Briefing
Autumn statement 2022

green alliance…

Summary

This was a statement to set up the long road to the next election. Despite threats of cuts, spending across the board was held flat, with most cuts coming (in theory) in the next parliament. Instead, this was a money raising statement, with wider taxes on individuals and capital.

For Rishi Sunak and Jeremy Hunt, this allows them to contrast their post-election plans with Labour's. In a similar scenario Labour matched Conservative spending plans in the run up to the 1997 general election, binding Labour's hands once the party was in government. Given Labour has already committed a 10 year, £280 billion increase in capital spending through their climate investment pledge its hard to see them following the same playbook. That will leave a clear contrast between Conservative restraint, and Labour's investment.

For the environmental agenda, the chancellor placed energy security, infrastructure and innovation at the centre of his statement. It acknowledged that the way to prevent the UK being at the mercy of international gas prices is through a combination of energy independence and energy efficiency. This included:

- Some action on energy efficiency, but little spending until after 2025
- An extended windfall tax and new tax on electricity generators
- Bringing electric vehicles into Vehicle Excise Duty from 2025
- Increased innovation spending from 2024

Disappointingly, but perhaps expectedly, there was no mention of nature or the circular economy in the entire statement, although there was no backtracking on these.

Budgets

Capital expenditure

As chancellor, Rishi Sunak pledged £26 billion of investment in net zero the week before the COP26 climate conference. As prime minister, he is presiding over the protection of capital spending for the remainder of this parliament. Beyond 2024-25 this will be held flat but, because of inflation, this means it will, in effect, fall by 1.2 per cent a year in real terms. Of course, this will take place in the next parliament and will depend on the decisions of the next government.

This means that, mostly, investments in public transport were held in keeping with previous government commitments, such as the Bus Back Better Strategy. Northern Powerhouse Rail (NPR) will go ahead, but in line with the scaled back Integrated Rail Plan, despite Liz Truss's pledge to build NPR in full.

The chancellor reannounced the government's commitment to Sizewell C, with £700 million initial investment, the first state backing for nuclear in over 30 years. And, although he hailed the UK's world leading renewables sector, he was silent on onshore wind, despite the widespread support of the public and his predecessor. This is a low cost option to reduce bills quickly.

Day to day spending

Resource spending for the Departments for Business, Energy and Industrial Strategy; Environment, Food and Rural Affairs; Levelling Up, Housing and Communities; and Transport rises by one per cent to 2024-25 but this is lower than the 3.4 per cent planned in the October 2021 spending review.

Insulation and energy demand

The chancellor recognised energy efficiency as a vital route towards energy independence. He announced **a new target to reduce energy consumption from buildings and industry by 15 per cent by 2030**. For context, the EU is targeting a similar cut in gas consumption by the end of 2023.

The Energy Price Guarantee (EPG) will be extended to at least until March 2024, raising the cap from April 2023 so that a typical household will pay £3,000 for energy. This will save the government about £14 billion next year though £12 billion will be eaten up in new, means tested, cost of living payments for the most vulnerable households. Without ramping up the installation of insulation, the government risks being on the hook for energy bills beyond the end of next year.

Despite the huge continued cost of the EPG, there was no new money for energy efficiency in this parliament. **A further £6 billion was announced for energy efficiency from 2025 onwards. There are three winters until then.**

Funding announced by Liz Truss for ECO+ of £1 billion, funded through the Energy Price Guarantee is being maintained.

A small bonus came in the form of an announcement of an Energy Efficiency Taskforce to look at the longer term mechanisms which will enable more uptake of efficiency measures. This could be EPC reform, the pipeline of skilled installers, advice and certification schemes or cheap financing delivered through the UK Infrastructure Bank. In our pre-statement briefing we recommended a series of low cost supply side reforms to support this, particularly boosting private investment.

Energy taxes

The Energy Profits Levy has been extended both in size and duration and will now be set at 35 per cent until 2028. This raises the total tax level to 75 per cent, raising £40 billion over the next six years. This is still below Norway's level of 78 per cent, meeting that level could raise an extra £1.3 billion a year to 2028.

The controversial investment allowance on the windfall tax has been reduced from 80 per cent to 29 per cent for fossil fuel investment. However, the higher rate remains for decarbonisation related spending. According to the OBR, neither investment allowance is sufficient to raise business investment.

A new tax has also been applied to electricity generators who are also receiving a similar windfall. This rate of 45 per cent kicks in on any profits made above a baseline electricity price of £75/MWh (with a £10 million allowance), current prices are over £350/MWh. Electricity generators aren't eligible for any investment allowance. The government had previously suggested the super-deduction as one way to support clean energy investment, but this hasn't been renewed.

Electric vehicles

With a looming black hole in taxes on driving as people switch to electric vehicles, the introduction of taxes on electric vehicles (EVs) was inevitable. The government has said it will extend Vehicle Excise Duty to EVs from 2025. This is when sales are forecast to be 50 per cent of all new cars. It is expected to increase tax revenue by £500 million in 2025-26, £1 billion in 2026-27 and £1.5 billion in 2027-28. This change does little to plug the anticipated £35 billion hole from falling fuel duty and VED revenue, so a wider reform of road taxes will be needed eventually, and it's disappointing that wasn't mentioned today.

The government didn't introduce new levies on polluting diesel vehicles to keep the EV/ICE differential in proportion, which risks lower EV uptake. Diesel cars purchased between 2001 and 2017 will now be taxed at only £20 per year (compared to the new rate of £165 for electric vehicles). This is a major missed opportunity to embed the polluter pays principle and raise additional revenue.

Innovation

R&D tax reliefs had their remit narrowed, lowering the generosity of rates, and refocusing on UK innovation. Green Alliance has been critical of R&D tax reliefs for their lack of additionality and failure to target green measures, and this does nothing to change that.

Despite recent revisions from the ONS of the way R&D expenditure is calculated, which means the government's 2.4 per cent of GDP target has already been reached, there was an uplift in innovation spending to £20 billion in 2024-25, which is a third higher than expected.

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