

Autumn Statement 2016

Implications for Power & Utilities Sector

November 2016



Carbon tax retained and support for electric vehicles, but questions remain about the shape of industrial policy and what Brexit means for the energy sector

Summary

- Carbon Floor Price retained to 2020-21, with rates unchanged at £18/tonne
- Significant tax breaks and infrastructure support for low emission and electric vehicles
- Government signals that it is 'watching closely' developments in retail energy market to ensure it works for all consumers
- Government 'considering further' the level of spending under the Levy Control Framework in the 2020s, with more details expected in the Spring 2017 Budget
- UK Guarantee Scheme extended to at least 2026
- Headline rate of Corporation Tax to be cut to 17% by 2020, but with less generous reliefs for interest and historical losses

Detail

Carbon Price Floor retained

The Chancellor retained the Carbon Price Floor (CPF), with rates frozen at £18/tonne to 2020-21 (to be uprated in line with inflation). This will come as a relief to renewable and gas investors, some of whom may have feared it being scrapped altogether in an effort to bring energy prices down.

No decisions have yet been made about the trajectory of the CPF post 2020, or indeed whether the CPF will be retained at all. The Autumn Statement simply refers to the Government considering further "the appropriate mechanism for delivering carbon prices in the 2020s". This is a coded reference to the complex interactions between the future of the CPF and the future of the EU Emissions Trading System (ETS).

Decisions on LCF in 2020s deferred

Similarly, whereas George Osborne had promised back in March to clarify the trajectory for the Levy Control Framework (LCF) in the 2020s, this decision has also been deferred to the Spring 2017 Budget.

The Government has recently confirmed that £730m of new spending on Contracts for Difference (CfDs) will be available in this Parliament, with the first auction for £290m starting in April next year.

This now appears to be all the guidance industry will get on the LCF in the 2020s, for the time being at least.

Tucked away in an annex of the OBR documentation are some figures showing the latest estimates of spend under the LCF to 2021-22. They show a marginal reduction in spend compared to the figures published by the OBR in March. (In 2011-12 prices, the latest forecast is for spending under the LCF in 2020-21 to be around £8.6bn compared to £8.7bn in the March 2016 Budget.)

Retail market being 'watched closely'

There was a veiled threat of Government intervention in the retail market, with the Chancellor singling it out as a market that they are 'watching closely' to ensure it is working for all consumers.

No doubt this is designed to put pressure on the 'Big 6' energy firms as they implement the recommendations of the recent review by the Competition and Markets Authority (CMA).

EVs get a boost as part of wider infrastructure package

The move to hybrid and fully electric vehicles was given a big boost through both tax and spending measures.

On the supply side, the Government has pledged £80 million of funding for charging infrastructure; while companies installing charging points for electric vehicles will be entitled to 100% first year allowances provided the expenditure is incurred by 31 March 2019.

To encourage demand for ultra low emission vehicles, the company car tax bands are to be amended, with an additional 1% applied for cars with emissions above 90g of CO₂/km.

The move to exempt the provision of ultra low emission vehicles under salary sacrifice arrangements from the increases to income tax and employer's NIC on employee benefits will further enhance the appeal of these vehicles for company car drivers.

These measures formed part of a wider package to boost infrastructure and innovation spending. The Government also announced that the UK Guarantee Scheme would also be extended to at least 2026. This could have a bearing on some energy projects, potentially including future nuclear projects.

No details on industrial policy or Brexit

However, there were no further details given on the shape of industrial policy and what this means for the energy sector. BEIS Ministers have indicated that a call for evidence will be issued soon, with a White Paper due in the Spring.

There were no further details on the Government's plans for Brexit, and whether the Government plans for Britain to remain part of the Single Market. This is important in the energy sector, given the planned increase in interconnection with the EU. However, there are no details yet on what Brexit means for the energy sector.

Corporation tax announcements

On Corporation Tax, the announcements in the Autumn Statement confirmed recent trends, with reductions in the headline corporation tax rate to 17% from April 2020 tempered by increases to the tax base with less generous reliefs for interest and historical losses.

Interest deductibility

Following recent consultation, the Chancellor confirmed that from 1 April 2017 a 'Fixed Ratio Rule' will be introduced limiting the amount of deductible interest to 30% of the UK group's UK taxable profit.

Groups also have the option of applying a higher percentage (the Group Ratio Rule) based on the ratio of a Group's worldwide net external interest to Group EBITDA.

Many will be heartened by the statement that the provisions may not apply to public benefit infrastructure, yet with no details having been published there remains uncertainty as to the scope of the exemption and whether energy investment will fall within that exemption.

Further details on the technical aspects regarding how the new rules will apply and the scope of the infrastructure exemption is expected to be included within the draft Finance Bill alongside further consultation to be published on 5 December.



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Loss relief

The Chancellor confirmed the previously announced plans to limit companies' ability to use losses brought forward for companies and groups with UK taxable profits over £5 million.

From 1 April 2017, these companies will only be able to offset brought forward losses against 50% of their taxable profits, extending the period over which losses are utilised and bringing forward the date on which companies pay corporation tax.

These changes will affect the sector where significant losses are generated from capital allowances claimed during the development and construction phases of a project. The adverse timing impact of deferring the benefit of these early year tax losses will impact post-tax project returns for such projects.

No details were provided on the implementation of changes to group relief rules which were announced in the March 2016 Budget. Details on how groups can more flexibly utilise losses arising from April 2017 onwards are expected on publication of the Finance Bill 2017 on 5 December.

Substantial shareholdings exemption

The Chancellor confirmed the substantial shareholdings exemption, which exempts capital gains on the disposal of certain shareholdings, is to be expanded and simplified. It is expected to apply in a greater number of circumstances benefitting non-trading groups and institutional investors from April 2017.



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