

The Green Recovery - Submission to the APPG Reset Inquiry

Richard Murphy and Colin Hines
Finance for the Future LLP¹

Introduction

This submission is designed to provide some proposals to address the APPG Reset Inquiries' call for answers to how we might reset UK society after the Covid-19 crisis so that it is greener and fairer, and explores the kind of economic system that would be needed to support that.

This submission is made on behalf of Finance for the Future LLP by Richard Murphy, who is Visiting Professor of Accounting, Sheffield University Management School, and Colin Hines, who is the convenor of the Green New Deal group.

Finance for the Future previous work has included creating the idea of Green Quantitative Easing², having previously done work on pension reform³ and local authority bonds as mechanisms for infrastructure investment⁴ and the use of tax incentivised savings as mechanisms for funding the Green New Deal⁵.

The Green Recovery

Our submission to the Reset Inquiry concentrates on the way to make the green transition more concrete and appealing to citizens, businesses and local and national politicians. It concentrates on the enormous number and range of jobs that can be created in every constituency in making the UK's 30 million building energy efficient. To meet the government's net zero carbon target for 2050 could mean up to 20,000 homes and buildings being made energy tight every week for the next thirty years.

¹ Finance for the Future LLP, 33 Kingsley Walk, Ely, Cambridgeshire, CB6 3BZ, 0777 552 1797, richard.murphy@taxresearch.org.uk or hinescolin@gmail.com

² <http://www.financeforthefuture.com/GreenQuEasing.pdf>

³ <http://www.financeforthefuture.com/MakingPensionsWork.pdf>

⁴ <https://neweconomics.org/2003/02/peoples-pensions>

⁵ <https://www.taxresearch.org.uk/Blog/2019/12/06/funding-the-green-new-deal-how-we-could-save-for-the-planet/>

Perhaps even more importantly in terms of gaining political and public acceptance it contains detailed proposals of how to feasibly find the multi billion pounds that will be required annually to fund such a transformation.

Guaranteeing political and public support

To gain the necessary level of support for such a green transition will require that the change prioritised is seen to improve home comfort and lessen bills, as well as providing jobs for decades in every MP's constituency, especially for the young. Declaring a goal of eventually making 20,000 properties energy efficient a week will also provide a much-needed sense of hope for the future. It will help put the nation back to work, our homes and businesses on track to a zero-carbon future, and place tackling climate change back where it belongs-centre stage.

The Key Issue for Post-Coronavirus Recovery: Making at least 20,000 properties A WEEK energy efficient for the next 30 years

The most likely way to ensure today's and any future UK government's continued commitment to an effective lead on tackling the climate emergency will be if its solutions are seen in terms of jobs, jobs, jobs⁶. Assured public support will also stiffen political resolve and to attract this will require policies that address the burgeoning unemployment crisis country wide and provide long term, secure jobs, particularly for the young. The key question is what initiatives can dramatically reduce carbon emissions whilst clearly benefiting a huge range of people in all parts of the country.

A national energy efficiency programme would achieve this by creating jobs in every constituency and thus contribute to the much needed 'levelling up' in the North and Midlands. Unsurprisingly such an approach has already been called for by Conservative mayor Andy Street and Labour mayor Andy Burnham to ensure a greener and jobs rich future for their regions.

Of course a wide range of other green infrastructure projects are also needed, but aside from providing charging points everywhere for the transition to all electric vehicles and the national spread of high speed broadband, it is only the making of the UK's 30 million buildings energy tight that will positively and directly be seen to benefit every community in the country.

Decarbonising the UK's 30 million buildings through energy efficiency measures and using green heating and renewable energy could cut carbon emissions enormously, since almost 40% of total final energy consumption occurs in buildings⁷.

The positive long-term message to constantly reiterate is that to meet the government's net zero carbon target for 2050 could mean up to 20,000 homes and buildings being made energy tight every week for the next thirty years. The vast majority of these will also require their gas heating systems to be replaced predominately by heat pumps.

The latter is an enormous but unrecognised job generator since there is gas heating in more than 20 million homes⁸ which will need to be replaced predominantly by heat pumps, that's hundreds of thousands required annually. To accelerate this the

⁶ <https://www.theguardian.com/commentisfree/2020/jun/25/the-guardian-view-on-covid-19-and-climate-leadership-required>

⁷ http://bpie.eu/wp-content/uploads/2015/10/HR_EU_B_under_microscope_study.pdf

⁸ <https://www.nationalgrid.com/heating-our-homes>

government could make bail outs for say the manufacturing⁹ and steel industry¹⁰ conditional on considering serious plans to secure this decades long domestic market.

Of course, this official UK Government target of net zero emissions by 2050 is increasingly considered as too little, too late and indeed the Green New Deal group and many others have been calling for the date to be bought forward to around 2030¹¹. Were this target to be adopted then eventually the target becomes 50-60,000 properties a week and the number of heat pumps requiring fitting would be around 40,000 a week.

Such an incredibly ambitious programme will of course take time to come to fruition, but it need not start from scratch. The government should look to what is already happening in Scotland where its comprehensive energy efficiency programme is designated a National Infrastructure Priority, as it addresses the climate emergency, fuel poverty and the need to increase economic activity everywhere¹² (See Appendix).

The practicalities of achieving these goals across the whole of the UK were recently detailed in The Energy Efficiency Infrastructure Group comprehensive roadmap 'Rebuilding for Resilience'¹³ which showed how the nation could quickly expand existing energy saving capacity and which training programmes and funding mechanisms are required.

The Huge Range of Jobs Involved

A huge number and range of jobs will required to install, service and update this massive retrofitting programme. They will include general builders, roofers and labourers, plumbers, heating and air conditioning engineers, joiners, window fitters, insulation specialists, plasterers and renderers, electricians, carpenters, painters and decorators, solar PV roof fitters, engineers, building scientists and researchers.

Also to ensure local expertise, safety and community acceptability the involvement of local authorities, unions and neighbourhood groups will be vital. Finally a national

⁹ <https://www.theguardian.com/business/2020/jun/01/uk-manufacturing-leaders-call-for-emergency-bailout>

¹⁰ <https://www.theguardian.com/business/nils-pratley-on-finance/2020/jun/24/the-government-cannot-allow-tata-to-buckle-under-covid-pressure>

¹¹ <https://greenallianceblog.org.uk/2019/12/18/how-the-prime-minister-can-save-the-glasgow-2020-climate-talks/>

¹² <https://www.gov.scot/publications/energy-efficient-scotland-route-map/>

¹³ https://www.theeieg.co.uk/media/1096/eeig_report_rebuilding_for_resilience_pages_01.pdf

skills and training programme must be a priority for both young people and those older workers in need of reskilling. These should be both college and industry based and be rigorously designed to ensure a high standard for both installation and equally important, given people's homes are involved, management of such programmes. This will require a large expansion of relevant departments in Further Education Colleges, Technical Colleges and Universities.

Of course this is only one section of the green economy and indeed the Grantham Research Institute has found that around 10 per cent of workers in the UK have skills that could be more in demand in the wider green economy, while a further 10 per cent, particularly in construction, transport and manufacturing, are likely to need reskilling; together, this means that about 6 million people will be directly affected by the green economy¹⁴.

It is affordable

Of course a key question that will inevitably be asked is how will such an enormous country wide three decade initiative be paid for? The Government's response to the coronavirus has been to turn on the spending taps, possibly to the tune of £300 billion¹⁵. Expanding this to tackle climate change is made easier by the Government's ability to borrow money at negative interest rates. Green quantitative easing could also help ensure that the target of 20,000 buildings made energy tight every week can be paid for.

Finally there is an important role for savers. Some simple rule changes to ISAs and pension contributions that could ensure that a substantial part of the investment required for the energy efficiency programme could come from these two sources, if need be. ISAs are tax free savings accounts available to people tax resident in the UK. Collectively, £70 billion a year is saved in different kinds of ISA accounts. If, to secure this tax free status these funds had to be invested in green bonds paying an average of 1.85 per cent, which is the current average cost of UK government borrowing, then we have no doubt that all this sum would be available for investment in the green transformation. In addition, if pension rules were changed so that in exchange for the tax relief given on these contributions, which costs £54 billion a year at present, 25 per cent of all contributions had to be invested in green bonds then more than £25 billion could come into the programme from this source as well.

¹⁴ <http://www.lse.ac.uk/granthaminstitute/publication/investing-in-a-just-transition-in-the-uk/>

¹⁵ https://www.theguardian.com/commentisfree/2020/may/28/the-world-wasnt-ready-for-a-green-new-deal-in-2009-today-it-may-be?CMP=Share_iOSApp_Other

Finally overtime there will also be higher tax takes from the industries and workers newly involved in such an enormous programme.

Energy Efficiency in a time of coronavirus

The final difficulty is of course what hope is there for such a huge programme being introduced in the time of coronavirus. Ross Armstrong, Managing Director of Warmworks, the Managing Agent of largest energy efficiency scheme in the UK (Warmer Homes Scotland), has already agreed an approach with the Scottish Government as to how that scheme, which has helped almost 20,000 homes across Scotland over the last five years, can be restarted in a way that allows for safe working and appropriate physical distancing. Warmer Homes Scotland will resume work in people's homes from 1st July onwards and will help thousands of homes over the coming months to save energy and money off their bills.

As we wait for a vaccine to tackle the effects of coronavirus, now is the time for national and local Governments to prepare for a nationwide energy efficiency programme. Ambitious, extensive training schemes can be rolled out and various forms of distributed public expenditure put in place. Warmworks' experience in Scotland indicates that a programme of this type could be operational within a year, creating jobs, skills and apprenticeships across the country.

Guaranteeing political and public support

To gain the necessary level of support for such a green transition will require that the change prioritised is seen to improve home comfort and lessen bills, as well as providing jobs for decades in every MP's constituency, especially for the young. Declaring a goal of eventually making 20,000 properties energy efficient a week will also provide a much-needed sense of hope for the future. It will help put the nation back to work, our homes and businesses on track to a zero-carbon future, and place tackling climate change back where it belongs-centre stage.

Appendix 1

Energy efficiency retrofits – the Scottish experience.

Scotland (and to a large extent Wales and Northern Ireland) already have in place the infrastructure need to roll out much enhanced activity on energy efficiency.

It is in England where the delivery infrastructure needs (re)building.

Scotland has, for instance, under the 'Warmer Homes Scotland' initiative;

- Warmworks - A taxpayer funded national programme rolling out insulation and heating to vulnerable households in the owner occupied and private rented sector – this includes rigorous standards enforcement across the 29 local contracting firms who carry out the work;
- Area based, ring fenced funding to Scottish local authorities to retrofit public sector housing using predominantly local contractors;
- Low interest loans for owner occupiers and others to commission their own work.
- An overarching and enforceable target to achieve zero carbon homes including;
- A (new) legal obligation on Private Landlords to significantly improve the energy rating of their property before it can be (re)let;
- Retained Building Standards as a local authority function.
- A distributed network of advice centres with a national (Scottish) call centre to access all the programmes.

Wales and Northern Ireland have broadly similar programmes.

All of them could ramp up rapidly with new funding from the Government in Westminster.

Appendix 2

Save for the Planet¹⁶

Funding the Green New Deal How we could Save for the Planet

Richard Murphy and Colin Hines, Finance for the Future LLP, November 2019

Selling Green New Deal bonds

It would seem that there are three essential characteristics that will sell Green New Deal bonds, most especially in an era of financial stress, which many are forecasting to be likely given that there has been no major economic downturn since 2008. They are:

- A tax incentive;
- An acceptable rate of return;
- A government guarantee of the sort that cash deposits enjoy and which many ISA accounts benefit from as a result.

Each of these is addressed in turn.

Tax incentive

About £70 billion¹⁷ is saved in ISAs a year¹⁸. If ISA tax relief was dependent on these new funds being invested in the Green New Deal¹⁹ in future at a government-guaranteed interest rate (see below) we think that all this money

might be available for investment in Green New Deal bonds which would be specifically made available for this purpose.

About £100 billion a year is paid into UK pension funds each year and all of that money gets tax relief from the government²⁰. The total tax subsidy costs £54 billion a

¹⁶ <https://www.taxresearch.org.uk/Blog/wp-content/uploads/2019/12/GNDFunding1219.pdf>

¹⁷ The sum includes new savings and funds rolled over from an old account to a new one. Since under the proposal being made tax relief would only be available on new accounts investing in Green New Deal bonds this is the correct figure to use for the purposes of this analysis.

¹⁸ <https://www.gov.uk/government/collections/individual-savings-accounts-isa-statistics>

¹⁹ We are not proposing that existing ISA accounts would lose their tax relief: the proposal would only apply to new accounts. Top ups to old accounts would not, however, be allowed.

²⁰ Author estimate based on a number of sources covering the range of pension funds that exist.

year²¹. If 25 per cent of those contributions were required to be invested in Green New Deal bonds in exchange for that tax relief that would supply about £25 billion a year of funding to the Green New Deal.

Together these simple changes might by themselves provide the sum required for the Green New Deal. Some other, outside, investors are bound to be attracted as well, as they are now to UK government bonds as noted above. In that case we are also confident that these proposals could help fund the cost of business transitioning to new ways of working, as the climate crisis requires as well.

Interest rate

The average interest cost of UK government debt since the beginning of 2018 has been 1.85 per cent, with little variation appearing over this period, and with the Office for Budget Responsibility expecting it to only rise very slowly over coming years²². We suggest that overall this be the interest rate paid on Green New Deal bonds, although the rate might vary depending on the time period for which funds were committed. The annual cost of this interest would be less than the current annual tax subsidy to ISAs²³ and would be covered many times over by the additional tax paid by those working on Green New Deal funded projects.

A government guarantee

At present the UK has what's called a Financial Services Compensation Scheme²⁴. This means that anyone who has up to £85,000 in a bank deposit account is guaranteed to be repaid by the government if that bank fails. This provides a government backstop guarantee for all UK savings.

We suggest that the Green New Deal should involve a similar guarantee. Every single Green New Deal approved savings product should be backed up by the

²¹

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 The government offsets the cost of tax paid on past pension contributions in this table: that is not in accounting terms a valid thing to do: the cost of current tax reliefs excludes this offset.

²² <https://obr.uk/forecasts-in-depth/the-economy-forecast/conditioning-assumptions/#ukinterestrates>

²³

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/737597/Dec_17_Main_Reliefs_Final.pdf

²⁴ <https://www.fscs.org.uk/>

government to the same limit as that used the Financial Services Compensation Scheme, although we also suggest that it might be appropriate to consider an overall cap per saver to prevent this being exploited by some.