

ENVIRONMENTAL ASPECTS OF THE UK BUDGET 2009

The purpose of this note is to outline the environmental aspects of the UK Budget 2009¹ in order to inform debate of how NI might act on devolved matters.

Overview

Devolved Administrations

It should be noted that the UK figures below include allocations to Devolved Administrations, but it is up to the Devolved Administrations how they spend their allocations on devolved matters; as such, the NI Executive will determine which of the measures below are implemented in NI, and to what extent.

Scope of Budget 2009

Budget 2009 describes the next steps that the Government is taking to make further progress in:

- *Maintaining macroeconomic stability*, through supporting the economic recovery and building a strong economy for the future, while ensuring sound public finances.
- *Ensuring financial stability*, by introducing the Government's view of the longer-term action required to renew financial markets for the future.
- *Supporting business*, with targeted measures that will help business' short-term cashflow, and improve competitiveness.
- *Helping people fairly*, with further Government action to support employment, to help savers and families with childcare, to support pensioners, and help homeowners.
- *Improving public services*, with continued investment in front-line public services alongside a stronger drive on value for money.
- *Building a low-carbon recovery*, with action to address the global challenge of climate change.

¹ http://www.hm-treasury.gov.uk/bud_bud09_index.htm

Building a low-carbon recovery

Budget 2009 announced £1.4 billion of targeted support in the low-carbon sector, to augment existing Government policies already enabling £50bn of low-carbon investment over the 3 years to 2011.

Initial reactions to the 'green' aspects of the Budget

Initial reactions included the following:

- The **CBI**² welcomed the move towards 'clean coal', saying that it can now be a real option when it comes to securing Britain's energy future.
- The **Green Party**³ in England and Wales view was that the Government was throwing away the potential to create hundreds of thousands of extra jobs by failing to invest adequately in insulating buildings, in solar energy and other renewables, in upgrading the electricity grid, in public transport and in new skills training.
- The **Royal Society**⁴ welcomed that the Budget does recognise the need to invest in applying science and technology, and that, whether it is communications infrastructure, green manufacturing or other technologies, there are jobs to be created at home and exports to be sold overseas.
- **Friends of the Earth**⁵ believed that the Government was failing to put tackling climate change at heart of the Budget, and that the legally-binding short-term emissions targets were too weak.

Carbon budgets

First 3 Carbon Budgets

Budget 2009 announced that the Government will set the UK's first 3 carbon budgets at levels leading to a **34% reduction** in greenhouse gas emissions with respect to 1990 levels by 2020.

Carbon Budgets and a global deal. The Government aims to meet the first 3 carbon budgets **without purchase of overseas credits** outside of the EU ETS, reserving possible credit purchase as a fallback option, as recommended by the Committee on Climate Change.

Targeted support for families and business through the downturn

Energy efficiency

Budget 2009 announced a substantial package of new spending, totalling **£365m for energy efficiency** across the economy, to reduce emissions, save money and help employment:

- £100m extra to improve insulation for 150k homes in the social sector.

² http://climatechange.cbi.org.uk/latest_news/00184/

³ <http://www.greenparty.org.uk/news/22-04-2009-caroline-budget-betrayal.html>

⁴ <http://www.medicalnewstoday.com/articles/147203.php>

⁵ http://www.foe.co.uk/resource/press_releases/budget_reaction_22042009.html

- £100m, as part of the new housing package, for construction of new homes at higher energy efficiency standards.
- £100m of new funding for low-cost loans.
- £65m of new funding for loans to install energy efficiency measures in public buildings.

Small-scale renewable and community energy

Budget 2009 announced further measures to support **decentralised small-scale renewable and community energy**:

- £45m in additional funding for small-scale renewable electricity and heat technologies, primarily through the Low-Carbon Buildings Programme.
- £25m in funding for low-carbon community heating schemes.

Opportunities for new low-carbon industry and jobs

Renewables financing

Budget 2009 announced:

- A banding review with the intention of increasing the banding of Renewables Obligation Certificates (ROCs) from 1.5 to 2.0 for **offshore and wind projects** meeting specified completion criteria if they place new orders in 2009-2010, and then 1.75 in 2010-2011.
- That UK renewable and energy projects stand to benefit from up to £4bn of new capital from the European Investment Bank (EIB).

Investing in the UK low-carbon sector

Budget 2009 announced:

- The Government will allocate £405m to support the development of a world-leading low-carbon energy and **advanced green manufacturing** sector in the UK.

Carbon capture and storage

Budget 2009 announced that:

- The Government intends to put in place a mechanism to deliver up to 4 carbon capture and storage **demonstration projects**, including both pre-and post-combustion coal projects.
- £90m is being allocated to fund companies in the current competition to undertake detailed **preparatory studies** for carbon capture and storage.

Combined heat and power

Budget 2009 announced that:

- The Government will extend the climate change **levy exemption** for indirect sales of combined heat and power electricity to 2023, subject to state aid

approval; the Government will also commit to continuing other existing levy exemptions for combined heat and power.

- Climate change levy rates will remain at the **current rates** for 2010-2011.

North Sea infrastructure and cushion gas

Budget 2009 announced that:

- To maximise the potential of existing infrastructure, reforms will be enacted to remove fiscal barriers to projects that re-use **North Sea oil and gas** infrastructure for other activities.
- It is confirmed that cushion gas⁶ is eligible for plant and machinery capital allowances.

A sustainable future for transport

Bus industry support

Budget 2009 confirmed that:

- Operators will now only receive an increase in their rate of **Bus Service Operators Grant** if they achieve fuel efficiency improvements
- Operators will receive **per-kilometre payments** for the low-carbon buses they operate to incentivise their introduction.

Fuel duty

Budget 2009 announced that main **fuel duty will increase** by 2p per litre on 1 September 2009 and by 1p per litre in real terms on 1 April each year from 2010 to 2013.

Vehicle excise duty

Budget 2009 announced **changes to vehicle excise duty** rules on refunds, 6 month licences and imported vehicles.

Taxation of business travel

Budget 2009 announced that, with effect from 6 April 2011:

- The basic threshold for the 15% band of **company car tax** will be reduced by 5g CO₂ per km, so that this band applies to cars emitting between 121 and 129g CO₂ per km.⁷
- The **cap on car list prices** used to calculate the taxable benefit arising from company cars will be abolished, so that drivers of expensive cars will be subject to a fair level of tax.

⁶ According to the British Geological Survey: Cushion gas refers to gas injected into the underground storage facility to bring it up to operating pressure; this gas is held permanently in the facility and is therefore not available for distribution, hence the cost of this gas cannot be recovered in sales.

<http://www.publications.parliament.uk/pa/ld200304/ldselect/ldcom/105/105we04.htm>

⁷ A VW Golf 1.9 TDI Bluemotion would be 122g CO₂ per km, while a VW Golf GT 2.0 TDI would be 129g CO₂ per km. <http://www.carpages.co.uk/co2/co2-121-to-150-4.asp>

- Discounts currently available for early-uptake Euro-4 standard⁸ diesel cars, higher-emitting hybrid cars and alternative fuel company cars will be abolished, to ensure that company car tax continues to reward the final carbon emissions of vehicles and is **technology neutral** as new low-emitting vehicles are developed.

Heavy goods vehicles and road freight

Budget 2009 confirmed that:

- Vehicle excise duty rates for heavy goods vehicles will be **frozen** in 2009-2010, to support the UK haulage industry.
- The Government will introduce measures to **incentivise choice** of Euro-6⁹ vehicles, once full details of the standard have been established by the EC.

Natural resources

Landfill tax

Budget 2009 announced that:

- The standard rate of landfill tax will continue to **increase** by £8 per tonne on 1 April each year from 2011-2013.
- The lower rate of landfill tax applying to inactive wastes will be **frozen** at £2.50 per tonne for 2010-2011.

Waste infrastructure

Budget 2009 announced that:

- £10m in new grants for businesses will be made available in 2009-2010 to deliver **anaerobic digestion and in-vessel composting** infrastructure.
- The Government will legislate in Finance Bill 2009 to protect revenue following the Waste Recycling Group judgement last summer (which clarified the ability of the Environment Agency to grant 'piggy-backed' landfill permits¹⁰).
- The Government has launched a **consultation on reforms** to modernise landfill tax in the longer term.

Landfill communities fund

Budget 2009 announced that the maximum amount that operators can claim against their **annual landfill tax liability** will remain unchanged at 6%.

⁸ EU standards for pollutant emissions have been updated since Jan 2005 (Euro-4 standard).
<http://europa.eu/scadplus/leg/en/lvb/l28186.htm>

⁹ Euro-5 standard will come into force in Sep 2009 for approval of vehicles, and Jan 2011 for registration and sale of new types of cars. Euro-6 standard will come into force in Sep 2014 for approval of vehicles, and Jan 2015 for registration and sale of new types of cars.
<http://europa.eu/scadplus/leg/en/lvb/l28186.htm>

¹⁰ http://www.environment-agency.gov.uk/static/documents/Research/rps_2018596.pdf

Aggregates levy

Budget 2009 announced that the aggregates levy will be frozen at £2 per tonne in 2010-2011.

Summary of environmental impacts of measures in Budget 2009

A table summarising the environmental impacts of measures in the Budget 2009, as assessed by the Treasury, is below.

Total sector savings in 2020 and measures by sector	Environmental impact
Introduction of carbon budgets which set legally binding 5-year limits on GHG emissions from UK economy	Carbon budgets require 34% reduction in GHG emissions (ref 1990 levels) by 2020
Power Sector and Heavy Industry (EU ETS) – 99 MtCO₂	
Mechanism to meet demonstration costs of carbon capture and storage (CCS) projects and funding for companies that undertake preparatory studies	CCS has potential to reduce CO ₂ emissions from power stations by up to 90%. Demonstration of CCS on each 300 MW of post-combustion coal will deliver savings of 1 MtCO ₂ pa by 2020. Demonstration of CCS on each 450 MW pre-combustion coal will deliver savings of 1.2 MtCO ₂ pa by 2020. These will contribute to achievement of EU ETS cap.
European Investment Bank: up to £4 billion lending could be enabled	This will ensure that planned investment in energy/low-carbon projects continues, contributing to achievement of EU ETS cap.
Extension of climate change levy exemptions for combined heat and power (CHP)	These measures will have potential to deliver around 7 GW of new CHP electrical generation capacity by 2020, saving 3.2 MtCO ₂ . Most will be covered by EU ETS cap.
Increasing support for offshore wind under the Renewables Obligation	Designed to protect 3 GW of planned investment over next 2 years, contributing to achievement of UK's renewable energy target in electricity sector.
£405 million in funding to provide support for low-carbon technology and manufacturing	This will help accelerate development of low-carbon technologies and attract inward investment in low-carbon energy manufacturing to the UK, thereby ensuring UK is low-carbon technology and manufacturing hub and contributing to achievement of EU ETS cap in the future.
Renewables – 21.5 MtCO₂	
Providing £45 million for small scale renewable electricity and heat, primarily through Low Carbon Buildings Programme	Expected lifetime savings around 0.3 MtCO ₂ in heat and 0.1 MtCO ₂ in electricity. This will contribute to savings expected from the achievement of UK renewable energy target in electricity and heat sectors.
Business and Public Sector Energy Saving - 1.6 MtCO₂	
£100 million in funding for loans to SMEs for energy efficiency measures	Reduced energy use through efficiency measures. Estimated savings of 0.14 MtCO ₂ in 2011-12. Some will be covered by EU ETS cap.

£65 million in funding for loans to public sector for energy efficiency measures	Reduced energy use through efficiency measures. Expected savings of 0.1 MtCO ₂ in 2010-11. Some will be covered by ETS cap and Carbon Reduction Commitment.
Maintaining Climate Change Levy (CCL) rates	CCL estimated to reduce business/public sector energy demand by <15% pa in 2010.
Household Energy Saving – 7.9 MtCO₂	
£100 million in funding to provide cavity wall insulation for social housing	Reduced energy use from improved insulation. Expected savings 0.12 MtCO ₂ pa in 2011-12. Some savings covered by EU ETS cap.
£25 million in funding to provide support for community heating schemes	More energy efficient/low-carbon heating systems will save 0.02 MtCO ₂ pa in 2010-11.
£100 million for new energy efficient housing	Reduction in carbon emissions compared to current building regulations.
Transport – 7.6 MtCO₂	
Increases in fuel duty of 2ppl in Sep 09 and 1 ppl above inflation each year from 2010-2013	Fuel duty increases expected to save 2MtCO ₂ pa by 2013-14.
Reforms to Vehicle Excise Duty (VED) including increase in bands in 2009 and introduction of First-Year Rates in 2010	VED reforms estimated to result in cumulative saving of around 1 MtCO ₂ by 2020. This assessment only includes impacts in the new car market but the measure will also apply in the second-hand market. Reforms will help deliver savings from EU Regulation on new car CO ₂ emissions.
Lower CO ₂ emissions thresholds in Company Car Tax (CCT)	Strengthening incentive in CCT for businesses to own lowest-emitting cars will reward manufacturers of cleanest vehicles, helping them meet new EU car emissions standards.
£250 million funding for ultra-low carbon cars (£20 million to cover infrastructure and the remainder to fund consumer incentives of £2,000 – £5,000 per car)	Funding will help bring forward new, cleaner technology, including electric and plug-in hybrid cars. Electric vehicles powered from current UK grid can emit up to 40% less carbon than conventional petrol vehicle.
Reforms to Bus Service Operators Grant (BSOG)	BSOG reforms cut link between fuel used and subsidy paid, and will pay 6p per km for low-carbon buses, which use less fuel. This will incentivise the uptake of low-carbon buses in the future.
Car scrappage scheme, primarily aimed at supporting industry	Scheme expected to have a neutral or modestly positive environmental impact.
Lending could be enabled for the automotive sector through EIB and other funding as part of the Automotive Assistance Programme (AAP)	Primary aim of AAP is to ensure continued new green investment vital to ensure auto industry emerges from current downturn with skills and technology base needed to be competitive in global automotive market.
Natural Resources	
Standard rate of landfill tax to increase by £8 per tonne on 1 April each year	Landfill tax is expected to save up to 0.7 MtCO ₂ e each year by 2013-14.

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from 2011 until 2013	
£10 million in funding to help divert waste from landfill in 2009-10	Funding will help deliver anaerobic digestion and in-vessel composting infrastructure that will remove 316,000 tonnes of biodegradable waste from landfill each year.