

Chancellor's Spending Review – 2020/2021

Introduction and Context

On the 25th November, Rishi Sunak, the Chancellor of the Exchequer, delivered his one-year Spending Review which was designed to focus on the Government's response to Covid-19 for 2020 – 2021. It was decided that the review would only be one year, rather than the multi-year spending review that was proposed, owing to economic uncertainties. The Chancellor opened his speech in the same vein, by outlining the state of the economy going forward, including the Office for Budget Responsibility's (OBR's) forecast that GDP is expected to shrink by 11.3% in 2020, the largest annual fall since 1709. To combat this, it was announced that Covid-19 spending will grow at an average of 3.8% a year in real terms from 2019 – 20 to 2021-22. This included an additional £38 billion for public services to combat Covid-19, bringing the total response spending up to over £280 billion.

Generally, due to the 1-year timeframe, this spending review was not seen as the opportunity to announce long-term spending, meaning the announcements focused on delivering public services. Most of the Green announcements related to reconfirmation of spending and initiatives from last week's '10 Point Plan' except for a reference to possibly introducing more competition to energy networks. The Spending Review did however include the publication of the long anticipated National Infrastructure Strategy, which includes £100 billion of capital spending including infrastructure to drive the UK's recovery and 'level up for a greener, stronger future'. More details on this can be found below. You can also find the Chancellor's Speech [here](#), the press release [here](#), and the full report document [here](#).

Overall Departmental Budget allocations

Department for Business, Energy and Industrial Strategy (BEIS)

- BEIS core research budget has grown by 3.3% and its capital budget by 15.7% in real terms since 2019-20.
- To support the delivery of the Prime Minister's 10-point plan, £3 billion of new funding has been allocated. This includes:
 - Providing over £1 billion towards the construction of 4 new Carbon Capture and Storage plants by 2030
 - Confirmation of over £1 billion to make further progress towards delivering the government's commitment to invest in the energy efficiency and heat decarbonisation of schools, hospitals and homes
 - £160 million to upgrade our portside manufacturing capabilities to help build the next generation of offshore wind farms
 - £240 million to support industry to produce low-carbon hydrogen at scale and over £80 million to test its use in heating buildings
 - Up to £525 million towards the development of a large-scale nuclear project, subject to value for money assessment, and advanced nuclear technologies, including novel small modular reactors and next generation advanced modular reactors

- £500 million to be spent in the next four years on the development and mass-scale production of electric vehicle batteries and support for associated supply chains, boosting investment into our strong manufacturing bases including in the Midlands and North East.

Department for Transport (DfT)

- DfT's Core Research budget has increased by £700 million, delivering 13.8% average real terms increase per year since 2019-20. The Department's capital budget increases by £600 million in cash terms next year.
- This includes:
 - £120 million in 2021-22 which, in combination with DfT's existing commitment to complete the first All Electric Bus Town this financial year, will support delivery of over 800 cleaner, greener, quieter zero emission buses
 - Almost £2 billion of investment in electric vehicle charging infrastructure and grants for zero and ultra-low emission vehicles until 2024-25. This includes funding to support the rollout of rapid charging hubs at every service area on England's motorways and major A roads.

Department for Environment, Food and Rural Affairs (DEFRA)

- DEFRA's core research funding from 2020-21 to 2021-22 has been increased by £0.4 billion. The Department's capital budget has been increased by £0.6 billion in cash terms next year.
- This includes:
 - £92 million for the Nature for Climate Fund to keep the UK on track to restore more peatlands and plant England's share of 30,000 hectares of trees a year by the end of this Parliament. This will include expansion of the Urban Trees Challenge Fund and new investment in Community Forests, to bring trees and woodlands closer to where people live. This will support an additional 1,000 green jobs
 - An increase to the funding for National Parks and Areas of Outstanding Natural Beauty to more than £75 million, with a further £7 million to progress the England Coast Path and Coast-to-Coast National Trail. Additional funding for England's National Nature Reserves will also help more people enjoy the benefits of time outdoors
 - an additional £40 million investment in nature recovery through an extended Green Recovery Challenge Fund
 - support for increasing recycling and reducing waste, allowing Defra to progress with extended producer responsibility for packaging waste, introduce a deposit return scheme, and implement consistent collection of waste – including food waste – in every local authority in England by the end of this Parliament

Devolved Allocations and Local Authorities

- Using the Barnett Formula, which decides the allocation of Central Government spending that should go to the Devolved Administrations, £7.3 billion will be allocated, which includes Covid-19 related support.
 - £2.4 billion will go to the Scottish Government
 - £1.3 billion will go to the Welsh Government.
 - £0.9 billion will go to the Northern Ireland Executive.

- For Local Authorities, the Spending Review provides:
 - Core spending power for local authorities is estimated to increase by 4.5 per cent in cash terms in 2021-22, following the largest real terms increase in core spending power for a decade at SR19

Summary of announcements aiding the Green Recovery

Electric Vehicles

- The Spending Review includes £1.9 billion for charging infrastructure and consumer incentives for zero-emission vehicles. This includes:
 - £950 million to support the rollout of rapid electric vehicle (EV) charging hubs at every service station on England's motorways and major A-roads, so that motorists can charge their car on long journeys in the time it takes to have a cup of coffee
 - £582 million for the Plug-in Car, Van, Taxi, and Motorcycle Grant until 2022-23, reducing the sticker price of zero and ultra-low emission vehicles for the consumer
 - £275 million to extend support for charge point installation at homes, workplaces and on-street locations, while reforming these schemes so that they target difficult parts of the market such as leaseholders and small and medium-sized enterprises (SMEs)
 - £90 million to fund local EV charging infrastructure to support the roll out of larger onstreet charging schemes and rapid hubs in England.
- £500 million will be spent in the next four years by the UK government in the development of mass-scale production of EV batteries and associated EV supply chain.

National Infrastructure Strategy

- As part of the Spending Review, the Government has released its National Infrastructure Strategy. The plans include £100 billion of capital expenditure next year to support jobs and increase growth.

Business Rates

- Freezes the business rates multiplier in 2021-22, saving businesses in England £575 million over the next five years. The government is also considering options for further Covid-19 related support through business rates reliefs.
- The government will outline plans for 2021-22 reliefs in the New Year

National Home Building Fund

- In addition to the already announced £12 million for the Affordable Homes Programme, the Spending Review outlines £7.1 billion of funding for a National Home Building Fund.

Green Book

- As part of the Spending Review, the Government has released an updated Green Book, which updates the guidance on how to assess potential investments, to help achieve the aim of addressing regional imbalances.
- You can find the updated Green Book [here](#).

Investing in new technologies

- The Spending Review provides £1 billion for a Carbon Capture and Storage Infrastructure Fund and will help establish four CCS clusters by 2030.
- As outlined in the Prime Minister's 10 Point Plan, the UK aims to develop 5 Gigawatts of low-carbon hydrogen capacity by 2030, supported by a £240 million Net Zero Hydrogen Fund and £81 million for hydrogen heating trials.
- Under the Net Zero Innovation Portfolio (NZIP) Government will commit to £200 million in 2021-2022 to support new decarbonisation solutions and technologies such as Direct Air Capture and Low Carbon Hydrogen.

Greener Homes and Buildings

- The Spending Review confirms the Government's intention to invest £475 million to make buildings greener, including £150 million for energy efficiency and low-carbon heat improvements, and a further £60 million to retrofit social housing.
 - It also commits to extending the Green Homes Grant, as outlined in the 10 Point Plan, with a further £320 million of funding for 2021 -22.
- The Government is also committing to spending £3 billion on building decarbonisation and will review the allocation of this in the Spring of 2021.

Heat Networks and Heat Pumps

- Confirms £122 million in 2021-22 to support creation of clean heat networks.
- Highlights that measures to support the recently announced target of 600,000 heat pumps by 2028 will come in the forthcoming Heat and Buildings Strategy.

Natural Environment

- The Spending Review commits:
 - More than £90 million for the Nature for Climate Fund – to increase tree planting and peatland restoration in England in line with Climate Change Commission recommendations for nature-based climate solutions. This will help deliver England's share of the government's target to plant 30,000 hectares of trees a year UK wide by 2025.
 - A doubling of the Green Recovery Challenge Fund with a further £40 million to fund a second round of natural capital projects next year
 - £7 million to improve public access to green space by taking forward the Coast to Coast National Trail and England Coast Path and more than £75 million in funding for National Parks and Areas of Outstanding Natural Beauty.

National Infrastructure Strategy – Energy Networks

Of interest to renewable and clean tech developers, generators and investors, the section on 'network reform' in the infrastructure strategy makes interesting reading for hints as to future approaches to energy network operation:

'Network operators will ... be required to make investment decisions that are best for the operation of the whole system rather than their own network.'

'The government will review the right long-term role and organisational structure for the Electricity System Operator, in light of the reforms to the System Operator instituted in April 2019. It is possible that there will need to be greater independence from the current ownership structure, should it be appropriate to confer additional roles on the System Operator.'

'The evolution of the power system will also require the evolution of the networks to deliver power to people's homes and businesses and to ensure this infrastructure does not hold back the transition to electric vehicles, cleaner sources of heat or greater renewables on the grid. To enable this, government and the regulator will continue to ensure there is a common understanding of the future strategic direction to align policy objectives while maintaining the regulators' independence. If achieved, this approach could provide investors with greater certainty over longer-term investment decisions and support the transition of the energy network.'

It is not yet clear how this will translate to meaningful policy but more details will be expected in the forthcoming Energy White Paper.

Summary of general announcements

Levelling Up Fund

- The government is launching a new Levelling Up Fund worth £4 billion for England, that will attract up to £0.8 billion for Scotland, Wales and Northern Ireland in the usual way.
 - This will invest in local infrastructure that has a visible impact on people and their communities and will support economic recovery.
 - It will be open to all local areas in England and prioritise bids to drive growth and regeneration in places in need, those facing particular challenges, and areas that have received less government investment in recent years.
 - It will invest in high value local projects up to £20 million, including bypasses, community infrastructure or other transport projects.
- The government will set out further details on how to support levelling up across the UK in the New Year.

Employment Support

- £3.6 billion of additional funding will be given to DWP for 2021-22 to deliver labour market support. This includes:
 - The new 3-year long £2.9 billion Restart programme to provide intensive and tailored support to over 1 million unemployed people and help them find work
 - Work search support measures announced in the Plan for Jobs
 - The £2 billion Kickstart Scheme to create hundreds of thousands of new, fully subsidised jobs for young people across the country. To date, tens of thousands of Kickstart jobs have been created. This settlement confirms funding for over 250,000 Kickstart jobs.

