A POPULAR BUDGET

Proposals from the Green New Deal Group

Larry Elliott, Ann Pettifor and Colin Hines

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Foreword

Not many Budgets linger long in the memory, and most are quickly forgotten. The one to be delivered by Rachel Reeves on November 26 is one of the exceptions. Adding to the furore of speculation over what Rachel Reeves has in store, there are now also the headline grabbing threats to Keir Starmer's leadership. Both these problems have led to calls from Labour MPs, activists and commentators for Labour to develop a clear narrative for how to achieve a vote winning, long term plan.

The purpose of this publication 'A Popular Budget' – to Fund a Social and Green New Deal' is to provide a radical input to the debate in the lead up to the budget. It provides this clear goal for government policies and most importantly provides an alternative to the far too infrequently challenged conventional economic policies, which are the roadblocks to its achievements.

This involves the government having the courage to reverse the economic constraints imposed by previous governments and to take back control of the levers of government policy that can fund a Social and Green New Deal that responds to the public's priorities. These include reversing the damaging independence given to the Bank of England, so that it can serve the goals of the elected government, rejecting the austerity bias of the Office for Budget Responsibility, redirecting part of the massive personal savings such as ISAs and pension funds into a 'Savers as Saviours' approach and thus provide tens of billions of much needed funding. This would have the additional advantage of lessening the dependence on investments from the bond markets and so weaken their sway on government decisions. Indeed, the economic activity and the investment potential of a Social and Green New Deal could act as an inducement to attract whatever lower level of foreign investment the UK government felt it needed.

Finally, to illustrate how a Social and Green New Deal could benefit every community in the UK, the example of dramatically improving the energy efficiency and decarbonising the country's 30 million homes is used. This will decrease energy bills, dramatically decrease fuel poverty, improve comfort levels and generate hundreds of thousands of jobs across every constituency. That's the social advantages of such a policy, the green plus of cutting fossil fuel energy use in dwellings is also enormous, given that the present leaky and predominantly gas heated homes and buildings generate around **25% of UK greenhouse gas emissions**.

A Popular Budget Requires Rachel Reeves Ditching Economic Orthodoxy

It is deja-vu time for Rachel Reeves. This time last year she was gearing up for the first Labour budget in 14 years and warning that she needed to clear up the financial mess left by the Tories with a one-off package of measures that would balance the books.

It didn't work out like that. Having said she would not need to repeat the £25b of tax increases that formed the centrepiece of her 2024 package, the chancellor now looks set to do precisely that. As members of the Green New Deal group predicted at the time of the first budget, the dire warnings of the impending pain followed by the grim reality led to slower growth and a higher-than-expected budget deficit. So, the 2025 budget is gearing up to be a repeat of that of 2024, with the chancellor trying to find something – or someone – to blame for the fresh dose of fiscal pain she is about to impose.

The run-up to this year's budget has been chaotic. Reeves looked set to raise income tax by 2p but then performed a hasty U-turn as the proposal bombed with Labour MPs, Labour activists and the wider public. Instead, the latest signs are that the package will include a range of smaller measures designed to raise cash for the Treasury and to placate the financial markets.

Continuing down this path presents a real risk that the economy will never escape the doom loop in which tax increases and spending cuts, intended to reduce the budget deficit, prove to be self-defeating, because they lead to lower tax receipts and higher welfare payments. Reeves should learn the lessons of the coalition government led by David Cameron, which found that austerity slowed the pace of deficit reduction. As Keynes once said, governments should take care of the economy and let the deficit look after itself. That basic Keynesian notion has been disregarded by parties of both left and right – with disastrous consequences.

Last year's National Insurance and other tax rises and sluggish growth – coupled with other policy mistakes – have made the government hugely unpopular very quickly. Never in recent history has a ruling party seen its support erode as fast as has Sir Keir Starmer's administration. Despite winning more than 400 seats at the 2024 election, Labour secured only 34% of the vote. Clearly, the public wanted rid of the Tories but they were unsure about Labour and have seen their misgivings confirmed. It is widely felt that another austerity budget will not only damage the economy but also make it more likely that Reform UK will win the next election.

The cost-of-living crisis has for some years been a predominant concern amongst the public. Many households for example are struggling with the rising cost of heating their homes. Since it was set up, the Green New Deal Group has been **calling** for serious money to be put behind improving the insulation of Britain's housing stock and replacing gas heating and cooking with electricity as a way of cutting energy bills, reducing greenhouse gas emissions and creating well-paid jobs across the country.

That argument has been strengthened by the rise in bills since the start of the war between Russia and Ukraine. Research by Citizens Advice showed that over half of Britain's homes – **around 18m** – have poor energy efficiency, with an energy performance certificate of D or lower. Homes with a very poor rating of F end up with huge energy bills, in excess of **£4000** per year. Those bills for a typical flat could **be cut by more than half** if retrofitting homes raised that rating to a C, making a material difference to hard-pressed households. This issue is explored in more detail later in this report.

Given this, it is incredible that far from stepping up its commitment to greening the economy, Labour has been scaling back its ambition, citing the need to reduce borrowing as **the reason for gutting its Green Prosperity Plan**. **The same argument has been deployed** to justify reducing welfare spending and cutting the aid budget. Reeves is effectively hamstrung by her own self-imposed fiscal rule that stipulates current public spending must be more than covered by tax receipts at the end of each rolling four-year period. The Office for Budget Responsibility {OBR} will produce a report to be **released on budget day** that is expected to say that Reeves will break her rule without tax increases or spending cuts running into tens of billions of pounds.

However there is no reason for Rachel Reeves to slavishly follow the OBR's dictates. She could say she has noted the contents of the OBR report but decided not to act on it. That would be a perfectly valid response given that the OBR's forecast is little more than informed guesswork. But the chancellor fears that the bond markets will come after her if she breaks her fiscal rule. The rationale for this self-imposed austerity is that the bond markets will respond positively to a tough approach and that as a result the interest rate the Government pays to borrow money will come down. The markets have already fired a warning shot across the chancellor's bows. The decision to abandon the increase in income tax led to an increase in the Government' borrowing costs. It now looks highly unlikely that the bond markets will give Reeves anything other than a temporary reprieve even if the Budget proves to be less politically and economically damaging than currently expected.

The economy is already weak, with unemployment at its highest in four years. Higher taxes will provide a fresh blow, and when the economy fails to generate the tax receipts necessary to hit the new OBR targets, the markets will say that not reducing sizeable deficits on a permanent basis threatens to make Britain's debt unsustainable. Then the bond market vigilantes will be back for more.

The Government has a choice. It can surrender to the bond markets and by doing so sign its own death warrant. It can continue to make promises on the greening of the economy that it then fails to keep. It can alienate its own supporters in pursuit of a spurious fiscal target all in the cause of a misplaced belief that this will give it credibility. Or it can face down the OBR – and by extension the bond markets – and go for a different approach.

This should prioritise infrastructure spending which should be raised substantially, the Bank of England should come back under political control so that monetary policy – interest rates and quantitative easing – can more effectively be used to further national economic and social goals. A Social and Green New Deal should be put at the heart of regional regeneration. The Government should insist that in return for tax breaks, individual savers and pension funds should channel more of their funds into UK social and environmental projects.

Seeing off the Threats from the Bond Market

The radical changes proposed will inevitably generate the question from commentators - but what about the bond markets? A key reason that the government does not need to bend the knee to the bond markets is that it issues its own currency, the pound. It does not therefore need to be dependent on the bond market for investment or to pay off debts, it can, if it chooses, provide its own funds.

After the global financial crisis of 2008, and the Covid crisis of 2020, the Labour and Conservative governments instructed the Bank of England to create **£895 billion** of new money that was injected into the economy. This money did not come from government taxation or borrowing, instead the Bank of England, like other central banks, **electronically created the new money.**

Capital controls to prevent short-term capital movements blowing the economy off course could also be used if the bond markets vigilantes cut up rough. Until Margarets Thatcher's government abolished them in **1979,** they had been used on many occasions. This of course runs counter to the economic orthodoxy of the past four decades, but after 15 years of going nowhere it is now clear that neo-liberalism has failed to deliver on its promises.

It's time for the government to argue that financial markets are often capricious and destructive. It can argue that uncaging finance has not produced the improvement in economic performance promised by the Thatcherites. It can argue that the whims of the markets should not be allowed to prevent the need for a generously funded infrastructure strategy.

This might sound wildly radical but in a strange way Donald Trump has brought the wildly radical – protectionism, state support for manufacturing, US government stakes in sectors considered strategic – back into the mainstream. Neo-liberalism is dead. Globalisation is in retreat.

Moreover, the right-wing alternative that at present seems to be looming is grim. One look at the shrivelled state of social democracy in France and Germany should be enough to show Labour the risks of passivity. A government led by Nigel Farage being the most obvious of them.

Time for the Government to Show Economic and Political Courage

A key step will be to take back control of the Bank of England's ability to create new money electronically and set interest rates by reversing Central Bank Independence and directing it towards supporting the economic aims of the elected government and the priorities of its people. The independence of the Bank of England is a highly political notion. It allows unaccountable technocrats to pursue policies hostile to those of democratically elected representatives.

But that is not down to wicked central bankers...but to a weak legislature. It is as if Parliament is frightened of the responsibility that comes with exercising political and economic power. Bank of England independence allows parliament to avoid that responsibility. When Geoffrey Howe announced tax increases at the depth of a recession in 1981 he was at least able to soften the blow **by cutting interest rates by two percentage points on the day after the Budget**. That option is not open to Reeves, and she must rely on the Bank of England to provide the economy with the boost it so badly needs. Something that it has clearly **not achieved.**

Parliament – in awe of both technocrats and monetary policy – has delegated great power to unelected technocrats at the BoE, just as the Treasury has delegated power over fiscal policy to the OBR, and worse, used 'fiscal rules' to limit its own power to spend on both physical and social infrastructure.

One Final Thought

There is no question that the UK is in a difficult situation now: more difficult than in 1997. But it's not as difficult as in 1946. After the Second World War, our debt: GDP stood at around 250%, roughly half of GDP had been diverted to the war effort – we were making things that nobody wanted any more. We had lost around 1 million people. And our infrastructure was in worse shape than today.

National renewal was a priority then as now. But if Attlee had had today's fiscal rules, he could not have prevented mass unemployment as the troops were demobilised, and he could not have implemented the Beveridge Plan He would have had to say, "Nobody would like more than I to implement this excellent plan, but I must be responsible and admit that we simply don't have the money. My first job therefore is to rebuild our government finances, which I shall do by sticking rigorously to my fiscal rules and then – perhaps in a generation – we can look seriously at this idea of a National Health Service and a Welfare State."

Instead, he listened to the thoughts of Keynes who explained, "Anything we can actually do, we can afford.". **Attlee found the money.** Indeed one of his first acts was to nationalise the Bank of England in **1946**. Reeves could do the same.

The Solution for Rachel Reeves-Funding a Social and Green New Deal

A Popular Budget for Social and Green Growth

At the heart of the debate around what should be in the Budget and what it should achieve is the adherence to the Fiscal Rules which is supposed to then result in 'growth'. The end goal of such growth is never specified. It is the Green New Deal Group's view that it should be an increase in economic activity directed predominantly towards rebuilding public services and turbocharging a green transition. This involves a huge increase in secure, well-paid jobs to rebuild a more resilient future economy.

What would this cost?

Last year the book Act now: a vision for a better future and a new social contract, was **published** by the Common Sense Policy **Group**. This comprehensively costed the social and environmental transformation that polling shows the public wants. Its estimate of total cost was nearly £190 billion per year.

Funding From "Savers as saviours"

In return for the tax breaks savers receive, all new savings in for example ISA funds and 25% of all new pension contributions should be invested in social and green infrastructure projects. This could eventually provide up to **£100bn of funds a year**.

One aspect of this approach was recently supported by Ros Altman, former Conservative pensions minister, who **demanded** that at least a quarter of new contributions should be invested domestically in UK infrastructure, social housing and sustainable energy, and into the businesses in these sectors. It has been **calculated** that this measure alone could raise more than £30 billion a year. Recent polling shows that **79%** of Britons support their pensions being invested in renewable energy.

Taxing the Broadest Shoulders

An additional **£90bn or more** of additional tax revenues a year could come from taxing more effectively the income from wealth.

A Budget to Redirect Savings

Of course, such a huge change in funding sources can only be kick started by this budget and would be the first step in the roll out of such a programme in the run up to the next election.

As a first step Rachel Reeves should announce that she will be looking at measures to ensure that in return for the tax breaks that those investing in Isas, premium bonds and pensions receive, a considerable percentage of such savings would be invested in green and social infrastructure projects. This would help tackle the climate crisis and rebuild our economy as well as the crumbling cohesion of our society.

Last year UK savers invested nearly **£50bn** in Cash ISA's bringing up the total to around **£290 Billion**, over £5bn was put into premium bonds bringing their total to nearly **£130 billion** and **£14.6 billion** was invested in personal pensions.

If a significant proportion of such savings were invested in a form of national or local authority level Community Savings Bonds. That could for example help enormously towards funding the crucial "green new deal" that **Ed Miliband** called for at Labours Conference.

Investing in Energy Efficient and Decarbonised Homes

Since it was set up, the **Green New Deal Group** has been calling for serious money to be put behind improving the insulation and decarbonisation of Britain's housing stock as a way of cutting energy bills, reducing CO_2 emissions and creating well-paid jobs across the country. That argument has been strengthened by the rise in bills since the start of the war between Russia and Ukraine.

Four in five homes that will be occupied in 2050 have already been built and most will need retrofitting with low carbon heating systems and energy efficiency improvements for the UK to achieve net zero emissions.

An increasing number of homes are facing a cost-of-living crisis in terms of paying their heating bills, and an increasing number face fuel poverty. Poorly insulated homes are also a health hazard in terms of cold conditions, damp and mould. Research by Citizens Advice showed that over half of Britain's homes – **around 18m** – have poor energy efficiency, with an energy performance certificate of D or lower. Homes with a very poor rating of F end up with huge energy bills, in excess of **£4000** per year. Those bills for a typical flat could **be cut by more than half** if retrofitting homes raised that rating to a C, making a material difference to hard-pressed households.

Secure Jobs Generated in Energy Efficient and Decarbonised Homes

Geoffrey Hinton, the British-Canadian academic who last year won the Nobel prize for his groundbreaking work on artificial intelligence (AI) said: While most intellectual and office-based jobs will be replaced by AI, the technology will find it harder to excel at physical manipulation, **"so a good bet would be to be a plumber".**

For energy efficiency retrofits, the bulk of this work – insulating remaining cavity walls and lofts, and solid wall insulation for the poorest homes – needs to happen between now and 2030. During the period of transition, the buildings construction and retrofit sector will need to grow, adding between **120,000 to 230,000 new jobs** between now and 2030.

The Climate Change Committee expects that for most homes the transition to low-carbon heating systems (predominantly heat pumps) will occur in line with the natural life cycle of their existing boilers (typically around 15 years). Installing these units is likely to require around **30,000** new heat pump engineers by 2030.

Costs and Benefits

The Climate Change Committee estimates that an investment of around £250bn will be needed to decarbonise the UK’s homes between 2020 and 2050, equating to £8bn each year until then. Research by Citizens Advice found that upgrading all homes to Energy Performance Certificate (EPC) Band C would deliver around £40bn in benefits to the UK economy in the period to 2030. It also includes around £2bn in savings to the NHS over the years leading to 2030, by significantly reducing levels of cold-related illnesses and mental health conditions. A properly insulated home also improves comfort and reduces energy bills for households.

An estimated 13% of households (3.17m) in England were living in fuel poverty in 2023. Minister for Energy Consumers, Miatta Fahnbulleh, acknowledged that many more households would consider themselves to be in fuel poverty than government statistics would suggest, owing to the large proportion of their income that they have to spend on domestic energy to maintain a warm and healthy home.

Successfully Decarbonising Homes Requires Professionals Not Cowboys

Confidence in home insulation schemes has been damaged by lack of scrutiny, insufficient vetting and monitoring. This has enabled some unscrupulous operators to take advantage of the Conservative’s government-funded home insulation upgrade schemes. Poor installation work has resulted in an estimated 22,000 to 23,000 homes with external wall insulation fitted under the last government’s scheme (98% of the total) having major issues that need fixing.

Andrew Warren Chair, British Energy Efficiency Federation says explanations include an under-skilled workforce, with work being subcontracted to individuals and firms who are not competent or certified; uncertainty over which standards apply to which jobs; and businesses ‘cutting corners’ when undertaking design and installation work.

Individual homes’ Energy Performance Certificates, required by law whenever occupancy changes, also have a poor record, with half the housing stock still rated as D or below.

Compare these appalling statistics with 2010, when Ed Miliband was first in charge of UK energy policy. Equivalent schemes were operating at ten times the size of current activity, with energy efficiency improvements in 1,000 low income homes every single day. The work was being undertaken by companies with proven track records and reputations to protect, all members of established trade associations. The relevant programmes were run consistently, year after year. The key being to ensure the work goes to professionals. And not to cowboys.

Reeves Warned Cutting Funding for Home Insulation Would Hurt the Poor

In response to reports that Rachel Reeves is likely to cut green levies which improve energy efficiency for low-income and vulnerable households, more than 60 energy firms, fuel poverty charities and environmental groups warned that cutting funding for home insulation at the budget would risk the UK’s climate goals and hurt low-income households. They also warned that it would put thousands of jobs at risk in the £20bn energy efficiency industry and supply chain.

The **letter** made clear that investment in energy efficiency measures and low-carbon technologies, lowers households' bills permanently and addresses fuel poverty sustainably.

Affordable Energy and Water Bills

The energy section of this report calls for more investment in decarbonising and increasing energy efficiency in UK's homes to bring down energy bills and as an example of redirecting funding to job generating social and environmental improvements in every community.

Another key aspect of affordability however is ownership and how the provision of basic necessities is organised. Recent **analysis** from the think tank Common Wealth showed that households across Britain are paying a vast "privatisation premium" to access essential services. They estimate the public have funded almost **£200bn** in dividends to the shareholders of the privatised water, energy and transport companies since the 1990s. This 'privatisation premium' is described as a poll tax that nobody voted for. This is because since these services are essential to everyday life, the public has had no choice but to pay for them, no matter how much they cost, often to monopolies that face no competition.

Take the water industry, at a time when **3 million households** are in water poverty, almost a third of the average bill goes towards funding shareholder dividends and interest payments. This has led Labour MP Clive Lewis to introduce a **Private Members' Bill** to set up a national commission on water ownership, and promote initiatives in Parliament such as the **'People's Commission on the Water Sector'**. One of its key demands is a shift to public ownership to ensure all bill payers money is used for water services. Under the present privatisation model servicing debt amounts to between 21-50% of bills. Under public ownership any debt needed is cheaper, as the government can borrow at interest rates far lower than the 8-12% being charged by current investors.

The Government estimate, constantly reiterated by the Department for Environment, Food and Rural Affairs (DEFRA), is that taking water companies back into public hands would cost **£100bn. This is questioned by independent experts** as inconsistent with historic transfers of ownership. such as Railtrack to Network Rail, or the government's 2024 acquisition of the National Grid. They also point out that under current law, the value of some water companies could be much lower than claimed, especially those with high debt and poor infrastructure.

Affordability of Public Transport

Greater Manchester's bus network, known as the Bee Network, shows that change possible. Since returning to public control, a simpler and more effective integrated fare structure has been introduced, and the average ticket price has **fallen by 15%**. While the network is not yet under full public ownership, it shows the potential for improving services and cutting the cost of essentials.

Conclusion: From Annus Horribilis to Possibly Winning the Next Election

This has been an annus horribilis for Labour and so this Budget should be seen as the first radical step in taking back more control of the levers of economic policies. This is the only way to ensure the achievement of the Social and Green New Deal outlined in this publication. The rapid start of such a programme will improve living conditions, as well as the basic services the majority depend on, will adequately protect the environment and provide job opportunities in every constituency. This is the major transition Labour must achieve if it is to have any chance of winning the next election.

THE GREEN NEW DEAL GROUP

The Green New Deal Group

Meeting since early 2007, the Green New Deal Group's membership is drawn to reflect a wide range of expertise relating to economics and politics, and the climate, nature and inequality crises. The views and recommendations of the briefing are those of the group writing in their individual capacities.

greennewdealgroup.org

For all enquiries relating to the Green New Deal Group, please contact hinescolin@gmail.com