Representation to Autumn Statement 2023

October 2023

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 regulation are key to unlocking growth and decarbonisation. Among many others, they include Associated British Ports, Aviva Investors, BT, Cemex, Johnson Matthey, Michelin, Nestlé, Siemens, SUEZ, Tesco, and Willmott Dixon.

Introduction

The UK economy faces a series of challenging headwinds: an ongoing cost-of-living crisis, low productivity and economic growth, and a growing national debt. This tight fiscal environment has increased the importance of low-cost tax and spend policy options that stimulate private sector investment into high-growth sectors. This is sorely needed as the UK ranks bottom for business investment in the G7.

Leveraging private sector investment in high-growth, low-carbon industries will help to address some of the UK's long-term economic issues by stimulating innovation and boosting productivity, pay, jobs, and living standards – especially in areas suffering from regional inequality. Accelerating the growth of these industries will also help to improve the UK's energy security and reduce bills by mitigating future inflationary fossil fuel energy shocks.

Cambridge Econometrics found that the transition to a net-zero economy – in line with the Climate Change Committee's Balanced Pathway – would lead to an increase in GDP of about 2-3% from now to 2050. Conversely, our own analysis reveals that failing to create ambitious green industrial policies could wipe £224 billion from the UK economy by 2050.

With the US' Inflation Reduction Act and the EU's proposed Green Deal Industrial Plan now forming a strong pull for green investment away from the UK on either side of the Atlantic, limited and targeted public investment is essential to create an attractive investment environment to unlock a much larger pool of private finance.

This representation highlights policy options for taxation and public spending to stimulate private investment and growth across the following areas of the UK economy: energy, buildings, industry, transport, and skills.

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

Summary of Policy options

Sectors	Key ask	Policy options
Energy	**Create an attractive investment environment for the UK's energy sector**	• Expand the budget and increase the administrative strike price for the Contracts for Difference (CfD) regime from Allocation Round 6 onwards. • Make permanent the temporary increase of capital allowances for companies investing in plant and machinery in clean energy and industry sectors. • Accelerate the deployment of the Net Zero Hydrogen Fund
Buildings	**Set clear fiscal incentives to encourage households and landlords to install energy efficiency measures**	• Alter Stamp Duty (whether through reforms or rebates) to incentivise households to install energy efficiency measures. • Extend the VAT exemption on energy-saving materials and low carbon heating equipment from products purchased and installed by tradespeople to products purchased and installed by all consumers. • Reduce VAT on housing renovation and regeneration.
Industry	**Set out a long-term plan for public and private investment in the infrastructure critical for a successful industrial transition to help firms and investors plan**	• Accelerate deployment of the £1bn CCUS Infrastructure Fund (CIF), and clarify how the £20bn for CCUS, announced in the Spring 2023 Budget, will be used. • Simplify the application process for public funding offered in the short term. • Remove business rates on the sale of valuable waste and scrap materials on the domestic market. • Publicly commit to implementing a Carbon Border Adjustment Mechanism (CBAM) by the end of 2026.
Transport	**Ensure demand for EVs and EV charging infrastructure keeps up with supply**	• Create price parity between VAT charged at home and at public charging points for electric vehicles. • Provide a reduced tax rate for 100% hydrotreated vegetable oil (HVO) supplied to heavy goods vehicles • Announce a successor scheme to the Plug-in Car Grant (PICG) tailored towards the used market.
Skills	**Support new market entrants and existing workers to transition to a net-zero economy**	• Fund a UK-wide body to monitor, drive, and report on progress of the workforce transition to a net zero economy. • Recycle unspent Apprenticeship Levy funds to support SMEs. • Offer tax relief on investments in energy training.

Energy

Recent UK inflation (currently at 6.7%) has predominantly been driven by a rise in fossil fuel prices, sparked by the war in Ukraine. To mitigate future inflationary energy shocks, the UK should reduce its dependence on fossil fuels by boosting its supply of cheap, reliable low-carbon energy, such as wind and solar.

Accelerating the roll-out of low-carbon energy will bring economic benefits. HM Treasury's Net Zero Review states that the GDP multipliers for green investments in renewables can be 2.2 to 2.5 times larger than fossil fuel energy investments, meaning investment in renewables could potentially improve productivity and long-term growth.

However, despite the UK's good start on renewable electricity rollout, in 2022 investment in clean energy fell by 10% (while growing 24% and 17% in the US and Germany respectively). To leverage private investment in low-carbon energy, the Government must implement new measures to improve the attractiveness of the UK as a place to invest.

Policy options:

- **Expand the budget and increase the administrative strike price for the Contracts for Difference (CfD) regime from Allocation Round 6 onwards**. While renewable developers have seen material, labour and capital costs rise by as much as 40% over the past year, the administrative strike price has continued on a downward trajectory. As a result, the latest CfD Allocation Round (5) received no bids for new offshore wind farms, and renewable developers – such as Vattenfall and Community Windpower – have had to suspend existing projects. Increasing the budget and administrative strike price (and signalling this intention now) is essential to making these contracts more competitive and unlocking ready-to-go investment.

- **Make permanent the temporary increase of capital allowances for companies investing in plant and machinery in clean energy and industry sectors**. The Spring Budget 2023 announced a new temporary increase in the relief available for capital expenditure on plant and machinery incurred between 1 April 2023 and 1 April 2026. Making this increase permanent – and applicable to investments in clean industry – would make the UK's capital allowance regime more competitive internationally, and would provide businesses with the long-term policy signal they need to invest. Whilst this would lead to some foregone revenue, extending capital allowances would trigger a major cash injection into the UK economy. The CBI has estimated that companies would spend an additional £52 billion a year by 2030-1.

- **Accelerate the deployment of the Net Zero Hydrogen Fund**. The Government announced the £240 million Fund in August 2021, but has only allocated £37.9 million (15%) to-date to 15 low-carbon hydrogen projects. According to the Energy Networks Association, the UK has slipped from 2nd to 8th place on the hydrogen progress index because of uncertainty around policies and funding. The Net Zero Hydrogen Fund was designed to de-risk investment and reduce lifetime costs, and with the industry supply chain in waiting, earlier and faster release of these funds would help to kickstart the UK's hydrogen sector (and hydrogen-enabled low carbon industries) at a time of extreme global competition.

Buildings

The UK has some of the oldest and most poorly insulated housing in Europe. The combination of high fossil fuel dependency and low energy efficiency has pushed up household energy bills and necessitated significant state intervention in the form of the Energy Price Guarantee and the Energy Bill Support Scheme, which has diverted state spending away from other areas and added to the national debt.

Supporting the repair, maintenance and improvement sector to grow at scale would help to drive economic growth and job creation, while reducing the need for state intervention to support households with their energy bills. The Construction Leadership Council estimates that upgrading the UK's housing stock could sustain 500,000 direct jobs, with £2 put back into the economy for every £1 invested.

To stimulate private investment in retrofitting, the Government must set out clear fiscal incentives that make the installation of energy efficiency measures more attractive to homeowners and landlords.

Policy options:

- **Alter Stamp Duty (whether through reforms or rebates) to incentivise households to install energy efficiency measures.** Onward UK has recommended providing rebates to the value of 50%, with the work to take place in the first 24 months of moving in. The UK Green Building Council has outlined alternative options, such as an energy-adjusted Stamp Duty Land Tax which happens at the point of sale. This could be designed to be revenue neutral to HM Treasury. The number of UK residential transactions in August 2023 was 95,000 – 16% lower than the previous year but 11% higher than in July 2023. Despite tough economic conditions, this demonstrates that there remains a significant number of people buying new houses, presenting a major opportunity to incentivise the uptake of energy efficiency measures.

- **Extend the VAT exemption on energy-saving materials and low carbon heating equipment from products purchased and installed by tradespeople to products purchased and installed by all consumers**. Building material price increases have affected the price of energy efficiency measures. This inflation, when combined with inflation across the consumer price index (CPI), is weakening the spending power of homeowners. The number of skilled tradespeople available to make installations is also too low. Reforming the policy will allow individuals to purchase and install materials themselves where appropriate without specialist training - thereby ensuring energy efficiency upgrades continue when the skilled installers required to meet demand are being trained up.

- **Reduce VAT on housing renovation and regeneration.** Currently, VAT for most work on homes by tradespeople is charged at the standard rate of 20%, with a few exceptions. Reducing VAT will enable tradespeople to pass down savings to consumers, incentivising renovation and regeneration by making it more affordable.

Industry

The UK's heavy industries contribute £152bn in gross value added (GVA) to the UK economy, support over 1.4 million jobs, and make up a fifth of the UK's exports (as shown in a WPI Economics Report for the Aldersgate Group). Based primarily outside London and the Southeast, they are crucial to tackling regional inequality. For example, 28% of heavy industry's GVA is in the North alone, bringing £43bn to local economies and providing 400,000 jobs that tend to pay more than regional averages. Heavy industries also support transport, energy, and defence infrastructure, and the growth of new sectors such as carbon capture, hydrogen, gigafactories, electric vehicles and heat pump manufacturing.

To remain internationally competitive, industries like steel and cement need to achieve 'deep decarbonisation'. Our analysis finds that providing no further support for decarbonising industry would wipe £224 billion, or 5.9% of total GVA from the UK economy by 2050. Analysis from the TUC also finds that without clean industrial policy akin to our key competitors, the UK could offshore between 660,000 and 834,000 jobs by 2030.

The Government should set out a long-term plan for how it will invest in and co-fund the infrastructure critical for a successful industrial transition to help firms and investors plan.

Policy options:

- **Accelerate deployment of the £1bn CCUS Infrastructure Fund (CIF), and clarify how the £20bn for CCUS, announced in the 2023 Spring Budget, will be used.** The Fund was announced in 2020 to support the capital costs of strategic CCUS infrastructure, transport and storage networks, and industrial carbon capture, but only a fraction (£40 million) has been allocated to date. Many industrial companies are unsure whether they will pursue hydrogen, CCUS or electrification to decarbonise, largely down to uncertainty over which technology will be available to them. By releasing funds from the CIF now, HM Treasury can accelerate private investment in the CCUS sector. In addition, by clarifying how the £20 billion earmarked for CCUS by the Chancellor in his 2023 Spring Budget is likely to be spent, the Government can provide an extremely powerful lever for the CCUS supply chain to begin deploying funds.

- **Simplify the application process for public funding offered in the short term**. Even the largest businesses often struggle to find the resource to submit bids within the short windows of many public funding competitions. Moreover, the dispersed nature of these funding pots often means valuable emissions reducing activities are not eligible. Greater accessibility and more consolidated funding would accelerate uptake of existing support and increase the effectiveness of public funding.

- **Remove business rates on the sale of valuable waste and scrap materials on the domestic market.** Valuable materials, such as scrap steel, are often exported due to the more attractive global market, only to be processed and imported back into the UK. The removal of business rates on intra-UK sales of such materials would make the domestic market more attractive and create numerous domestic economic opportunities.

- **Publicly commit to implementing a Carbon Border Adjustment Mechanism (CBAM) by the end of 2026**. Regardless of the progress of the EU's CBAM, it is crucial that the UK applies an equivalent carbon price to all goods sold on the UK market, so that businesses participating in the UK ETS are not undermined by high carbon imports. This will improve the competitiveness of UK producers, ensure that exporters will be exempt from an EU CBAM, should it be implemented, and enable the UK to encourage other countries to decarbonise or pursue carbon pricing regimes of their own. Announcing that the UK intends to implement a CBAM would also provide a powerful market signal to investors considering investments in low carbon technologies in the UK.

Transport

The transition away from conventional petrol and diesel vehicles is a major opportunity for the UK automotive manufacturing sector to become a world leader in the development and production of electric vehicles. The Society of Motor Manufacturers and Traders estimates that a ten-fold increase in EV manufacturing would boost the UK economy by more than £100 billion.

The Government's Zero Emission Vehicle (ZEV) mandate and 2035 ban on the sale of new petrol and diesel vehicles send a clear message to the automotive manufacturing sector that the future of motoring is electric. Government policy now needs to ensure that EV demand and EV charging infrastructure keeps up with supply.

Policy options:

- **Create price parity between VAT charged at home and at public charging points for electric vehicles**. VAT on public charge points should be reduced from 20% to 5%, to match the VAT paid on household electricity bills. In particular, this will help consumers without access to off-street parking tap into the benefits of cheaper electric car charging.

- **Provide a reduced tax rate for 100% hydrotreated vegetable oil (HVO) supplied to heavy goods vehicles.** Unlike FAME biodiesel, HVO is suitable for use at 100% blend in most vehicles and provides a way to reduce emissions from the sector immediately. Done in the right way, it could also support a small increase in the overall target for the renewable transport fuel obligation (RTFO). We propose a reduction only for 100% blend because this is easiest to manage and monitor. It could be time-limited (e.g. 7 years) so that it is clearly labelled as a bridge option pending lower-emission HGV drivetrains becoming practical and economical. Detailed options for fuel duty interventions are set out in Zemo's comprehensive report.

- **Announce a successor scheme to the Plug-in Car Grant (PICG), tailored towards the used market**. The UK is one of few countries that has a phase-out date for new petrol and diesel vehicles, but does not offer financial support to help consumers purchase an EV following the closure of the PICG in 2022. With the supply of electric vehicles now outstripping demand, the Government should announce a successor scheme which supports lower-income households to either purchase or lease a second-hand EV. This could be modelled on the US Inflation Reduction Act, which offers a $4,000 tax credit for a used EV, or on France's social leasing programme, which will support low-income households to lease an EV for as little as €100 a month.

Skills

Education is the second in the Chancellor's Four 'E's of economic growth and prosperity. Training new labour market entrants and re-skilling existing workers will be crucial if the UK is to meet its net zero and nature goals, as well as capture the considerable economic opportunities in a way that is fair. Supporting workers in high-carbon sectors (such as oil and gas) to transition to low-carbon sectors will be key for maintaining the public's support for net zero.

As highlighted in the Green Jobs Taskforce's report, there are financial barriers to workers engaging in training that will need to be overcome – underscoring the important of financial support.

Policy options:

- **Fund a UK-wide body to monitor, drive, and report on progress of the workforce transition to a net zero economy** that supports good quality green jobs and skills. This body should include representatives from national government, industry, unions, and Devolved Administrations – supported by local transition bodies – to ensure a coherent and joined-up approach towards green skills.

- **Recycle unspent Apprenticeship Levy funds to support SMEs**. Between May 2019 and March 2022, over £3 billion of the Levy was returned to the Exchequer in unspent funds. These funds should be used to support small businesses (who do pay the levy) in high-growth green sectors to train apprentices. The Apprenticeship Levy should also be reformed to allow companies to spend a proportion of levy contributions on non-apprenticeship training.

- **Offer tax relief on investments in energy training**. This will allow the UK workforce to gain the skills it needs for a transitioning energy sector, and improve the labour supply and skills demands of prospective investors weighing up the UK as a place to do business. Research has shown that offshore oil and gas workers pay on average over £1,800 a year in training and certification costs.