

Chancellor Rishi Sunak’s Spring 2021 Budget placed green growth at its heart in order to drive the UK’s recovery from the impact of the COVID-19 pandemic. Rob Broom (Associate) and Paul Brennan (Consultant) from our Energy & Natural Resources Practice explore the key takeaways for the energy sector.

1. New UK Infrastructure Bank

With initial capitalisation of £12 billion to support infrastructure projects – a UK Infrastructure Bank, headquartered in Leeds, will be established with £12 billion of equity and debt capital to finance local authority and private sector infrastructure projects across the UK.

Details on the mandate and scope for the Bank are set out in the “UK Infrastructure Bank Policy Design’ document” (the Policy Document)¹, published alongside the Budget. The Policy Document describes the new Bank’s core objectives, being:

1. To help tackle climate change, particularly meeting the UK’s net zero emissions target by 2050
2. To support regional and local economic growth through better connectedness, opportunities for new jobs and higher levels of productivity

The Policy Document describes the Bank’s primary focus as being on the infrastructure sectors covered in the National Infrastructure Strategy, “including clean energy, transport, digital, water and waste”. Clean energy and carbon capture and storage projects will, thus, be in competition for finance with a variety of other infrastructure projects. £4 billion of its of equity and debt capital will be allocated to Local Authority lending, potentially opening up opportunities for Local Authority sponsored district heating schemes and private electricity networks.

The new Bank is not seen as replacing funding from the European Investment Bank (EIB), of which the UK is no longer a member. A little optimistically, it is assumed that UK energy projects of the type that hitherto typically benefitted from EIB funding will now be funded by the private sector. Instead, the new bank will focus on crowding in private sector investment in new green technologies, helping to kick start new sectors – carbon capture usage and storage and hydrogen production and distribution spring to mind. It remains to be seen whether this new “long-lasting institution” will remain in the public sector for any longer than its predecessor, the Green Investment Bank, which was privatised just four years ago.

The Bank will offer a range of financing tools, including debt, hybrid products, equity and up to £10 billion guarantees.

2. Sovereign Green Bonds and Green Retail National Savings and Investment (NS&I) Product

Green Bond Issuance This Summer – The Budget confirms that the government will issue its first sovereign green bond – or green gilt – this summer, with a further issuance to follow later in 2021. In addition to financial returns, Green Bonds enable holders to verify the environmental gains their investments have delivered. Issuance for the 2021 financial year will total a minimum of £15 billion. This announcement does not come as a surprise, as Chancellor Rishi Sunak had already announced at the Green Horizon Summit in November last year that the UK will issue its first sovereign green bonds in 2021 as part of its COVID-19 stimulus planning.

A green gilt framework, to be published in June, will detail the types of projects that will be financed to help meet the government’s green objectives.

Green retail National Savings and Investment (NS&I) product – A green retail savings product will be offered in the summer of 2021 through the Treasury-backed saving scheme. This product will be closely linked to the UK’s sovereign green bond framework.

3. Carbon Price Support (CPS) and UK Emissions Trading Scheme (ETS)

CPS – The government will maintain the freeze on the rate of the CPS at £18t/CO₂e in 2022-23.

UK ETS – Continuing its commitment to carbon pricing as a tool to drive decarbonisation, the government intends to set out additional proposals for expanding the UK ETS over the course of 2021. The first auctions of allowances under the scheme, which replaces the EU ETS for UK business, is due to take place in Q2 2021. The government has yet to confirm whether other forms of carbon credits and allowances including EU ETS allowances can be used for the purpose of the UK scheme.

¹ UK Infrastructure Bank Policy Design’ document, available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966131/UKIB_Policy_Design.pdf, accessed 3 March 2021.



4. Offshore Wind

Able Marine Energy Park – The Budget confirms that the government will make an offer of support, in principle, to the Able Marine Energy Park on Humberside following the conclusion of the competition to upgrade ports infrastructure for the next generation of offshore wind. The aim is to attract investment in offshore wind manufacturing and support up to 3,000 high-quality, green jobs.

Teesworks Offshore Manufacturing Centre – The government will also sign a memorandum of understanding with Teesworks Offshore Manufacturing Centre on Teesside to support the development of another offshore wind port hub. Up to £160 million of support for manufacturing and ports infrastructure for the next generation of offshore wind has already been announced in the Prime Minister’s 10 Point Plan of October last year.

Floating offshore wind – In line with its commitment to double spending on energy innovation, which was also announced in the 10 Point Plan, the government will launch a £20 million programme to support the development of floating offshore wind technology.

5. Hydrogen

Holyhead Hydrogen Hub – Subject to business case, £4.8 million will be provided to support the development of a hydrogen hub in Holyhead, piloting the creation of hydrogen from renewable energy for use as a zero emission fuel in Heavy Goods Vehicles (HGVs).

6. Biomass

Biomass Feedstocks Programme – A £4 million UK-wide competition for the first phase of a biomass feedstocks programme, to support improvements in the production of green energy crops and forestry products.

7. Green Homes Grant

Green Homes Grant to continue – The Green Homes Grant will continue, though there are no proposals for its further extension, so the Budget offers nothing new when it comes to greening up existing housing stock.

8. North Sea Transition Deal

Aberdeen Energy Transition Zone – The government will provide £27 million for the Aberdeen Energy Transition Zone, which has been established to stimulate investment in new technologies in a part of Scotland that is heavily dependent on the North Sea oil and gas industry.

Global Underwater Hub and North Sea Transition Deal –

A further £5 million will be made available to the Global Underwater Hub in Aberdeen, subject to business case, on top of the £1.3 million previously committed, and up to £2 million to further develop industry proposals. These measures, along with the funding for the Aberdeen Energy Transition Zone, have been put forward as part of the government’s support for the North Sea Transition Deal, a partnership between the government and industry as envisaged by the [Industrial Strategy](#).

9. Energy Storage

£68 million will be set aside to fund a UK-wide competition to deliver first-of-a-kind long-duration energy storage prototypes to reduce the cost of net zero by storing excess low carbon energy over longer periods.

Conclusion

Reactions from industry might best be described as tepid. Sadly, though perhaps unsurprisingly, in face of the ravages wrought by COVID-19, the Chancellor has not matched his green rhetoric with firm commitments that are commensurate with the government’s 2050 net zero greenhouse gasses emissions target, or befitting of the host of the forthcoming meeting of the UN Climate Change Conference, COP26 later this year.

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