



# Taylor Wessing: Sustainability

## Budget 2011

On Wednesday 23 March, the Chancellor delivered his first full Budget. The key aim of this Budget is clear: economic growth. However, the Chancellor also affirmed the Government's commitment to a low-carbon, greener future. Since last week's Budget, further material has been produced by a range of Government Departments, not just HM Treasury.

Here, we consider the key green initiatives in the Budget, their likely impacts, and what we believe the future holds.

### **A Low Carbon Future?**

A flagship policy, the Green Investment Bank will invest in green, sustainable low-carbon technologies of the future. The Government has committed £3bn to capitalising the Green Investment Bank, and will bring forward its launch by 1 year to 2012-13. Going forward, the Government anticipates that by 2018 a further £15bn of private investment will be forthcoming. However, the Green Investment Bank will not be able to borrow until 2015-16 because the primary concern of the Government is to reduce the level of public debt.

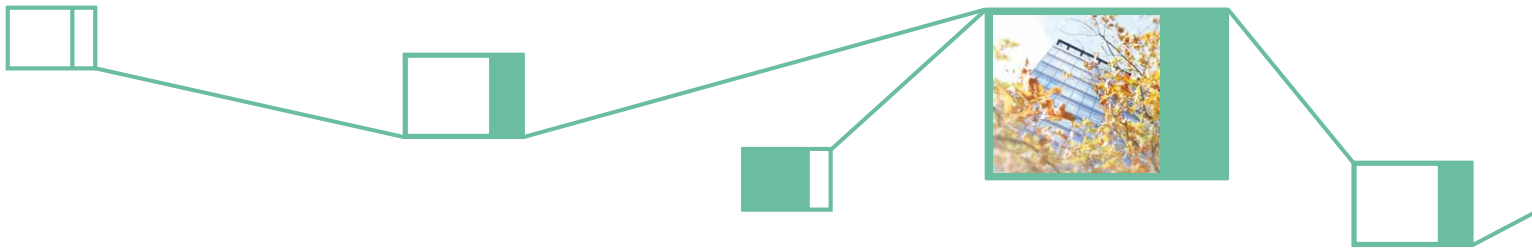
The current climate change agreement scheme, which ends in 2013, is to be extended to 2023. The scheme covers 54 energy intensive sectors and offers a discount on the climate change levy for participants who meet their energy efficiency targets. The Government has raised this discount back to 80%, following a reduction to 65% by the previous Government which will serve as a welcome incentive for energy intensive businesses.

The Government will also introduce a carbon price floor to encourage investment in low-carbon power generation and build upon the EU carbon emissions trading system. From 1 April 2013 most supplies of fossil fuels used to generate electricity will be liable to either the climate change levy or fuel duty. The price floor will start at around £16 per tonne of CO<sub>2</sub>, increasing to around £30 per tonne in

2020. This change is to be welcomed in so far as it rebalances the electricity market towards greater usage of low-carbon technologies but costs of the scheme are likely to be passed through to consumers and businesses (although the Government has indicated energy intensive businesses should see the impact of this scheme partly offset by increases in the climate change levy discount available to businesses with climate change agreements).

Against these positive measures, however, the Government has announced a reduction in fuel duty and a deferral of planned increases. It is also shifting the tax burden from consumers of fuel to producers, by increasing the supplemental charge on UK oil and gas producers, from 20% to 32%. The Government's stated aim is to support households and businesses by reducing the burden of pump prices on motorists and, although the measures are, overall, fiscally neutral they do little to discourage consumption.

The Government has also announced that the enterprise investment scheme and venture capital trust tax for investors in companies whose main trade is the receipt of feed in tariffs will be unavailable to schemes where commercial electricity generation commences after 6 April 2012. Although the Government has criticised what it perceives as tax avoidance by investors participating in such schemes, this change is likely to reduce the investment in such technologies in the future.



## Sustainable Development?

Widely lauded by industry, the Government has announced that it will reform and simplify the planning system. A key announcement is the “yes” presumption in favour of sustainable development. This will be combined with a move to localise choices about how land is to be developed and a fast-tracking of major infrastructure projects. While reform of the planning system is long overdue, the Secretary of State for Communities and Local Government has made a Written Ministerial Statement that planning authorities should prioritise growth and jobs. It is unclear how this sits with sustainability, although encouragingly the Government has indicated that it will retain existing controls on the development of greenbelt land.

However, the Government has indicated it will withdraw the land remediation relief from April 2012 as part of the simplification of the tax code. This incentivises developers of contaminated and Brownfield sites, by providing a corporation tax deduction of up to 150% of the cost of the remediation, and as such this may serve as a disincentive to incurring often significant expenditure on land remediation when compared to the acquisition of other sites. The scheduled increase in the aggregates levy, to £2.10 per tonne, has been deferred to 1 April 2012. As the levy does not apply to, and so encourages the use of, recycled materials this deferral is disappointing.

## Conclusions

Against a backdrop of spending cuts as part of a concerted effort to reduce the UK’s deficit combined with low economic growth, it had been suggested that the green agenda would be sidelined as the Government’s capacity to offer financial incentives to support sustainable behaviour has been curtailed. But, in Budget 2011, the Government has stated its aim of increasing the proportion of tax revenue accounted for by environmental taxes, whilst supporting growth and maintaining a stable fiscal position. However, Budget 2011 highlights the challenges the Government is facing in meeting those policy objectives in the current economic climate and the reception of the Budget has, in many areas, been muted.

What is clear from the Budget is the limited number of new green initiatives. Whilst this is not surprising given the continuing strain on the Government’s finances, Budget 2011 does in many respects prioritise growth in the short term as a necessary evil to allow the Government to pursue, in the longer term, a more sustainable agenda.

## Key Contact



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