

Budget 2011 - Environment and Planning Highlights

Yesterday's Budget, delivered by the Chancellor George Osborne, included a number of significant environmental and planning measures designed to bolster the green credentials of the Coalition by increasing green taxes and taking steps to encourage sustainable development and growth. Green campaigners are however likely to be dismayed by the decisions to cut fuel duty, abandon the proposed fuel duty escalator and postpone a planned rise in Air Passenger Duty Rates.

Further details of relevant measures are set out below however highlights include:

- Introduction of a carbon floor price starting at around £16 per t/CO₂ and moving to £30 per tonne by 2020;
- Confirmation of the initial capitalisation and borrowing powers of the Coalition's flagship Green Investment Bank;
- Significant reform of the planning system including the introduction of a presumption in favour of sustainable development and the pilot of a land auction model; and
- The designation of up to 21 new urban Enterprise Zones in England.

For a Government with an express commitment to being the 'greenest' yet, managing conflicting pressures to encourage the development of low carbon technologies in energy production and the reduction of the UK's carbon footprint whilst at the same time limiting the impact on the day to day finances of an electorate beginning to feel the impact of the 2010 Spending Review was always going to be a hard balance to strike. Whilst the measures announced yesterday go some way towards supporting the Coalition's green ambitions, critics will argue that an opportunity to implement long lasting reform has in reality been sacrificed in favour of short term political gain.

Budget 2011 – Key Environment and Planning Measures

Carbon Price Floor

The UK will become the first country in the world to introduce a carbon price floor for electricity generation. The carbon price floor will commence on 1 April 2013 and start at around £16 per t/CO₂, thereafter following a linear path to a peak of £30 per t/CO₂ in 2020.

The introduction of the carbon price floor is aimed at driving investment in the low-carbon power sector, however, the short term incentives to do so will remain low whilst carbon market prices hover around their current trading price of £14.00 per t/CO₂ and in the absence of any price signals after 2020.

Green Investment Bank (GIB)

The GIB will begin operation in 2012-13, a year earlier than previously anticipated with an initial capitalisation of £3 billion. The allocated £1 billion funding for the GIB as set out in the Spending Review is being supplemented by £2 billion which the Government hopes will be funded from the sale of assets (including the £775 million net proceeds already received from the sale of High Speed I).

It is estimated that Government investment alongside private finance should mean that there is around £18 billion of additional investment in green infrastructure by 2014-15. However, the effectiveness of the GIB as the centrepiece of the Coalition's push for green investment is arguably undermined by the fact that it will only be able to borrow from 2015, and even then, only if the target for debt to be falling as a percentage of GDP has been met.

Climate Change Agreements (CCAs)

CCAs will be extended to 2023 with the climate change levy discount on electricity for CCA participants being increased from 65 to 80 per cent from April 2013. The increase is being marketed as an example of continuing support for 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 (CCS)

Although the Chancellor reiterated the Coalition's commitment to providing public funding for four CCS demonstration plants, he announced the decision not to proceed with the CCS levy. The assertion is that this approach is consistent with the Government's objectives for tax simplification with commitments to CCS demonstrations being funded from general taxation, however rejection of the CCS levy is not likely to be well received by green campaigners.

Carbon Reduction Commitment (CRC)

CRC Allowances will be priced at £12 per t/CO₂. Draft regulations to implement allowance sales will be published later in 2011.

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 and will continue to freeze the lower rate of landfill tax at £2.50 per tonne in 2012-13.

Enterprise Zones

The Government announced the location of ten new urban Enterprise Zones within the following Local Enterprise Partnership (LEP) areas: Birmingham and Solihull; Leeds City Region; Sheffield City Region; Liverpool City Region; Greater Manchester; West of England; Tees Valley; North Eastern; the Black Country; and Derby, Derbyshire, Nottingham and Nottinghamshire. In addition, London will have an Enterprise Zone and be able to choose its site.

A competitive process will be launched for interested LEPs to establish ten more Enterprise Zones.

A range of policy tools will then be made available to all 21 zones. These will include a 100 per cent business rate discount worth up to £275,000 over a five year period for businesses that move into an Enterprise Zone during the course of the present Parliament.

Planning reform

A presumption in favour of sustainable development is to be introduced "so that the default answer to development is 'yes'". A land auction model will also be piloted beginning with public sector land.

The Government is also removing nationally imposed targets for new development on derelict land while retaining existing controls on the green belt. The Government also plans to consult on proposals to make it easier to convert commercial premises to residential.

A number of measures are to be introduced which are designed to streamline the planning applications and related consents regimes removing bureaucracy from the system. These include a 12 month guarantee for the processing of all planning applications, including any appeals. A fast-track planning process for major infrastructure through the Major Infrastructure Planning system has also been promised.

Impact on businesses

In view of the state of the public finances, it was clear that this was not going to be the Budget in which George Osborne was going to announce major shifts in policy or any material increase in support for the UK's transition to a lower carbon economy, but the introduction of a carbon floor price, though in modest form so far, could well have far-reaching consequences for businesses in the medium to long-term.

If you have any questions or would like further information on these proposals, please contact:

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