Global Counsel

Postponing the challenge: why the net zero hole in the budget matters

Blog post by Senior Associate Lilah Howson-Smith, 3 March 2021

The UK Chancellor used last week's budget to signal broad support for a few landmark net zero projects. However, the budget was notably thin on measures designed to mobilise both business and households to deliver this aim. This reflects in part the government's competing priorities during the pandemic. But does it also suggest that net zero is not as deeply integrated into the government's wider priorities – returning to growth, "building back better" and levelling up - as some suggest?

The UK Climate change committee estimates that 62% of the future reduction in UK emissions will rely on individual choices and behaviour, which is an analysis this government has broadly endorsed. Yet neither this question nor the issue of green investment featured in the budget (you can listen to our coverage here). The UK Investment Bank will have an explicit net zero focus. But beyond this, there was little net zero content, and some measures that may actually work against the wider policy. The government is not betting on a market-led transition, so why the silence?

One obvious gap was the absence of any comprehensive incentives for businesses to either consider their carbon emissions or embed green investment in future plans. The reticence on incentives also reflects some high-profile past failures and political sensitivity to new taxes. Demand-led schemes have either encountered poor uptake, as represented by the now defunct green homes deal, or barriers to implementation, as with the recent green homes grant.

Tax ideas also have not been popular with this government. Fiscal disincentives such as a carbon tax on meat and cheese have been floated in the media, then rejected immediately by No10 or the Treasury. But this could have prompted consideration of changes that might re-balance the burden rather than increase it. For example, the government could have shifted the balance of energy taxes onto gas rather than electricity which, despite its increasing renewable credentials, attracts greater emissions levies.

Clearly, any new burdens on business were going to be a difficult sell in the midst of a recession. But while more green requirements may increase the short-term burden on businesses to transition, their absence still leaves unanswered the question of what the UK government will eventually require from the private sector if it is serious about net zero. These is also a material risk of mixed signals: the super deduction, for example, risks encouraging businesses to bring forward investment without regard to its carbon intensity and the way this could be treated by a future regime.

Of course, there will be other opportunities for the government to address these two challenges, by setting out how businesses and consumers will be rewarded for green spend or charged for their emissions. The government may use forthcoming sector strategies (ranging from heating, to hydrogen, to industrial decarbonisation) to set out clear regulation and funding models for various net zero technologies. But what this budget missed is the opportunity to signal future fiscal intent.

It has also created an ever-shorter timeline to hone measures that will encourage transition if or when they are delivered.

Certainly, firms will do well if they take notice and heed the signals of these sectoral strategies but, ultimately, they will not provide consumers or businesses with holistic sight of the changes required of them. Instead, all eyes will be on the Treasury's outstanding net zero review and the Prime Minister's net zero strategy (due for publication just before COP26) for answers as to how transition is going to be underpinned. For businesses looking for guidance, this is now the next moment to watch.