

Introduction

This was a very low key budget, with modest giveaways to help with household energy bills despite acute environmental and cost of living challenges. With growth slightly lower next year and inflation higher than the Office for Budget Responsibility had previously forecast, the budget was always going to be a difficult balancing act. Fears of drastic cuts to heat pump subsidies to pay for defence did not materialise, although reductions to the Boiler Upgrade Scheme formed part of £1.7 billion of cuts to the Department for Energy Security and Net Zero's (DESNZ's) capital budget.

Attention will now shift to next year's three year spending review, expected in either the spring or autumn, when large cuts to the budgets of non-protected departments are expected to pay for rising defence spending and sky high borrowing costs. Further cuts to capital spending on the environment and infrastructure cannot be ruled out and the poor economic and public finances situation means the farming budget also looks vulnerable, although it is essential to build resilience and food security.

Main points

Household energy bills

The chancellor announced a £2.6 billion Household Energy Payment, which will provide a £100 payment directly into bank accounts from January 2027 for households in England in council tax bands A-D. He also extended the previously announced VAT cut to electricity to July 2027, which is expected to take around £50 off the annual Ofgem price cap in April 2027. Standing charges from gas bills will also be removed and shifted on to unit rates.

Talk of limiting the costs of levies on electricity bills is welcome but is no substitute for action, as shifting costs to general taxation would be fairer and support electrification of home heating, but more details are needed.

Help for bills was welcome, although the £100 in support won't be sufficient for many low income households, particularly those with high energy use, given bills are set to increase. Nearly five years on from the price shock that followed Russia's invasion of Ukraine, the government still can't target help

at households who need it most. It urgently needs to enable the data sharing required to target energy bills support to households who need it most.

Home heating

Warm Homes Plan capital spending has been cut by £1 billion to 2030, predominantly from a reduction of over £700 million in funding for heat pump grants (the Boiler Upgrade Scheme). To accompany this, the government has launched a Warm Homes Loan Scheme to support heat pump and clean technology uptake.

This is disappointing, as getting off gas is the best way to protect households from the volatile gas prices that are squeezing living standards. Cutting grant funding for installing heat pumps, solar panels and insulation in the middle of a gas price crisis runs against this and will damage the supply chain just as demand for the Boiler Upgrade Scheme grants was ramping up.

Fuel Duty rise postponed again

The planned reversal of the 'temporary' 5p cut in fuel duty has been shelved and scheduled Retail Prices Index (RPI) increase have been deferred to 1 July 2027, as has ending the HGV road tax holiday.

The government is clearly aware of the financial burden placed on drivers by the Iran war and is acting to soften the blow. However, the spike in fuel costs has shown the vulnerability of our fossil fuel supplies and their wider reaching impacts on the cost of living. Freezing fuel duty will have limited impact on poorer households that don't drive, nor will it advance the shift to cheaper to run, more energy secure electric vehicles (EVs). The focus instead should be on maintaining the rapid uptake of EVs and supporting other means of travel. The government's response to the ZEV Mandate Review consultation is promised by the end of the year. It's vital that there is no further weakening of the mandate.

CCS and hydrogen budget

To free up money for defence, DESNZ will see a £700 million cut from this part of its capital budget (£200 million from carbon capture and storage (CCS) and £500 million from hydrogen). Delivery of mature CCS and hydrogen projects at the Teesside, Merseyside and North Wales clusters will be prioritised. However, for later CCS projects the government aims to replace public with private investment and government loan or equity investments.

While it is right to recommit to the first tranche of CCS projects to preserve investor confidence, the government should focus on exploring alternative funding methods and not rely on taxes and bills to fund future schemes.

Green finance and industry

With public finances under strain, the government is looking to leverage private finance for the environment and infrastructure. The National Wealth Fund (NWF) will get an extra £15.4 billion of capital to invest in businesses and projects, which includes an initial £2 billion for the newly created

Energy Wealth Fund, while the British Business Bank's (BBB) total financial capacity for investing in businesses and startups will be increased by £5 billion. This is welcome, although the NWF remains much smaller than other European investment banks and questions linger over how the functions of all these institutions will overlap.

Public procurement will prioritise 'social value' in awarding central government contracts and a National Procurement Policy Statement will go before parliament in March 2027, with a new definition of a 'UK supplier' in public procurement due by January 2027. Balancing social value against traditional Treasury priorities of 'value for money' will be a matter of careful judgment and it is important that the resulting procurement strategy skews towards promoting positive environmental practice and behaviours and ensuring good labour standards.

Softening brownfield biodiversity requirements

Builders will gain exemption from Biodiversity Net Gain (BNG) requirements for residential brownfield developments on sites up to 1.5 hectares. This is unwelcome as continuous exemptions undermine confidence in the BNG scheme and undercut a rare source of private funding for nature restoration. Many brownfield sites are important for biodiversity and exempting developments on these sites from BNG will mean those communities with the least access to nature will miss out under the scheme.

Data centres

A 'data centre covenant' was launched, with data centres expected to adhere to high environmental standards and publish annual energy and water consumption reports if they are to benefit from enhanced government support. This is a step in the right direction towards balancing the (potential) economic rewards of data centres against the concrete environmental damage they are likely to cause. But it is important that these standards are pitched at a high level and are subject to independent monitoring.

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