Briefing

What the environment needs from the Autumn Statement

November 2023

Context

This year's Autumn Statement will take place against the most challenging economic and international backdrop in a generation and at a critical time for environmental policy.

Internationally, the UK faces rising protectionism and the risk of further energy and supply shocks from geopolitical instability. The domestic context is of sluggish growth, low productivity, the accumulated negative impact of several years of high inflation on household incomes and a tax burden at a 75 year high. Demographic pressures mean the size of the state will for some time remain higher than before the global financial crisis of 2008.

Although borrowing this year has been almost £20 billion lower than expected, economic think tanks, including the Institute for Fiscal Studies (IFS) and the Resolution Foundation, as well as the Office for Budget Responsibility (OBR), have warned about the dangers of 'fiscal illusion'. High inflation boosts the nominal (as opposed to inflation-adjusted, or real) size of the economy, producing flattering tax receipts. But this is cancelled out by rising bond yields which increase the government's debt interest bill. All in all, the public finances remain extremely tight and are likely to remain so in the absence of sustained economic growth.

With an election drawing near, the chancellor may want to cut taxes. This would be a mistake, as would policy that further undermines investor confidence in the UK's energy transition.

Instead, the focus should be on pro-growth green public investment, drawing in private capital to develop sustainable industries, as laid out in our recent briefing. This may raise borrowing and debt in the short term, but it will more than pay for itself over the medium term (the course of a parliament) and in the long run through higher productivity, lower energy bills for industry and consumers, and stronger growth.

Ahead of the Autumn Statement, the government must do several things to clarify its economic and environmental strategy and dispel the uncertainty inhibiting climate action.

Secure UK green investment to protect against competition

Why this matters

IRA, although protectionist, has already drawn $310 billion in new investment into the US. Similar moves by the EU and China risk sidelining the UK in the global race for investment in net zero industries. The UK has one of the lowest rates of business investment in the G7, largely due to policy short termism, and the absence of a coherent, long term industrial strategy.

What the Autumn Statement should do

Put simply, the chancellor needs to announce a coherent fiscal package to support a UK industrial strategy.

This means investing in upstream capabilities (including infrastructure and green supply chains and technologies). This should include public capital for infrastructure that lowers energy costs with green technologies, including by the state sharing the risk of agreements and creating facilities that bridge the investment gap. Doing this would lever in private capital, supporting offshore wind (see below), the UK's steel and other heavy manufacturing sectors. While all these measures come with a price tag, doing this would reduce the need for, and the scale of, bespoke deals with individual companies and avoid complexities around state aid.

Nowhere is this more important than in the electrification of the automotive sector. The UK industry faces a twin threat from vast IRA subsidies and EU rules on local content that could render UK production uneconomic unless the country can develop substantial capacity in battery production.

In our recent report we call for a national battery strategy that ensures sufficient manufacturing capacity and a robust UK supply chain. There should be an integrated approach to this, including stringent standards for mined materials and recycling, which could be a real growth area for the UK, as well as contributing to the security of critical raw material supply.

The demand side remains relevant even as electric vehicles (EVs) come down in cost. Cutting VAT paid at public charging points to match the five per cent levied on private chargers would encourage EV uptake. Outside EVs, a shipping fuel levy from 2025 on all domestic and international shipping and a kerosene tax on private aviation, would begin to steer these sectors to innovate to cut carbon.

Beyond infrastructure and demand side policy, inadequate green skills remain a serious supply side constraint on the net zero transition. A green skills 'super-deduction', providing 130 per cent business tax relief on skills training, should be implemented.

Reform CfD auctions for continued development of offshore wind

Why this matters

The failure of the most recent contracts for difference (CfD) auction for offshore wind means meeting the government's target of 50GW of offshore wind by 2030 is at risk, undermining UK energy security and raising consumer bills. The auction failed because the price offered by the government to suppliers was too low, given the sharply rising costs faced by the industry.

What the Autumn Statement should do

The government needs to set a realistic range for the maximum price in the next CfD auction. A higher strike price - perhaps in the region of £55-75/MWh – would still be good value. Even at the higher end (£75/MWh in 2012 prices), offshore wind will be around 25 per cent cheaper than new build gas power.

In the medium term, the sector needs a long term approach that encourages operators to invest in infrastructure, skills and new technologies.

Setting out a roadmap for the next two to three years, with GW figures, and enabling companies to bid for contracts several years ahead, would address the logistical problems companies face in delivering over a single year.

Further auction rounds should take more account of non-price factors, such as the need to invest in skills and ensure the supply of cables and other equipment, particularly for floating offshore wind. This will raise costs, but reforms could keep overall costs down.

Contracts are typically 15 years now, but the lifespan of a turbine is up to 30 years. Longer contracts would allow the asset to be amortised over a longer period, allowing cost savings which could be reflected in lower bid prices.

Finally, because energy costs have driven up inflation and high interest rates raise the cost of renewables, the chancellor could encourage the Bank of England to use tools for price stability to lower the effective interest rate for offshore wind, cutting energy bills and, therefore, inflation. These tools could include issuing credit guidance that lowers the risk weighting for renewable energy projects; and adopting targeted dual interest rates.

Introduce a Carbon Border Adjustment Mechanism

Why this matters

A Carbon Border Adjustment Mechanism (CBAM) would improve the investment environment in sectors like steel, cement and power. The EU's proposed CBAM means the UK has to act.

What the Autumn Statement should do

A carbon pricing and border taxation approach, aligned with big export markets in the EU (which has begun a transitional phase towards a CBAM) could ease administrative burdens for UK firms, ensure the UK emissions trading system works more effectively and raise revenues for the net zero transition. However, the government must make allowances for the poorest countries with exemptions or other forms of support.

Intervene to end fuel poverty this winter

Why this matters

With energy bills today double what they were in winter 2020-21, millions of people – including the elderly, disabled people and families with young children – will be unable to afford to heat their homes this coming winter, affecting their physical and mental health and even costing lives.

What the Autumn Statement should do

The chancellor should implement an emergency energy tariff. This tariff could be set at the same level as the Ofgem Price Cap at 1 October 2020, and be made available to groups that are most in need through the existing Energy Price Guarantee (EPG) mechanism. It could be financed using the projected underspend from the EPG scheme. The average household on the emergency tariff would cut their monthly energy bills by approximately £87.

Ensure HS2 cancellation savings are not spent on roads

Why this matters

Whatever its flaws, HS2 was an important infrastructure project, and the indefinite postponement of the northern leg is a big blow to sustainable transport and northern communities. The government claims that the money will be diverted to projects in its £36 billion Network North Plan. However, the plan included schemes already underway, as well as projects recently paused or cancelled. Spending on new roads, which tend to generate more traffic and which are a poor use of limited urban and suburban space, should be avoided.

What the Autumn Statement should do

A good use of the money would be to spend it on improving connectivity in deprived regions of the UK, such as the East Midlands, and on electrifying parts of the existing inter-city rail network. Alternatively, the money could be diverted to non-transport uses, such as home insulation or building more infrastructure for cheap, low carbon energy.

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