# The Green New Deal
## Securing Our Future

**A budget submission from the Green New Deal Group**[i]

The Group welcomes government commitment to invest in our infrastructure and has long argued that it is prudent for government to borrow to invest while interest rates are low. This briefing sets out how that borrowing can be financed in a way that can create a safe place for our pensions and savings by making small changes to existing tax incentives, while investing in our collective future by modernising our infrastructure to meet the challenges of both climate and social crises.

## The Green New Deal is about transforming our future

- The climate science argument is settled: we now know that global heating is created by human activity;
- As a result, we have to beat human-created global heating or face massive and unpredictable risks to human life;
- This requires significant investment in transformed infrastructure, training and businesses to ensure that we can both survive and prosper;
- The Green New Deal is a plan to tackle our climate, ecological, social, and economic crises;
- The intention is to transform almost every aspect of our economy and society, in a way that will make life better for all of us.

The Green New Deal will:

- Make the UK's 30 million buildings energy efficient;
- Turn buildings into power stations;
- Build new social housing;
- Invest in renewable energy on and offshore;
- Create better energy delivery systems;
- Transform our transport infrastructure;
- Require business to become zero carbon;
- Provide business with funding for investment to achieve that goal;
- Transform the way we produce the food we eat;
- Provide security for people's savings;
- Deliver pensions that will work;
- Create hundreds of thousands of jobs across the country.

## How much will this cost?

The current best estimates of the likely cost of a Green New Deal come from the think tank Common Weal[ii] who calculate the likely total cost to Scotland of the Green New Deal as £170bn. Extrapolating their calculations suggests the cost for the UK as a whole may be £100 billion a year for ten years minimum. £100 billion is less than 5 per cent of UK GDP.

## Summary costs of the Common Weal, Common Home Plan[iii]:

| Task | Cost (£bn) |
|---|---|
| Improving thermal efficiency of existing housing stock | 40 |
| Upgrading thermal efficiency of public buildings | 5 |
| Support for small and medium businesses in improving thermal performance of their buildings | 3 |
| District heating ring main | 9 |
| District heating ring main to house (including boiler replacement) | 25 |
| Thermal generation and heat store to heat ring main | 17 |
| Installation of new renewable energy capacity | 21 |
| Nationalisation of existing energy capacity | 10 |
| Upgrade electricity grid and install local battery storage | 4 |
| Build electrolysis plants and hydrogen storage | 10 |
| Invest in zero-carbon travel including charging and refuelling infrastructure | 10 |
| Invest in new food distribution systems, supply-chain shortening, novel food production and import substitution | 1 |
| Establish a National Resources Agency and invest in transition to a circular economy | 1 |
| Invest in a transformation of land practices | 10 |
| Workforce training, retraining and business transformation | 1 |
| Industrial strategy | 2 |
| Create a research and development hub for the entire project | 1 |
| **Total** | **170** |

## How do we pay for the Green New Deal?

There is no need to increase taxes to finance Green New Deal investment, instead as this briefing sets out, existing savings can be directed into Green New Deal investments. This can be achieved by changing pension and ISA regulations so that as a condition of tax relief on these funds either a part or, in the case of ISAs, all new funds going into these arrangements must be saved in bonds and other financial instruments issued to fund investment in the Green New Deal.

Around £100 billion a year is currently paid into UK pension funds and all of that money gets tax relief from the government. The total tax subsidy costs £54 billion a year[iv]. We propose that 25 per cent of those contributions should go into Green New Deal Investment in exchange for that tax relief. That would supply about £25 billion a year to the Green New Deal.

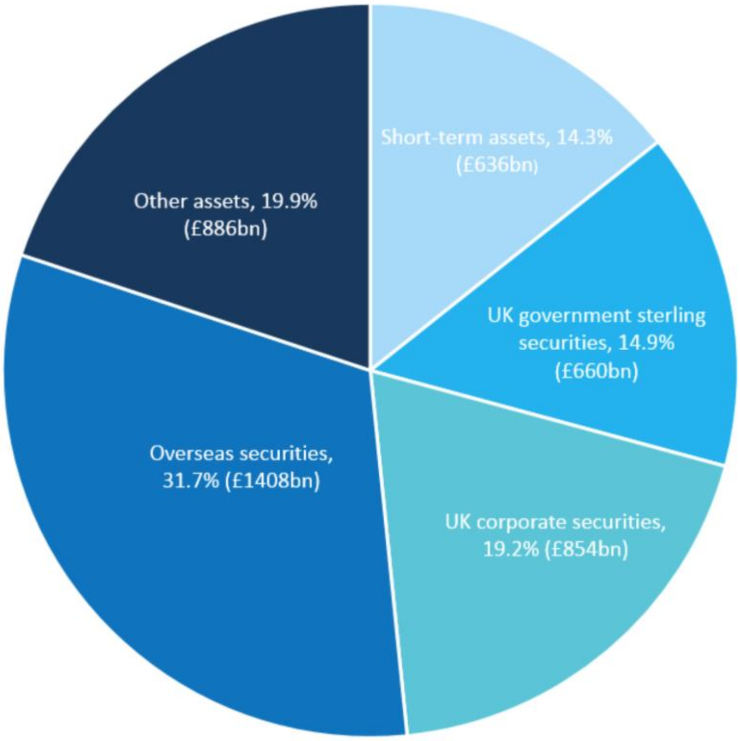
In addition, around £70 billion is saved in ISAs a year[v]. If ISA tax relief was dependent on these funds being invested in the Green New Deal in future at a government guaranteed rate of 1.85 per cent (which is the UK government's current average cost of borrowing) we think that all this money might be available to the Green New Deal.

Together these two sources of funds could, by themselves, fund the whole cost of the Green New Deal before any other matters, like the tax paid by people working in new Green New Deal jobs and economic multiplier effects are taken into account. Additional tax revenues and multiplier effects are also likely to arise from Green New Deal investment as the inclusion of a real living wage would generate additional tax revenues, helping pay for much of the Green New Deal in the medium to long term whilst at the same time relieving some of the impact of austerity.

## Changes to pension arrangements

A pension fund's trustees may invest funds on behalf of their members as they see fit, or in accordance with the specific member's instructions, and in each case so long as either a) the limited rules on use of pension fund investments to prevent abuse are complied with and b) rules with regard to what is considered prudent conduct by trustees are also met.

The consequence is that considerable discretion is available, despite which the range of assets invested in is quite small. This data is the latest available and comes from 2017, via the UK Office for National Statistics[vi]:




**Source: Office for National Statistics – Annual Balance Sheet Surveys**

The total sum invested in pension funds in the UK in 2017 was £4,444 billion, of which 14.30 per cent were short term assets that are mainly cash linked in some way, while 19.9 per cent other assets are mainly property but also include hedge fund, private equity and other assets.

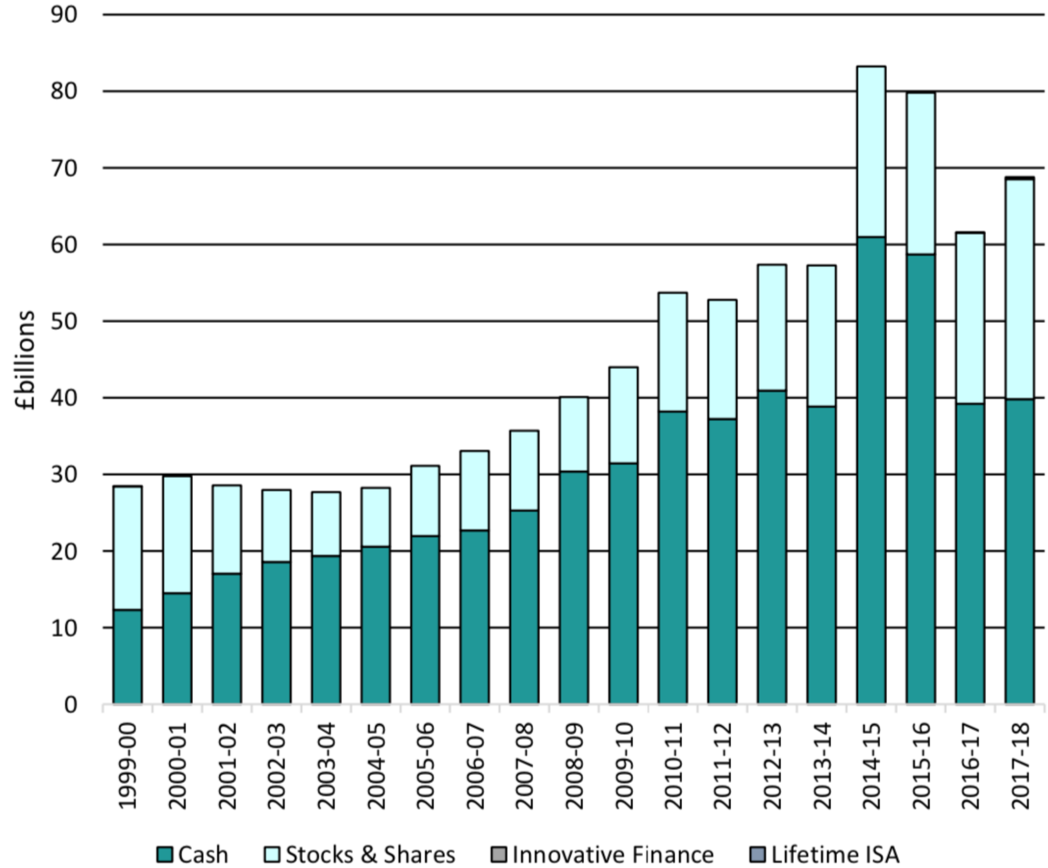
The Green New Deal Group's proposal is that one quarter of all new pension fund investments – or about £25 billion a year – be required by law to be invested in Green New Deal-related bonds each year. This is less than 0.6 per cent of total pension assets each year. After a decade, that would mean that 5.6 per cent of pension assets might be invested in Green New Deal bonds.

The change can be effected by law stating that:

- One quarter of all new pension contributions must be invested in Green New Deal related bonds;
- Pension fund trustees are indemnified from legal claim for doing so;
- Penalties for not doing so will be introduced;
- Pension trustees will be required to make an annual return confirming that they have complied with this requirement;
- All pension fund savers must be provided with report by their trustees detailing the Green New Deal funds that they have had their savings invested in.

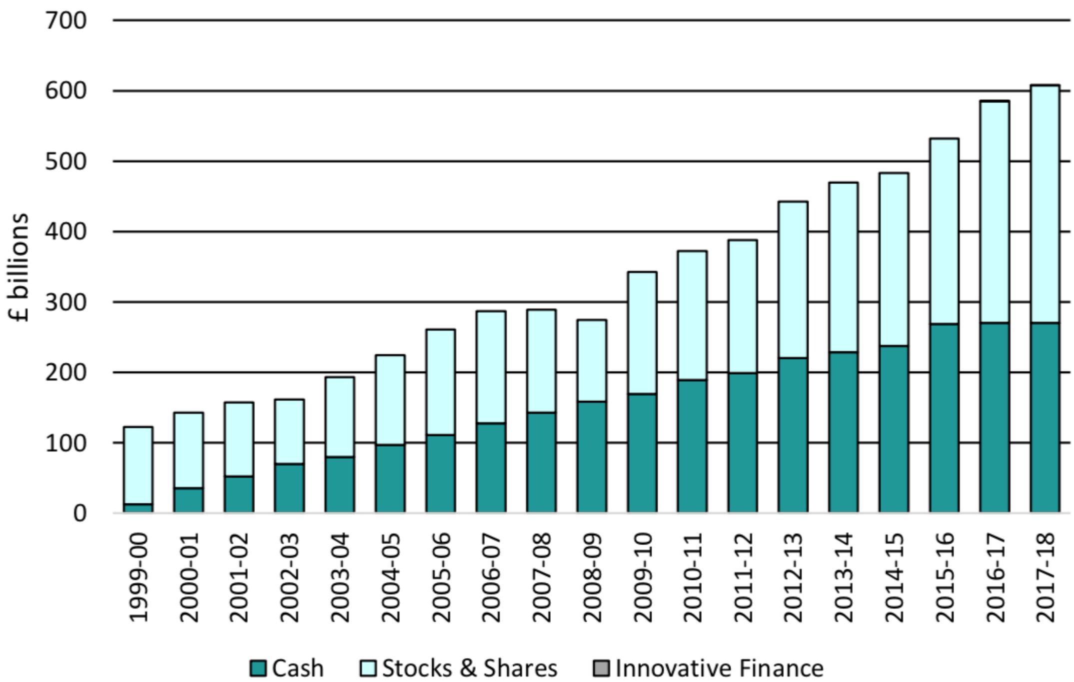
## Changes to ISA arrangements

According to the latest available data[vii] the amount subscribed to ISAs per annum, from 1999 to 2018 has risen from under £30 billion a year between 1999 and 2005, to an average of £70 billion a year between 2014 and 2018. Well over 50 per cent of sums contributed since 2001 have been into cash ISAs.




The rules governing ISA funds mean that they can only be invested in a limited range of funds, of which by far the most common are cash and shares. Over time, the total volume of funds in ISAs has grown, reaching just over £600 billion by the end of 2018.

**Chart 4 - Adult ISA fund market values**



The Green New Deal Group propose that in return for the tax relief provided on these savings all new ISA contributions should be invested in Green New Deal bonds. This will require a change in ISA rules, and would apply to all new contributions leaving existing funds invested if they are reinvested in new funds.

Most Green New Deal bonds to be used by ISAs will be those issued by the government with a guaranteed interest rate attached, which will directly replace ISA cash investments. The only stocks and shares that an ISA might invest in in the future will be those that will have been approved as Green New Deal investments i.e. they will have been issued to fund Green New Deal investment. These changes require a simple change to the law on what ISA funds may be invested in, but not to the basic framework of ISAs themselves.

## What Green New Deal Investments will need to be issued

Green New Deal investments will take the form of a range of products that will be made available for people and pension funds to save in, including:

- Green gilts issued by central government to fund Green New Deal projects;
- Bonds issued by a National Investment Bank to fund:
    - Green New Deal projects;
    - The energy efficiency transformation of 30 million properties in the UK;
    - New social housing;
    - New transport infrastructure;
    - Renewable energy;
    - Research and development;
    - Green New Deal training;
    - Businesses who want to work to deliver the Green New Deal;
- Local bonds issued by devolved governments, cities and counties to support investment in Green New Deal projects in Wales and Scotland and at the local and county level;
- Approved shares and bonds issued by companies to fund their own approved Green New Deal projects.

## The provision of a guarantee for these savings products

At present the UK has what is called Financial Services Compensation Scheme. This scheme means that anyone who has up to £85,000 in a bank deposit account is guaranteed to be repaid by the government if the bank with which that account is held fails. Everyone with significant savings understands the value of a government backstop guarantee for their savings.

The Green New Deal savings arrangements would involve a similar guarantee. Every Green New Deal approved bond or deposit would be backed up by the government to the same limit as the Financial Services Compensation Scheme. Savings would, then, be safe. The cost to the government need be no more than the existing scheme it has already offered, most especially because the whole scheme is simply designed to redirect savings from their current, unproductive, use to arrangements that might help deliver social, economic and environmental transformation for our society.

The government can offer such a guarantee because unlike anyone else a government can create the money needed to back up its promises, or guarantees, which is exactly what it did when over the last ten years it effectively supplied £435 billion of funding to UK banks and other financial institutions through its quantitative easing programme, which backed up their solvency. We call our guarantee scheme green quantitative easing (QE). What Green QE guarantees is that the money to deliver the Green New Deal will always be secure. And what that means is that we think more than enough money to deliver the Green New Deal will be made available to it by UK savers.

## The role of business in the Green New Deal

The Green New Deal will need to involve all sectors of society, including business. To make sure business is fully involved in the Green New Deal, the Green New Deal would include measures to ensure that all large businesses must prepare a plan for how they and their supply and customer chains will become net zero carbon emitters, ideally by 2030. These plans would need to be costed, audited and published.

Once these plans were complete, large businesses would then need to include the whole cost of transition to becoming net zero carbon in their accounts by not later than 2022. If their core activity is at odds with doing business in a net zero climate emissions future, they will need to set out how this will change or how they will wind up their affairs over the time period that the transition permits.

Irrespective of whether or not they can make the transition, all large businesses will need to provide annual updates on these cost estimates, how much of them has actually been spent, and what the changed estimate of the total likely spend required to be net carbon neutral might be will need to be included in the annual accounts of the companies in question.

For those businesses who need new funding and don't know how to access it but who, nonetheless, think they can make the transition, the National Investment Bank will be there to help: using its resources, backed by Green QE if necessary, it will provide the support to ensure that these businesses, and the jobs of those who work in them are safeguarded through the process of transition to a post-carbon economy.

A new form of insolvency – carbon insolvency - will be created for businesses that cannot make the transition. This will require the orderly winding up of the affairs of the companies involved, and the investment of new funds through the Green New Deal programme to assist those whose jobs will be impacted. The National Investment Bank backed by Green QE if need be, will provide funding for the training and redeployment of all workers impacted by the carbon insolvency process.

For businesses that look like they can prosper with zero net carbon emissions, the future will look very good indeed.

## Endnotes

---

[i] This briefing was prepared on behalf of the Green New Deal Group by Richard Murphy. For more information, contact: richard.murphy@taxresearch.org.uk / 0777 552 1797

[ii] McAlpine, R, Dalzell, C and Venabales E (ed), (2019) The Common Home Plan: A Green New Deal for Scotland, Common Weal, Available at: https://commonweal.scot/policy-library/common-home-plan [Accessed: 19/02/2020]

[iii] McAlpine, R, Dalzell, C and Venabales E (ed), (2019) The Common Home Plan: A Green New Deal for Scotland, Common Weal, p27, Available at: https://commonweal.scot/policy-library/common-home-plan [Accessed: 19/02/2020]

[iv] Table 6 (2012-13 to 2017-18), Cost of Pension Tax and NICs Relief, Office for National Statistics, First published, 24 February 2014, last updated, 26 September 2019. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/833859/Table_6_Cost_of_Pension_Tax_and_NICs_Relief__2012-13_to_2017-18_.pdf [Accessed: 19/02/2020]

[v] Individual Savings Accounts (ISA) Statistics, HM Revenue and Customs. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/797786/Full_ISA_Statistics_Release_April_2019.pdf [Accessed on: 19/02/20]

[vi] MQ5: Investment by insurance companies, pension funds and trusts: October to December 2018, Office for National Statistics, Available at: https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/mq5investmentbyinsurancecompaniespensionfundsandtrusts/octobertodecember2018#announcement. Accessed on: 19/02/20

[vii] Individual Savings Accounts (ISA) Statistics, HM Revenue and Customs. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/797786/Full_ISA_Statistics_Release_April_2019.pdf [Accessed on: 19/02/20]