

GEMSERV BUDGET BRIEFING

3rd March 2021



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Overview

Budget documents are now available online at: <https://www.gov.uk/government/publications/budget-2021-documents>.

This briefing details the spending commitments from government announced on 3rd March within the Budget.

Comments from the team on key areas of interest are included within the green boxes throughout the document (commentator names are highlighted in green)

SUMMARY

- £4.8 million to enable the development of a Hydrogen Hub in Holyhead, Wales.
- A Biomass Feedstocks Programme to support the rural economy.
- A Modern Methods of Construction (MMC) Taskforce, situated in the West Midlands, to accelerate the delivery of homes constructed using MMC.
- £7 million Portable Apprenticeships Fund to enable individuals who work across multiple projects with different employers to benefit from long-term, high quality training.
- A 'Super Deduction' to allow companies investing in qualifying new plant and machinery assets from April 1st 2021 until 31st March 2023 to benefit from a 130% first-year capital allowance.
- Fuel duty will be frozen for 2021-22, with future rates to be considered in the coming years, in the context of reaching net-zero emissions by 2050.
- A green retail savings product will be introduced through the NS&I in the summer of 2021 which will allow UK citizens to invest in measures to support efforts to tackle climate change.

Budget 2021: Protecting the Jobs and Livelihoods of the British People

The Coronavirus pandemic has had a significant impact on the UK economy; borrowing will reach 16.9% in 2020-21 which is the highest level of peacetime borrowing on record, with underlying debt peaking at 97.1% in 2023-24. It is therefore no surprise that Rishi Sunak's Budget 2021 has economic recovery at its core. As the UK emerges from the coronavirus pandemic, there is a need to support livelihoods, whilst allowing businesses to recover and grow. The Budget involves a three point plan to:

- Protect jobs and livelihoods.
- Strengthen public finances.
- Drive an investment led recovery.

As part of the Government's continued focus on the 'green recovery', the Budget sets out a range of commitments in the low carbon and sustainability space. The following sections of the Briefing detail the governments spending commitments for growing the green economy, as per the 2021 budget document. The table in the Appendix at the end of the document details the governments tax and spend commitments, within the areas identified in this briefing.

Business support / COVID-19

CORONAVIRUS JOB RETENTION SCHEME (CJRS)

Furlough will be extended for an additional five months to the end of September 2021. Employees will continue to receive 80% of current salary for hours not worked, with employers contributing 10% in July and 20% in August and September towards this cost.

RECOVERY LOAN SCHEME

The Recovery Loan Scheme will provide lenders with a guarantee of 80% of eligible loans between £25,000 and £10 million to give loan providers confidence to provide finance to UK business. This is open to all businesses including those who have received support under previous COVID-19 guaranteed loan schemes.

VAT DEFERRAL NEW PAYMENT SCHEME

Businesses who took advantage of the initial VAT deferral on VAT returns between 20th March 2020 and the end of June, can pay this back in eleven equal payments from March 2021, rather than one lump sum originally due 31st March 2021.

CORPORATION TAX

The rate of corporation tax will increase to 25% on profits over £250,000 from April 2023. The rate for profits under £50,000 will remain at 19% and there will be relief for profits under £250,000 so they pay less than the main rate. The Diverted Profits Tax rate will rise to 31% from April 2023 so that it remains an effective deterrent against diverting profits out of the UK.

EXTENDED LOSS CARRY BACK FOR BUSINESSES

The trading loss carry-back rule will be temporarily extended from the existing one year to three years and will be available for both incorporated and unincorporated businesses up to a maximum of £2 million.

Decarbonising Power, Industry and Heat

BIOMASS FEEDSTOCKS PROGRAMME

In line with the Government's commitment to increase spending on energy innovation, the Government have announced a £4 million competition which will form the first phase of a Biomass Feedstocks Programme. The programme will enable the rural economy to improve green energy crop production, as well as improving the production of forestry products.

Imogen Jamie - Senior Client Manager - Low Carbon: *"Multiple solutions will be required to manage the UK's carbon emissions and significantly reduce its climate change impact. The Biomass Feedstocks Programme will be welcomed by the industry to support the decarbonisation of heat, providing investment in the rural economy as well enabling science and innovation."*

HYDROGEN FUNDING

The Government have committed (subject to business case) to providing £4.8 million to enable the development of a Hydrogen Hub in Holyhead, Wales. The Hub will be used to trial hydrogen production for use in Heavy Goods Vehicles (HGVs) from renewable energy sources and up to 500 jobs, including high-skilled roles, could be supported at the site. This commitment is in line with the Prime Minister's 10 Point Plan which announced that Government would work with industry to generate 5 GW of low carbon hydrogen capacity by 2030 for industry, transport, power and homes.

A Hydrogen Strategy and Hydrogen Business Models, to stimulate private sector investment, will be published later this year, with the Hydrogen Strategy due for publication within the next six months.

Clare Jackson – Senior Consultant: *"The news that the Hydrogen Strategy is expected within the "next six months" is later than industry expected with the Government previously targeting Q1 2021. With so much attention on this key strategy document, the Government will be under pressure to deliver as quickly as possible. The news of the investment in Holyhead is a positive step but is not a substitute for the hydrogen business models which are sorely needed to kick start the scaling of hydrogen in the UK. The Government has a lot of work to do over the coming year and industry will be applying the pressure to get things moving as quickly as possible."*

WIDER SUPPORT FOR THE ENERGY TRANSITION

The Chancellor's Budget sets out a range of further commitments towards the energy transition. This includes a £20 million programme to support floating offshore wind development and £68 million competition to support the development of energy storage prototypes. In order to support diversification from the oil industry, a total of £27 million has been committed towards the Aberdeen Energy Transition Zone, with a further £5 million of support, subject to business case reserved for the Global Underwater Hub. Up to £2 million has also been committed towards the North Sea Transition Deal.

Improving the Housing Stock

MODERN METHODS OF CONSTRUCTION (MMC) TASKFORCE

The Ministry of Housing, Communities and Local Government (MHCLG) will establish an MMC taskforce which will look to accelerate the delivery of homes constructed via Modern Methods of Construction (MMC) within the UK. The taskforce will bring together leading experts from both the public and private sectors, to deliver on the UK's ambitions in this space. The Taskforce will be headquartered in MHCLG's new office in Wolverhampton and will be backed by £10 million of seed funding. The Taskforce will be working closely with Local and Mayoral Combined Authorities including the West Midlands Combined Authority.

SUPPORT FOR IMPROVING THE HOUSING STOCK

The Budget does not commit to any additional funding for energy efficiency or low carbon heating measures. However, the [Government's Build Back Better Plan](#), published alongside the Budget indicates that the long awaited Heat and Buildings Strategy will be published in the next three months.

Ellie Burkill – Policy Analyst: *“In the lead up to the Budget there has been much speculation about the future of the Green Homes Grant Voucher Scheme (GHGVS) originally launched in September 2020. It was recently confirmed in a written answer by BEIS Strategy Minister Anne-Marie Trevelyan that the £2 billion funding will not be carried forward beyond this March, despite the significant underspend associated with the scheme. Over the past few weeks there has been uncertainty around the future of the scheme and spending allocations, with suggestions in the press that the scheme could close early. However, there appears to be no mention of the scheme within the Chancellor's Budget. This suggests that the extension of the scheme will remain in place, but industry is likely to be seeking further clarification on this point to provide the much-needed certainty for further investment.”*

Skills

Skills forms a key part of the Chancellor’s Budget and is one of the three key pillars that the Government’s Plan for Growth ([Build Back Better: Our Plan for Growth](#)) is built upon. Investment in these areas is seen as critical to ensuring economic recovery from the COVID-19 pandemic, given the strong relationship that exists between skills and economic productivity, as shown by the graph below.



Figure 1: The Relationship Between Skills and Productivity. Source: [HM Treasury: Build Back Better](#)

APPRENTICESHIPS AND TRAINEESHIPS

The Government will provide an additional £126 million in England for work placements and training for 16-24 year olds in the 2021/22 academic year, alongside extending and increasing the payments made to employers in England who take on apprentices; any employer who hires an apprentice between 1 April 2021 and 30 September 2021 will receive £3000 per hire, double the value previously awarded for over 24 year olds.

Building upon the measures announced within the 2020 Spending Review, the Government have committed to launching a £7 million fund in 2021. The funding will be directed towards ‘portable apprenticeships’ for people

who work across multiple employers to benefit from long term training, of a high quality. Employers will be asked to submit proposals.

HELP TO GROW

The Chancellor's Budget sets out a commitment to support over 100,000 SMEs across the UK to improve their productivity, via two schemes: Help to Grow: Management and Help to Grow: Digital.

- Help to Grow: Management is a programme that will provide 30,000 SMEs with the opportunity to upskill through a national curriculum, delivered through business schools, alongside practical experience and mentoring from business professionals. The scheme will be 90% subsidised by the Government.
- Help to Grow: Digital will support over 100,000 SMEs in improving their productivity through the adoption of a productivity enhancing software. The scheme will provide a voucher to cover up to 50% of the costs of an approved software, up to a maximum value of £5,000, alongside free impartial advice.

Samantha Crichton, Senior Consultant: *"The development of green jobs and skills has been highlighted as an opportunity for economic recovery. The announcements within this year's Budget place an emphasis on this and provide a platform for further growth. Enabling young people to gain experience through work placements and apprenticeships will open up opportunities for new entrants and help to highlight career options in the sector. The option for apprentices to work across multiple employers will help to provide diverse skills and experience. Our recent work on green skills highlighted a significant challenge in ensuring a diverse workforce and encouraging young people into the construction and retrofit sectors in particular. So, this funding is a welcome addition.*

Investment in upskilling is key to achieving the UK's net zero aspirations so it is positive to see support available for practical and mentoring advice for SMEs. The funding available for digital skills and support will be welcomed by industry given the increase in home working and the focus on e-commerce."

Innovation

FREEPORTS

The Chancellor's Budget announces the creation of eight new Freeports across England in regions such as the East Midlands, Yorkshire and the Humber and Plymouth. These Freeports will begin operations from late 2021, subject to agreement of governance arrangements and business case completion. The Freeports will drive investment and innovation, enabling businesses to benefit from tax relief and Government support, growing trade and creating jobs. Discussions are ongoing between the Devolved Administrations (DAs) to ensure the delivery of Freeports within Scotland, Wales and Northern Ireland.

FUTURE FUND: BREAKTHROUGH

The Future Fund was originally announced by the Chancellor on 20th April 2020. The Chancellor has today announced 'Future Fund: Breakthrough'. This £375 million fund consists of a co-investment product which will support the scale up of the most innovative, R&D intensive businesses.

Infrastructure Investment

GREEN GILT

The government will issue its first sovereign green gilt (or bond) this summer, with a further issuance later in 2021. The green gilt issuance for the financial year will total a minimum of £15 billion. Further details of the green gilt will be published in June 2021, outlining the types of expenditure that will be financed. Social benefits such as job creation and levelling up will be reported on.

GREEN RETAIL NATIONAL SAVINGS AND INVESTMENT (NS&I) PRODUCT

A green retail savings product through NS&I will be introduced in the summer of 2021. This will be closely linked to the green gilt framework and will allow savers to take part in the collective effort to tackle climate change.

SUPER-DEDUCTION

From April 1st 2021 until 31st March 2023, companies investing in qualifying new plant and machinery assets will benefit from a 130% first-year capital allowance. This will allow them to cut their tax bill by 25p for every £1 they invest. Investing companies also benefit from a 50% first-year allowance for qualifying special rate (including long life) assets.

UK INFRASTRUCTURE BANK

The Government's National Infrastructure Strategy, published in November 2020 announced that a [National Infrastructure Bank](#) would be developed. The Government has today released further details about the institution that will begin operating, in an interim form, in spring 2021. This bank will provide £12 billion of equity and debt capital and £10 billion of guarantees to infrastructure projects in the UK to help meet government objectives on climate change and economic growth.

Rob Honeyman – Head of Analysis: *“Alongside the Budget, the government also released information regarding the terms of reference for the Infrastructure Bank. Quoting the Prime Minister’s Ten Point Plan for a Green Industrial Revolution and the scope for crowding in investment in sustainable fuels, CCUS and heat efficiency, the bank has a clear focus on low carbon infrastructure projects. It remains to be seen if the availability of public finance can adequately de-risk and unlock the volume of wider investment that will be needed for the transition to net zero.”*

Energy, Transport and Environmental Taxes

FUEL DUTY

Fuel duty will be frozen for 2021-22, to protect consumers from additional costs in light of the recovery from COVID-19. However, future rates of fuel duty are to be considered in the coming years, in the context of reaching net-zero emissions by 2050.

Joachim Brandt - Head of Electric and Autonomous Vehicles: *“While the freeze of Fuel Duties may appear to ease short term cost pressures to consumers, the delays in scaling up new frontiers for the UK economy such as job creation in electric vehicles, the provision of EV charging infra-structure and advanced battery manufacturing will ultimately be more costly. We would encourage the Government not to perpetuate the use of fossil fuel vehicles and find alternatives to help consumers to mitigate the financial impact caused by Covid-19.”*

RED DIESEL

As stated in the Budget 2020, the entitlement to red diesel and rebated biofuels will end from April 2022, except for use in agriculture (including horticulture, fish farming and forestry), rail vehicles and non-commercial heating. In this budget further exceptions are confirmed as red diesel use to power vessels for commercial purposes, travelling funfairs and circuses, amateur sports clubs, golf courses and non-commercial power generation. Details of the Red Diesel Reform are set out in the Government’s [Red Diesel Policy Paper](#), published alongside the Budget.

CARBON PRICE SUPPORT AND UK EMISSIONS TRADING SCHEME

The freeze on the Carbon Price Support rate at £18 per tonne of CO₂ will remain in 2022-23. Further proposals to expand the UK Emissions Trading Scheme will be set out in 2021.

Jamie Mitchell – Economic Analyst: *“The Carbon Price Support has been important in accelerating progress in decarbonising electricity generation within the UK, particularly in reducing the incentives to use coal. The impact of freezing this at £18/tCO₂ will depend on the allowance prices of the UK ETS, which will be realised when trading begins in May 2021. If allowance prices combined with this top up are sufficiently high to further drive sufficient decarbonisation of electricity generation, this freeze is appropriate. We hope the government publishes its plans for further carbon pricing proposals without delay.”*

VEHICLE EXCISE DUTY

[Vehicle Excise Duty rates](#) will increase in line with RPI from 1st April 2021 for cars, vans and motorcycles. For HGVs, VED will be frozen for 2021-22 and the [HGV Levy](#) will be suspended for another 12 months from August 2021 in order to support recovery from the COVID-19 pandemic.

CLIMATE CHANGE LEVY

Changes to the [Climate Change Levy](#) will come into effect from 1st April 2022 and 1st April 2023 as announced in the Budget 2020.

Waste

PLASTIC PACKAGING TAX

As part of efforts to tackle the impacts that single use plastic waste have on the natural environment, the Government have today released a Policy Paper which sets out details of the [Plastic Packaging Tax](#). In the 2020 budget, the Government announced key decisions surrounding the tax design and a consultation was launched to provide stakeholders with the opportunity to provide feedback on the proposed design and implementation of the tax. A tax rate of £200/tonne will apply from 2022 to packaging with less than 30% recycled plastic, subject to a registration threshold of 10 tonnes manufactured within or imported into the UK, per annum.

LANDFILL TAX RATE

In the Chancellor's 2020 Budget, it was announced that the standard and lower rates of Landfill Tax will increase in line with the RPI, rounded to the nearest 5 pence. The landfill tax is designed to maximise the use of non-landfill waste management options, such as recycling and minimise the impact of waste on the natural environment. As part of the 2021 Budget, the Government have released a Policy Paper on the [Changes to Landfill Tax Rates](#) which sets out further details.

To find out more please contact:

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Policy Costing Table

Table 1 shows the cost or yield of all Budget 2020 decisions with a direct effect on public sector net borrowing, up to 2025-26, where negative values indicate government spending.

Table 1: Budget Policy Decisions (£ million)

| | Head | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|--|-------|---------|---------|---------|---------|---------|---------|
| Coronavirus Job Retention Scheme (CJRS): extension to September 2021 | Spend | 0 | -6,945 | - | - | | - |
| Fuel Duty: one year freeze in 2021-22 | Tax | 0 | -795 | -885 | -910 | -925 | -945 |
| Capital allowances: 130% Super-Deduction for main rate assets and 50% First Year Allowance for special rate assets for two years | Tax | -1,735 | -12,225 | -12,695 | -2,395 | +2,090 | +2,780 |
| Loss carry back: extended to 3 years with £2,000,000 cap | Tax | -840 | -205 | +580 | +325 | +160 | +80 |
| Help to Grow: management | Spend | 0 | -60 | -75 | -85 | 0 | 0 |
| Help to Grow: digital | Spend | 0 | -50 | -115 | -130 | 0 | 0 |
| Corporation Tax: 19% rate for profits up to £50,000, tapering to main rate of 25% for profits over £250,000, from April 2023 | Tax | -5 | +20 | +2,390 | +11,900 | +16,500 | +17,200 |
| Red Diesel: exemptions | Tax | 0 | 0 | -80 | -85 | -100 | -110 |
| Vehicle Excise Duty: freeze for HGVs in 2021-22 | Tax | 0 | -5 | -5 | -5 | -5 | -5 |
| HGV Road User Levy: suspend for a further 12 months from August 2021 and freeze rates | Tax | 0 | -140 | -75 | -5 | -5 | -5 |
| Carbon Price Support (CPS) rate: maintain in 2022-23 | Tax | 0 | 0 | -5 | -10 | -10 | -5 |
| UK Emissions Trading Scheme | Tax | 0 | +15 | +50 | +35 | +15 | 0 |



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