Greater Birmingham Chambers of Commerce

Recommendations to Government for accelerating business progress to net zero

July 2021

Connect. Support. Grow.

Foreword

Businesses are the backbone of the economy and are still recovering from the impact of the COVID-19 pandemic. We have witnessed the power and speed of UK organisations and businesses in creating a vaccine in record time and innovating, pivoting and adapting to meet PPE, ventilator and digital delivery needs. Now is the time to utilise this power to stimulate a green recovery through enhanced business support and clear Government policy, to tackle the most pressing environmental issues we have ever faced. Given the economic precariousness of the climate crisis, we are calling on the Government to give businesses the support and clear policy they need to progress to the national 2050 net zero target.

We urge the Government to listen and take action on the recommendations. Implementing these will help avoid the huge costs associated with climate induced economic disruption. The COVID-19 pandemic has demonstrated how global natural disasters can damage local businesses, the economy and cost the Government billions.

Henrietta Brealey
Chief Executive
Greater Birmingham Chambers of Commerce

We also urge our business community to continue to embrace their role in decarbonising where they can. It is encouraging to see businesses tackling the climate crisis head on and experience the associated competitive, financial and reputational benefits. Action now will help future proof businesses and increase the resilience of the West Midlands economy.

Will Hargreaves
Environmental Policy Lead
Greater Birmingham Chambers of Commerce

Over the last year we have researched the views of businesses and asked them on key areas for Government action and business support to achieve more progress to net zero. This included various roundtables, direct conversations and surveys to over 100 members of different sizes and sectors.

In April the Government acted on the Climate Change Committee's recommendation and announced a legislated target of a 78% reduction in CO_2 eq. emissions by 2035 based on 1990 levels (a reduction of approximately 60% from today's levels), to accelerate progress to the 2050 net zero target. Business and industry will have to adapt to meet this target, but if the Government doesn't act quickly to increase support for businesses, the fast progress needed to achieve the target will be jeopardised.

The support currently offered by the Government is welcomed and a step in the right direction. However, to fuel the ambition needed to meet our challenging net zero target, more must be done to strengthen and utilise business and industrial wherewithal. Improved support and policy will help kickstart action and bolster economic and environmental performance.

With COP26 less than four months away, we call on the Government to strengthen commitments to their climate leadership through incentivising business progress to their net zero goal. Increased support and strengthened policy for businesses will be crucial to stimulate this.

Executive Summary

The Greater Birmingham Chambers of Commerce, in consultation with the local business community, recommend five key steps the Government must take to ensure a successful net zero transition for business and industry.

1. **Increase financial support for businesses (particularly SMEs) through increased value of grants, favourable finance and financial relief, to stimulate accelerated business decarbonisation and low-carbon technology uptake.**
    - Focus on more financial support for the highest and hardest to decarbonise sectors, including support for capital, installation and operational costs.
    - Review and extend the super deduction tax, business rates, VAT and structural building allowance to increase low-carbon technology uptake.

2. **Increase the provision and investment into supply side low-carbon infrastructure and encourage a modal shift in city transport.**
    - Accelerate the role out of low-carbon fuel infrastructure, with the aim of improving accessibility, reliability and rapid-charging for vehicles.
    - Encourage increased uptake of low-carbon transport options through a modal shift to cycling, walking and public transport.

3. **Increase devolution powers to invest in regional low-carbon technology.**
    - Increase the capability and capital available for the West Midlands Combined Authority (WMCA) to invest in the low-carbon sector. This will help to create, facilitate and execute decarbonisation pathways at speed that align with local resource, economics and society.
    - For capital, the UK shared prosperity fund can be used. The potential of this has been demonstrated by local authorities through other schemes.

4. **Provide clear and long-term policy certainty and planning to stimulate private investment.**
    - The Government must set an overarching strategy which provides policy certainty, consistency and investment for net zero, which meets the needs of the West Midlands. This can be supported by apolitical organisations, such as the National Centre for Decarbonisation of Heat. Additionally, apolitical organisations can support stakeholders in understanding and navigating policy implications.
    - Schemes need to have more longevity and staged change (i.e. grant reductions) with clear timelines.

5. **Invest in skills, training and careers for the regional and national net zero transition.**
    - Provide the most support to sectors facing the biggest skill risks from the transition, such as automobile, construction, energy efficiency and retrofit. This should include long-term programmes to upskill and retrain young people and current workforces.
    - Couple the skills needed from the green transition (i.e. project management) with the digital skills gap.

Increase financial support for businesses (particularly SMEs) through increased value of grants, favourable finance and financial relief to stimulate accelerated business decarbonisation and low-carbon technology uptake

Increase financial support for businesses installing low-carbon technology.

- For the highest emitting sectors, which require rapid decarbonisation (transport, industry, built environment), create a financial 'life-cycle' package which covers eligibility for reducing the capital, installation and operational cost of low-carbon technology. For example, a grant (capital and installation), business rates and VAT reduction for the most carbon intensive industries.
- Extend the super deduction tax to apply to low-carbon technology and technology that brings significant efficiency gains (such as digital/IT).
- Reform business rates to encourage low-carbon technology uptake. Incentivise low-carbon technology uptake by reducing operational costs through business rate reductions and/or exemptions. This includes technology installations that increase EPC ratings (energy efficiency) and low-carbon plant and machinery.
- Reform VAT to reduce capital and operational business costs through VAT exemptions or reductions. This should include low-carbon vehicles, their fuels and electricity (transport); energy saving technology and materials (including those in low-carbon technology, circular economy and alternative materials).
- Review existing capital allowances and the current use of the Structures and Building Allowance (SBA).

Background:

Rapid acceleration in the uptake of low-carbon technology is required to meet carbon reduction targets over the next ten years under the 2050 net zero target. The UK Government aim to achieve 600,000 annual heat pump installations by 2028 (currently, 30,000 per annum), and by 2030 have all commercial leased properties at EPC B minimum[1]. However, financial barriers exist which limit low-carbon technology adoption. The cost of achieving lower carbon emissions through retrofitting non-domestic buildings is between three and ten times the costs of installing them in a new building[2].

This reinforces the case for making low-carbon technology mandatory in new builds (non-domestic and domestic). However, the vast majority of businesses will need to retrofit, so financial support to overcome the capital expenditure is essential. Additionally, the installation and operating costs must provide financial relief to meet the ambition of the UK Government decarbonisation targets. This could be achieved through reviewing:

The Super Deduction Tax. This will apply to capital expenditure on "main pool" plant & machinery incurred by companies between 1st April 2021 and 31st March 2023. The scheme is limited as it does not include established low-carbon technologies as main pool items (i.e. solar panels), and the deduction is only available to companies paying corporation tax, hence sole traders and partnerships will not benefit from this policy.

Business Rates: Businesses state business rates as a barrier to investing in energy efficiency and carbon reduction for non-domestic property. Business rates centre on the rental property value, so low-carbon improvements can increase this. This can position low-carbon property improvements as commercially unviable because business rates increase once low-carbon technology is installed. Technologies such as heat pumps and solar panels may be negatively affected because they can increase property value and therefore business rates.

VAT: Reducing the amount of VAT on low-carbon technology can help increase uptake and sectoral growth, which contributes to improving the market competitiveness of low-carbon products. In sectors which have the highest

[1] BEIS (2020) Energy White Paper. Available here
[2] Committee on Climate Change (2019) The costs and benefits of tighter standards for new buildings. Available here

carbon emissions and so require rapid decarbonisation, such as transport, industry and the built environment [3], VAT relief can be used. This should be on low-carbon vehicles, their fuels and electricity (transport); energy saving measures and materials (including those used for low-carbon technology, circular economy and alternative materials).

Statistics:

- Already low business investment has fallen since the Covid-19 pandemic, reducing 11.6% between Q3 2019 and Q3 2020[4]. The UK's productivity gap when compared with competitors is because of low business investment, which has contributed to stagnating growth since 2008.
- 33% of businesses surveyed in the West Midlands cited financial circumstances as the key barrier which prevents a transition to net zero in their own business[5]. This included lack of capital or finance, grants, favourable tax rates, credits or allowances and the availability and/or cost of low-carbon alternatives.
- In Q1 2021 25% of Greater Birmingham businesses were more concerned around the impact of taxation on their output compared to three months ago (the highest figure on record since the end of 2017)[6].

Increase the provision and investment into supply side low-carbon infrastructure and encourage a modal shift in city transport

Accelerate the implementation of low-carbon fuel infrastructure (electric vehicle charging and hydrogen). Ensuring charging points are universally accessible, reliable and rapid-charging. This should include:

- Publishing the Transport Decarbonisation Roadmap, with a national plan for accelerated EV charging point distribution.
- Ensuring capacity improvements are made to the grid to meet increased demand from increased electrification, whilst maintaining competitive electricity costs for businesses.
- Work with business and industry to create strong and intelligent vehicle to grid capability that helps manage electrical demand and supply.

Encourage a modal shift across to low-carbon transport options, through:

- Additional funding (from HMT and DfT) to encourage greater uptake of cycling and public transport use as social distancing measures begin to ease.
- Improve the attractiveness of low-carbon transport (cycling, walking and public transport) by providing relevant infrastructure (i.e. safe bike lanes) and financial incentives, especially in cities.
- Campaign for increasing low-carbon travel into city centres (Birmingham).

[3] National Audit Office (2020) Achieving Net Zero. Available here
[4] HM Treasury (2021) Budget 2021- Super Deduction Fact Sheet. Available here.
[5] British Chambers of Commerce (2020) Net Zero Survey 2020 West Midlands
[6] Greater Birmingham Chambers of Commerce (2021) Quarterly Business Report Q1 2021. Available here.

Background:

Low- Carbon Infrastructure.

Lack of low-carbon infrastructure is cited as a main barrier to adopting low-carbon vehicles for businesses. Without available infrastructure businesses and their employees have limited access and options for low-carbon transport, including the distribution of fuelling stations (i.e. EV charging points), fleet uptake and modal shift.

Accelerating the adoption of low-carbon vehicles must be achieved through a proliferation in low-carbon energy infrastructure to overcome perceived barriers of low-carbon transport, namely: not enough fuelling stations, refill makes route longer, and range anxiety etc.

The UK grid will face increased electrical demand, owing to the transition from fossil fuel power to increased electrification. For example, switching from gas boilers to heat pumps and internal combustion engines to batteries. The Government must work with stakeholders to invest in upgrading grid capacity, ensuring it can meet future demands.

Increasing capacity will mean increased renewable power generation and continual decarbonisation of the power sector, which may raise operating costs. However, these costs should not impact business competitiveness. Therefore, electricity prices for businesses should be competitive to keep costs low for businesses as electricity is often a high operational cost.

Public Transport, Cycling and Walking

The Birmingham City Council's Draft Transport Plan and subsequent Greater Birmingham Clean Air Zone are welcomed because they have and will support the increased provision of low-carbon alternatives. However, businesses using low-carbon travel schemes have found employees are not using them due to factors outside of the businesses control. These include lack of accessible and safe cycle lanes and lack of a convenient and timely public transport service, due to traffic and congestion.

Statistics:

- Current annual charging point installation is at 20% of what is needed to deliver the transition to net zero; 35,000 new charging points must be achieved annually through to 2030[7].
- Global electricity demand is expected to more than double between 2020 and 2050, owing to increased electrification to support decarbonisation[8].
- Transport is the largest sector contributing to greenhouse gas emissions at 34% of total UK emissions[9].
- Air pollution and greenhouse gas emissions cost the economy in the WMCA area £2.5 billion annually[10].

[7] Policy Exchange (2021) Charging Up – Policies to deliver a comprehensive network of public EV chargepoints. Available here
[8] International Energy Agency (2021) Net Zero by 2050. A Roadmap for the Global Energy Sector. Available here.
[9] BEIS (2019) 2019 UK Greenhous has emissions, provisional figures. Available here
[10] West Midlands Combined Authority (WMCA) (2019) West Midlands has a moral responsibility to lead the fight on climate change. Available here

Increase regional devolution powers to improve investment in regional low-carbon technology

Increase the capability and capital available for the WMCA to invest in low-carbon infrastructure and sectors to support the region's growth and progress to net zero in light of the 'levelling up agenda'. This must include:

- Utilising the strengths of the West Midlands to bolster international competitiveness in the low-carbon technology sector, capitalising on local innovation and supply chains- centred upon the creation of a gigafactory in Coventry.
- Building on the West Midlands innovation and manufacturing capability on low-carbon technology helping increase domestic demand and future export competitiveness.

This must be underpinned by more devolved power to target and coordinate investment, including increased capability and capital available for the WMCA to invest in the low-carbon sector.

Background:

The case for devolution

Regions across the UK have unique challenges and opportunities for net zero to address. More devolved power (through more autonomy and capital) to target and coordinate investment will empower the WMCA to create, facilitate and execute decarbonisation pathways at speed that align with local resource, economics and society.

The case for devolved power is supported by the WMCA's proactive approach to decarbonising the region. The WMCA has taken initiative by targeting net zero by 2041 and releasing a five year decarbonisation plan (the first of four). Additionally, proposals within the Net Zero Pathfinder will help accelerate decarbonisation, improve the regional low-carbon sector and improve smart energy[11]. This shows the WMCA and regional stakeholders have the wherewithal to successfully manage regional decarbonisation. Therefore, more devolved power and increased investment will better support the regions and Governments net zero ambition.

As an example, increased regional capital for decarbonising can be utilised through the UK shared prosperity fund. Bristol City Council and Bristol City LEAP are an example of the potential of this opportunity. Both parties established a joint venture and are working with a strategic partner to achieve a smart energy, zero carbon Bristol City by 2030, through £1 billion of investment[12]. For more examples see the reference.

Sectoral strengths and opportunities

The low-carbon manufacturing and goods sector is the fastest growing sector in the region[13]. Regional strengths and opportunities can help increase investment and develop low-carbon R&D, innovation and manufacturing, which can support the development more local supply chains and low-carbon technology. For example, the manufacturing sector, can help support the development of hardware for low-carbon technologies. As an example, the H2 industry has a total market potential of $11 trillion by 2050 of which 66% will be in related hardware for H2 and fuel cell applications[14].

[11] WMCA (2021) The West Midlands Net Zero Pathfinder. Available here
[12] Climate Change Committee (2020) Local Authorities Sixth Carbon Budget. Available here
[13] WMCA (2021) Low-carbon manufacturing is fastest growing sector in West Midlands. Available here
[14] Stevens, P (2020) Hydrogen is at a tipping point with $11 trillion market set to explode. CNBC Available here

The West Midlands has nationally recognised sectoral strengths in transport, electric vehicles, waste recovery and recycling. Investing in low-carbon technology can help build on the strong exports and trade surplus opportunities the region experienced pre pandemic[15]. The development of a Gigafactory can help strengthen the ambition of the West Midlands to be at the forefront of the green industrial revolution. This will build on the UK Battery Industrial Centre in Coventry and support increased low-carbon manufacturing, innovation and local supply chains.

Statistics:

- West Midlands manufacturing sector accounts for 9% of all manufacturing employment in Britain[11].
- The low-carbon manufacturing and goods sector is the fastest growing in the region[16].
- Global battery demand for transport is expected to increase 50 fold from 2020 to 2050[17].

Provide clear and long-term policy certainty and planning to stimulate private investment

The Government must set an overarching strategy which provides policy certainty, consistency and investment for net zero, which meets the needs of the West Midlands. Additionally, Government schemes (such as the Green Homes Grant) need to have more longevity to increase uptake and to incentivise long-term organisational planning for net zero.

- Government schemes for decarbonising the economy must have clear timelines and indications of changing circumstances (i.e. a staged decrease in grants with clear timelines). For example, applying fiscal policy with clear and appropriate start and end dates and the staged decrease in financial relief will allow industry and business to adapt and act accordingly.
- Develop and implement apolitical organisations capable of transcending government parliamentary terms and power to ensure consistent and long term policy, such as the National Centre for Decarbonisation of Heat in the West Midlands[18].
- Release the Heat and Building Strategy, Transport Decarbonisation Plan, Hydrogen Strategy and Net Zero Review that were promised early 2021/ spring 2021.

Background:

Uncertainty in Government policy creates a lack of confidence in initiatives and impedes progress towards policy objectives. Certainty, confidence and longevity are key to mobilise investment and progress to net zero. The UK Government cites most investment is expected from the private sector to achieve the 2050 net zero target[19]. Therefore, in order to bring investor confidence and stimulate private sector investment, long-term policy certainty is required.

Additionally, as there is a time lag on business changing models, developing new products and services to market, the Government must provide a stable long-term market state to incentivise uptake of low-carbon related business

[15] WMCA (2020) State of the region 2020. Available here
[16] WMCA (2021) Low-carbon manufacturing is fastest growing sector in West Midlands. Available here
[17] International Energy Agency (2021) Net Zero by 2050. A Roadmap for the Global Energy Sector. Available here.
[18] University of Birmingham & CBI (2020) Net-zero: The Road to Low-carbon Heat. Available here
[19] BEIS (2020) Energy White Paper. Available here

and technology. Without this, change will be too slow. Therefore, considerations must be made in low-carbon/net zero policies to incentivise businesses by building confidence and embedding security in the future state of the market.

The rapid need for decarbonising, by approximately 60% of current emissions to 2035 (since 1990 CO2 eq. emissions have reduced by 44% [20] must be met with consistent and long-term policy that transcends parliamentary terms. This can be supported by apolitical organisations that work with government on creating, coordinating and delivering on key decarbonisation issues. For example, using a National Centre for Decarbonisation of Heat in the West Midlands to support delivery across the country. Additionally, apolitical organisations can support stakeholders in understanding and navigating policy implications.

Statistics:

- The £2 billion funding for the Green Homes Grant (started September 2020) suffered from a 95% underspend which meant the scheme was scrapped in only 6 months of operating[21].

Invest in skills, training and careers for regional and national net zero transition

- Invest in training & skill programmes to future proof the workforce and economy:
    - Including skills for innovation, manufacturing and installation (retrofit) for low-carbon technology, matched to associated industry standards (i.e. certifications, ISO, PAS, BSI standards in low-carbon technology).
    - Develop low-carbon educational programmes at all stages of education, with an increased focus on marketing low-carbon careers.
- Provide the most support to the sectors most in need through a targeted approach. Sectors such as automobile, construction, energy efficiency and retrofit must have specific careers, training and skills guidance. This includes upskilling and re-skilling:
    - Adapt and develop existing tools, such as T-Levels and the Bootcamp model, to support the development of generational low-carbon skills that require the most pressing workforce upskilling, such as retrofitting.
- Couple the skills from the green transition (i.e. project management) with the digital skills gap. Digital skills will be increasingly important for data management and efficiency (automation) of low-carbon systems.
- Produce a Green Skills strategy with clear investment decisions. To be formulated in consultation and input from businesses to represent and address specific business skills challenges.

Background:

Provide the most support to the sectors facing the biggest skill risks from the transition, such as automobile, construction, energy efficiency and retrofit. This should include long-term programmes to upskill and retrain young people and the workforce.

[20] Institute for Government (2020) Net Zero. How government can meet its climate change target. Available here
[21] Laville, S (2021) Hundreds of millions in green grants for English homes pulled despite delays. Available here

The net zero transition and move to a more environmentally sustainable economy will require new skills and the upskilling of the workforce. Businesses cite a mismatch between skills and demand for the low-carbon economy, who risk losing commercial opportunities and efficiency through the workforce not being able to meet rising low-carbon demands from customers.

The region's stronger sectors will experience limited productivity and growth through potential skill shortages. This will exacerbate the regions current skill shortages, declining growth, increasing business costs and creating time constraints. In Q2 of 2021, 53% Greater Birmingham Businesses faced recruitment difficulties, with the majority facing difficulty recruiting candidates with the right technical background[22]

The West Midlands region could create 91,000 direct jobs by 2041 within low-carbon sectors[23]. However, skills must be developed to meet the demand for these jobs, otherwise negative impacts will persist, limiting decarbonisation progress. Growth is expected in the professional and financial services, manufacturing (low-emission vehicles, battery packs, and potential modules in the proposed gigafactory), and low-carbon heating technologies, energy efficiency products, green stimulus (retrofitting) and solar panel installation sectors.

Statistics:

- The Ten Point Plan for a Green Industrial Revolution states 250,000 jobs will be created as a result of the £12 billion of Government low-carbon investments[24].
- 21% of current jobs have skills which demand could grow or require upskilling as a result of low-carbon economic growth[26].
    - **Automotive Sector**: The sectors approximate 450,000 workers will need to be informed of the changes to skills coming from low-carbon transport[25]
    - **Construction Sector**: Estimated need for an additional 500,000 trade positions, more than double the existing workforce and 50,000 retrofit coordinators to meet a EPC target of C by 2030[26]. The Government stated in the Energy White Paper a target of EPC B by 2030.
    - **Energy Efficiency**: Over 150,000 skilled and semi-skilled jobs can be supported by Energy Efficiency Upgrades[27]
    - **Retrofit**: Over three quarters (542,000) of sector employees were self employees or work for small firms in 2019[28].
    - **Low-carbon Energy**: GVA of £18 billion could be unlocked by hydrogen by 2035, supporting 75,000 additional jobs[28]
- Approximately 91,000 jobs could be created as a result of the net zero transition in the West Midlands[29].

[22] Greater Birmingham Chambers of Commerce (2021) Quarterly Business Report Q2 2021. Available here
[23] WSP (2021) WMCA2041 Five Year Plan 2021-2026. Available here.
[24] BEIS (2020) 10 Point Plan for a Green Industrial Revolution. Available here
[25] Committee on Climate Change (2020) The Sixth Carbon Budget. The UK's path to Net Zero. Available here
[26] Construction Leadership Council (2020) Greening our homes. National retrofit strategy. Available here
[27] Energy Efficiency Infrastructure Group (EEIG) (2020). Energy efficiency's offer for a net zero compatible stimulus and recovery. Available here
[28] UK Hydrogen Taskforce, Economic Impact Assessment Summary, August 2020
[29] WSP (2021) WMCA2041 Five Year Plan 2021-2026. Available here.

How the Greater Birmingham Chambers of Commerce can help

GBCC member views are represented in this policy position, which have been gathered in consultation across businesses of different sizes and sectors. We will use this collective input to lobby key stakeholders regionally and nationally to achieve better, more representative environmental policy for the business community.

We aim to support businesses throughout the transition to net zero and wider environmental changes needed to protect future business. This includes the 2021 Sustainable Business Series: Net Zero and other activity businesses can get involved in are listed on the website.

The GBCC informs members of Government announcements and their implications for the local business community. Supporting members throughout the net zero and wider environmental issues are a priority and so resources and information will continue to be built on. This includes continually developing and improving our support and policy position to best meet the needs of the local business community.

The net zero transition is not the only disruption facing businesses this year and we are also continuing to support our members with adapting to COVID-19, Brexit and beyond. You can find out more about our wider support for businesses and lobbying messages on the GBCC website: www.greaterbirminghamchambers.com

Greater Birmingham Chambers of Commerce

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