GREENPEACE

Greenpeace UK: Briefing on Spending Review and Budget, Autumn 2021

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1. Introduction

On Wednesday 27th October, the Chancellor will publish the Government's Autumn Spending Review and Budget. This will set out the plan for public spending over the next three years. Questions of tax reform and other short-term measures to support the UK economy as it recovers from the shock of the pandemic may also be considered.

The UK currently ranks 6th out of the G7 nations for investment in climate infrastructure. The Spending Review and Budget is an opportunity to get the UK back on track with a green stimulus.

This briefing outlines some of the key priorities to ensure that the UK tackles the climate and nature emergencies at the same time as supporting a prosperous and fair economic recovery. This is also critical for the Government's global credibility ahead of the UK-hosted COP26 climate conference in November.

2. Reasons for a green economic stimulus

The overwhelming economic consensus is that the focus should be on supporting economic recovery, rather than considering spending cuts or major tax increases to reduce the deficit - as outlined by the OECD, the IMF and President Biden. Given the pressing need for a cross-economy green infrastructure programme to tackle the climate and nature emergencies, this lends to supporting a green stimulus package at the Spending Review and Budget. An Oxford University Smith School study concluded last year: "*there is strong evidence that green stimulus policies are economically advantageous when compared with traditional fiscal stimuli.*"

The OBR have also highlighted that it makes fiscal sense to invest in climate action now: *"While unmitigated climate change would spell disaster, the net fiscal costs of moving to net zero emissions by 2050 could be comparatively modest."*

Such action would be popular with the public. The environment and climate ranks as the 3rd most important issue for the public, with 62% saying spending should increase. 56% of voters in key Conservative constituencies, including in the North of England, think the Government should be doing more on climate, compared to only 26% who say they are currently doing the right amount. More than two thirds (71%) say that the Government can't afford not to implement policies intended to address it. A plurality of people in almost every demographic is more concerned about the economic cost of inaction than the cost of net zero policies.

3. Government spending priorities

Greenpeace has calculated that **an extra £73 billion of public investment is needed over the next three years (or around an extra £25 billion per year)** in green homes, clean transport, nature, circular economy and support for workers to transition to green jobs. This would create 1.8 million jobs in 'shovel-ready' projects over the course of 4 years. This investment should be directed in the following areas:

Green homes:

- Around 17% of UK greenhouse gases come from buildings, with 14% coming from homes. It will not be possible for the Government to meet its net zero target without substantially scaling action and investment on decarbonising housing.
- The Climate Change Committee (CCC) estimates that, by 2050, 75% of our homes will be heated by heat pumps. The UK is currently lagging behind our European neighbours on the roll out of heat pumps, and the Government's current plan to decarbonise homes won't cut emissions enough to meet its own legally binding climate commitments.
- We need an extra £12bn of public investment to green our homes over the next three years (with £4.76bn for heat pumps, alongside £7bn for energy efficiency). This should be delivered in the form of a comprehensive package of grants, loans and tax incentives that would see the deployment of heat pumps rapidly ramped up, covering the full cost for low-income households.
- This level of Government investment is supported by the Energy Efficiency Infrastructure Group which includes CBI, E.ON, Energy UK, Institute of Mechanical Engineers, Royal Institute of British Architects as well as a host of other companies. It is also supported by civil society groups including E3G, Friends of the Earth, CPRE, the End Fuel Poverty Coalition, WWF and Greenpeace.
- If the Government acted now, with increased ambition and finance, up to 138,600 new jobs could be created and the economy would be boosted by £9.8bn by 2030.

Clean transport:

- Transport is the largest source of carbon dioxide emissions in the UK and a major cause of poor air quality. The Transport Secretary has acknowledged that in future "public transport and active travel will be the natural first choice for our daily activities", and has confirmed some spending to make this happen. However, to truly unlock the levelling up potential of transport investment, we need to be far more ambitious.
- To connect left-behind communities and create thousands of jobs, the Government should provide at least £11bn per year a year additional public investment in low carbon transport infrastructure across the UK and reallocate the funds earmarked for new road building under the £27bn road investment strategy in England (RIS2).
- This includes: £3bn per year to provide free public transport for people on the lowest incomes; £6bn per year to expand and electrify local and regional bus and train services, restore routes that were cut and switch buses and coaches to zero emission power; at least £4bn extra over the next three years to deliver the Government's existing target of doubling cycling and increasing walking in England by 2025; and £1bn per year to upgrade trams and build new tram systems.
- This level of Government investment is supported by The Climate Coalition.
- Sustainable transport infrastructure investment could create 229,000 jobs over the

next two years.

Nature:

- The next three years will be critical to the Government's chances of halting the decline of biodiversity. There is a major gap between existing funding commitments and the level of investment needed to meet the Government's nature and climate targets. £4.6bn extra public investment is needed per year to help fill this gap.
- This includes: £2.26bn per year for restoring and protecting habitats and species across the UK to halt the decline of nature by 2030; £1.83bn per year to support greater access to nature where people live and work; and £483m per year for advice, data, enforcement, and capacity-building to underpin our environmental commitments.
- This level of Government investment is supported by Wildlife and Countryside LINK.
- Improving woodland, peatland and urban parks could create over 16,000 jobs in 20% of constituencies with the worst employment challenges.
- Investment in nature produces better returns per £1 than traditional infrastructure. Every £1 in peatland restoration returns £4.60 in benefits (better than the benefit cost ratios of most elements of the new roads programme), with £2.80 for woodland.

Circular economy:

- Tackling the nature emergency requires us to significantly reduce our use of natural resources, as well as generating much less waste (such as plastic pollution), in order to minimise destructive impacts on rural and marine environments.
- The Government's £1bn Waste Infrastructure Delivery Programme should be redirected towards supporting innovation in reuse, repair, efficient and sustainable product design, domestic recycling and reprocessing infrastructure, as opposed to energy from waste projects and other downstream waste activities. The £1bn should be spent over the next three years to speed up infrastructure investment, rather than over a longer period, as is currently envisaged. As part of this, the Government should allocate a new £400 million starter fund to support the UK to transition to a circular economy, including resource-efficient business models, thereby unlocking significant private investment.
- This level of Government investment is supported by WWF, RSPB, the WI and others.
- Supporting a transition to a circular economy could create four times as many jobs in repair, rental and recycling as in standard waste treatment and disposal, with many of these jobs being focused around North East England and the West Midlands. Around £10bn in additional profits could be generated through resource-efficient manufacturing.

Support for workers to transition to green jobs:

- A transition to a low carbon future that doesn't have fairness embedded in it is far less likely to succeed, and will have much less legitimacy. It is also undesirable in and of itself. Yet it is not a given that a rapid climate transition will lead to the creation of high volumes of decent, secure new work here in the UK. A proactive and well-funded strategy is required, led by the UK central Government, working in collaboration with empowered local authorities, businesses, unions and other relevant stakeholders, so that the green transformation is also one in which UK communities feel engaged and can flourish.
- Explicit financial support should be provided, for local and regional distribution, to aid skills development, retraining and local investment (such as locating and enhancing potential development sites for green infrastructure projects, research centres that

could serve local economies and centres of excellence, and local business support loans and advisers). The Government's proposed Shared Prosperity Fund of £2.16bn per year should be at least doubled for this purpose. This should be directed particularly in areas where there are workers in carbon-intensive or exposed industries.

- This level of Government investment is supported by Green Alliance, WWF, RSPB, the WI and others.

4. Tax considerations

Principles for reforming the tax system to support a green and fair transition -The current tax regime is not aligned with the UK's net-zero mission. The tax system can incentivise environmental goods, reduce emissions intensive and other environmentally destructive activities, encourage people and businesses to make the most of emerging low carbon opportunities and raise funds. Action is urgently needed to ensure the tax system encourages and does not penalise green innovation, whilst ensuring that the most vulnerable in society are protected. These principles should be followed to deliver these goals effectively.

VAT on low and zero carbon products and services - Scrapping VAT on green goods, for example insulation, solar panels and electric cars and on services, such as retrofitting homes to make them low carbon, can help to stimulate growth and investment.

Carbon pricing - The Chancellor is considering new carbon pricing schemes, in addition to a UK Emissions Trading Scheme following the departure from the EU ETS. This should be implemented alongside other policies to support rapid decarbonisation, and the design must ensure that lower income households are not penalised. Carbon and environmental pricing should not primarily be used as a way to raise revenues. Income must be at least partially recycled to support the transition, especially in most affected households or sectors.

Green levies on energy - The Government is considering shifting levies for environmental and social programmes away from electricity to either fossil gas or general taxation. This would create useful incentives to reduce carbon emissions from heating and reduce gas dependence, and would broadly be progressive because many of the lowest-income in society are more reliant on electricity than gas. However, low income households who are potentially more exposed to a high gas price than a high electricity price must also be supported with, amongst other things, a sharp uptick in energy efficiency targeting, thermal performance regulation on social and private landlords, and targeted support from local authorities and energy companies.

5. Measures the Government should not pursue

New nuclear - Given the nuclear industry track record on cost inflation, delays, and security risks, there should be no decision to support Sizewell C. New nuclear is not a useful response to the current gas price shock, and beyond Hinkley Point C can have no role in delivering the UK's 5th carbon budget targets or its 2030 decarbonisation target under the UNFCCC. EDF's hope to get UK Government loans and upfront payment for the £20bn project would load risks onto consumers and taxpayers, compounding the mistake made by the Government's previous Hinkley Point C deal, which was widely criticised. The EPR reactor, even in EDF's home country, remains a basket case in terms of cost overruns and delays. Renewable energy is already less than half the cost per unit of power generated than nuclear energy, and there is increased recognition of the feasibility and cost-effectiveness of an 100% renewables approach. Further, a raft of studies this year show that for the entire UK energy system, no new nuclear, or certainly no new nuclear after Hinkley Point C, is required.

Blue hydrogen - At least £260m appears to have been committed in the Government's Ten Point Plan for climate for blue hydrogen (fossil fuel derived hydrogen with carbon capture and storage) for heating and cooking in homes. This would not be a good use of money, given it is not compatible with net zero. According to the Climate Change Committee, if used for heating, blue hydrogen from natural gas can only cut emissions by 60% to 85% compared to gas used directly in boilers. The Net Zero Strategy should not pursue fossil derived hydrogen given its use will require CO_2 removal from the atmosphere, about which there can be no guaranteed success given the technological immaturity. There are parts of the economy that will be difficult to electrify (using renewables power) and hydrogen could play an important role, but the emphasis must very much be on green hydrogen derived from renewable energy to deliver it.

New roads - The £27bn Road Investment Strategy (RIS2) undermines the Government's ambition to cut emissions from transport. Road building has low job creation potential, inconclusive economic impact, and what jobs can be created through road building come at a greater cost than investment in public transport, walking and cycling. RIS2 still focuses primarily on investment in the South of England despite the Government's commitment to 'levelling-up' communities outside of London and the South East. The funds earmarked for new road building under RIS2 should be reallocated to provide low carbon transport infrastructure across the UK.

Offsetting - Carbon offsetting has a well-documented history of failure in delivering genuine, additional and permanent benefit to the climate, while causing harmful social impacts and biodiversity loss. The Government's support for scaling voluntary carbon markets (VCM) without any requirements for companies to prioritise reducing emissions or acknowledging carbon constraints in line with 1.5°C-aligned pathways, through the Taskforce on Scaling Voluntary Carbon Markets, the Voluntary Carbon Markets Integrity Initiative and the UK VCM Forum threatens to fundamentally undermine the global delivery of the Paris Agreement's temperature limit. Rather than promoting offsetting, the Government should focus on the green tax and spending priorities in this briefing. Ministers should also prioritise setting clear carbon limits; establish rules to prevent market participants from greenwashing instead of focusing on direct emissions reduction; and establish strict governance to ensure integrity and the protection of biodiversity and human rights.

Slashing the aid budget - Successful leadership from the UK at COP26 depends on the UK stepping up its financial support for the world's poorest countries that are on the frontline of a climate crisis, not stripping it back.

6. Emergency support packages for key economic sectors

Any short term financial rescue packages for companies should be granted on strict conditions that are compatible with a green recovery. This is particularly important given that the sectors which have asked for bailouts over the last year include some of the most polluting industries, such as aviation and fossil fuels. The following principles should apply:

- **Put people and workers first.** Companies receiving bailouts must suspend dividends and executive bonuses until state-backed loans have been repaid in full; they must ensure all workers maintain a full and secure income for the duration of the crisis; and Government and industry must support workers in high-carbon industries to reskill and find secure, well-paid jobs in sustainable sectors, such as renewable energy.
- **Protect the environment.** Any polluting sectors or companies should be required to take immediate steps to align with the Paris Agreement, and to develop a longer term plan to decarbonise, without reliance on offsetting.
- **Account for public spending on rescue packages.** Companies receiving bailouts should be required to report publicly on their spending of the funds they have received.

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