Briefing

Did the 2024 budget deliver for the environment?

October 2024

green alliance…

Summary

The chancellor's first budget and one year spending review was her chance to shift the dial on investment and turbocharge the shift to a greener economy.

The budget saw a large increase in investment, made possible by tax increases and sensible changes to the fiscal rules. But questions remain over the farming budget, reduction in money for warm homes, and another missed opportunity to end the 'temporary' freeze on fuel duty.

So, did the chancellor deliver on the tests we set out? And what are the key announcements needed and critical flashpoints still to address?

Investment spending

In the lead up to the budget we published a briefing, outlining the key investment spending challenges the chancellor would face in this budget. In that briefing, we set out three key tasks for the chancellor. We said she had to:

- Set out a clear investment plan for infrastructure, and for clean energy and industries that will deliver stronger and more sustainable growth.
- Change the basis of the fiscal rules, particularly the debt rule, to allow for more public sector investment. This should include the adoption of a target to improve the value of Public Sector Net Wealth.
- Take immediate actions to tackle fuel and transport poverty, support industrial investment, help farmers deliver on nature commitments and cut emissions.

What happened in the budget?

The chancellor pledged to "invest, invest, invest" to make the economy grow and she found an extra £100 billion of public money over the next five years to do this. This was a budget of big tax rises - £40 billion, much of it on business – to pay for the government's manifesto commitments to maintain the budgets of key departments like health and invest in clean industries and decarbonisation.

The chancellor hopes that the extra £100 billion will deliver a positive shock to the economy, boost productivity and raise the growth rate, which has languished since the financial crisis. This is something Green Alliance has frequently argued for. Lack of investment in the physical infrastructure of the country has been a drag on growth over the past decade and a half, imperilling the drive to reach net zero and restore nature.

The size of the 'investment gap' – the amount by which UK investment has lagged the OECD average – has been put at half a trillion pounds, enough to pay for 30 Elizabeth lines. Before the budget, public sector net investment had been forecast to decline to 1.7 per cent of GDP over the next five years. It will now grow to 2.5 per cent, although this is still only half of what some economic commentators have called for.

Although the investment splurge boosts growth over the next couple of years, the effect will wear off over the latter part of this parliament, according to the Office for Budget Responsibility. To maintain momentum well beyond the end of the five year forecasting horizon, the government must keep investing in infrastructure.

This is why perhaps the most significant intervention in this budget was to reform the fiscal rules. These serve a useful purpose in constraining governments from politicising budgets. But, in their current form, they have been very bad at driving investment. The chancellor tweaked the rule requiring the government to have debt falling as a share of GDP over five years by changing how debt is defined.

The new, more expansive, definition – Public Sector Net Financial Liabilities (PNFL) – brings more assets onto the government's balance sheet and allows the chancellor to expand investment while still meeting her debt rule.

Overall, the budget is a gamble that the benefits of the extra investment will outweigh the impact of the tax rises slated to pay for them. But the previous trajectory of low investment and sluggish growth was not going to deliver the radical transformation needed to grow and decarbonise the economy.

Why does that matter?

Thanks to the extra borrowing the government has been able to match many of its pre-election environmental promises with action, and cash. The Department for Energy Security and Net Zero will see its capital budget rise by up to 25 per cent in real terms over the next five years.

As well as the extra £100 billion in capital investment, the chancellor confirmed the setting up of GB Energy and the National Wealth Fund to channel some of this money into net zero projects.

There was also confirmation of funding for new, multi-year investments in carbon capture and storage (CCS), and funding will be provided for 11 new green hydrogen projects across England, Scotland and Wales. The OBR expects that public investment will crowd in billions of pounds of private investment, so the eventual impact of the budget on investment could be much greater.

What does the government need to do next?

The government has chosen PNFL as the target for its investment rule, but PNFL comprises mostly financial assets. A better target, which we have called for, would be to grow the value of Public Sector Net Worth, as this includes physical assets such as the electricity grid and the transport network.

The Climate Change Committee recently recommended stronger emissions reductions targets for the UK, so more investment is likely to be needed. Therefore, the government should commit itself to a long term investment plan to reassure private investors that the taps will not be turned off when the five years covered by the spending review are up.

There are reasonable concerns about whether the green economy can easily absorb the extra money without substantial investment in skills, alongside other supply side measures, like planning reform. It is therefore vital that skills needs are addressed through Skills England and its Welsh, Scottish and Northern Irish counterparts, and that planning reform is expedited.

Farming budget

The farming budget is core to the government's manifesto promise of a "new deal for farmers", as well as its ability to meet legally binding commitments on nature restoration and climate change. Following two very difficult harvests for farmers, there were fears of significant cuts to the Department for Environment, Food and Rural Affairs' (Defra's) budget, which would have had an impact on farm livelihoods and environmental stewardship.

What happened in the budget?

Rachel Reeves announced that the farming budget will be maintained for the next year at £2.4 billion, with a 38 per cent increase in the funding available for Environmental Land Management Schemes (ELM) to £1.8 billion. With a tough economic backdrop, this is reassuring and recognises the farming budget's importance to delivering on government priorities.

We welcome the move to accelerate away from legacy payments that gave money for nothing to the largest farms, towards the payments for public goods that should benefit those farms that find it more difficult to make a profit from food production alone.

On top of this, a crucial £200 million per year of new capital will be invested over the next two years in tree planting and peatland restoration. This is an important fund that will support farmers to create nature-rich habitats that store carbon, reduce flooding and improve water quality.

Why does that matter?

Nature's recovery depends on changes to the 70 per cent of UK land that is farmed, and the food system will emerge in the 2030s as the single largest source of emissions. This investment means the government can support farmers to restore nature, cut emissions and reduce river pollution.

Spent well, the budget can unlock higher incomes for the least wealthy farmers, many of which are in the uplands and not profitable on food production alone. But the government needs to act swiftly to make that a reality.

What does the government need to do next?

Many farms face an uncertain future and the ambitious farming schemes need much more investment to ensure stable livelihoods whilst delivering on nature restoration, climate change and water improvement targets. Whilst making the case for more investment next year, in the short term, Defra will need to act decisively to make the best of this budget.

To do this, budget must urgently be ringfenced for the Higher Tier and Landscape Recovery schemes until they are opened for applications. These offer far greater value for money than the Sustainable Farming Incentive, the only scheme currently open which, left unchecked, could easily swallow all of the £1.8 billion Defra has set out as available for ELM in the next financial year.

Also, to deliver on its major manifesto pledge to clean up our rivers, the government must close loopholes and enforce regulations that currently allow pollution of rivers such as the River Wye. Enforcing regulation is essential to create a level playing field for most farmers who follow the rules whilst others cut corners and costs. Effective enforcement depends on strong, independent and well resourced regulators, whose budgets should be protected and not reduced.

Improving value for money in the farming budget is crucial to getting more investment out of the next spending review.

Transport

The UK's creaking transport system is holding back the economy with traffic congestion and poor public transport connections. It chokes our towns and cities with air pollution and is responsible for a third of the UK's greenhouse gas emissions.

The Transport Secretary Louise Haigh has set out an ambitious agenda to revitalise UK bus services, get more people using the railways, accelerate the transition to electric vehicles, and devolve greater powers on public transport to mayors and the regions. In this budget, we wanted to see investment and incentives to match this ambition.

What happened in the budget?

The Department for Transport's overall budget was reduced by 2.5 per cent. While we await the review of capital funding to know the implications of this, it appears some funding has been reallocated from low value road projects to rail. Better regional rail connections will improve low carbon connectivity, provide greater access to opportunities and bring economic benefits. We welcome confirmation of support for projects like the TransPennine Route Upgrade and East West Rail, as well as the intention to bring forward Northern Powerhouse Rail.

It is important that big projects are matched by local improvements, and an additional £200 million for City Region Sustainable Transport Settlements will help support mayors to provide better public transport across the UK's major cities.

Investing in bus services is the quickest route to getting more people using public transport so the £1 billion allocated for buses is a welcome move. While an additional £100 million investment in cycling and walking infrastructure in 2025-26 is positive, it has not yet fulfilled the ambition set out by Louise Haigh in the summer to invest "unprecedented levels of funding" in cycling and walking to tackle the health and climate crises.

The government avoided a cost-of-living cliff edge on bus fares this winter by extending the cap to the end of 2025. But with the fare cap increasing fifty per cent to £3, this contributes to a worrying long term trend where the cost of lower carbon public transport increases faster than the cost of driving a petrol or diesel car. Similarly, rail fares will increase above inflation at 4.6 per cent while railcards become more expensive. UK cities already have some of the most expensive public transport in Europe without these additional costs.

Fuel duty remains frozen

The most disappointing element of the budget on transport was the chancellor's failure to lift the thirteen year freeze on fuel duty or call time on the five pence emergency cut introduced in March 2022 when fuel prices temporarily hit record levels following Russia's invasion of Ukraine. This sends the wrong signal on the future of travel and loses £3 billion in potential public funds next year that could have been invested in public services or cleaner forms of transport. The freeze has already cost over £80 billion in total and increased associated greenhouse gas emissions by seven per cent, while encouraging a dangerous trend towards larger, heavier vehicles that emit more carbon dioxide and take up more road space.

The chancellor did provide some positive incentives for both companies and individuals to make the switch to electric vehicles. First year vehicle excise duty has been doubled on essentially all non-hybrid internal combustion engine (ICE) vehicles, hitting the largest and most polluting hardest, amongst other measures.

Finally, we were pleased to see aviation's position as an undertaxed sector was addressed this budget. Private jets, in particular, should pay fairly for their disproportionate pollution and climate impact. Increasing Air Passenger Duty on them by fifty per cent is a strong first step.

Why does that matter?

Transport can be an engine for clean growth with the right investment and incentives, through stronger public transport links at a local, regional and national levels. It opens access to opportunities in education, work and leisure, while active travel can boost the nation's health and save money for the NHS. The switch to electric vehicles will both enable the government's clean energy ambition to reduce reliance on volatile fossil fuel imports and provide a clear industrial opportunity for the UK.

Policy and spending needs to be aligned to make this possible. Overall, much faster progress must be made to reduce road traffic emissions if the UK's 2030 target under the Paris Agreement and forthcoming legal carbon budgets are to be met. The budget and spending review offered welcome investment on transport but the picture is mixed as public transport fares continue to rise, while fuel duty remains frozen at levels last seen in 2009.

What does the government need to do next?

Transport is the biggest source of greenhouse gases in the UK, but the taxes applied to it still do not reflect this impact. The chancellor should end the fuel duty freeze in next year's budget.

Even with an eventual lifting of the fuel duty freeze, there will be a widening fiscal gap as more drivers adopt electric vehicles. Instead of continuing to kick the problem down the road, the Treasury should establish an independent commission now to examine options for an equitable 'pay as you drive' scheme to replace lost fuel duty revenue.

The government's Better Buses Bill and Devolution Bill should enable local areas to take control of their buses, with a simplified funding framework that delivers better and more affordable services on the ground. The £3 cap should be extended to the end of this parliament while this new system is established. The programme of rail reform should be brought forward and the pace of rail investment in the multi-year spending review should be increased.

The next stage of the spending review, due in the spring 2025, should also bring about a step change in active travel funding with a multi-year funding settlement.

The budget recognised electric vehicles (EVs) and their supply chain as a key sector for the industrial strategy due to be published in the spring. The £2 billion of research and development funding for the automotive sector should be squarely focused on zero emission technology to ensure the UK sector remains competitive. We would like to see the government continue to enable the EV transition by speeding up charging infrastructure rollout and reducing the cost of public charging. To ensure all drivers can make a smooth switch to electric vehicles, the £200 million for the chargepoint rollout will need to be bolstered in the next spending review.

Finally, the continued fuel duty freeze shows that fiscal decisions are still not fully aligned with the government's legal obligations on climate and nature. The OBR assesses the impact of fiscal decisions on the public finances, but no systematic monitoring is undertaken of the effect of budget decisions on emissions or nature protection. Independent monitoring of these impacts would improve the consistency of government policy.

Clean power and industry

The government’s mission to make the UK a clean energy superpower, with a clean power system by 2030, is crucial to tackling emissions and meeting legal carbon budgets. Long term stability and substantial investment is needed to accelerate the deployment of renewables and other clean flexible energy technologies, and to allow the transition of heavy industries like steel, chemicals, cement and others to net zero. It is also clear that long term economic growth cannot be achieved without investment in clean energy, protecting the UK from fossil energy price shocks

The new Energy Secretary Ed Miliband has wasted no time since the election in getting moving on the new government’s clean energy mission. He has lifted the ban on onshore wind developments, approved gigantic solar farms stuck in the planning system and increased the budget for offshore wind price support auctions. To achieve the government’s mission of clean power by 2030 will require further large scale investment in transmission infrastructure, clean electricity generation capacity and clean flexible storage systems.

The current rate of annual emissions reductions outside the electricity supply industry must at least quadruple to meet the UK’s pledge under the Paris climate agreement. And industrial emissions must be tackled as they are currently our third biggest source of emissions after transport and buildings. Labour has promised to protect British industries as we decarbonise and use industrial strategy to ensure UK supply chains and workers benefit from the government’s clean energy mission.

In advance of the budget, these were our expectations:

- Progress on support mechanisms for long duration energy storage, CCS and hydrogen.
- More funding and a longer lifetime for the Industrial Energy Transformation Fund.
- Support for electrification through investment and measures to bring down electricity costs.
- A transition to clean steel.
- Increasing the Energy Profits Levy and closing investment loopholes.

What happened in the budget?

Reflecting the importance of the government's mission to make Britain a clean energy superpower, the Department for Energy Security and Net Zero saw the biggest increase of any government department in its capital spending budget. It is set to grow 22 per cent annually over the next two years. The chancellor also confirmed a series of investments in low carbon energy and industrial projects. This included confirmation of CCS cluster funding, amounting to £3.9 billion in 2025-26, paid by the government (ie all taxpayers, not just energy bill payers).

Also confirmed were 11 new green hydrogen projects as part of the first hydrogen allocation round (HAR1). Other spending commitments included £125 million to set up GB Energy, though project investment will be delivered initially through the newly created National Wealth Fund (NWF).

We welcome the £163 million committed to the Industrial Energy Transformation Fund for 2025-26 to 2027-28, although it looks as if this might be existing budget, not additional to the previous government's announced £185 million allocated for 2024 to 2028. Finally, the Energy Profits Levy on oil and gas firm profits was increased from 35 to 38 per cent and the investment allowance loophole was closed (except for investment in decarbonisation).

Why does that matter?

This budget has laid the groundwork for the major investment needed in clean power generation, electricity transmission, carbon capture and green hydrogen. We welcome the priority that the government has given to this investment even in the face of a fiscal constraints. We are also pleased that the government stood firm in the face of oil and gas industry lobbying arguing against a higher rate of the Energy Profits Levy, and it has removed the excessively generous investment allowance that provided huge tax breaks to the industry.

What does the government need to do next?

There is a lot still to do, in part via the industrial strategy, which must prioritise green investment and decarbonisation, enabling industries to decarbonise through electrification where appropriate, and hydrogen and carbon capture utilisation and storage where necessary.

Top of the list for the clean power Mission Control must be to make cheap, clean electricity widely available and to enable the decarbonisation of industry, businesses, homes and transport. This will come from the accelerated deployment of renewables and developing clean flexible technologies to help balance the grid. Speeding up grid connections is also a core part of this work.

Heat and buildings

In its manifesto, the government committed to an exciting and ambitious Warm Homes Plan to upgrade the UK's leaky housing stock, lifting millions out of fuel poverty and helping to reduce energy use. This commitment involved allocating an additional £6.6 billion of funding to existing planned government spending in this parliament, meaning a total expected spend of £13.2 billion between 2024 and 2029.

What happened in the budget?

In its budget settlement for the Department for Energy Security and Net Zero, the government committed to £3.4 billion for the Warm Homes Plan between the financial years 2024-25 and 2027-28.

Crucially, the budget suggested that the Treasury would be open to amending the budgets for 2024-25 and 2025-26 in the full three year spending review that will conclude in the spring of 2025.

In the context of a £13.2 billion commitment, the allocation in this budget is very small and is inadequate to bring the number of homes needed up to energy performance band C (or above) to end fuel poverty and meet climate targets.

There was also no additional support offered for households on the frontline of the energy crisis as we head into another difficult winter. Given the political dynamics around the energy crisis, this continues to represent a material risk to the wider energy transition, alongside the tragic consequences for families living in fuel poverty.

Why does it matter?

The funding allocated includes £1.8 billion for schemes to address fuel poverty. That is likely to mean funding for the Warm Homes: Local Grant and the Warm Homes: Social Housing Fund. Our initial calculations suggest that without an uptick in the upcoming spring spending review this settlement represents a decrease in home upgrade support for fuel poor homes over the coming three years

The funding confirms that the government will continue to support the Boiler Upgrade Scheme, a crucial scheme to support the rollout of heat pumps across the UK. Heat pumps are a crucial technology that will allow the UK to reduce its reliance on volatile global fossil fuel markets. We do not yet know what the exact settlement for this will be.

Ultimately, this settlement was the minimum possible budget to keep existing insulation and heat decarbonisation schemes open, with less budget allocated, there would have been less support than available under the previous government.

What does the government need to do next?

The Government needs to urgently put further detail on how it plans to launch its Warm Homes Plan, including details on how it intends to upgrade the 5 million homes it committed to in its manifesto, and to ensure that in the upcoming Spending Review, the budget for the years 24/25, 26/27 and 27/28 is significantly increased in the spring.

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