

Green Alliance:

Post autumn budget and spending review 2021 briefing

29 October 2021

Summary

The budget’s approach to climate is difficult to understand. On investment, tax and even rhetoric, the budget didn’t meet promises for a stronger economy. Although we will see £20.9 billion over the course of the spending review, just £7.8 billion of this is new money. This leaves an annual shortfall of £18.4 billion in investment that could have driven local jobs and lower bills.

Instead, the Treasury believes much of the spending required can be driven by the private sector through regulation. This is a risky bet but could come off. However, it does little for the demand side of the green economy. There was little to help households make greener choices, whether through tax changes for home renovation or direct support for home insulation. In fact, some changes make green choices harder, for example incentivising domestic flights over trains – something which will also hit Treasury’s revenue.

It’s clear the public were looking for more. Polling by [Savanta ComRes](#) found that 67 per cent of voters would see tax rises as ‘acceptable’ if the revenue was spent on climate, while [Opinium](#) found 55 per cent of the public fear the cost of inaction more than the cost of climate policies. Treasury’s watchdog, the Office for Budget Responsibility (OBR), warn of a [289 per cent increase](#) in the national debt without early and ambitious action on climate. With the level of funding in this spending review and key sectors like agriculture or steel entirely absent, there’ll need to be significant remedial action in the years to come.

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Part 1: Spending

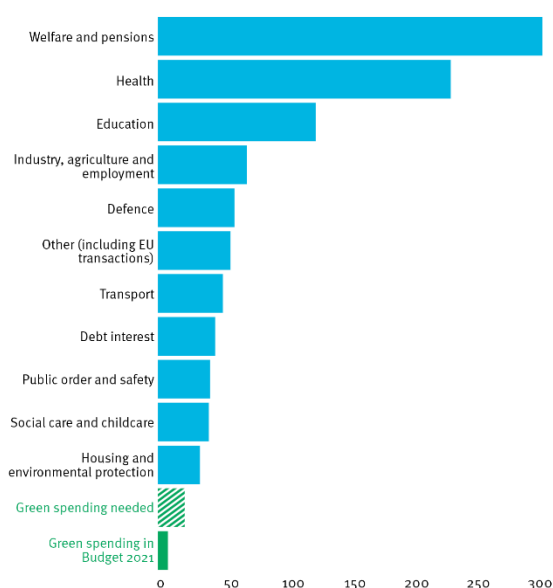
The budget document claims to commit [£30 billion of green public investment](#) since March 2021. The [OBR](#), however, indicates that a total of £25.5 billion of net zero spending has been committed between 2021-22 and 2024-25 – covering both the 2020 and 2021 spending review. **Net Zero spending over the three year spending review will be just £20.9bn.** Although some worry about the cost of net zero investment, reaching required spend would be less than half what we'll pay on debt interest and just a third of the amount spent of defence.

Departmental budgets (resource spending) will rise, especially for local government, BEIS and Defra who are vital delivery arms of net zero. However, this will not return them to 2010 levels, whilst the picture on specific spending for agencies, or priorities like net zero remains unclear.

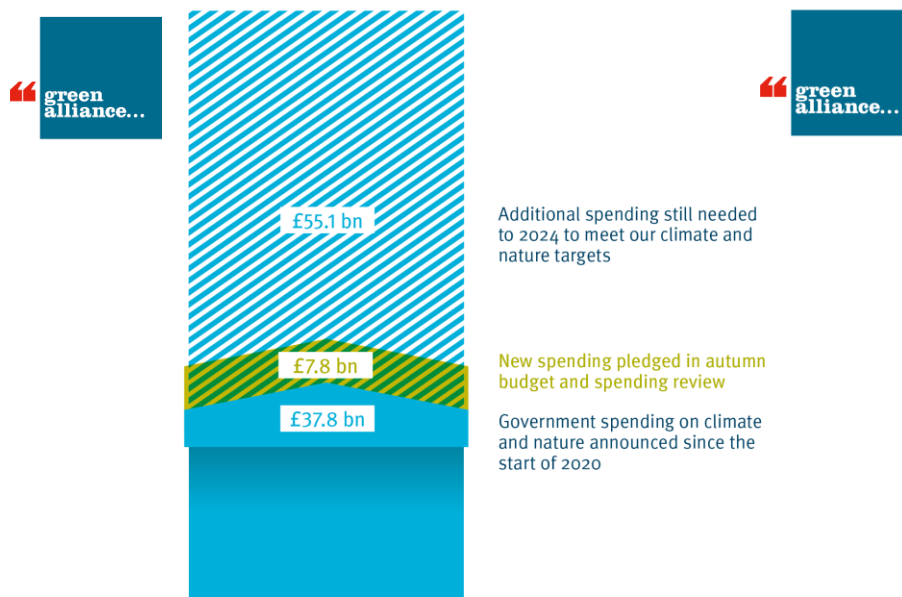
There is a significant shortfall in capital investment to reach net zero

The spending review announced just £7.8 billion in new money for climate and nature over the next three years. This falls far short of the £62.9 billion to meet our targets and protect the economy from climate risk. The budget left a gap of £55.1 billion that needs to be filled.

2021-22 public spending levels (£bn)



Shortfall in government spending to reach the net zero target

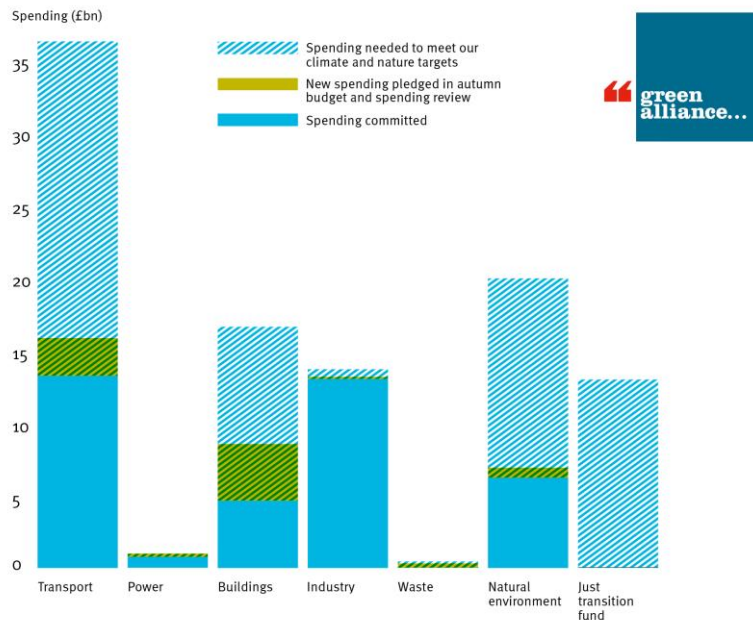


The £7.8 billion of new funding from the spending review includes:

- **£3.9 billion for home energy efficiency** improvement and clean heat installations.
- **£2.6 billion for transport**, through city region settlements and electric vehicle infrastructure.
- **£628 million for nature and land use**, including for nature restoration and topping up the Nature for Climate fund.
- **£295 million for waste**, for local authority food waste collections.
- **£230 million for power** for funding for offshore wind farms.
- **£140 million for industry** for industrial CCS and hydrogen business models.

On a sectoral level, except for power and industry, spending levels fall short of what is required to decarbonise. The transport, buildings and natural environment are left particularly far behind, while sub-sectors like the steel industry also received no new funding.

Green spending commitment by sector to 2024



Government is continuing to spend on environmentally damaging policies

In contrast to the new £7.8 billion committed to tackle climate change, the [OBR](#) estimates that the government will lose over £8 billion between 2022-3 to 2025-27 from emissions increasing tax reforms. These include:

- Freezing fuel duty for the 11th consecutive year, costing the government £7.85 billion. [Analysis](#) shows that if fuel duty had risen as planned in 2010, emissions in the UK would be five per cent lower than they are today.
- Cutting air passenger duty by 50 per cent for domestic flights, which will cost the government £270 million. This provides an incentive to increase the use of the most polluting form of travel, as rail fares rise.
- Freezing HGV excise duty and suspending HGV road user levy in 2022-3, costing the government £320 million.

In addition, the government has committed £24 billion of high carbon investment into roads in England. This funding will increase road traffic demand and is better spent on improving public transport in rural and suburban areas.

Part 2: Progress on key economic sectors

In Green Alliance's [2021-2024 spending review representation](#), we set three key tests for the spending review and autumn budget:

1. Develop marks and encourage private investment in home heating and energy efficiency.

2. Improve public transport and active travel across the UK.
3. Help meet the government's new nature targets.

Support for homes is a good start but needs more

The budget committed new spending of £3.9 billion to improve energy efficiency and install clean heat in buildings announced in the Heat and Buildings Strategy. This leaves an £8 billion spending gap over the spending review period.

What was announced?

- **£950 million for the Homes Upgrade Grant and £450 million for the Heat Pump Ready programme** to improve home energy efficiency and support heat pump targets. The Home Upgrades Grant is £1.4 billion short of the £2.5 billion the government pledged to allocate by 2025 in the 2019 Conservative Manifesto. The Heat Pump Ready programme will help to install upwards of 90,000 heat pumps over three years, short of the government's target of 600,000 heat pumps a year.
- **A further £1.4 billion for the Public Sector Decarbonisation Scheme and £800 million for the Social Housing Decarbonisation Fund.** Research by E3G suggests these are £600m short of the £3.8 billion promised in the Conservative Manifesto over a ten year period.

What's needed now:

- **£3.6 billion to 2024/5 on a new long term grant scheme available to all households**, to incentivise homeowners to upgrade their home.
- To further incentive consumers to drive retrofits themselves, there should be **zero rate VAT on renovation and low carbon installations** in line with the zero rate of VAT on new builds.
- **Introduce regulation on minimum energy efficiency standards** to ensure all homes are rated EPC band C or above by 2030 at the point of sale, boosting the uptake of financial incentives. This must be combined with bringing forward the Future Homes Standard to 2023 at the latest. Without this, private companies will continue to build homes that are expensive to retrofit, which will cost the Treasury down the line.

Public and active transport funding falls short

The budget committed £2.6 billion of new spending on public transport and electric vehicle infrastructure, research and development on low emission technologies, and sustainable aviation fuels plants. This leaves a spending gap of £20 billion over the spending review period.

New policy announcements:

- **£1.5 billion for City Region Transport.** This will improve buses, trains, and trams as well as walking and cycling in eight city regions through London-style integrated settlements.
- **£620 million for EV infrastructure.** This will improve public charging in residential areas and provide targeted plug-in vehicle grants. This exceeds our spending ask and demonstrates the UK's commitment to the EV transition.
- **£300 million for research and development programmes to commercialise low and zero emission technologies**, such as trials for clean heavy goods vehicle technologies.

What's needed now:

- To complement the funding for EV infrastructure, and to accelerate the transition further, the **government should legislate for a ban on the sale of hybrid vehicles from 2030.**

- The funding for public and active transport is a good start but falls far short of the **£7.6 billion a year needed to improve public transport, cycling and walking across the UK**, especially in rural areas. Currently no direct funding is provided to non-city areas.

Nature and land use remain forgotten parts of climate action

The budget committed £628 million of new spending for nature and land use, for research and innovation, nature restoration and parks, leaving a £13 billion gap over three years.

New policy announcements:

- **An additional £124 million for the Nature for Climate Fund.** This needs clarity on spend between peatlands and trees, it also excludes other solutions, such as saltmarshes.
- **£250 million to protect and restore nature in England**, including implementing the Environment Bill and supporting our '30 by 30' nature target by improving existing and designating new National Nature Reserves and Sites for Special Scientific Interest. This £250 million makes up just seven per cent of the £1.2 billion required for nature delivery.
- **£9 million for the Levelling Up Parks Fund** to fund over 100 new parks in 2022-23 and improve urban green access. This is just five per cent of the £1.83 billion per year required for urban green space.

What's needed now

- New targets and funding are only as good as the enforcement which underpins them. Government should **increase funding for environmental oversight, delivery, and enforcement bodies**. It was encouraging to see Defra's budget increased from £5 billion in 2020/21 to £7 billion in 2024/5, and this needs to cascade to more regulatory enforcement agencies, like the Environment Agency. It was disappointing not to see ringfencing for the new Office for Environmental Protection's budget.
- **Set up a new Office for Carbon Removal.** This can set and enforce rules and standards to create and verify carbon removal credits, and set a framework for allocation and payment.
- There was little mention of the landmark Environmental Land Management Scheme in the budget and spending review. **Government should ringfence £500 - £700 million of agriculture spending from Direct Payments for schemes to encourage natural carbon removal and habitat restoration.**

Other notable sectors

- **On track for power spending asks.** The need for a £200m one off investment for new port development for offshore wind was met with £230 million of new funding through the Global Britain Investment Fund. Separately, up to £1.7 billion was committed for a large-scale nuclear plant, with a further £200 million for the Future Nuclear Enabling Fund.
- **Gap with industry and nothing on steel.** There was a spending gap of £530 million for industry, while there was no mention of steel in the spending review. UK steel needs to decarbonise or die. Without funding for research, and with the clean steel fund long in the future UK clean steel will be lost to Germany, Sweden and China.

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By Green Alliance supported by the Green Renewal Coalition