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Unlocking growth through increased private investment in clean industries and infrastructure



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Achieving net zero will require significant investment in new industries and infrastructure. Much of this investment will flow into the UK's traditional industrial heartlands, where the last Conservative government rightly sought to level up opportunity. There was important progress in the final stages of the last parliament on streamlining critical national infrastructure planning processes and increasing investment allowances for new technologies and factories. Business models for carbon capture and clean hydrogen were created to enable private sector finance to establish and grow these new industries. The UK's net zero economy is already worth £74 billion, having grown 9% in 2023, and offers significant growth potential in the years ahead.²⁸ In this parliament, investment will need to increase further; however, to limit the impact on the public finances and to harness market forces to lower overall costs, the vast majority of the increase can and should come from the private sector. To unlock this investment, even more barriers to private investment, from cumbersome planning processes to poor transport links, will need to be removed.

HIGHLIGHTING THE POSITIVE CONSERVATIVE RECORD

There has been a huge expansion of offshore wind over the past 10 years, with the UK having the five biggest offshore wind farms in the world. This has been underpinned by the Contracts for Difference scheme, a market-based mechanism that has cut prices by two thirds and attracted billions of pounds of renewables investment since 2014.²⁹ Climate risk reporting has also been introduced for listed companies and financial institutions increasing investor awareness of climate change risks to businesses and boosting flows of capital to green projects.³⁰

CELEBRATING CEN CAMPAIGN WINS

CEN MP Energy Act amendments led to the lifting of the 'one person veto' in the English onshore wind planning regime and the creation of a sustainable aviation fuel revenue stability mechanism.

Speed up the delivery of productivity-enhancing clean infrastructure projects, such as wind farms, solar farms, and nuclear plants, through planning reforms, lowering the administrative burden for the private sector in building environmentally-beneficial projects and bringing much-needed new capacity to our energy and transport systems online faster.

- **Expand permitted development rights for clean technologies:** the planning system is adding delays and costs to the deployment of clean technologies. The last government had proposed several measures to reduce unnecessary planning red tape by extending permitted development rights for some clean technologies. These included: scrapping the requirement for planning permission for heat pumps within one metre of a property boundary, expanding electric vehicle charge point permitted development rights, and creating a permitted development right for small-scale wind turbines. These proposals should be implemented as soon as possible in this parliament, to make it cheaper and faster to deploy these clean technologies. Permitted development rights for heat pumps should also be extended to air-to-air heat pumps, as well as air-to-water heat pumps, as they are also capable of air conditioning and can therefore support our adaptation to a warmer climate.

- **Make community benefits mandatory for new grid and generation infrastructure:** developers are increasingly using benefits like energy bill discounts or funding for local projects to build support for new energy infrastructure among residents. The previous government published guidance on community benefits for new transmission infrastructure, which cited research showing that 78% of people would find transmission infrastructure acceptable if they received discounts on their energy bills.³¹ This should be extended to generation too and a minimal level of community benefits mandated, through changes to the National Planning Policy Framework.³² Alongside careful community engagement, this approach would improve consistency across the UK for developers, speed up the process of negotiating community benefits, and provide reassurance to local communities who are set to host more wind farms, solar farms, and pylons as we modernise the energy system.
- **Increase the certainty, speed, and flexibility of the planning system for new clean infrastructure projects:** national planning policy for new nuclear has not been updated for the past thirteen years despite the technological advances made, notably the jump from conventional to small modular reactors.³³ The last government published a consultation which closed in March 2024, which included a strategy for where reactors would be sited.³⁴ A response should be issued as soon as possible to provide developers with the confidence to invest in new nuclear projects. More broadly, national planning statements for energy projects should be regularly updated to reflect the latest technological developments. The Energy Act introduced reforms to environmental rules to allow offshore wind developers to strategically mitigate environmental impacts across multiple projects, rather than project-by-project. Similar reforms should

be created for all clean infrastructure projects, to accelerate the buildout of clean energy, lower costs, and unlock more funding for nature.

Expand the number of bus and rail services while improving the passenger experience and lowering fares, through unlocking more private investment and increasing competition, to help level up the UK, improve productivity, and boost connectivity.

- **Make rail electrification investment more consistent:** long-distance electric trains are 40% more reliable than diesel trains, yet the UK has only electrified 38% of its rail network, which is well below the EU's share of nearly 57%.³⁵ Electrification also makes train travel cheaper and cleaner, increases capacity on the line, and enables greater volumes of freight, with electric trains capable of moving larger loads than diesel trains. But we need to ensure there is a consistent stream of rail electrification spending to enable the private sector to invest in the supply chain sustainably. A rolling programme of electrification should be announced for this parliament, ending the current 'feast and famine' approach.³⁶
- **Use land value capture to boost private investment in rail infrastructure:** there is substantial opportunity to use land value capture from the development of new rail connections to fund part of the costs of the infrastructure. It was successfully used to fund 25-30% of the capital costs of the reopening of a passenger rail line in Northumbria.³⁷ The model would see the government take some of the uplift in property values (residential and commercial) from the new transport link, and direct the funding towards rail infrastructure investment. This will make the

limited public investment budget for new rail infrastructure go further. Another revenue generation opportunity would be to sell retail spaces and residential housing units as part of station redevelopments to fund part of the infrastructure costs.

- **Increase competition between train operators:** increasingly electrified trains offer a greener alternative to driving or flying, helping us tackle air pollution and climate change. Privatised railways have seen rising passenger demand: before the pandemic hit, the railways delivered a third more journeys than before privatisation.³⁸ But the relatively high cost of train fares is stopping more people choosing this sustainable transport mode. To bring down rail prices, the government should turbocharge competition between private providers, rather than create a nationalised rail company. Competitive contract procurement should be delivered on key routes, which will boost competition in the sector after it had declined under the old franchising model. In addition, a duty should be placed on Network Rail to prioritise open access operator applications to increase competition on the railways where there is spare capacity, incentivising operators to drive down fares and improve the customer experience. This should include international lines, namely HS1. Where on-track competition has been introduced across Europe, fares have been reduced by 20-60% over time.³⁹
- **Enable councils to adopt flexible franchising models for local bus services:** more combined authorities are considering the full franchising of local buses, where services are effectively brought under the control of local authorities who also take on revenue risk from private operators. But the cost of this option is prohibitive for many authorities, with Greater Manchester's franchising system involving £135 million in set-up costs.⁴⁰

Under an alternative ‘flexible franchising’ model, the private sector assumes the revenue risk from operating bus routes and shares profits with councils, in return for minimal subsidy. The quid pro quo is that the councils can set service requirements, to ensure consistency and good quality. Another benefit of partial franchising is that it enables better join-up between local transport services, from buses to rail, which is currently held back by competition rules.

- **Reforms the Bus Service Operators Grant (BSOG):** the BSOG helps to maintain regular and affordable bus services for communities, expanding people’s sustainable transport choices, but it subsidises services on a per litre basis. The subsidy mechanism disincentivises the switch to electric buses. Instead subsidies should be awarded per kilometre travelled and should add conditionality terms to operators to receive funding, such as the uptake of zero-emission buses, better bus timetabling, and integrated ticketing. This will incentivise operators to support the delivery of environmental objectives and improve passenger experience.

Make the UK the most attractive destination in Europe to grow green industry supply chains, through tax incentives, planning reforms, infrastructure upgrades, and revenue de-risking mechanisms, helping British firms seize the opportunities from the global net zero transition, creating well-paying jobs, and regenerating local economies.

- **Strengthen tax breaks inside freeports for green investment:** turbocharging green investment incentives inside freeports will make the UK more competitive, boost job creation, and

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regenerate industrial heartlands. After Brexit, repatriated powers around trade policy and regulation have enabled the UK to establish a number of freeports. These zones have already used their favourable tax regime to attract green supply chain firms to the UK, such as SeAH's wind turbine base factory in Teesside and Pensana's rare earth processing facility in Hull. To build on this success, a green premium should be added to the existing tax breaks inside freeports to incentivise low-carbon investment in these areas and fund the training of workers for local green industries. In addition, on-site renewable energy generation should be expedited in these zones with looser planning rules and streamlined environmental permitting, to give businesses access to cheap power and make them more competitive. This will strengthen the UK's attractiveness for international green supply chain investment in response to the generous subsidies on offer through the USA's Inflation Reduction Act and EU's Green Industrial Plan. It also offers a conservative alternative to the left's green industrial strategy.

- **Upgrade British ports for offshore wind:** the UK is a world leader in fixed-bottom offshore wind and has an early-mover advantage in floating offshore wind. Combining natural advantages, like high wind speeds and a long coastline, with our offshore energy experience and know-how, the UK is well-placed to develop and commercialise these key clean technologies. Exporting these technologies will make the UK more prosperous and decarbonisation cheaper for developing countries. Yet we risk failing to capitalise on the economic opportunities in the supply chain, estimated to be worth £92 billion by 2040 to the UK, due to our poor port infrastructure.⁴¹ The port upgrades required for floating offshore wind in particular are very significant, as most of the manufacturing and assembly will need

to be done in the port. Ports have not invested to date primarily because of future revenue uncertainty as well as planning delays. To overcome this barrier, a revenue certainty scheme for ports should be created, to enable them to invest with confidence in new facilities, expand capacity, and deepen their harbours to manage increasingly large offshore wind infrastructure. In addition, planning permission for upgrading ports for offshore wind should be fast-tracked.

- **Expand domestic sustainable aviation fuel (SAF) production:** the adoption of SAF, which is made from waste products, will reduce the lifecycle carbon emissions of aviation by around 70% while zero-carbon aviation technologies are developed.⁴² SAF will help aviation play its necessary role in decarbonising the economy, with estimates suggesting its production could create 10,350 jobs in the UK.⁴³ The last government committed to having five UK SAF plants under construction by 2025 and to deliver an industry-funded revenue certainty mechanism to de-risk SAF production. To ensure we do not end up importing SAF to deliver the government's SAF mandate, a revenue certainty mechanism should be legislated for swiftly in this parliament, favouring the competitively allocated Contracts for Difference scheme in the consultation to minimise costs for the sector.⁴⁴ Restrictions on the practice of tankering, whereby airlines take on excess fuel to cover both outbound and return flights to save money, should also be explored, to prevent airlines avoiding the SAF mandate and undermining this nascent market, and to reduce wasted fuel.

Unlock more private capital for green industries through technology-neutral market mechanisms and sustainable finance policies, reducing the burden on the taxpayer to finance the upfront costs of the net zero transition, encouraging more clean technology innovation, and charting a distinctive centre-right approach to decarbonisation.

- **Require listed companies, asset managers, asset owners, and large companies to publish transition plans:** the last government committed to require listed companies and financial institutions to publish a transition plan to reach net zero across their operations and investments. This announcement at COP26 was an example of UK world leadership in efforts to green the financial system and helped to put the City of London at the forefront of green finance. This commitment should be delivered, and the requirement extended to all large companies. This would help more private finance flow into tackling climate change, be a more market-friendly way to decarbonise than specifying how companies should align with net zero, and preserve financial stability by minimising the financial risks associated with climate change. The disclosure of transition plans should follow the gold standard template as set out by the Transition Plan Taskforce.⁴⁵
- **Expand carbon pricing:** pricing carbon is one of the most free market, cost-effective, and economically efficient ways of tackling climate change, which minimises the need for excessive state subsidies and regulation and avoids picking winners. It also provides an important source of revenue for the Treasury, ensuring decarbonisation is fiscally responsible. The UK played a leading role in developing the early carbon markets and is now

continuing its leadership position outside the EU by developing the world's first net zero-aligned emissions trading scheme (ETS). To enable even more efficient decarbonisation, the number of sectors covered by the ETS should continue to be widened, with greenhouse gas removals (both engineered and natural) phased in over time with appropriate regulatory safeguards to ensure the integrity of the market is maintained. To do this, it will be important to maintain UK sovereignty over the sectoral scope of carbon pricing.

- **Support heavy industry to decarbonise:** the Energy Act created subsidy contracts to support the production and transmission of low-carbon hydrogen and the development of carbon capture and storage (CCS), which are important technologies for decarbonising heavy industry. This support should be delivered as soon as possible inside the three main industrial clusters to enable the necessary infrastructure upgrades to begin and avoid losing our head-start in these industries. Outside the clusters, however, a more technologically-neutral, market-based approach to supporting heavy industry to decarbonise should be developed to reduce costs, avoid picking winners, and accelerate innovation in solutions. To this end, industry should be offered support to decarbonise through electrification, which may be a more cost-effective option in some sectors and have lower residual greenhouse gas emissions than CCS and hydrogen.