

Representation to Autumn Budget 2024

September 2024

Background

The Aldersgate Group is a coalition of major businesses, academic institutions and civil society organisations, driving action for a competitive and environmentally sustainable economy.¹ Our corporate members represent all major sectors and believe that ambitious environmental policies and good regulation are key to unlocking growth and decarbonisation. Among many others, they include Associated British Ports, Aviva Investors, BT, Cemex, Johnson Matthey, Michelin, Nestlé, Siemens, SUEZ, Tesco, and Willmott Dixon.

Introduction

Tackling climate change and restoring our natural environment are fundamental to creating a resilient and competitive economy. In 2023, the low-carbon economy grew by 9%, far outpacing the 1% overall economic growth in the UK.² Analysis by the London Stock Exchange Group also found that the green economy has been the second-best performing industry since 2008, only trailing behind the technology sector, with a market capitalisation of \$7.2 trillion in Q1 2024.³ Accelerating the transition to a net zero economy is key to achieving the Government's national mission of kickstarting economic growth, while also boosting energy security, and reducing bills.

Leveraging private sector investment into the transition to net zero and high-growth, low-carbon industries will help to address some of the UK's long-term economic issues by stimulating innovation and boosting productivity, pay, jobs, and living standards across the UK, including in areas suffering from regional inequality. We welcome the Government's commitment to developing an industrial strategy. Placing decarbonisation at the heart of an industrial strategy is essential to create a resilient and competitive economy.

The new Government has provided strong signals to the private sector about its intention to catalyse decarbonisation through policies such as Great British Energy, the Warm Homes Plan, the National Wealth Fund, and lifting the effective ban on onshore wind. Ministers have also made clear their commitment to supporting nature recovery and the rural economy, including by introducing a land-use framework which balances long-term food security and nature recovery. We urge the acceleration of these measures, which can be complemented and reinforced through additional tax and spend policies.

¹ Individual recommendations cannot be attributed to any single member and the Aldersgate Group takes full responsibility for the views expressed.

² CBI, 2024, [Driving green growth and the transition to net zero](#)

³ LSEG, 2024, [Investing in the green economy 2024: Growing in a fractured landscape](#)

This representation highlights policy options for taxation and public spending to stimulate private investment and growth across energy and industry, built environment, transport, nature, and skills.

Summary of policy options

<u>Energy and Industry</u>	<ul style="list-style-type: none"> • Shift policy and network costs away from electricity bills • Deliver the current programme of reforms to UK carbon pricing, including introducing a Carbon Border Adjustment Mechanism and expanding the scope of the UK Emissions Trading Scheme
<u>Built Environment</u>	<ul style="list-style-type: none"> • Publish the Warm Homes Plan, providing certainty on timelines for delivery for both households and supply chains • Address the imbalance in VAT rates in the construction sector to incentivise the decarbonisation of existing homes and buildings • Establish and fund an independent national expert retrofit advice service for England • Incentivise home energy upgrades through Stamp Duty Land Tax reform
<u>Transport</u>	<ul style="list-style-type: none"> • Create price parity between VAT charged on private and public charging points for electric vehicles
<u>Nature</u>	<ul style="list-style-type: none"> • Increase support to the Environment Agency, Natural England and other statutory consultees to enable them to fulfil their expanding roles enforcing environmental regulations and assessing planning applications
<u>Skills</u>	<ul style="list-style-type: none"> • Align the Apprenticeship Rate with the National Minimum Wage

Energy and industry

1. Shift policy and network costs away from electricity bills

The UK has some of Europe's highest industrial electricity prices.⁴ In the UK, industrial customers pay £43/MWh, compared to £28/MWh for the Netherlands, £24/MWh for Germany, and £23/MWh for France. Beyond impacting operational costs of businesses, high electricity prices make decarbonisation expensive, both in absolute terms and relative to other European countries, threatening the competitiveness of UK industry and the business case to invest in decarbonisation.

Shifting policy and network costs away from electricity bills will help to reduce electricity costs, both for industrial users and for households, by directly lowering the running costs of low-carbon technologies such as electric arc furnaces, heat pumps, and electric vehicles. High energy users need clarity on the timelines and next steps for energy pricing, in order to make investment decisions and decarbonise their operations.

Energy intensive industries have long been calling for Government intervention on electricity costs to help make UK manufacturing more competitive in global markets.⁵ Analysis commissioned by the Aldersgate Group found that the UK's industrial sectors and wider supply chains contribute £152 billion in gross value added (GVA) to the UK economy and support over 1.4 million jobs.⁶ To compete globally, these sectors will need to achieve 'deep decarbonisation'. Without support to decarbonise, £224 billion of total GVA risks being wiped out from the UK economy by 2050. Shifting policy and network costs from electricity bills will help to lower the cost of decarbonisation for industrial users, enabling them to capitalise on the global green growth opportunity.

Shifting policy and network costs to general taxation would also be a fairer way to distribute costs, as low-income households pay a higher percentage of their income towards energy bills than higher income households. According to a 2020 [study](#), under this approach the lowest-income group would save £98 a year, with the highest income groups paying an additional £458 a year.⁷

Considerations for implementation

Rebalancing energy levies away from electricity will need to be considered carefully. The Net Zero Strategy (2021), for example, considered shifting policy and network costs to gas bills over this decade. In incentivising the switch to clean heat, though, this approach could have an unintended negative consequence of penalising households who remain on gas the longest. Without complementary policy support, this is likely to affect lower-income households who cannot afford low-carbon heating alternatives.

⁴ WPI Economics for the Aldersgate Group, 2023, [Economic benefits of industrial decarbonisation: A low carbon industrial future for the UK](#)

⁵ House of Commons Library, 2021, [Energy intensive industries](#)

⁶ WPI Economics for the Aldersgate Group, 2023, [Economic benefits of industrial decarbonisation: A low carbon industrial future for the UK](#)

⁷ Owen and Barrett, 2020, [Reducing inequality resulting from UK low-carbon policy](#)

2. Deliver the current programme of reforms to UK carbon pricing, including introducing a Carbon Border Adjustment Mechanism and expanding the scope of the UK Emissions Trading Scheme

The Government should deliver the current programme of reforms to UK carbon pricing to maintain UK competitiveness and drive decarbonisation. This includes implementing an effective and fair Carbon Border Adjustment Mechanism (CBAM) to mitigate the risk of carbon leakage (while phasing out free allowances) and ensuring the UK Emissions Trading Scheme (ETS) sends an adequate price signal to incentivise investment in decarbonisation.

The UK ETS and CBAM are essential to driving decarbonisation, by mitigating the risk of carbon leakage and ensuring domestic production isn't at a disadvantage compared to production that is not subject to decarbonisation requirements. Following consultations earlier this year on both the UK ETS and CBAM, the Government should set out next steps and timelines for implementation to provide certainty for businesses to prepare and comply. Crucially, the UK ETS and CBAM should be closely aligned, to enable a smoother implementation and administration, and to reduce the burden of compliance for industry.

The UK ETS provided £5.8 billion in revenue in 2023.⁸ Expansion of the Scheme to other sectors provides an opportunity for additional revenue or, in the case of Greenhouse Gas Removals (GGR), support for the growth of a high potential sector. The revenue from the UK ETS will increase with the phasing out of free allowances. The UK CBAM is expected to raise between £340 million and £1.8 billion depending on its design,⁹ and most importantly will help to maintain UK industry's competitiveness. Together, carbon pricing levers help to send strong signals for investment in decarbonisation.

Considerations for implementation

The Government should consider wider support that may be needed initially to ensure businesses are able to prepare and comply, including providing policy confirmation and guidance with sufficient notice.

The phasing out of free allowances and expansion of the sectors covered by the UK ETS, along with the introduction of a UK CBAM, will require careful policy development and engagement with businesses. Interoperability with other jurisdictions' carbon pricing schemes will be important to reduce compliance burden and prevent hampering businesses operating internationally. Maintaining a stable market with a high carbon price will be important for maintaining incentives to decarbonise and invest in low-carbon technologies.

⁸ ONS, 2024, [UK Environmental taxes: 2023](#).

⁹ Frontier Economics, 2024, [The Carbon Border Adjustment Mechanism – its impact on UK competitiveness and carbon pricing](#).

Built Environment

3. Publish the Warm Homes Plan, providing certainty on timelines for delivery for both households and supply chains

Households are facing a cost-of-living crisis, with energy costs being a contributing factor. Of homes with an EPC rating, 58% in England and 62% in Wales were rated below band C, with poor energy efficiency.¹⁰ The built environment contributes 25% of the UK's total greenhouse gas emissions, with 19% coming from operational emissions from the energy needed to heat, cool and power buildings.¹¹ To successfully deliver the UK's net zero target, it is imperative that policy measures are introduced to improve building energy efficiency. The Committee on Climate Change's latest Progress Report highlights the need for urgent progress.¹² For example, annual heat pump installations in homes were just over 60,000 in 2023 with only 1% of UK homes heated by a heat pump.

For manufacturers and installers, the market is too uncertain to unlock investment to develop supply chains and training. Sending a clear signal to the sector, including on timelines for new policy, is essential to build confidence for the private sector to invest and scale up.

The new Government has pledged £13.2 billion over 5 years for the Warm Homes Plan. Whilst this support is not expected to be delivered as part of the Autumn Budget 2024 and one-year spending review, the Government should set out timelines for the development and delivery of the Warm Homes Plan to provide clarity to businesses. Interim measures should also be introduced in the run-up to the Warm Homes Plan to continue progress. Proposals for interim measures are included in this representation, including VAT rates for retrofit and a national expert retrofit advice service for England.

4. Address the imbalance in VAT rates in the construction sector to incentivise the decarbonisation of homes and buildings

Under the present VAT regime, no VAT is charged on demolition and new build, while VAT on Repair, Maintenance, and Improvement (RMI) is still subject to the standard rate of 20%. While residential buildings can access zero-rated VAT on the supply and installation of specified energy-saving materials (such as solar panels, insulation materials, and heat pumps), commercial buildings, historic buildings, and heritage spaces cannot. Considering that commercial buildings currently represent 23% of built environment carbon emissions in the UK,¹³ the imbalance in VAT rates creates a perverse incentive to demolish existing buildings and replace them with new ones, rather than to retrofit.

¹⁰ ONS, 2023, [Who is most likely to live in homes that are harder to keep warm?](#)

¹¹ UK Green Buildings Council, [Climate Change Mitigation](#)

¹² Committee on Climate Change, 2023, [2024 Progress Report to Parliament](#).

¹³ UK Green Buildings Council, 2022, [Delivering Net Zero: Key Considerations for Commercial Retrofit](#)

The construction industry is a key driver of growth. Cutting VAT on RMI would help to incentivise investment into commercial retrofit, which is essential if the UK is to decarbonise its building stock.

Analysis by the Federation of Master Builders in 2021 estimated that cutting VAT on RMI from 20% to 5% for the period 2021-2025 would generate an additional £15.4 billion spent on building improvements,¹⁴ by helping to make the cost of energy efficiency upgrades cheaper.

Considerations for implementation

The same analysis by the Federation of Master Buildings estimated that cutting VAT between 2021-2025 would cost the Government £2.67 billion in lower overall fiscal contributions.¹⁵

5. Establish and fund an independent national expert retrofit advice service for England

Understanding of home energy efficiency and how to improve it is not widespread and the public can find information challenging to access. According to research by Santander UK, just 10% of UK adults said they felt they knew a lot about ways of improving energy efficiency, while 64% said they were unaware of their home's Energy Performance Certificate (EPC) rating.¹⁶

Navigating planning permission, finding reliable suppliers and installers, and understanding which measures are suitable for properties of different ages and EPC ratings, are all technical and lengthy tasks which act as barriers to action. To support households to act, a national retrofit advice service is needed to provide clear, action-focused advice, tailored to each home on the most effective way to improve energy-efficiency and reduce energy bills.

Although national expert advice services exist in Wales and Scotland, there is no national provision in England. To ensure we decarbonise homes across the UK, England needs an overarching national expert advice service which delivers consistent outcomes across the country, integrating and enhancing local advice services wherever these are present and filling in significant gaps to end the advice postcode lottery.

Creating a national expert retrofit advice service for England would help to accelerate and derisk the delivery of the Warm Homes Plan, reduce energy bills and enhance consumer protection, and make Government money go further by referring eligible households into schemes – such as the Social Housing Decarbonisation Scheme, the Boiler Upgrade Scheme, or the Great British Insulation Scheme. An expert advice service is a key piece of infrastructure that will underpin the Government's commitment to upgrade five million homes over this Parliament.

Considerations for implementation

¹⁴ Federation of Master Buildings, 2021, [Cut the VAT: A proposal for building back better and greener](#)

¹⁵ Federation of Master Buildings, 2021, [Cut the VAT: A proposal for building back better and greener](#)

¹⁶ Santander UK, 2024, [Tomorrow's Homes Facing up to the UK's energy efficient buildings challenge](#)

Energy Saving Trust estimates that the cost of delivering the expert and specialist advice service for England would be £3–5 million per year for every 100,000 homes initially served by a digital front door (plus initial set-up costs).¹⁷ This cost estimate is highly dependent on how the advice service is structured.

Additionally, to maximise the impact of an advice service, a national awareness campaign will be important to increase public awareness and instil confidence in households.

6. Incentivise home energy upgrades through Stamp Duty Land Tax reform

Leveraging stamp duty could be an effective way to help incentivise energy-efficiency improvement work amongst new homeowners and buy-to-let landlords. The UK Green Buildings Council has proposed transforming the existing Stamp Duty Land Tax into an energy-adjusted Stamp Duty Land Tax.¹⁸ Under this proposal, Stamp Duty would be adjusted up or down based on the purchased home's calculated energy demand – the better the energy performance, the lower the tax paid. The final Stamp Duty is finalised two years after purchase, and within that time, homeowners can claim a rebate for home energy improvements made – validated by an updated EPC.

An energy-adjusted Stamp Duty Land Tax would both stimulate house price differentials based on energy demand and carbon emissions and encourage homeowners to act when they are most likely to make other dwelling improvements.

Considerations for implementation

This adjustment could be made revenue neutral to HM Treasury by adjusting the energy adjustment 'neutral point' each year to reflect actual and anticipated improvements in the national housing stock.¹⁹

Transport

7. Create price parity between VAT charged on private and public charging points for electric vehicles

Electric vehicle (EV) drivers are charged different rates of VAT depending on where they charge their car. Drivers must pay the full 20% VAT rate on electricity when charging their EVs at public charging points, but only 5% at private charge points using domestic electricity supplies. This differential tax treatment can meaningfully impact a consumer's decision to purchase or lease an EV. According to AutoTrader, 32% of consumers see the expense of public charging as a key barrier to owning an EV.²⁰ AutoTrader calculated that drivers using public charge points pay

¹⁷ Energy Saving Trust, 2024, [Warm Homes expert advice service for England](#).

¹⁸ UK Green Building Council, 2021, [A housing market catalyst to drive carbon emission reductions Low energy adjustment to Stamp Duty Land Tax](#)

¹⁹ Ibid.

²⁰ AutoTrader, 2024, [Chancellor must cut VAT on public charging to end electric vehicle injustice](#)

£264 more over a year (if driving 6,600 miles annually) than those using private charge points, who in turn save £865 annually compared to an internal combustion engine vehicle.²¹

The 9.8 million households across England without access to off-street parking face far higher running costs.²² A further 4.6 million leaseholders may also face legal issues which could prevent them from installing or accessing charging at home. Similarly, businesses who rely on delivery drivers face an additional charging cost across their fleet, as many drivers will rely on public charge points, disincentivising decarbonisation across businesses and their supply chains.

Reducing the rate of VAT on public charge points, therefore, will help to reduce the running cost of EVs for millions of households across the UK. This measure, coupled with the Government's reinstated 2030 phase-out date for the sale of new petrol and diesel vehicles, could provide a strong signal to consumers and help to stimulate demand amidst a background of slowing electric vehicle sales in Europe and the US.²³

Considerations for implementation

Equalising the rate of VAT charged at public and private charge points would impose additional pressure on the public finances. The Government should model the amount of revenue that would be lost by the Treasury through this policy.

Nature

8. Increase support to the Environment Agency, Natural England and other statutory consultees to enable them to fulfil their expanding roles enforcing environmental regulations and assessing planning applications

The Environment Agency, Natural England, other statutory consultees for planning and local authorities remain under-funded and under-resourced, weakening their ability to fulfil statutory duties, deliver a comprehensive monitoring and enforcement regime, and respond to increased workload.

Natural England's total planned funding for 2024 to 2025 is £318.0 million. This equates to a 4% decrease compared to total planned funding for 2023 to 2024.²⁴ The Environment Agency's total budget for 2024 to 2025 is £2,086 million,²⁵ which is an increase of £125 million compared to the 2023 to 2024 budget but is only a small real-term increase when adjusted to inflation compared to the £1,200 million budget in 2008/9.²⁶ Our members see good regulations as

²¹ AutoTrader, 2024, [Chancellor must cut VAT on public charging to end electric vehicle injustice](#)

²² Resolution Foundation, 2022, [Shrinking footprints The impacts of the net zero transition on households and consumption](#)

²³ EY, 2024, [EV sales stall in US and Europe as market uncertainty persists](#)

²⁴ Natural England, 2024, [Corporate report: Natural England Action Plan 2024 to 2025](#)

²⁵ Environment Agency, 2024, [Corporate report: Environment Agency business plan 2024 to 2025](#)

²⁶ Environment Agency, 2009, [Annual report and accounts 2008/9](#)

crucial to delivering nature recovery and decarbonisation.²⁷ However, currently the limited capacity of regulators is affecting their ability for enforcement and contributing to delays in the planning system.

The Aldersgate Group is working in collaboration with RenewableUK and CPRE, the countryside charity, to explore how the planning system can be improved to deliver renewable energy infrastructure, whilst protecting the environment and communities' right to input. Our interim findings identified a clear resource challenge, with skills shortages and lack of capacity at statutory consultees contributing to delays in the system.²⁸ Additional funding allocations are necessary to ensure Environment Agency, Natural England, other statutory consultees and local authorities are able to play their functions effectively in the planning system to deliver the renewable energy infrastructure we need at pace.

Well-designed, implemented and enforced environmental regulation can be a powerful policy tool to accelerate emissions reductions, and protect and restore nature, while also driving economic growth by increasing investment, creating jobs, and supporting innovation.²⁹ Without a level playing field, businesses who want to take more action risk being at a competitive disadvantage, seriously limiting their ability to deliver.

In recent years, environmental regulators, such as Natural England and the Environment Agency, have been given increased responsibilities to help the UK government reach its climate and environmental targets and are expected to improve adherence to existing regulation. For regulators to meet these objectives and ensure that, as well as regulation being well designed, it is well enforced, they will likely need the financial, administrative and human resources that they have available to increase, especially to ensure they have the relevant experts.

Considerations for implementation

Increasing funding for the Environment Agency and Natural England would impose additional pressure on the public finances. However, it is important to consider a holistic cost-benefit analysis, as good compliance with environmental regulation may have wider and far-reaching benefits such as improved health and wellbeing and reduce the need for investment in mitigation or costs of non-compliance.

With regards to resources for statutory consultees in the planning system, increased certainty on timescales for application and reduced delays will both support private sector confidence to invest and contribute to delivering the Government's ambitions to build new housing and the decarbonised energy system. Models such as regional net zero hubs and centres of excellence or a national organisation, similar to Active Travel England, could provide effective mechanisms to provide the expertise and support necessary across the country.

²⁷ Frontier Economics for the Aldersgate Group, 2024, [The role of regulation in restoring nature and delivering net zero](#).

²⁸ Aldersgate Group, CPRE and RenewableUK, 2024, [Insights for the decarbonised electricity system: journeys through planning](#).

²⁹ Frontier Economics for the Aldersgate Group, 2024, [The role of regulation in restoring nature and delivering net zero](#)

Skills

9. Align the Apprenticeship Rate with the National Minimum Wage

Since 2016/7, the number of apprenticeship starts has continued to fall. In 2022/3, the number of starts was 337,140 – far below the peak of 520,600 in 2011/2.³⁰ Barriers affecting the supply and demand for apprenticeships are well documented, including the lack of financial support available for apprentices.

The Apprenticeship Rate, currently set at £6.40 for apprentices aged under 19 or aged 19 and over in the first year of their apprenticeship, is a particular barrier which makes apprenticeships financially unattractive considering recent rises in the cost of living. The Apprenticeship Rate is less than the national minimum wage (£8.60) for 18 to 20-year-olds and is almost half the national living wage (£11.44) for those aged 21 and over.

Skills gaps, however, continue to be cited by businesses across the UK as a key challenge. Research by Kingfisher estimates that the UK is on course for a shortfall of 250,000 tradespeople – including plumbers, electricians, heating installers, and carpenters/joiners – by 2030.⁵ This shortage of skilled tradespeople is set to cost the UK economy £98 billion in missed GDP growth opportunities to 2030.

Aligning the Apprenticeship Rate with the National Minimum Wage would help make apprenticeship programmes more financially viable, especially for individuals from lower socio-economic backgrounds, and ensure apprentices are not penalised compared to their peers. According to the Low Pay Commission, apprentices are more likely to be underpaid than other workers.³¹ Such a move would prove popular, with 61% of people agreeing that the Apprenticeship Minimum Wage should be replaced by the national minimum wage.³²

Considerations for implementation

Replacing the Apprenticeship Rate with the National Minimum Wage could add additional cost pressures to businesses, particularly SMEs. It should be noted that most apprentices earn more than the Apprenticeship Rate, but some employers expect apprentices to accept lower pay than non-apprentices. Nearly one in three 16- and 17-year-olds, and nearly one in five 18-year-olds on apprenticeships earn the apprentice minimum wage.³³

³⁰ GOV.UK, 2023, [Apprenticeships and traineeships: Academic year 2022/23](#)

³¹ Low Pay Commission, 2024, [Four facts about apprentice pay from the latest data](#)

³² IPPR, 2023, [New polling: Overwhelming national support for scrapping ‘unliveable’ apprenticeship wages](#)

³³ Low Pay Commission, 2024, [Four facts about apprentice pay from the latest data](#)