Briefing
Spring Budget 2023

15 March 2023

Summary
Jeremy Hunt has told us to wait until the autumn for the UK's full response to the US Inflation Reduction Act, but his budget today showed the shape of a potential UK response.

While the fiscal situation is improving, the UK economy is still forecast to shrink this year, with falling living standards for households being a primary reason. To address this, the chancellor has extended the Energy Price Guarantee and removed the premium that pre-payment meter households pay. He also continued the regressive freeze of fuel duty.

As important as protection, actions that accelerate the UK towards a green economy and away from volatile gas prices altogether. This included:

- Investment of up to £20 billion in carbon capture usage and storage, though with no detail of when this money will be spent.
- A replacement for the super deduction that allows companies to write off 100 per cent of the cost of investment, though, like the super deduction, its short term nature and lack of direction means it will do little for additional green investment.
- Twelve new 'investment zones' aimed at boosting productivity and growth in areas in need of levelling up, with a focus on 'green industries' among other sectors.
- The offer on skills for older workers also lacks a focus on equipping people with the skills they will need in the green economy, or ways to draw those currently outside the labour market into green work.

As usual, at major fiscal moments we heard nothing about nature or resource use, despite their prominence in Chris Skidmore's recent mission zero review.

Economic picture
The depth of economic contraction won't be as bad as feared but, while Jeremy Hunt claimed this as a win, the UK economy will still see the economy shrink by 0.2 per cent this year.

Inflation is projected to fall, though expectations of it reaching 2.9 per cent don't consider any public sector pay awards which could push it up again.

Households and energy

The UK economy and UK families remain vulnerable to volatile gas prices. Pressure from charities, including Green Alliance, has seen the government not only extend the Energy Price Guarantee for three months, but also end the scandalous premium that households using prepayment meters face. However, people will still be paying £285 more for their energy in 2023-24 than they did over this winter.

Across the country, the End Fuel Poverty Coalition now predicts combined household energy debt will total £2.7 billion by the end of June. We need further action to provide energy debt relief. This includes tariff reform and rapid improvements to energy efficiency of housing.

The chancellor has also maintained the fuel duty freeze, including the additional 5p cut announced last year. This is a regressive measure as we've shown previously, it is wealthier households that have more cars and drive more miles. The average annual distance for the top ten per cent is 7,000 miles compared to roughly half that for poorer households.

But, whilst Jeremy Hunt has acted on the symptom, we heard nothing today on further measures to address the problem: the UK's reliance on gas, both to generate electricity and to heat out homes.

Competing with the Inflation Reducation Act

The chancellor acknowledged that his four E's - everywhere, enterprise, employment and education – form the outline of the government's position in the global green race. Here, we focus on three specific measures announced: potential investment, taxable allowances and government's updated investment zones. Green Alliance's response can be found in our recent essay collection.

Enterprise: public investment

The chancellor announced up to £20 billion to support the early deployment of **carbon capture, usage and storage** (CCUS) technology. A shortlist of projects for the first phase will be announced later this month and further projects will be able to apply for funding later this year. Although £20 billion sounds a lot, it's unclear how much of the funding pot will be deployed within this parliament.

He also launched **Great British Nuclear** which will support new nuclear builds, starting with a staged competition on Small Modular Reactors. Nuclear energy will also be classed as a green technology from now on, meaning it may qualify for money from ESG funds. The government hopes this will help private finance to flow into the industry, though projects remain risky to investors.

Hunt reminded us of government's commitment to **reduce energy demand by 15 per cent** by 2030 and extended the climate change agreement scheme, which provides tax relief to businesses that make energy efficiency improvements, for a further two years at a cost of £630 million. The big money is still held back though. The chancellor missed an opportunity to bring forward £6.6 billion of funding announced for 2025 onwards, announced in last year's autumn statement.

The City Regions **Sustainable Transport settlements programme** provides funding to eight English city regions on five year funding cycles. £5.7 billion had been committed for the current five year period and today the chancellor announced that the pot will be expanded to £8.8 billion for the second round of the programme, starting in 2027-28. This provides welcome certainty for city regions planning their sustainable transport investments.

Enterprise: tax allowances

The government has replaced the super deduction with a new three year tax allowance. Full expensing will allow companies to write off the cost of investments in qualifying physical capital against their tax bill in their first year. This could include energy efficiency measures or for example solar panels on factory roofs.

Like the super deduction, this is encouraging. The UK lags behind comparator economies on private (and public) investment. But this scheme suffers from the same pitfalls as the super deduction:

- It provides no direction on the sort of investments companies should be prioritising, for example green technologies which tend to be more profitable and last longer.
- Its short time horizon will do little to shift business behaviour and will instead just lead to companies bringing forward investment, rather than stimulating new ones. For comparison, Joe Biden's green tax credits in the Inflation Reduction Act will last at least ten years.

This scheme is expected to cost £7.9 billion in 2024-25, £10.7 billion in 2025-26 before falling to £8.6 billion in its final year, 2026-27.

Everywhere: investment zones

The government has announced the establishment of 12 new investment zones, with eight proposed in England and four in devolved nations. Each will receive a package of £80 million over five years in funding and tax relief. Tax incentives will match those on offer in freeports and grant funding can will support skill development, provide specialised business support and improve local infrastructure.

A targeted place based industrial strategy, drawing on a region's sectoral strengths, could boost both regional and national economic growth while reducing emissions. Recent research has shown that the areas most in need of levelling up are specialised in industries relevant for net zero.

Plans developed for each zone will have to demonstrate how this will support the UK in reaching both net zero and nature targets. While this sounds promising, the language is vague and more guarantees are needed to ensure that environmental standards remain at current levels. 'Green industries' feature as one of the five key sectors these innovation zones will focus on, but this is not their sole focus.Green Alliance will publish further research on this in April 2023.

Education and employment: skills

Green Alliance's research shows that every major sector in the UK needs to close a significant skills gap to enable them to reach net zero. The chancellor echoed this today, saying that the £20 billion pledge on CCUS could create an additional 50,000 jobs.

The chancellor set out plans to encourage the over 50s to re-enter the workforce with new middle age apprenticeships, dubbed 'returnerships'. This was complemented by skills bootcamps with additional funding of £63 million. Additionally, DWP's expansion of the midlife MOT offer from 8,000 to 40,000 annually could help older workers retrain. These new schemes should focus on green skills to enable a transition to a green economy.

We need to draw from a wider pool of workers, outside our existing labour market, to achieve environmental goals. Therefore, the budget's focus on childcare support and disability benefits to remove barriers was particularly welcome.

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