



What would Labour do?

Energy Policy

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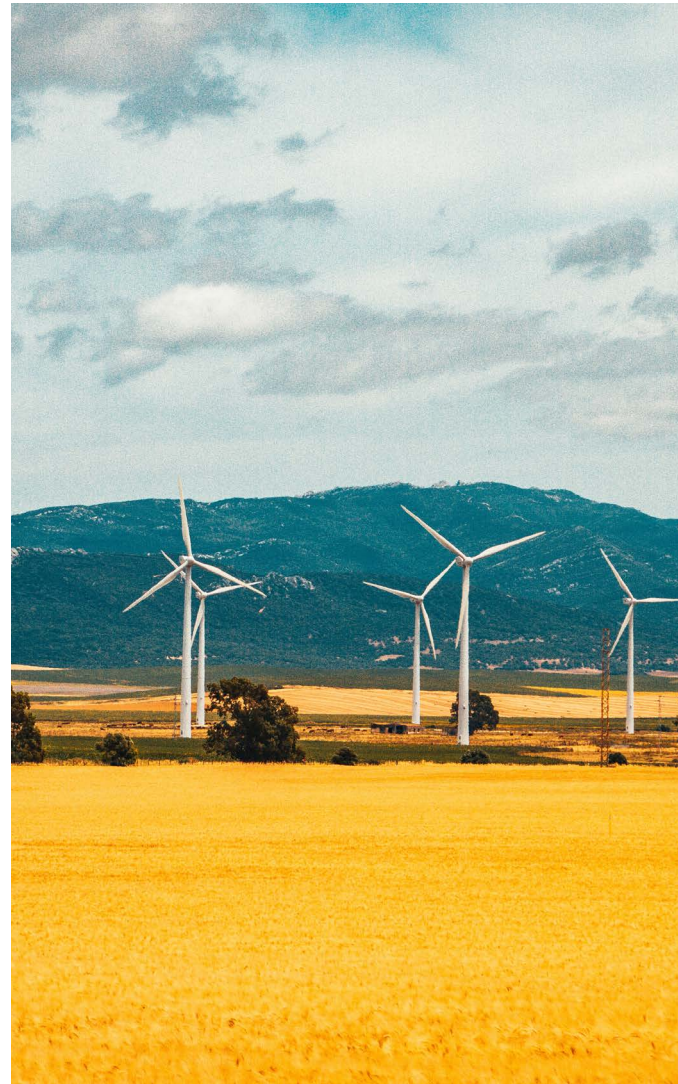
Energy Policy

Introduction

Louise Allen,
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The GK team is delighted to publish its report in our 'What Would Labour Do?' series on Energy. Our report covers key themes such as energy generation, domestic decarbonisation, green investment and the role of regulators.

The process for developing public policy can often feel invisible or "off the cuff", but the debates are already underway on what a Labour Programme for Government might look like, through extensive policy forums, commissions, evidence gathering and more. It is often assumed that this is done at the



last minute, but politicians need to be campaign-ready, particularly when the timing of a General Election is out of your control. The Labour Party is positioning itself as a credible government-in-waiting, recognising and valuing the role of business and keen to hear what support and changes might be required from government. Our advice – engage now, engage with positive solutions, thinking and evidence about how your sector may better operate. Offer what good looks like, and the implications of policies which sounds "good on paper" but has challenges in implementation.

Wider Party Context

The chaos that ensued in the summer of 2022 following Boris Johnson's departure, coupled with the financial market disaster post Liz Truss' emergency budget, meant the public and the media were ready to listen to what the Labour Party had to offer. With the scene set for Labour's conference, the Party chose the slogan "fairer, greener future." This reflects the Party view that the transition to Net Zero will become the defining issue of the 21st century. The message to the electorate was clear: Labour will be the green choice, and will ensure that Britain is at the forefront of this economic transformation.

Underpinning the Party's ambition was a pledge by the Shadow Chancellor Rachel Reeves to invest £28bn a year in green industries. The commitment was described as necessary to protect Britain from disaster. With the Party's manifesto being formed, and the Party still enjoying a 15-20 point lead in the poll ahead of an expected General Election in the next 18 months, an internal debate on the Party's commitment has emerged. On one side, Shadow Secretary of State for Climate Change and Net Zero, Ed Miliband, has argued that the Party must uphold its commitment, arguing a delay on climate action would increase costs. Rachel Reeves, on the other, has said she was concerned by the additional borrowing, having observed the impact of bond markets during Liz Truss's short premiership. Reeves was able to win out, saying "economic stability must come first" and citing the damage on households from rising interest rates.

This episode is part of a bigger task facing Sir Keir Starmer's leadership and the competing forces at play. In a bid to demonstrate that Labour is committed to the decarbonisation cause, the Party has pledged to end North Sea exploration. Speaking during a visit to Edinburgh, Keir said under a Labour government the Party would not issue new licences, but would instead focus on communities benefiting from clean power projects that would "cut bills, create jobs and provide energy security." The move has been branded as naïve by the General Secretary of the GMB, Gary Smith, a key donor to the Party.

Like previous Labour leaders before him, Keir will have to navigate the demands of the trade union movement, socialist MPs in the Labour group, and campaign groups, whilst ensuring credibility with the electorate. This is no easy feat, and the decisions and trade-offs made will come to define his leadership. Energy is not just a rich policy environment; it currently stands at the heart of the challenges facing the Party.

Those with an interest in energy policy, must consider the politics at play. It is also the case, as we have seen with the backtracking over the £28bn a year green pledge, that policies are not set in stone and can be changed. Those organisations and individuals with a coherent perspective and an understanding of party dynamics can find themselves cutting through the noise.

Energy Generation

Against the backdrop of a continuing squeeze on global energy supplies, improving domestic energy supply whilst continuing the pursuit of net zero targets have become cornerstones of Labour policy. Somewhat controversially, although Labour has stated that oil and gas will have declining roles in the years to come, it has also confirmed that it will honour existing licenses for oil and gas exploration.

Labour's approach reflects a growing confidence in this area, and the sense that there is an opportunity to steal a march on the Conservatives' given their increasingly poor climate record. Central to Labour's approach is the pledge to create a new public-owned energy generation company: **Great British Energy (GBE)**, as part of its Green Prosperity Plan. The creation of GBE is a politically salient decision for three reasons:

Firstly, its creation helpfully delivers on a commitment of support for public ownership of energy, first made by Keir Starmer when campaigning for the Labour Party leadership. Perhaps more usefully for the Party's election credentials, it also sidesteps the thorny 'same old Labour' criticisms regarding nationalisation of private companies as default party policy.

Secondly, the ceiling for GBE is high. Tied in with ongoing initiatives to decouple the prices of Britain's wholesale energy market from the most expensive generator (gas), there is potential for a new energy generator focused solely on the development of renewable energy to make a tangible, positive impact on bills – and hopefully emissions – early on for a Labour administration.

Thirdly, although beginning from a standing start, the creation of GBE should also avoid saddling consumers with any additional costs – which tend to dull enthusiasm for climate policies – by

utilising a new 'national wealth fund' that combines Government seed funding with investments from the private sector. This combination could enable Labour to quickly channel funding into renewables projects, whilst keeping a tight rein on spending.

Even despite a further entrenchment of the UK's precarious economic footing, GBE will sit at the centre of Labour's ambition to 'Make Britain a clean energy superpower', as presented in the 5 'missions' made public by Sir Keir Starmer earlier this year. This indicates how central the creation of GBE is for Labour's climate policymaking, and how the Party is banking on the new public generator to accelerate on to a 100% zero-carbon power system by 2030, delivering deep and long-term cuts to the price of energy for consumers. The reported design of GBE is shrewd. GBE will enjoy a mandate of improving energy resilience by allowing Labour to invest in domestic renewable energy capacity in partnership with the private sector, and will enable continuously increasing investment back into communities and energy systems to further catalyse the energy transition; using the generated profits to upgrade infrastructure nation-wide.

This appears to be a clear move from Labour to try and effectively control the net zero narrative, and demonstrate the pure economic benefits that can be enjoyed by leading on climate policy. Polling consistently suggests that the UK electorate overwhelmingly backs policies which support net zero emissions, but has also indicated – **as Ipsos found in 2022** – that voters' feelings are impacted when they consider the personal lifestyle and financial impacts of those policies on them. Labour seems to have grasped that it is vital to highlight how action on renewable energy generation can be translated into tangible, "more-money-in-your-pocket" effects.

To complement GBE, Labour has also committed to other policies that will help deliver a decarbonised power sector. Perhaps the most significant of these initiatives are the proposed sweeping reforms to planning processes, which in their current format are used to block the construction and expansion of offshore and onshore windfarms. This move has long been called for after an effective ban was imposed by the Conservative Government. Lifting the ban will provide energy developers with greater confidence that the UK's energy market has the stability and flexibility to invest in the infrastructure that is needed.

Inflation Reduction Act response

Tied into Labour's Green Prosperity Plan and looming large for all governments (prospective and incumbent), is the USA's landmark Inflation Reduction Act (IRA). The Act is a \$500 billion package of federal subsidies, grants, loan guarantees, and a mix of tax incentives, all intended to substantially lower the USA's carbon emissions and attract net-zero aligned industries to American shores. The Act should align the USA with its commitments under the 2015 Paris Agreement (for a 50% reduction in GHG emissions by 2030) but no doubt presents considerable issues for countries like the UK who are themselves considering how best to stimulate growth in net zero compatible industries.

Put quite simply, the UK Government cannot bring to bear the equivalent amount of direct funding

that the USA is able to with IRA. Keir Starmer and Ed Miliband had begun signalling how a Labour government might respond and cooperate with the US to ensure the UK does not lose out, but have more recently cooled off as Labour backs down from its commitment to spend £28 billion per year on green tech.

Miliband had previously called for Government ministers to 'show ambition' when considering a response to IRA, but has now indicated that the Green Prosperity Plan will in fact be recast as a more direct response to IRA. The Prosperity Plan faces a stern test in this regard. It has already been made plain that the purpose of IRA is to stimulate investment in US domestic manufacturing capacity and encourage the procurement of domestic supplies of critical raw materials. The prospect of tax breaks, subsidies and grants to promote this shift is an enticing prospect for anyone looking to profit off the net zero transition. Currently, it does not appear that the Green Prosperity Plan has sufficient reach to transform the UK into as attractive an investment prospect as America (and nor has it appeared to address the EU's plans).

However, the indication from Labour – in contrast to the Conservatives who have dismissed IRA out of hand – that the Party would seek to engage with the US administration and find a cooperative solution, is at least encouraging. It seems likely that there will be further details released by Labour in the run up to its manifesto publication, which will set out what Labour assesses as the industrial battlegrounds. In the meantime, it's a clear sign that the Party is willing to wade in and get its hands dirty.

Domestic decarbonisation

The cheapest form of energy is the one we don't use. However, energy efficiency measures are not often considered the first port of call. After all, investment in new power plants that bring jobs, and innovative new technologies are far more attractive to voters and generate better headlines. On the other hand, energy efficiency is much quicker to introduce, more effective in saving energy in the shorter term, and significantly less capital intensive than industrial infrastructure projects. As such, when it comes to the debate about how Britain will fund its net zero targets – and with Labour keen to demonstrate good fiscal responsibility – Starmer might look to energy efficiency as a useful tool in the arsenal to decarbonise domestically.

Indeed, energy efficiency measures are far less disruptive to voters in the context of the net zero debate. Insulating homes and putting heat pumps in hospitals requires neither putting up new powerplants or wind turbines near homes, nor taking jobs away from existing energy industries. With recent polling

suggesting that while the environment is a top five issue across all voter groups, millennial voters prefer gradual change over radical shifts, energy efficiency measures at a domestic level might be more attractive; so long as it doesn't come at huge cost to homeowners.

Labour is therefore framing the energy efficiency debate about homes and bills. It claims failure to insulate homes has left homeowners paying £3,200 more on average per year, an issue which can be even worse for a homeowner in a poorly insulated property. This puts the problem firmly at the foot of the Conservatives and allows the voter to see the tangible impact to their bills. Labour is promising to take up to £1400 off the annual household energy bill by 2030. Labour's policy solution will be a national Warm Homes Plan, a £60bn plan to insulate 19m British Homes, giving local authorities the powers and the funds to decarbonise every home in their area within a decade. This not only brings hundreds of thousands of jobs in the process, but also

helps contribute to Labour's wider commitment to devolution and regional development.

This would see Labour commit significantly more funds and resources to the ambitious decarbonisation of homes compared to what is currently available with the comparatively lightweight Social Housing Decarbonisation Fund, Home Upgrade Grant and the rather disastrous Green Homes Grant. This should be welcomed by businesses in the retrofit sector, largely consisting of SME's, which will have to grow by a factor of 10 to deliver the required level of retrofit – providing a good opportunity for growth and investment.

However, the difficulty with schemes directed at owner occupied properties is simply encouraging the take up. With the majority of the Green Homes Grant funding unspent, and [new research](#) revealing the Government will miss its target to reduce energy demand from households by 15%, Labour will face a significant challenge overcoming this gap. We can expect Labour therefore to prioritise social, local

authority owned housing in the first instance as this will couple neatly with Labour's ambitions to make social housing the second highest form of tenure.

Labour is also thinking more creatively about decarbonisation at a broader scale, with the introduction of its National Wealth Fund, which will commit to industrial decarbonisation in regions across the UK, protecting heavy industry jobs and bringing many more in carbon capture and storage, green hydrogen and regenerating ports and industrial clusters. This is also attractive for businesses who will benefit from the above clean energy generation and energy efficiency policies, saving £53bn off energy bills for businesses. Indeed it will be businesses, especially bigger polluters, who will need to be brought in on this journey – together with households – if Labour wants to be realistic about decarbonising the UK's cities.

Stable Green Investment

The Labour Party is keen to collaborate with the private sector to achieve its energy and environmental policy goals. The aforementioned 'national wealth fund' will be the cornerstone of this strategy, with Rachel Reeves pledging to endow the fund with £8 billion. The Party is likely to focus its attention on public-private green industrial projects with Reeves indicating, at the **2022 Labour Party Conference**, that "renewable ready" ports and green hydrogen projects would be some of the outputs from the fund. The Party hopes that the initial capital injected into these projects by a future Labour government will eventually be buttressed by private sector investment.

While the impact of the proposal could be transformational, the concept of such a fund is not novel. Norway and Singapore have successfully deployed funds that direct profits from investments towards public infrastructure. Labour claims that the taxpayer will retain a stake in the green industrial projects enabled by the fund, meaning that the British public will benefit from some of the profit derived from these projects. Although the Labour Party has not indicated the exact manner in which these profits will benefit the taxpayer, we note that a future Labour government could choose to reinvest these profits in the welfare state or the pension system (as is the case with **Norway's** fund).

Reeves has championed the fund as a genuine means of 'levelling up' and improving British infrastructure. In essence, Labour hopes to marry multiple policy objectives through the use of the fund, including, a reduction in regional inequalities and the creation of

new jobs, as well as the development of innovative new methods to facilitate the transition to a zero-carbon energy system. With this in mind, £2bn will be spent on **eight new 'gigafactories'** across various regions.

In a similar vein, Sir Keir Starmer has also announced a '**British Jobs bonus**' totalling £500 million per year – for each of the first five years of a Labour government – which would offer capital grants to companies in low-carbon sectors. Areas that are currently or have previously been dependent on the coal or oil and gas industries will be the main beneficiaries of the scheme, with Labour **claiming** that 65,000 new jobs will be created.

We note that Labour is keen to target industrial and coastal communities in the North East and Scotland in order to restore support for the party, which dipped noticeably during the 2010s. However, the extent to which Labour accelerates the development of low-carbon industries in these areas may pose a dilemma for the Party. While, Starmer has **advocated** for greater investment in facilitating a transition to a low carbon economy in industrial communities, mainly to avoid the damage that de-industrialisation wrought on several towns during the late 20th century, he has **asserted** that North Sea oil and gas production would continue, following pressure from prominent unions, such as GMB.

Ultimately, the fiscal climate is likely to play a key role in determining how ambitious the party will be with its support for public-private ventures. For instance, and as previously mentioned, Reeves has **delayed** the proposed £28 billion per year investment earmarked for the Green Prosperity Plan, which was originally intended to begin in the first year of a Labour government. Labour will now work towards reaching that target during the middle of its first parliament. Reeves has emphasised Labour's adherence to fiscal responsibility and the need "to get debt down as a share of GDP and to balance day-to-day spending."

Labour activists and certain members of the Shadow Cabinet will be disappointed with Reeves' approach and will implore her to prioritise investment in green industries, even if it leads to increased government borrowing. However, Reeves and Starmer are acutely aware of the way the Party has been historically attacked on the issue of fiscal responsibility, meaning that if the economic environment does not improve, investment plans may be moderated somewhat as the next general election draws near.



Role of Regulators

Regulators cover all aspects of business interactions – from competition to quality, registration, pricing parameters and caps and more. In engagement, they are often the underestimated audience group. What can we expect from regulation and regulators under Labour? Despite a degree of independence from Government and being 'non-political' in nature, incoming administrations will seek to review the focus of some key regulators (particularly in core policy areas such as energy and net zero) and seek to shape the overall direction of travel. This is the moment to scrutinise a previous Government's regulatory impact and seek to reform and evolve remits.

Key questions for the Labour team as they develop their thinking will be:

- What are the powers of our regulators?
- What can we do with the current powers they hold?
- What are their priorities and how does this meet our political priorities?
- What reforms are required? How should regulators inspect and with what frequency?
- How activist and interventionist should a regulator be in a market?
- Are there regulatory gaps which need to be addressed? Has the regulatory focus been the right one?
- How difficult or complex would it be to achieve a regulatory reform?
- How much of a priority is regulatory reform as part of our wider political agenda?

In addition to the risks and opportunities arising from potential reform, new leadership is on the horizon for the key regulator Ofgem – CEO Jonathan Brearley's current leadership term comes to an end in January 2025 – who will have their own ideas and priorities for reform and evolution. In evaluating the impact of a Labour Government on your business, it is critical that you understand the likely areas of reform, timetable for potential reform, areas of focus and powers to change.

To discuss what a Labour Government would mean for you, or for support to share your ideas please contact emma@gkstrategy.com



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