Representation to 2024 Spring Budget

January 2024

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, nature restoration 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 enters 2024 with a weak economic outlook. GDP contracted by 0.1% in Q3 2023,[2] inflation remains moderately high, and unemployment forecast to grow over the course of the year.[3] With public sector debt at 97.5% of annual gross GDP in November 2023,[4] and little time remaining before the next General Election, it is vital that the upcoming Budget leverages low-cost tax and spend policy options to place the UK in the most competitive position internationally. This means supporting areas which are most competitive and lay the foundation for the economy of the future.

Green industries, as identified by the Chancellor, are one of the five growth sectors of the UK. The Treasury's Net Zero Review found that the investment required to decarbonise the UK economy could help to improve the UK's relatively low investment levels and increase productivity.[5]

This representation highlights policy options for taxation and public spending to stimulate private investment and growth across energy, industry, homes, transport, and skills.

Summary of tax and spend policy options

Sector	Key ask	Policy option(s)
Energy	**Build on the announcements in the 2023 Autumn Statement to create an attractive investment environment for the UK's energy sector**	• Expand the budget for the next Contract for Difference (CfD) round.
Industry	**Support firms and investors to invest in low-carbon technologies and infrastructure**	• Make electricity prices more competitive for UK industry by rebalancing energy levies. • Accelerate the deployment of the £1 billion CCUS Infrastructure Fund. • Remove business rates on the sale of valuable waste and scrap materials on the domestic market.
Built environment	**Provide clear fiscal incentives and independent advice 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. • Commit to establish and fund an Energy Advice Service.
Transport	**Ensure demand for EVs keeps up with supply**	• Create price parity between VAT charged at home and at public charging points for electric vehicles.
Skills	**Support new market entrants and existing workers to transition to a net zero economy**	• Announce a call for evidence on how to improve the efficacy of the Apprenticeship Levy. • Fund a UK-wide body to monitor, drive, and report on progress of the workforce transition to a net zero economy.

Energy

New analysis by AtkinsRéalis forecasts that 187GW of new generating capacity is required to achieve the Government's goal of decarbonising the electricity system by 2035.[6] This means the UK must connect 15.5GW of new generating capacity each year to 2035, which far exceeds the current build rate. In 2022, 4.5GW was connected to the national electricity grid.

In 2023, the deployment of new renewable energy projects stalled because of high inflation, supply chain disruptions and connection delays. Vattenfall, for example, suspended work on its 1.4GW Norfolk Boreas site in July because of increased costs.[7]

Building on the positive announcements in the 2023 Autumn Statement, the Government should continue to create an attractive investment environment for renewable energy infrastructure.

Policy options:

- **Expand the budget for the next Contract for Difference (CfD) round**. While the Government has confirmed it will increase the maximum administrative strike price for the allocation round 6 (AR6) by 66% for offshore wind projects and 52% for floating offshore wind projects, it has not yet announced the size of the budget for AR6 auction. It is crucial that the Government balances the higher strike price with increases to the overall budget to unlock all the potential investment the industry can deliver. In 2023, the Government sent the wrong investment signal by setting the AR5 budget too low at £205 million (£58 million less than AR4), before increasing it to £227 million following industry concern.

Industry

Aldersgate Group analysis has found that UK industrial sectors – including cement, steel, chemicals, glass and ceramics – and the wider supply chain contribute £152 billion in GVA to the UK economy and support over 1.4 million jobs.[8]

To reach net zero, and to compete with low-carbon industry in other countries, UK heavy industry will need to undergo 'deep decarbonisation' through a combination of energy and resource efficiency, fuel switching, and carbon capture technologies. All of these require significant investment and policy support. Failing to provide this support for decarbonising industry is equivalent to wiping out nearly £224 billion, or 5.9% of total GVA in 2050, compared to the investment option.[9]

To support a successful industrial transition, the Government should set out measures to help firms and investors invest in low-carbon technologies and infrastructure.

Policy options:

- **Make electricity prices more competitive for UK industry by rebalancing energy levies.** The UK has some of Europe's highest industrial electricity prices, about 61% higher than Germany and 51% more than France. This makes switching to net zero steel making, for example, cost intensive as all net zero steel production (electric arc furnaces, CCS, and hydrogen steel production) are more electro-intensive than current production methods. To make the UK's low-carbon industry more competitive, the Government needs to shift energy levies (such as the Renewables

Obligation and Feed-in Tariffs) and obligations (such as the Energy Company Obligation) from electricity bills to general taxation, as a means of incentivising greater investment in electrification. The Government committed to explore this option in the 2021 Net Zero Strategy.

- **Accelerate the deployment of the £1 billion CCUS Infrastructure Fund.** 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 £40 million has been committed to-date.[10] 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. Projects on the East Coast will also need to see more clarity on the timescales for both Tracks in order to deliver on the 2030 target.

- **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.

Built environment

From 1 January 2024, the energy price cap set by Ofgem for households increased by 5% to £1,928 a year for the average annual dual-fuel energy bill. Ofgem attributed this increase to the rising cost of wholesale gas, driven by world events such as conflict in the Middle East. Once again, the combination of high fossil dual dependency and poor energy efficiency has pushed up household energy bills. Alongside scaling up new generating capacity, the Government must urgently upgrade the energy efficiency of the UK's housing stock, to help bring household bills down.

Supporting the repair, maintenance and improvement sector at scale would also help to drive economic growth and job creation. 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.[11] 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.[12] 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.[13] 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.

- **Commit to establish and fund an Energy Advice Service.** Research conducted by Lloyds Banking Group has found that just three in 10 homeowners are confident they know what to do to make their home energy efficient.[14] Navigating planning permission, finding reliable suppliers and installers, and understanding which measures are suitable for properties of different ages and EPC ratings, are all technical and lengthy tasks which act as barriers to action. There is therefore an urgent need for a trusted body to raise awareness of the benefits and types of energy efficiency retrofits, and streamline the process of installation. The Energy Saving Trust estimates that the cost of delivering a national advice service for England would be £3.75–5 million per year for each million people served with a digital first service (plus initial set-up costs).[15] This could be paid for using a portion of the £6 billion committed for home and business energy efficiency over the next Parliament.

Transport

The electric vehicle transition 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 predicts the UK automotive sector could see a ten-fold increase in manufacturing, worth £106 billion to the UK economy in 2030.[16]

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 keep up with supply. This is urgently needed as EVs' share of the UK market failed to improve in 2023 for the first time since 2018.[17]

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 – bring the lifetime cost of EV ownership down.

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.

Research by Kingfisher has found that the UK is on course to face a shortfall of 250,000 tradespeople (such as plumbers and electricians) by 2030.[18] This could cost the UK economy £98bn in missed GDP growth opportunities to 2030 – an average of £12bn per year.
To ensure the UK economy is properly equipped to capitalise on the net zero transition, with the right skills in the right places, the Government should incentivise businesses to invest in training.

Policy options:

- **Announce a call for evidence on how to improve the efficacy of the Apprenticeship Levy.** Latest government statistics show the number of apprenticeships starts were down by 3.5% to 337,140 in 2022/3 compared to 349,190 in 2021/2.[19] The number of apprenticeships starting in SMEs also continues to decline, falling by 3% in 2022/3 compared to the previous academic year. In the 2022 Spring Statement, the Government committed to "examine whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training". The call for evidence should aim to collect industry views – including from SMEs – on where the Apprenticeship Levy is not working and how it can be improved.

- **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.

References

[1] Individual recommendations cannot be attributed to any single member and the Aldersgate Group takes full responsibility for the views expressed.
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[5] HMT (2021) Net Zero Review Final Report
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[7] Financial Times (2023), Blow to UK renewable plans after Vattenfall halts wind farm project
[8] Aldersgate Group (2023) Economic benefits of industrial decarbonisation: A low carbon industrial future for the UK
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[12] Onward UK (2022) Going Green: New technologies and behaviour change for net zero
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[14] Lloyds Banking Group (2023) Decarbonising the UK's homes: A housing stocktake
[15] Energy Saving Trust (2024) National or local retrofit advice? To cut bills, caron and improve energy security, we need both
[16] SMMT (2023) Manifesto 2030: Automotive growth for a zero emission future
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[18] Kingfisher (2023) UK to lose out on £98bn of growth by 2030 due to shortage of tradespeople
[19] HMG (2023) Academic year 2022/3: Apprenticeships and traineeships