



Stern Review on the Economics of Climate Change

Response from Hambleside Danelaw Ltd to the discussion paper 'What is the Economics of Climate Change?'

Following its initial submission to Sir Nicholas Stern's Review on the Economics of Climate Change, Hambleside Danelaw Ltd is pleased to be offered a further opportunity to comment in response to the paper which accompanied the keynote speech given by Sir Nicholas at Oxonia on 31 January 2006.

As a materials manufacturer for the construction industry that has a carbon-negative plant in Inverness, we take considerable encouragement from the comments made both in the speech and the discussion paper 'What is the Economics of Climate Change?'. In particular, we welcome the following observations made in them:

- i. If the private sector is to deliver the changes needed to achieve a stable climate, clear, long-term and credible signals will be needed to guide its decisions (para.82 of the paper)
- ii. The policy framework to pull new technologies through to the marketplace is crucial and innovation will be essential (para.28 of the speech)
- iii. Key policy instruments shaping incentives include taxes, property rights and regulation. There are market failures in the development of new clean technologies by the private sector and a challenge for government will be to design policy instruments capable of tackling these (paras.29 and 31 of the speech)
- iv. Climate change has the potential to have significant effects on prosperity, output, productivity and people's skills and health (paras.58 and 61 of the paper).

These comments reflect some of the concerns that we made in our original submission about measures needed to encourage more construction of energy efficient commercial and industrial buildings. There is certainly market failure evident in the building industry where builders will often choose to source cheaper materials than ones that meet the sustainable development requirements in the Building Regulations.

Need for clear signals to private sector

The need for 'clear and credible signals' for the private sector has not been met in the Government's proposed amendments to the Building Regulations. Hambleside Danelaw has pointed out that in respect of rooflights, for example, the Office of the Deputy Prime Minister (ODPM) has only created a recipe for confusion by allowing architects and builders to choose between three different U-value limits according to the method they follow for limiting the carbon emissions for the whole building. This lack of clarity might provide an excuse, however flimsy, for non-compliance and makes enforcement more difficult, especially when enforcement itself will rely heavily on self-compliance.

Sir Nicholas has pointed to incentives, included taxes, as a possible way forward and given our lack of confidence that the new Building Regulations will be adequately enforced, we wholeheartedly support him. On the issue of policy instruments, our submission referred to representations made to the Financial Secretary to the Treasury last June on the positive difference that tax incentives could make. Since we made our submission, the minister has supplied a full response to one of our local MPs, addressing in particular our proposal to extend Enhanced Capital Allowances (ECAs) to cover commercial buildings that comply with Part L (Part J in Scotland) of the Building Regulations. The minister's principal objection, apart from cost, is that commercial buildings generally do not depreciate in value unlike plant and machinery which currently come under the scheme.

This might seem a reasonable argument except that since 1945, the Revenue has been operating an Industrial Buildings Allowance (IBA) scheme which recognises depreciation by allowing the write-off of the cost of constructing an industrial building on a straight-line basis, usually over a period of 25 years (reference: <http://www.hmrc.gov.uk/manuals/camanual/CA30000.htm>).

The amended Building Regulations, due for implementation in April 2006, could also affect the Treasury's case. Buildings which do not meet the regulations could prove expensive to run because of increased energy costs, leading to a possible fall in value and becoming more difficult to let. The Government would probably say that the danger of a property lying empty should prompt a greater willingness to comply with the regulations. However, the cost implications of full compliance with Part L, which often fall mostly on the builder as do those associated with compliance with the Disability Discrimination Act, will probably weigh against a sea-change in attitude towards greater energy efficiency. It should also be remembered that in general the builder walks away from his responsibility for the sustainable elements of a commercial building after the completion of construction (typically, a 9-month period) when the building itself might stand for 50 years.

Hambleside Danelaw has never maintained that ECAs offer a panacea to this issue and we agree with the discussion paper's view that climate change is not amenable to 'simple fixes' (para.52). We are not tax experts, but perhaps as an alternative, the Government should look at increasing the annual rate of Writing Down Allowances in an IBA (currently at 4%) for persons who have constructed an energy efficient industrial building or bought it unused.

The Financial Secretary referred to the Stern Review in his response and on the basis of the apparent flaw in his argument, we would hope that the Review Team will challenge the Treasury to review the full range of instruments that it has available to find some form of financial incentive for the building industry to be more energy efficient.

Importance of macro-economic considerations

As the discussion paper recognises and our submission pointed out, the macro-economic aspects of climate change should be considered. We therefore reiterate that policy designed to encourage greater use of insulated rooflights and other thermally efficient materials by architects and builders in industrial and commercial buildings will lead to more people working and living in day-lit spaces with improvements, for example, in health recovery times, student performance levels and retail sales.

Need for a cohesive approach in the UK

The discussion paper emphasises the need for global cooperation in tackling climate change. We obviously support this, but firstly we would welcome more evidence of joined-up thinking at home with clear links over the coming months between the Climate Change Review, the Chancellor's Budget and the recommendations from the Stern Review.

In his speech, Sir Nicholas rightly highlighted the importance of encouraging innovation and new technologies to help tackle the issue and the role that policy instruments can play in making this happen. Hambleside Danelaw is a successful UK manufacturer and we firmly believe that the on-going development of sustainable and innovative products is essential to growth. The onus is on us to persuade potential customers that purchasing less expensive building materials may prove to be a false economy in terms of building maintenance and heating and air conditioning costs, while also having an adverse impact on the climate. In this sense, we most definitely do not rely on government to ensure our commercial well-being.

Nevertheless the Stern Review has correctly identified that when it comes to sustainable development, market failure is evident and we agree with the need for more determined action now, as explored in section 2.3 of the discussion paper, for the benefit of Britain's economy and environment. As far as limiting carbon emissions from more energy efficient buildings is concerned, we have little confidence in the ability and available resources of government and local authorities to enforce compliance with the Building Regulations. The answer must lie instead in tax incentives and we urge the Review to explore possible solutions extensively before making recommendations to the Chancellor.