Briefing

Spring statement 2022: did it deliver on the promise of security?

March 2022

green alliance...

Three things we learned from the spring statement

- The chancellor is wary of economic headwinds and sees the UK's biggest vulnerability to future crises lying in the size of the public debt. This means he is largely holding onto, rather than spending, higher than expected tax revenue.
- The government has chosen to stick with its plan for supporting energy bills, though with a sweetener of lower VAT on energy efficiency products. Measures to address energy supply have been left to the forthcoming energy security strategy.
- Beyond the cut in VAT for low carbon products, there was little interest in cutting energy waste. Reducing waste is the quickest way to get off Russian oil and gas. With no incentives to get people onto public transport use or public campaign to help encourage households to cut waste, the government has neglected an important tool to cut the cost of living.

More money now but an uncertain future

Borrowing this year is set to be £55 billion lower than forecast in October 2021, as government income is boosted by higher tax receipts, particularly from financial services and more workers paying the higher rate of income tax.

Government income is expected to stay strong in the near term as inflation remains high and high employment is accompanied by modest wage growth. But real incomes will fall as inflation outstrips any earnings growth. There is also eye catching revenue from oil and gas taxes: from £0.7 billion in 2020-21 to £8.1 billion in 2022-23.

The Office for Budget Responsibility's outlook beyond that is uncertain. GDP growth is expected to be tepid and sustained high energy prices could squeeze living standards further. This underlines the need to reduce reliance on gas quickly to increase resilience against global shocks.

The chancellor's gamble

The war in Ukraine has aligned the policy responses to Russian aggression and rising household costs with net zero carbon objectives. Every day of inaction only exacerbates the challenge of all three.

While the chancellor has used some of his windfall to alter tax thresholds, mitigating some pain, he's chosen to sit on the rest of it. His view is that the number one threat to our economic security is public debt which means, like his energy bill loan announced in February, there are few policies with an enduring price tag.

The bet is that reducing public debt now will allow for greater handouts closer to the next general election, like the promised cut to the basic rate of income tax. However, this is a big gamble. Households are suffering now. The public may not easily forget that the government could have done more, especially as public services see the spending squeeze failing to match inflation.

The threat to the country's ability to weather the next crisis is not restricted public debt, but also the resilience of energy supply and demand, the state of household finances, as well as economic and productivity growth.

Before the spring statement Green Alliance asked for action on three fronts to address those vulnerabilities: shielding households now, reducing energy waste and increasing low carbon supply. Did the chancellor's response meet the moment?

Shielding households from the rising cost of living

A comprehensive response to the current crisis is vital to maintain public confidence in the government's support, and our energy transition.

Support with energy bills. The chancellor chose to not build on the package of support he announced in February 2022: providing a £200 loan, alongside council tax rebates to help with higher bills. Despite energy costs being a primary driver of rising inflation, the government has looked to reduce costs elsewhere. With the next price cap rise in October 2022 expected to breach £3,000, there is still time to act, for example by moving green levies to general taxation.

Helping the most vulnerable. Despite pressure, the chancellor did not to expand the Warm Home Discount beyond previous announcements, or to adjust Universal Credit to match inflation. However, the government did mitigate the impacts of the forthcoming National Insurance rise for the lowest paid by raising the threshold of which its paid back.

The cut to fuel duty. Fuel duty has been frozen for a decade. The chancellor has now gone further by cutting petrol and diesel by 5p. This will cost government £2.4 billion over the next year. While the richest ten per cent in society spend £42 a week on fuel whereas the poorest pay just £7. There are more effective measures to help those on the lowest incomes, through the welfare system, making public transport cheaper and more accessible. If fuel duty stays low when oil prices fall it will also disincentivise the move towards electric vehicles, which are now cheaper over the course of ownership than petrol and diesel models.

Tackling waste

Despite the need to help households and cut reliance on Russian oil and gas, the government remains cautious on either direct support to improve energy efficiency or guidance on how households can cut their own waste.

Reduced VAT. The chancellor announced a £280 million five year cut to VAT on the installation of all energy saving materials to zero per cent, including insulation and heat pumps, which will help to cut energy waste. This is something we have called for. The cut will also make solar available to a larger audience. However, with industry already struggling to meet demand, government will need to do more to support supply chain expansion. With no additional measures to help low income households with upfront costs, the benefits of energy efficiency will be restricted only to those who can afford it. As the price cap is set to rise further, targeted grants will be vital to reduce energy waste and reliance on volatile fossil fuels.

Helping families cut waste. The chancellor made no mention of guidance to households to cut energy waste, despite its low price tag. Money has been spent on reducing waste in government and in Universal Credit claims but not on food or energy waste. Government guidance could highlight several easy measures that help reduce demand for energy and save households money including: turning the thermostat down by one degree, which could save ten per cent on bills, and lowering boiler flow temperatures to save seven per cent. Switching off appliances, rather than leaving them on standby, could also save households £86 a year.

Increasing low carbon technologies

While the zero per cent VAT on low carbon products will help some households install wind turbines or solar, measures to reduce dependence on fossil fuels were left on the table. Incentives for green technology could have a wider scope, to include battery storage options and electric vehicle charging points. The chancellor is probably leaving these measures to the forthcoming energy supply strategy, but every delay will slow down the ability of households to afford more efficient green technologies. New measures should include:

- Altering planning conditions for onshore wind.
- A strong mandate for increasing electric vehicle production to lower their upfront cost and increase their availability, with a faster rollout of charging points.

For more information, contact:
Sam Alvis, head of green renewal, Green Alliance
salvis@green-alliance.org.uk