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BRIEFING PAPER JANUARY 2024

A SPRING BUDGET FOR GREEN GROWTH

SPURRING INVESTMENT IN ENERGY INDEPENDENCE AND CLEANTECH

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Major investments in the UK's critical energy infrastructure, industrial heartlands and cleantech industries are needed to help Britain compete on the global stage. Long-term policy and fiscal decisions are essential to attract private finance and spur investment in UK skills and supply chains.

Focused investment would increase our economy's resilience to external shocks, push down bills and tackle inflation. We encourage the government to use the Spring Budget as an opportunity to deliver green growth by:

1. Spurring investment in home upgrades.
2. Boosting home-grown clean energy infrastructure.
3. Future-proofing UK industry and jobs.
4. Committing to a plan to mobilise green investment at scale

Spur investment in home upgrades

Making our homes more energy efficient and reducing household exposure to volatile fossil fuel markets is one of the most effective ways to boost energy security. The Spring Budget present an opportunity for the government to address two major policy gaps that are holding back progress.

Currently, high electricity prices disincentive people from switching away from gas to clean, electric heat pumps. Levy costs per unit of energy are almost 8 times higher for electricity – representing around 23% of heat pump running costs. Meanwhile, the recent U-turn on the planned increase in minimum standards in the private rented sector removed the policy incentive for landlords to upgrade homes. This despite the sector having the highest fuel poverty rates.

We therefore recommend that the government:

> **Remove the tax on heat pump running costs**. Apply a clean heat discount that effectively exempts certain levies for 3.5 MWh of electricity for homes heated by electricity. This could save electrically heated homes an average of around £130 a year between 2024/25 and 2026/27 (for illustrative purposes),[1] equivalent to 15% of heat pump running costs and 5% of direct electric running costs. The maximum tax revenue foregone would be just £390 million a year overall: £90 million a year for heat pumps and £300 million for direct electric heating.[2] A similar model deployed in Denmark has successfully grown its heat pump market.[3]

> **Reintroduce landlord tax incentives for efficiency measures.** Simple changes to the tax system would make efficiency upgrades more attractive for landlords. Research shows 72% of landlords who were not planning to make investments to improve their property in the next two years would reconsider with a change to tax deductibility rules.[4] This can be done by allowing landlords to offset energy efficiency improvements against rental income (similarly to legal, insurance, utility and upkeep fees, etc.). The maximum tax revenue foregone would be £0.26 billion a year over five years.[5] The resulting energy bill savings will free up income to be spent elsewhere in the economy.

Boost home-grown clean energy infrastructure

Renewables are secure, cheap, and increase the UK's energy independence and resilience to global price shocks. The government has a target to build 50 GW of offshore wind by 2030. However, we are not on track to meet it. The UK must renew the confidence of the renewable energy industry.
We therefore recommend that the government:

[1] Based on 2024/25 and 2026/27 figures. CfDs are not included in the exemption because they are technically levied on top of wholesale costs, meaning including them would complicate implementation and could create situations where heat pump users miss out on bill savings.
[2] For calculations: E3G, Oct 2023, **Make clean heat accessible to all UK households – Methodology annex**
[3] Private briefing for E3G by the Danish Embassy to London.
[4] National Landlords Association and Residential Landlords Association, 2020, **Budget 2020: A private rented sector that works for all**
[5] For calculations: E3G, Oct 2023, **Make clean heat accessible to all UK households – Methodology annex**

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> **Make sufficient funding available for this year's Contracts for Difference auction.** To meet the government's renewable energy targets, the auction must procure 5GW of offshore wind, plus an equivalent of other renewable technologies. For context, last year's pot was £227 million and procured 3.7GW of renewables. This year's pot must be calculated accordingly.

> **Fund essential new sources of electricity system flexibility to balance supply and demand.** Low-carbon flexibility can help us transition away from gas in the electricity system. The government is creating new mechanisms to fund large electricity storage facilities and hydrogen-to-power generators. These must be funded at the scale needed to rapidly develop these new sectors.

> **Reduce energy bills for vulnerable people now and develop more permanent solutions such as a social tariff.** Rising energy bills have pushed the number of households in fuel poverty up to 6.5 million.[6] Bills are almost double what they were pre-2022 and, without action, are unlikely to fall.

Future-proof UK industry and jobs

The UK's industrial supply chain contributes £170 billion to the UK economy and supports 2.6 million jobs.[7] However, although UK industries are starting from a position of comparative advantage globally, their ongoing competitiveness and prosperity depends on their ability to supply growing global demand for low-carbon industrial products. To do this, our industry and manufacturing sectors need to rapidly decarbonise. Without policy and investment support, the UK economy would lose £224 billion (in 2022 prices) by 2050.[8]

We therefore recommend that the government:

> **Commit to funding an electrification business model.** Investors need a financial incentive to fund the transition from fossil fuels to clean electricity. There is no support mechanism akin to the business models for hydrogen and CCUS (carbon capture, usage and storage), despite the high liquidity of electricity markets and commercial availability of proven technologies.

> **Specify how the £20bn CCUS fund will be allocated.** Uncertainty surrounding the fund, first announced in the 2023 Spring Budget, has compounded low investor confidence in the UK's CCUS and hydrogen sectors. Government

[6] NEA, 2024, **Fuel Poverty Statistics Explainer**
[7] HM Government, 2021, **Industrial Decarbonisation Strategy**
[8] WPI Economics, 2023, **The Economic Benefits of Industrial Decarbonisation**

should employ a strict hierarchy of use for CCUS support, prioritising those with the highest value add, such as cement production in the Peak cluster.[9]

> **Remove business rates on sales of waste and scrap materials, such as scrap steel.** This will make the domestic secondary market more attractive, while boosting security of material supply chains. This is essential for the UK's steel sector, which will be heavily reliant on scrap steel as it electrifies.

> **Deliver on the pledge to the Industrial Deep Decarbonisation Initiative.** Outline ambitious green public procurement criteria so that a greater percentage of funds spent on public projects are used to procure low carbon steel and cement, with additional criteria for other industrial products.

Commit to a plan to mobilise green investment at scale

To capture the economic opportunities the transition offers, the UK must deliver the Net Zero-aligned Financial Centre and maximise our competitive advantage on sustainable finance – a market estimated to be worth over $30 trillion by 2030.[10] With the bulk of the UK's £50 billion per year investment need by 2050 expected to be filled by private investment,[11] it is critical for growth that the Spring Budget prioritises making the UK a world-class investment destination.

Competing for this investment requires the government to provide **a stable regulatory environment as well as clarity and reassurance to investors of the UK's attractive green investment offer.**

We therefore recommend that the government:

> **Commits to a UK Net Zero Investment Plan.** Investors representing over £10 trillion in AUM have called for the UK government to build market confidence by setting out a clear plan to mobilise net zero investment.[12] By mapping financial flows and setting out the package of regulatory, strategic public investment and policy incentives for sectoral transition pathways, the government can build that confidence and signpost investment opportunities. The key elements include:

[9] E3G, Bellona, 2023, **Carbon Capture and Storage Ladder**
[10] McKinsey, 2021, **Opportunities for UK businesses in the net-zero transition**
[11] The CCC estimates that UK investment must increase from £10 billion a year to £50 billion a year in 2050. CCC, 2020, **Sixth Carbon Budget**
[12] E3G, 2023, **Investors managing 3 trillion in assets call on UK government to deliver NZIP**

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- **Enhance data: independent, regular, and transparent tracking of financial flows.** Real-time information on investment gaps, and market barriers, can enable smart policy course correction, and incentivise private investment to scale. An independent expert body should be given the mandate to track net zero financial flows.

- **Ensure delivery: sectoral net zero investment roadmaps.** Use data to build on existing technology investor roadmaps and develop detailed cross-sectoral investment roadmaps to provide clarity, coherence and credibility to the market as to the UK's net zero investment trajectory.

> **Deliver the core commitments from its Green Finance Strategy.** These include publishing the delayed UK Green Taxonomy, extending transition plan requirements to all large private companies in the UK, and adopting the IFRS sustainability disclosure standards in full to ensure interoperability.

> **Announce an exit from the Energy Charter Treaty.** The Treaty would remain a barrier to achieving the sectoral transition pathways, leaving the UK vulnerable to fossil fuel investors bringing legal claims against the UK for its climate action. This would not only be a waste of taxpayer money but would also signal to investors that the UK is protecting fossil-fuel interests, undermining the UK's climate leadership. By leaving the Treaty and working with other exiting countries to secure an orderly withdrawal, the UK can show it is committed to shaping international investment governance to spur green investment.

About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change. More information is available at **www.e3g.org**