REA summary of budget 2011

The Budget can be found on
http://cdn.hm-treasury.gov.uk/2011budget_complete.pdf

We have summarised what we believe are the renewables-related measures, but this short summary is no substitute for reading the document itself.

The policy costings of the budget are also published alongside the main document, as is a document titled the Plan for Growth which states that will cap the cost of policies funded through energy bills. See below.

REA comments are given in green.

General principle on Environment *(section 1.111 page 32)*

The Government will increase the proportion of tax revenue accounted for by environmental taxes. Tax policy will be developed in the context of wider Government levers (such as voluntary agreements and regulation) and overlap of policy instruments will be avoided.

Power generation, carbon pricing etc *(2.142 page 63)*

The Government announced the following:

Carbon Price Floor

Following consultation, a carbon price floor for electricity generation will be introduced from 1 April 2013. The carbon price floor will start at around £16 per tonne of carbon dioxide and follow a linear path to £30 per tonne in 2020 to drive investment in the low-carbon power sector. The carbon price support rates for 2013-14 will be equivalent to £4.94 per tonne of carbon dioxide.

The purpose the carbon price floor is to encourage additional investment in low-carbon power generation by providing greater support and certainty to the carbon price. They anticipate that £30 should drive £30-40 billion of new investment in low carbon, increasing low carbon capacity to 7.5 to 9.3 GW. Greenpeace and WWF have commented that this will lead to a £3.43bn "windfall" profits for existing nuclear. Existing renewables would of course benefit to an extent, too.

HMRC has published a document in relation to the Carbon Price Floor announcement in the Budget, setting out additional details about the proposal. This is available from their website Carbon Price Floor. The full government response should be published shortly.

From April 2013 suppliers of fossil fuels used in most forms of electricity generation will become liable for either the Climate Change Levy (CCL) or fuel from that date. This will be based on the average carbon content of each fossil fuel. There will also be anti-avoidance provisions introduced from 23 March 2011.

Renewable generators should not be subject to this levy. Members involved in CHP might be interested to know that a change from the consultation will be that fossil fuels used to generate electricity under the CHP Quality Assurance Programme will have reduced rates for CCL and fuel duty. There are reduced rates for CCS if emissions are captured and stored.

Chris Huhne made positive statements in Scotland yesterday about the need to support early stage technologies more under the EMR, see his speech

Climate Change Agreements

Climate Change Agreements (CCAs) will be extended to 2023. The climate change levy discount on electricity for CCA participants will be increased from **65 to 80 per cent from April 2013** to continue to support energy intensive businesses exposed to international competition. A consultation on proposals to simplify the agreements will be published by summer 2011.

Carbon Capture and Storage

Government remains committed to providing public funding for four Carbon Capture and Storage (CCS) demonstration plants. However, consistent with its objectives for tax simplification, it will not proceed with the CCS levy. It will instead fund its commitments to CCS demonstrations from general taxation.

Green Investment Bank (*1.112 page 33)*

Government is giving the GIB an extra £2bn, it will commence operation a year earlier, but can't borrow until 2015-6. The Green Investment Bank is a positive announcement, but could be of limited early value given the very long delay on revenue raising. We will be calling for renewables to be a priority for the bank.

The Government is committed to ensuring that the Green Investment Bank (GIB) has the resources to help the UK to move towards a low-carbon economy. **The Government announces that the initial capitalisation of the GIB will be £3 billion** and that the GIB will begin operation in 2012-13, a year earlier than previously anticipated.

Government investment alongside private finance should mean that there is in the region of an additional £18 billion of investment in green infrastructure by 2014-15 as a result of the GIB. The Spending Review allocated £1 billion for the GIB and the Government is aiming for the remaining £2 billion to be funded from the sale of assets. This will include the £775 million net proceeds already received from the sale of High Speed I, ensuring that funding is in place to allow GIB investments from 2012-13. **The Government will enable the GIB to have borrowing powers from 2015-16 and once the target for debt to be falling as a percentage of GDP has been met**.

Renewable Financial Incentive Mechanisms

The Government is committed to the success of the Green Deal and will act to encourage and incentivise take-up so that the Green Deal will appeal to households, businesses and prospective providers alike, before it is introduced in 2012.

This is the only mention of the green deal, which of course is now linked to the residential element of the RHI.

2.75 Capital allowances: feed-in tariffs and Renewable Heat Incentives – The Government will consult in **May 2011** on the appropriate capital allowances treatment of expenditure on plant and machinery that attracts tariffs under the feed-in tariffs or Renewable Heating Incentives schemes. (Finance Bill 2012)

This raises alarm bells that capital allowances may be reduced, if tariffs are claimed.

2.38 Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) – this section mentions that "Feed in tariffs businesses will be added to the excluded activities list". All changes are subject to EU State aid clearance.

The impact of this on community renewables schemes could be devastating. Climate Change Matters has issued a press release examining this in more detail. We're seeking to clarify what is intended.

Transport *(See page 38)*

Fuel duty

- Fuel duty will be cut by 1 pence per litre.
- The fuel duty escalator replaced with a fair fuel stabiliser meaning when oil prices are high, fuel duty will increase by inflation only
- The 2011 and 2012 Inflation-related increases will be delayed (to Jan 2012 and Aug 2012 respectively)
- If the oil price falls below a trigger (probably $75) on a sustained basis, Fuel duty will increase by RPI plus 1 penny per litre.
- The shortfall will be recovered from taxation on Oil and gas companies, via the Supplementary Charge, which increases to 32 per cent from midnight tonight.

Ultra low carbon cars, *(page 39)*

- Company Car Tax for cars emitting less than 95g/km will be frozen from April 2013.
- Company Car Tax for all vehicles emitting between 95g CO2 /km and 219g CO2 /km will be increased by 1 percentage point from April 2013.

The duty differential for used cooking oil biofuel will end as intended on 31 March 2012.

The RTFG supported an extension up until the double benefit given under the Renewable Energy Directive kicks in. This is by virtue of it being derived from a waste or residue. It looks like the RED benefit will come into effect in December 2011 so there will be a short overlap.

Planning reform *(Para 1.82, page 29)*

Government acknowledges Planning has been a problem and seeks to address this by:

- Introducing a new presumption in favour of sustainable development, so that the default answer to development is 'yes'.
- Localising choice about the use of previously developed land, removing nationally imposed targets while retaining existing controls on greenbelt land.
- Pilot a land auction model, starting with public sector land.
- Introduce a number of measures to streamline the planning applications and related consents regimes removing bureaucracy from the system and speeding it up. This will include a 12 month guarantee for the processing of all planning applications, including any appeals.
- Ensure a fast-track planning process for major infrastructure applications through the Major Infrastructure Planning system.

In the Plan for Growth (see below) they say they will consult by autumn 2011 on a further package of measures to streamline the information required to support planning applications, in order to make it simpler and more efficient. To support renewable energy while maintaining standards of protection, environmental regulators will work closely with the renewables industry to streamline administrative processes for their permissions.

The REA look forward to feeding into this consultation and working with government on planning issues.

General –growth *(Para 1.32)*

This section refers to the Plan for Growth**,** published alongside Budget, contains four overarching ambitions that will ensure progress is made towards achieving strong, sustainable and balanced growth. The ambitions are to:

- Create the most competitive tax system in the G20;
- Make the UK the best place in Europe to start, finance and grow a business;
- Encourage investment and exports as a route to a more balanced economy; and
- Create a more educated workforce that is the most flexible in Europe.

Each ambition is supported by a number of measurable benchmarks against which the Government expects to be judged. The Government will constantly benchmark the UK against best practice around the world.

Presumably these generic measures would have assisted with the development of a solar industry, but this will of course be curtailed by the tariff reductions.

Section 2: Low Carbon

- The Green Economy Council will shortly publish a Roadmap to a Green Economy setting out this vision.
- The Government will cap the cost of policies funded through energy bills. The Government is introducing a new framework to cap the impact of levy-funded support on energy bills. This will cover policies such as **feed-in tariffs** which the Office of National Statistics defines as tax and public spending.

This was reported this in G. Hartnell's open letter to membership of 17 February 2011 10:45 a.m. It's now widely understood that it applies to FITs, but it also applies to the RO.

They claim Government is promoting development of new markets in green goods and services and one of the ways this is being achieved is through:
Feed-in tariffs boosting the market for micro-generation of renewable electricity with thousands of household installations of solar panels and other renewable sources.

Other

2.150 Landfill tax rates – The Government is legislating for an increase in the standard rate of landfill tax by £8 per tonne to £64 per tonne on 1 April 2012, as announced in the June 2010 Budget, and will continue to freeze the lower rate of landfill tax at £2.50 per tonne in 2012-13.

2.151 Landfill communities fund: value of the fund – The value of the landfill communities fund will rise in line with inflation in 2011-12 to £78.1 million. Future decisions on the value of the fund will take into account the success of environmental bodies in reducing the level of unspent funds that they hold.