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SPURRING CLEAN ECONOMIC INVESTMENT IN THE UK
AUTUMN BUDGET BRIEFING

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The transition to a clean economy is a once in a lifetime opportunity to build the economic growth engine of the future. With a new government in place and laser-focused on revitalising the UK economy, the time is now for a comprehensive economic strategy centred on green prosperity. The Autumn Budget, and next year's multi-year spending review, are opportunities to spell out this vision for renewal.

The new government has set out ambitious targets and missions to reestablish the UK as a climate leader. Success will only be possible with a whole-systems approach, covering energy systems, homes, industries and finance.

The green economy is already a major source of growth and innovation. It surged by 9% last year, far outstripping the national growth rate of just 0.1%.[1] Meeting the UK's 2050 emissions target alone could unlock over £266 billion for the UK economy over the next three decades.[2]

Funding decisions need to be designed to support families, communities and businesses. The Treasury will play a central role in ending fuel poverty and achieving a just transition for those working in high-carbon industries.

All this can only happen if the country is able to spur the public, private and blended investment needed to get on track.

[1] ECIU, 2024, **The UK's net zero economy**

[2] BEIS, 2021, **Impact Assessment for the Sixth Carbon Budget**

Recommendations

To put the UK firmly on the path to transition, E3G recommends that the new government focus on:[3]

1. **Driving investment into green industries of the future.** Treasury and the UK's public finance institutions must be re-centred to focus on this mission. Reforms to place green prosperity at the heart of the UK financial system will be essential to ensure that finance flows to where it's needed.

2. **Delivering the 2030 Clean Energy Superpower mission.** To meet the 2030 clean power target, the Treasury must continue to support "no regrets" renewables, while also spurring investment in assets like long-duration energy storage and hydrogen-to-power which will be vital to replace fossil gas.

3. **Kickstarting the Warm Homes Plan to lower bills for households.** Heat pumps and insulation will play a central role in bringing down bills, achieving energy security, and meeting carbon budgets. The Autumn Budget must make progress towards the statutory duty to upgrade all fuel poor homes by 2030, and needs to make strides in heat decarbonisation. These goals depend on evolving the current suite of retrofit schemes and introducing new initiatives to boost delivery rates, and support supply chains and delivery partners.

4. **Supporting the growth mission through clean industry.** Industry and manufacturing are crucial for our economy, employing hundreds of thousands of skilled workers across the UK. However, they are often carbon-intensive and under fierce international competition; their transition is key to their sustainable future. The Autumn Budget must help future-proof these industries and support affordable electrification.

5. **Positioning the UK as an international climate leader through oil and gas phase-out.** Labour has a welcome pledge to end new licenses for oil and gas production. Treasury must take steps to back this up and ensure a just transition.

[3] This briefing summarises our recommendations in these areas. Please contact **Juliet.Phillips@e3g.org** to request our full Autumn Budget submission.

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1. Driving investment into green industries of the future	
Announce a Net Zero Investment Plan	No cost
Provide a net zero mandate to public finance regulators and institutions	No cost
Make the UK a green finance hub via improved disclosures	No cost
2. Delivering the 2030 Clean Energy Superpower mission	
Expand the Warm Homes Discount	£1.9bn
Launch the long duration electricity storage support mechanism	Announce at the Budget
Commit to hydrogen power stations	Announce at the Budget
Fund large scale hydrogen storage	Announce at the Budget
3. Kickstarting the Warm Homes Plan	
Social housing retrofit schemes	£400 million
Home heating grant	£500 million
Insulation scheme	£133 million
Public sector decarbonisation	£390 million
Home upgrade loans	£15 million for pilot
Local authority led schemes	£100 million
Heat networks	£180 million
Local heat and energy planning	£4 million
Clean heat discount to reduce heat pump running costs	£390 million
Warm homes training grant	£20 million
Energy Company Obligation and Great British Insulation Scheme	Levied on bills
4. Supporting the growth mission through clean industry	
Reduce levies and network charges on industrial electricity bills	50% increase to network charge exemptions
Implement green public procurement criteria	Announce at Budget
Frontload the clean steel fund	At least £1.5bn
Simplify, consolidate, and accelerate existing funds	No new spending
5. Positioning the UK as a climate leader through oil and gas phase-out	
A funded transition plan for workers and communities	Develop over year
Announce a review of the fiscal regime covering the North Sea	No cost

1. Driving investment into green industries of the future

The government must use its first budget to provide a clear signal that boosting green investment and growth will be at the heart of its economic strategy.

A **Net Zero Investment Plan** will be a critical step towards providing clarity to investors and ensuring government policy effectively incentivises investment.[4] This would provide a clear and regularly updated sector-by-sector investment plan to deliver on Labour's Industrial Strategy. Investment flow tracking would enable identification of investment gaps to ensure that public investment, including via the National Wealth Fund, is strategically targeted.

The Autumn Budget can also be used to help **position the UK as the global green finance capital** by announcing new requirements that mandate transition planning and disclosure across financial institutions and FTSE 100 companies. The Chancellor should also embed climate and sustainability into the mandates of financial regulators and the Bank of England.

2. Delivering the 2030 Clean Energy Superpower mission

The new government is on a mission to move away from fossil gas. To do so, the UK needs to rapidly build a new power system underpinned by wind and solar, managed with flexible demand and storage. The energy sector contributes £149bn in economic activity and supports 743,000 jobs across the UK.[5]

The government has announced funding for renewables through the **Contracts for Difference** auction. However, fully squeezing out fossil gas will require the build-out of new technologies which can help balance and back up the system.

Low-carbon storage is critical for getting off gas. The government should launch the **Long Duration Energy Storage support mechanism** to support pumped hydro projects and technologies such as compressed air energy storage, liquid air energy storage, and flow batteries. These projects must be kickstarted now to play a crucial future role in low-carbon energy security.

In parallel, hydrogen storage is seen as a key part of a low-cost future energy system, which uses the UK's natural geography to its advantage. Large, **strategic**

[4] E3G, 2023, **Investors managing £3 trillion in assets call on UK government to deliver Net Zero Investment Plan**
[5] Energy UK, 2024. **The energy industry in numbers**

investment in hydrogen storage should be the cornerstone for a new vision for how a hydrogen market can develop in the UK. The UK also needs to build an initial small fleet of green hydrogen power stations as soon as possible. HMT should announce funding for the new **hydrogen power station support mechanism**, which is set to be established by the end of the year.

To ensure the transition to clean energy supports lower bills, the government must choose the lowest cost pathways and build an efficient system. This is not currently the case, with numerous processes to procure low-carbon flexibility and back-up assets, and separate processes for nuclear, interconnectors, renewables, hydrogen power stations and long duration storage. The Capacity Market is left to fund expensive gas power stations by default. A new process – an **Investment Efficiency Mechanism** – is needed to ensure the government builds low-carbon assets as default and achieves the best value mix of projects.

This transition to a lower-cost clean power system will take time. With the energy price cap forecast to rise later this year, it is essential for the government to offer near-term support for vulnerable and low-income households. The government should work towards a **comprehensive social tariff** in the long term, to ensure that all homes who need it can receive help. As an interim solution, as supported by Citizen's Advice, the **Warm Homes Discount** should be expanded to support more consumers. It would cost around £1.9bn/year.[6]

3. Kickstarting the Warm Homes Plan to lower bills for households

Insulating inefficient homes by 2030 would unlock £40 billion in economic and social benefits.[7] For this one-year Budget, the government should build on existing retrofit schemes and introduce new initiatives which put the UK in a strong position to bring down energy bills and meet its legal obligations.

The new government has pledged £13.2bn to support their Warm Homes Plan, with a target to upgrade 5 million homes by 2030. This funding will need to be used highly strategically to meet the twin objectives of decarbonising heat and meeting the statutory obligation to upgrade all fuel poor homes by 2030.[8]

[6] Citizen's Advice, January 2024, **Shock proof: Breaking the cycle of winter energy crises**

[7] Citizens Advice, June 2023. **Home Advantages: unlocking the value of energy efficiency**

[8] Analysis by E3G suggests that achieving both these objectives within this spending envelope will be highly challenging, and additional funding will be needed in the second half of the Parliament.

Treasury should provide continuation funding to current schemes, which can be evolved to form the bedrock of the Warm Homes Plan. For the one-year Autumn Budget, we recommend Treasury starts ramping up funding from current levels, to support sustainable supply chain growth, with settlements around:

- £400 million to the **Social Housing Decarbonisation Fund**
- £400 million to the **Public Sector Decarbonisation Scheme**
- £100 million to **local retrofit programmes**
- expanding the **Boiler Upgrade Scheme** to £0.5bn a year.

To make heat pumps more economically attractive to households, the government must implement measures to reduce electricity running costs. E3G recommends a targeted **Clean Heat Discount** to lower running costs, as an affordable interim step towards removing levies on electricity bills. A targeted exemption would reduce bills for an electrically heated household by £130 a year, costing Treasury £390 million.

For nearly three decades, the **Energy Company Obligation** (paid for by a levy on consumer energy bills) has been the backbone of fuel poverty alleviation. The next iteration of the scheme, ECO 5, should be publicly confirmed as soon as possible to give the sector confidence to invest in supply chains, at the current level (£1bn per year). The **Great British Insulation Scheme (GBIS)** is set to run until 2026, and has already been levied on consumer energy bills. The scheme has chronically struggled to deliver, meaning much of this budget is unspent. We request HMT allows the scheme to spend its full allocation, while working with installers to make improvements to boost delivery rates.

New schemes can also be brought forward at the Autumn Budget. A universally available **energy efficiency grant** worth £0.4bn from 2025 to 2028 was planned by the previous government.[9] Treasury should carry this forward to help consumers to undertake works. The new government has pledged to launch a **home upgrade loan**. This should be introduced following consultation to ensure effective design and deliverability, with £15m in the Autumn Budget for a pilot. Parallel policies will be needed to drive uptake, linking the loans to higher **minimum energy efficiency standards in the private rented sector**. The Renters Rights Bill should be urgently implemented to ensure tenants see the benefits.

[9] UK government, December 2023, **Families, business and industry to get energy efficiency support**

To support capacity at a local government level to design and deliver **Local Area Energy Planning**, HMT should support DESNZ with £20m to deliver plans across England. The government should support a **Warm Homes Training Grant**, following the current Heat Training Grant and Home Decarbonisation Skills Training Competition which concludes in April 2025. £120m from 2025 to 2030 could support training for 35,000 clean heat installers and 150,000 cavity wall and loft insulation professionals – with £20 million allocated this Autumn.

4. Supporting the growth mission through clean industry

The new government is looking to rebuild the UK's industrial heartlands and future-proof British jobs and supply chains. The Autumn Budget can be used to catalyse investments at scale. Industry and manufacturing are crucial to the UK economy, providing 9.3% of GVA,[9] supporting hundreds of thousands of jobs.[11]

UK industrial electricity prices are much higher than in competitor nations. This has held back investment in electrification, damaged competitiveness, and led to plant closures.[10] Long-term solutions must structurally lower costs; meanwhile, immediate action is crucial. Increasing the **British Industry Supercharger**'s network charges exemptions from 60% to 90% would reduce industrial electricity prices by £29/MWh,[11] significantly narrowing the gap with France and Germany.

To justify investing in clean technology, businesses need clear demand for low-emissions products. The government can drive this by **procuring low-emissions goods for public projects**. For instance, in 2023, the government spent £600m on steel, 25% of the sector's economic contribution.[12] Setting a maximum embodied carbon limit for procured steel could create a £600m market for cleaner steel.

Treasury can also **simplify access to existing industry funding schemes** by moving away from short application windows to an ongoing process and consolidating funds to support a broader range of decarbonisation activities. It should accelerate deployment of funds such as the Net Zero Hydrogen Fund.

The new government made a welcome commitment to **investing £3bn in UK clean steel**. To stimulate supply chain growth, detail of how this will be spent is needed. Financial support should be targeted at processing capacity and downstream operations near Port Talbot and Scunthorpe, as well as low-

[10] Reuters, 2023, **Liberty Steel Suspends Some UK Plants Due to Power Prices**

[11] UK Steel, 2024, **Industrial Competitiveness: Electricity Prices Faced by UK Steelmakers**

[12] E3G, 2024, **Growing Clean Steel in the UK**

emissions primary production. By using price assurance mechanisms like a **CfD for clean steel,** the government can move beyond site-by-site deals to attract more competitive bids. Investment should be frontloaded as much as possible, with at least £1.5bn announced in the autumn for Port Talbot, Scunthorpe, and low-emissions primary steel capacity.

5. Positioning the UK as a climate leader through oil and gas phase-out

In its manifesto, Labour committed to ensure “a phased and responsible transition in the North Sea” and to stop issuing licences to explore new fields. The welcome announcement to close the loopholes in the windfall tax can be complemented by further reforms to help support a smooth transition.

A new government urgently needs to set out a **long-term just transition plan** for workers and communities dependent on the oil and gas industry, working with the Scottish government, unions, communities and the industry**.** Companies should be obliged to support workers in reskilling for new opportunities in the offshore low-carbon economy. Mechanisms such as the British Jobs Bonus, the National Wealth Fund and Great British Energy must be designed to support a just transition in areas most dependent on oil and gas.

UK oil and gas revenues consist of offshore corporation tax, petroleum revenue tax and the energy profits levy. These taxes apply to the profits of companies involved in the production of oil and gas – and together create a 75% tax rate on North Sea profits until the end of March 2029. The government should commit to a **wider review of the fiscal regime covering the North Sea** to ensure that tax rates and incentives are aligned with climate objectives.

In 2022 HMRC's estimate of the likely cost to the Exchequer of decommissioning oil and gas wells was £21.8 billion. **Strong oversight of decommissioning** will be needed to ensure these costs are spread over time and that operators, who have made excessive profits in recent years at the expense of households, play a greater role in shouldering these costs and fulfilling their environmental responsibilities.

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About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at **www.e3g.org**