by 2035.²¹ Chronic underinvestment is hampering the UK's industrial competitiveness and progress on decarbonisation. Without a more supportive policy environment for industrial decarbonisation, UK firms risk falling behind, while international companies with ambitious climate targets and a keen eye on shifting markets will invest in upgrades elsewhere. Businesses in the UK currently face technology and policy uncertainty, high capital and operational costs and ongoing competition from high carbon products.

The renewal of the Industrial Decarbonisation Strategy presents an opportunity to review the growing evidence base on technology options, infrastructure costs and policy impact so far. The Strategy should set out steps for the revitalisation of UK industry through decarbonisation. This is essential for growth, regional prosperity, and the security of low-carbon supply chains, ensuring the UK remains on the front foot internationally of emerging techniques and products.

DESNZ needs to have adequate resources to develop the Strategy in an efficient and timely manner. Engagement with industry and wider stakeholders, alongside alignment with the Industrial Strategy and Strategic Spatial Energy Plan is vital. The role of electrification for industrial decarbonisation and the enabling policy needed, in particular merits attention. The Strategy needs to provide clear information to investors to inform investment decisions. One

¹⁹ House of Commons Library (2025) [Manufacturing Industries: Economic Indicators](#).

²⁰ Oxford Economics (2024) [The True Impact of UK Manufacturing](#).

²¹ IEA (2024), [Energy Technology Perspectives 2024](#)

way of providing this information could be through the development of sub-sectoral pathways which also take account of other factors such as business size and location.

Recommendation 11: Support industrial electrification (DESNZ)

Electrification of industry could deliver more than 40% of the greenhouse gas emissions reductions needed by industry to help reach the UK's net zero target. With the UK's 2030 Clean Power mission, the UK will have a major competitive advantage for providing industry with clean electricity. A clean power system will also help insulate industry from energy price shocks linked to gas prices and increase energy security. To capture this opportunity, policy is needed to tackle high electricity costs and encourage investment.

The UK has the highest industrial electricity prices in the world. In 2023, the price was 25.46 pence per kilowatt hour (kWh). This is more than four times the price in the US, and more than double the price in Germany and France.²² High electricity prices make clean production expensive, both in absolute terms and relative to other European countries, threatening the competitiveness of UK industry and the business case to invest in decarbonisation. Options to reduce the cost of industrial energy prices include:

- Supporting the clean Power Purchase Agreement market through government underwriting and the development of standardised contracts and information.
- Allocating funding for an electrification business model, like those being set up for CCS and hydrogen, to further incentivise investment.
- Providing better support through revision of the British Industry Supercharger. The 60% exemption for network charges could be increased to 90%, reducing electricity prices for currently eligible businesses by ~£29/MWh.²³ Costs could be recovered via general taxation or through consumer energy bills. The government should also consider reviewing the current eligibility criteria and actual electricity prices faced by different subsectors to ensure the policy is fulfilling its purpose and supporting decarbonisation.
- Industrial businesses face challenges accessing the electricity grid due to constrained capacity and slow connection processes. The government must assess the pattern of future industrial electricity demand thoroughly to inform distribution network strengthening and to enable anticipatory investment in networks.²⁴

Recommendation 12: Scale up public and private finance for industrial decarbonisation (HMT, DESNZ)

There is a particular opportunity for strategic public investment to accelerate industrial electrification through investment in large-scale and higher-risk projects, struggling to attract private investment alone. Beyond catalytic public funding, blended finance (such as first loss equity position, first loss guarantees and anchor investments) can also have a role in tackling market failures in industrial decarbonisation. Government co-investment in clean technologies will enable investors to lower their overall borrowing costs, making the UK a more attractive place to invest. Utilising vehicles such as the National Wealth Fund, the government could play an important part and support foundational industries beyond steel.

The government can also support transition finance by putting in place an enabling framework to guide investors, including a UK Green Taxonomy. We also support the creation of a Transition Finance Lab, which could enable the collaborative design, development and

²² Statista (2023) [Global industry electricity price by component 2023](#).

²³ UK Steel (2023) [Industrial Electricity Prices](#).

²⁴ Ahmed Gailani, Peter Taylor (2024) [Assessing Electricity Network Capacity Requirements for Industrial Decarbonisation in Great Britain](#).

testing of innovative solutions to accelerate finance for sector-specific, including industry, transition challenges. The Industrial Decarbonisation Strategy should also ensure information valuable to investors is provided to support their decision-making.

The government should review the landscape of publicly-owned development finance institutions with the objective of simplification, learning lessons from previous and existing schemes, as well as international examples. Improving the coordination of public finance institutions will help to reduce friction for private investments. Equally, the government should look to better coordinate or aggregate public funds and grants; at present, businesses find it challenging to navigate and access these due to short timelines, administrative burden or limited scale of funding. Where funding models have been successful the government should seek to continue and scale them. For example, the Industrial Energy Transformation Fund (IETF) is viewed positively for its technology neutrality and is oversubscribed. The scheme should be renewed, and additional budget allocated.

Promoting a sustainable built environment

Recommendation 13: Leverage the 1.5 million homes target as a critical demand driver for sustainable and nature-positive housing, via the Future Homes Standard (Defra, DESNZ, MHCLG)

The government has set out its ambition to deliver 1.5 million new homes and is presented with the opportunity to deliver for both people and nature. The new housing target can create the demand signals needed to scale low-carbon products and nature friendly practices. Success will be measured with new developments embedding climate and nature targets, and high-quality, energy efficient and environmentally sustainable homes fit for the future. Given the right conditions, these new developments can support the demand needed to scale low-carbon products and nature positive solutions. For example, large infrastructure developments have supported the scaling of low-carbon cement products and companies to take up further commercial opportunities elsewhere.²⁵

The government must set out a policy package, including measures described in Recommendations 14-19. In addition, an ambitious Future Homes Standard and effective mechanisms to support environmental improvements in the context of new developments will be crucial to driving the demand for low-carbon and nature-positive products and services and stimulating innovation.

Recommendation 14: Ensure that Biodiversity Net Gain is delivering on its intended outcomes, and raise ambition where possible (MHCLG, Defra)

Biodiversity Net Gain (BNG) is a pioneering new policy designed to leverage investment into nature recovery. The current 10% net gain target, assuming it is met, should be effectively preventing further biodiversity loss. The government should monitor and address any issues to maximise uptake, compliance and biodiversity outcomes of BNG. This includes appropriate resources for local authorities to participate effectively in the delivery of BNG. The government should also consider where ambitions can be raised to increase biodiversity gain, including its application to a wider range of developments such as NSIPs and exploring the potential to increase the net gain target.

Recommendation 15: Ensure the Warm Homes Plan addresses a lack of trust in the sector and creates robust incentives for supply chains to grow (MHCLG, DESNZ)

²⁵ HS2 (2020) [HS2 Uses New Pioneering Low Carbon Concrete to Reduce Carbon Emissions in Construction](#).

Households are facing a cost-of-living crisis, with energy costs a contributing factor. Of homes with an EPC rating, 58% in England and 62% in Wales were rated below band C, with poor energy efficiency.²⁶ The built environment contributes 25% of the UK's total greenhouse gas emissions, with 19% coming from operational emissions from the energy needed to heat, cool and power buildings.²⁷ To successfully deliver the UK's net zero target, it is imperative that policy measures are introduced to improve building energy performance. The Climate Change Committee's latest Progress Report highlights the need for urgent progress.²⁸ For example, annual heat pump installations in homes were just over 60,000 in 2023 with only 1% of UK homes heated by a heat pump.

For manufacturers and installers, the market is too uncertain to unlock investment and develop supply chains and training. Sending a clear signal to the sector, including on timelines for new policy, is essential to build confidence for the private sector to scale up. After years of changing policy, the government will need to build trust with the sector and follow through on promises with genuine action to build confidence in the sector to invest.

The new government has pledged £13.2 billion over 5 years for the Warm Homes Plan. The Plan must be published and provide certainty on timelines for delivery for both households and supply chains. Significant supply chain ramp up will be needed at pace to meet the scale of the Plan; it will be important for the government to recognise this and act where public investment can help unlock private investment. Interventions on skills and demand have a crucial role to play here (see Recommendations 6-7 and 16-19).

Recommendation 16: Establish and fund an independent national expert retrofit advice service for England (MHCLG, DESNZ)

Understanding of home energy efficiency and how to improve it is not widespread and the public can find information challenging to access. According to research by Santander UK, just 10% of UK adults said they felt they knew a lot about ways of improving energy efficiency, while 64% said they were unaware of their home's Energy Performance Certificate (EPC) rating.²⁹

Navigating planning permission, finding reliable suppliers and installers, and understanding which measures are suitable for properties of different ages and EPC ratings, are all technical and lengthy tasks which act as barriers to action. To support households, a national retrofit advice service is needed to provide clear, action-focused advice, tailored to each home on the most effective way to improve energy-efficiency and reduce energy bills.

Although national expert advice services exist in Wales and Scotland, there is no national provision in England. To ensure we decarbonise homes across the UK, England needs an overarching national expert advice service which delivers consistent outcomes across the country, integrating and enhancing local advice services wherever these are present and filling in significant gaps to end the advice postcode lottery.

Creating a national expert retrofit advice service for England would help to accelerate and derisk the delivery of the Warm Homes Plan, reduce energy bills and enhance consumer protection, and make government money go further by referring eligible households into schemes – such as the Social Housing Decarbonisation Scheme, the Boiler Upgrade Scheme, or the Great British Insulation Scheme. An expert advice service is a key piece of

²⁶ Office for National Statistics (2023) [Who Is Most Likely to Live in Homes that are Harder to Keep Warm?](#)

²⁷ UK Green Buildings Council (2024) [Climate Change Mitigation](#).

²⁸ Climate Change Committee (2024) [2024 Progress Report to Parliament](#).

²⁹ Santander UK (2024) [Tomorrow's Homes: Facing up to the UK's Energy Efficient Buildings Challenge](#).

infrastructure that will underpin the government's commitment to upgrade five million homes over this Parliament. Energy Saving Trust estimates that the cost of delivering the expert and specialist advice service for England would be £3–5 million per year for every 100,000 homes initially served by a digital front door (plus initial set-up costs).³⁰ This cost estimate is highly dependent on how the advice service is structured.

Additionally, a national awareness campaign will be important to maximise the impact of an advice service, increase public awareness and instil confidence in households.

Recommendation 17: Address the imbalance in VAT rates in the construction sector to incentivise the building decarbonisation (HMT)

At present no VAT is charged on demolition and new build, while VAT on Repair, Maintenance, and Improvement (RMI) is still subject to the standard rate of 20%. While residential buildings can access zero-rated VAT on the supply and installation of specified energy-saving materials (such as solar panels, insulation materials, and heat pumps), commercial buildings, historic buildings, and heritage spaces cannot. Considering that commercial buildings currently represent 23% of built environment carbon emissions in the UK,³¹ the imbalance in VAT rates creates a perverse incentive to demolish existing buildings and replace them with new ones, rather than to retrofit.

Analysis by the Federation of Master Builders estimated that cutting VAT on RMI from 20% to 5% for the period 2021-2025 would generate an additional £15.4 billion spent on building improvements,³² by helping to make the cost of energy efficiency upgrades cheaper.

Recommendation 18: Incentivise home energy upgrades through Stamp Duty Land Tax reform (HMT)

Leveraging stamp duty could be an effective way to help incentivise energy-efficiency improvement work amongst new homeowners and buy-to-let landlords. The UK Green Buildings Council has proposed transforming the existing Stamp Duty Land Tax into an energy-adjusted Stamp Duty Land Tax.³³ Under this proposal, Stamp Duty would be adjusted up or down based on the purchased home's calculated energy demand – the better the energy performance, the lower the tax paid. The final Stamp Duty is finalised two years after purchase, and within that time, homeowners can claim a rebate for home energy improvements made – validated by an updated EPC.

An energy-adjusted Stamp Duty Land Tax would both stimulate house price differentials based on energy demand and carbon emissions and encourage homeowners to act when they are most likely to make other dwelling improvements. This adjustment could be made revenue neutral to HM Treasury by adjusting the energy adjustment 'neutral point' each year to reflect actual and anticipated improvements in the national housing stock.³⁴

Recommendation 19: Develop a commercial Property Linked Finance pilot to mobilise investment into buildings (HMT)

Property Linked Finance (PLF) provides a mechanism to fund the upfront costs of improvements to a building's energy and environmental performance and would address a gap in the current market. PLF would provide a new green finance product for financial institutions to invest in, with the finance tied to the property rather than the property owner.

³⁰ Energy Saving Trust (2024) [Warm Homes Expert Advice Service for England](#).

³¹ UK Green Buildings Council (2022) [Delivering Net Zero: Key Considerations for Commercial Retrofit](#).

³² Federation of Master Builders (2021) [Cut the VAT: A Proposal for Building back Better and Greener](#).

³³ UK Green Building Council (2021) [A Housing Market Catalyst to Drive Carbon Emission Reductions: Low Energy Adjustment to Stamp Duty Land Tax](#).

³⁴ Ibid.

The Green Finance Institute has found that, if scaled and adopted, PLF could unlock up to £70 billion of investment to decarbonise buildings.³⁵ We support the GFI's recommendation for government to develop a pilot to learn lessons and develop an effective scaled-up scheme.

Decarbonising transport

Recommendation 20: Reduce charging costs for all EVs and expand charging infrastructure (DfT, HMT)

Charging costs are still a substantial barrier to the uptake of electric vehicles of all sizes. This could be alleviated by creating price parity between VAT charged on private and public charging points for electric vehicles, and capping charging levels for HGVs. Further expansion of charging infrastructure is also vital, including increasing depot charging for fleets building on the 57 ZEHID-funded installations and initial privately-funded charging infrastructure.

Recommendation 21: Address the capital cost of electric HGVs through government-backed financing and vehicle leasing models (DfT, HMT)

As the UK's energy supply decarbonises, transport is increasingly coming into focus as a notable source of some companies' emissions. The electrification journey is relatively positive with respect to cars and light vans, albeit there is still further to go on this. Meanwhile, substantial further action is needed to clarify and accelerate the pathway for HGV decarbonisation, which will play a vital role in supporting efficient national supply chains.

For HGVs in particular, the upfront capital cost of vehicles is still a significant deterrent, with potentially a £100bn capital requirement for transitioning the UK's HGV fleet. This could be addressed by providing government-backed financing to derisk investment; and by developing innovative business models such as vehicle leasing.

Operational practicalities are also an issue, including the lack of skilled workforce to support the operation and maintenance of battery electric HGVs. Support for workforce training is needed to close this skills gap and unlock new job opportunities.

Recommendation 22: Publish a low carbon fuels strategy and introduce a duty differential for hydrotreated vegetable oil fuels in HGVs (DfT, HMT)

Meanwhile the timeline for delivering to a fully electric HGV fleet will be a long one, with internal combustion engine vehicles still likely on UK roads by 2050. As such, alternative choices are needed to support more comprehensive decarbonisation and to deliver interim carbon budgets. Low carbon fuels will have a vital role to play; the government should publish a robust low carbon fuels plan which sets out clearly the expected role that low carbon fuels can play across the economy, including for HGVs.

More specifically, the government should give a clearer signal of support for biomethane and hydrotreated vegetable oil (HVO) as transitional fuels, potentially through a fuel duty differential for 100% HVO blends, and look to increase support for domestic production through strategic investments as part of the industrial strategy.

³⁵ Green Finance Institute (2024) [A Greenprint for Property Linked Finance in the UK](#).

Nature

Recommendation 23: Ensure that the revised Environmental Improvement Plan (EIP) is clearly structured and joined up across government to ensure that targets are deliverable (Defra)

Nature is fundamental to the UK's future prosperity. The Green Finance Institute found that the deterioration of the natural environment could slow economic growth, resulting in UK GDP being between 6-12% lower than it would have been otherwise by the 2030s.³⁶ The new EIP must provide a stable policy framework, bring together timelines and set clear pathways for policy delivery with targets to unlock private investment in nature, and help businesses operate in a nature-sensitive way.

This is because investing in nature recovery offers significant opportunities in sustainability-linked markets and nature-based solutions. Businesses, increasingly motivated by regulation, customer demand, and economic risks, can lead the way in restoring biodiversity, improving resilience and capitalising on new markets, such as carbon credits and ecosystem services. Aldersgate Group set out why nature matters for business in a recent briefing.³⁷

To enable business action, the revised EIP must:

- Set clear, ambitious long-term and interim targets, translated from the national to the local level and aligned with business investment and decision-making cycles.
- Join up nature policy across government, including ensuring that planning, agriculture, infrastructure development, competition, trade and other business policy support nature recovery.
- Set out next steps and engagement mechanisms to develop nature-positive sector pathways, building on the work conducted by WWF and Aviva,³⁸ providing clarity on the role that key economic sectors can play to deliver nature recovery.

Lack of certainty holds back business and contributes to underinvestment. Aldersgate Group recommend that as part of the EIP review, government should publish a business-facing output presenting the revised EIP and next steps for private sector engagement to help further clarify the direction of travel on nature policy.

Recommendation 24: Fund Environmental Land Management Schemes (ELMS) and nature-friendly farming at a level reflection their huge societal value (Defra)

Given the effects of climate change and biodiversity loss, the UK's farming sector faces pressure to deliver significant elements of our natural recovery while ensuring it can still support UK food security.

In its 2025 progress report, the Office for Environmental Protection (OEP) identifies nature-friendly farming as having the "potential to make important contributions towards many targets and commitments" made by the UK government.³⁹ Although uptake of the lower-tier schemes has been strong and encouraging, a disproportionate amount of funding is being focused on these lower-ambition schemes. The uptake of higher-ambition schemes, like the Countryside Stewardship Higher Tier and Landscape Recovery, is disappointingly low. To better enable farmers to take up these higher ambition schemes, the National Audit Office

³⁶ Green Finance Institute (2024) [Assessing the Materiality of Nature-Related Financial Risks for the UK](#).

³⁷ Aldersgate Group (2024) [Briefing: Why Nature Matters for Business](#).

³⁸ WWF (2024) [National Nature-Positive Pathways to Guide Policy and Private Sector Action](#).

³⁹ Office for Environmental Protection (2025) [Progress in Improving the Natural Environment in England 2023/2024](#).

has called for greater clarity and dialogue with farmers to minimise uncertainty.⁴⁰ Similarly, as the OEP points out, government has yet to articulate when the focus will need to shift to more impactful tiers of ELMS.

Independent analysis on behalf of The Wildlife Trusts, RSPB and National Trust found that £3.1 billion needs to be spent on nature-friendly farming and land management annually in England to meet the UK government's own legally binding targets.⁴¹ We believe this would better support the sector in addressing some of the main challenges facing the natural environment, biodiversity crisis, and food security of the UK.

Boosting the circular economy

Recommendation 25: Support the shift to a circular economy with an appropriately resourced strategy (Defra, DESNZ, DBT)

Aldersgate Group members recognise the significant economic and social opportunities, alongside wider environmental benefits, offered by a circular economy. We are delighted that the government has set up a circular economy taskforce and will be publishing a new strategy in 2025.

Producing more of greater value, for less money, has the potential to lower production costs, increase supply chain security and secure long-term competitiveness. Increasing resource efficiency has the potential to grow UK GDP by close to £25 billion by 2035.⁴² Reducing the use of critical materials and increasing recycling would also help mitigate supply chain risks, which could severely affect the UK economy and wider delivery of the Clean Power mission.⁴³ A circular economy could also contribute over 450,000 new high-quality jobs in the UK.⁴⁴

The 2018 Resources and Waste Strategy provided a starting point, but progress and implementation have been slow. Businesses need clarity on the direction of travel as the strategy expires, as well as an enabling policy environment to increase circularity. A level playing field with standards and regulation should support ambition and adoption of circular economy practices. Innovation and collaboration across sectors will be important to commercialise solutions and develop new business models. Government may have a role to play in convening innovative networks and supporting market demand for circular products and services, including through public procurement. The upcoming circular economy strategy must be appropriately resourced for success and to help leverage private investment.

⁴⁰ National Audit Office (2024) [The Farming and Countryside Programme](#).

⁴¹ Royal Society of Wildlife Trusts (2024) [Management Schemes & Food Security: The Case for Increased Investment in Nature for UK Food Security](#).

⁴² Green Alliance (2024) [Why a Circular Economy is Good for the UK](#).

⁴³ National Engineering Policy Centre, Royal Academy of Engineering (2024) [Critical Materials: Demand-Side Resource Efficiency Measures for Sustainability and Resilience](#).

⁴⁴ Green Alliance (2021) [Levelling up through Circular Economy Jobs](#).