

# Briefing

## Budget 2011: reaction

**Less than a month ago the Government issued a challenge – that the nation must wean itself off oil. In that light, this Budget was exceptionally disappointing.**

**The Chancellor bowed to short-term political pressure and blew a £10 billion bonanza trying to buy off the road lobby – none of this money was spent making it easier for people to use alternative forms of transport, or cut down on their fuel use. The UK's oil addiction is an ever-increasing economic liability – it is dangerously negligent of the Treasury to keep choosing to ignore this problem.**

**The Budget was also a huge economic opportunity blown – damaging the potential for new jobs and the UK's economic recovery by hobbling some of the country's fastest growing sectors. The Green Investment Bank has been hamstrung – it cannot borrow for at least five years. The low carbon homes sector has been damaged, to go with the Treasury's earlier actions to hold back the growing UK solar industry. Planning changes are a deeply retrograde step, at odds with the Government's climate change goals. They also conflict with the Government's Localism agenda because they threaten even less involvement for people in decisions that affect them.**

**The Treasury's Budget actions are in deep opposition to the Prime Minister's promise to make this the Greenest Government ever.**

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## Summary

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The Treasury appear to be on a one-department crusade to destroy David Cameron and Nick Clegg's ambitions for green jobs, green economic recovery and to be the Greenest Government ever. This Budget also makes it harder to get the UK off its oil dependence - a new Government priority less than a month ago. The main green announcements were:

- **The new Green Investment Bank will not have borrowing powers until 2015/2016 at the very earliest.** The ability to borrow is the core of a successful bank, as Mr Cameron and Mr Huhne have both made clear. The Bank has been hamstrung.
- **Ripped up planning-controls.** The Budget is attempting to redefine "sustainable development" to mean "yes to everything", in direct conflict with Mr Cameron's (correct) contention that the *type* of growth matters. If successful this will mean a development free-for-all, which local authorities and people will have almost no means to stop. This will be more acute in rural and suburban areas - ie particularly in Conservative and Liberal Democrat constituencies. Local people will have less say in what happens in their area, in direct conflict with the Government's localism agenda.
- **Increased oil-dependence.** The Chancellor found £10 billion extra, but spent it all on cutting fuel duty and none of it on measures to cut our dependence on oil.
- **Weak carbon price mechanism.** The Budget introduced a new tax to underpin the failing EUETS scheme, but it will be set way below the figure needed to influence investment decisions. It gives an extra subsidy to the nuclear industry and increases electricity bills – with no promise that any of the revenue will be used to help people save energy at home.
- **Inaction on aviation,** yet another consultation and more buck-passing – blaming international law.
- **No help on energy efficiency for the cold homes** of the 4.5 million households suffering from fuel poverty. Buried in small print, pensioners will lose £50-£100 winter fuel allowance.

In late 2009 George Osborne promised "*Under a Conservative government, the Treasury will no longer be the cuckoo in the Whitehall nest when it comes to climate change. If I become Chancellor, the Treasury will become a green ally, not a foe*"<sup>i</sup>. But the Treasury is a bigger cuckoo than ever – this is increasingly economic as well as environmental folly.

## Fuel duty

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- What was announced: Planned fuel duty increase postponed until next year; fuel duty cut by 1p / litre. The five year cost of this measure is £10 billion, paid for by increasing taxes on the profits of North Sea oil and gas production<sup>ii</sup>. Future rises in fuel duty will be in line with inflation. The increased tax on production will be removed if oil prices fall below a “trigger” level, tentatively set at \$75 per barrel<sup>iii</sup>.

The Government said earlier this month that it wanted to get the UK “off the oil hook”. From nowhere, the Chancellor found £10billion over the next five years by increasing charges on the profits on UK oil and gas production. But every penny of this has gone to cut fuel duty – a move which increases the UK’s dependence on oil. None of it was spent on giving people and businesses better alternatives to using cars and vans, or improving the efficiency of vehicles.

Even just a fraction of that £10billion could have made a real difference to improving alternatives to the car:

- £500m would have doubled the new Local Sustainable Transport Fund, which provides sorely needed funds to cash-strapped councils to cut carbon from transport in their areas
- £300m would reverse the cuts to public subsidy of buses which were announced in the CSR (the Bus Operators Subsidy Grant, BSOG) - a move which will increase bus fuel duty by 8p in 2012;
- £300m would ensure the construction of the long-planned electric trolley bus network in Leeds, which has been under threat since the Comprehensive Spending Review.

High and increasing global oil prices are set to continue to be a fact of life. The UK desperately needs a strategy to overcome its ever-increasing dependence on imported fossil fuels, yet there was nothing in this Budget to help people or businesses use less petrol. The Chancellor’s actions are actively subsidising our oil addiction and making it more expensive for people to choose less oil-dependent options.

## Green Investment Bank (GIB)

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- What was announced: Initial funding for the GIB increased from £1bn to £3bn. But the GIB will only be able to borrow in 2015/16 at the very earliest – a critical function for any bank – and only then if the Chancellor has eliminated the annual structural deficit.

The extra £2 billion in initial funding for the GIB – up to £3 billion in total - is still short of the £4-6 billion Ernst and Young say the GIB needs<sup>iv</sup>, but nonetheless represents a significant improvement.

But the decision to prevent the Bank from borrowing until 2015/16 at the earliest is a huge own goal - an economically-damaging delaying tactic from a Treasury determined not to cede any of its power. The ability to borrow is the most critical aspect of the GIB – it's the key mechanism to leverage in the billions of pounds of essential private investment.

Even in 2015/16, it is very far from certain that the GIB will actually be able to borrow: a condition imposed is that it can only borrow **“once the target for debt to be falling as a percentage of GDP has been met”**. The Chancellor's ambitious growth forecasts allow him to suggest that this will happen in 2015/16 – but after the Budget leading economists, including the Governor of the Bank of England, lined up to attack these forecasts as very ambitious<sup>v</sup>. The CBI said the Bank *“should have powers to borrow from the outset to give investors confidence”*. Institutional investors the UKSIF, representing assets of over £500 billion, said linking the Bank's borrowing to progress on the deficit *“does not give investors the certainty they need”*<sup>vi</sup>

The increased funding secured for the Bank represents a victory for the more progressive elements in Government, but they need to overcome Treasury resistance to the key issue of borrowing for the Bank to be effective – the 2015 date must be brought forward, and the condition that the deficit must be eliminated first must be dropped. After all, a fully functioning bank will be a critical element in helping Britain's economic recovery – rather than something that must wait until the economy is on track.

## Carbon Floor Price

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- What was announced: a carbon floor price of £16 / tonne will start in 2013, rising to £30 / tonne in 2020. The floor price will underpin the price of permits in the EU Emissions Trading Scheme

This carbon floor price is set too low to have a meaningful effect on investment decisions. The Government's own modelling looked at a £50 price for 2020. As set up, the policy provides a windfall for existing nuclear power stations of at least £1.8 billion between 2013 and 2026<sup>vii</sup>. It's inappropriate for a well-established industry to get yet another major subsidy.

The Treasury expect the floor price to raise £1.6 billion a year by 2015/2016. As this will get passed onto bills, this revenue should be used to help people insulate their homes. At present, this extra cash goes straight to Treasury coffers.

## Air Passenger Duty (APD)

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- What was announced: Abandonment of commitment to tax per plane, rather than per passenger as at present. APD frozen for 2011/12, with inflation price increase delayed until next year. Commitment to launch consultation on reform of APD.

The Government cites prohibitions in international law for why it has had to backtrack on its plans to bring in a per-plane tax, which could have netted the Exchequer an extra £3 billion – but experts expressed surprise at the sudden change of policy and called on the Government to test this presumption in law later this year<sup>viii</sup>. This and the postponement of planned rises are bad for the economy and environment. Tax rises could have been used to fund tax cuts elsewhere, or prevent cuts to public services.

Aviation remains massively under-taxed – it pays no VAT on any of its activities, and no duty on kerosene. The postponement of the planned inflationary rise means air taxes will actually fall in real terms, and operators will continue to have no incentive to fill planes more efficiently. Freight continues to pay no APD, and there is no distinction between the payments made by the least and most polluting aircraft. The decision to make private jets pay APD is a tiny loophole closed, but makes very little difference – these flights are a negligible proportion of the total.

## Energy efficiency in homes

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- What was announced: almost nothing positive, despite outrage over surging energy bills. The Chancellor committed to introduce incentives to encourage take-up of its impending Green Deal scheme for energy efficiency improvements in homes and businesses. The much-lauded policy commitment for all homes to be zero carbon by 2016 was abandoned, to outrage from the industry.

Tucked away in the small print of the Budget was a very nasty surprise: the Government quietly walking away from its much trumpeted policy that all new homes must be zero carbon by 2016<sup>ix</sup>. This means that in practice new homes will only need to be about two-thirds zero carbon. This represents a shocking u-turn from a Government who earlier this month were still trumpeting their commitment to the policy. The UK's low-carbon building industry, which has flourished in readiness for the 2016 target, reacted furiously to this unheralded announcement<sup>x</sup>.

The Chancellor conceded that he would need to offer financial incentives to encourage people to take up the Green Deal. But for a Budget that claimed to be helping people deal with soaring every day prices, there was nothing else which will help people with the struggle of heating their homes adequately.

Even an improved Green Deal won't work for millions and is very unlikely to deliver the radical improvement in the nation's housing that we need. Meanwhile the Government is still committed to axing public grants for energy efficiency in the poorest households by phasing out the Warm Front scheme, a decision which this Budget should have reversed.

The Chancellor has also cut the Winter Fuel Payment for pensioners - £100 less for people over 80, £50 less for people over 60. This payment was introduced in 2008 to help pensioners cope with rising energy bills<sup>xi</sup>. These bills have risen since then.

## Planning

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- What was announced. A “*powerful new presumption in favour of sustainable development, so that the default answer to development is ‘yes’*”.

The detail of this will be set out in a new National Planning Policy Framework (NPPF) due in May. If it this is written as the Treasury intends – to be simply a “pro-growth” policy - it will lead to a free-for-all with poor quality, inappropriate developments that increase the UK’s contribution to climate change, deepen the UK’s dependence on fossil fuels, and impact severely on people’s quality of life.

The Government’s sustainable development strategy<sup>xii</sup> is clear that economic, social and environmental goals should be met together – the types and location of economic activity matter. David Cameron has said as recently as November 2010<sup>xiii</sup> that the type of economic activity is critical and that the wrong types of growth can make our society worse off. Planning is then the main tool to ensure we get the right types of development in the right places: this is not bureaucracy or red-tape, as the Communities and Local Government Secretary Eric Pickles caricatures it, but essential. If new housing development is granted without proper planning and new communities spring up without linked services, there could be extreme pressure on schools, hospitals, doctor’s services and public transport in the area. Without a decent planning system, essential services will get stretched, Britain’s roads will get ever more choked, and our climate change problems will get worse.

The Budget’s proposals are an attempt to tear up this strategy, and cripple the planning system’s effectiveness. Mr Osborne, Mr Pickles and planning minister Greg Clark have said that the prime purpose of planning should be to “prioritise growth” and that the new NPPF will be “inherently pro-growth”.

Friends of the Earth is not anti-growth, but the type of growth is critical. A presumption in favour of developments whatever their type will make it much harder to ensure that Britain gets the right type of economic developments, in the right places. Unfortunately it seems that all that matters to Mr Osborne and Pickles is that we get growth, whatever its type or impact.

These announcements also wreck the Government’s own localism agenda – local authorities and people will have a vastly reduced ability to have any say over what gets built in their area.

- the creation of 21 new Enterprise Zones across the country. Changes to permitted development rights, converting commercial properties into private dwellings.

The creation of Enterprise Zones which bypass the planning system are of major concern. The lack of an accountable process for designating and locating the zones risks public legitimacy and prioritises developers above the needs of society, the economy and the environment as a whole. The planning system provides spatial information on e.g. flood risk, and this information should inform development decisions. Without a plan-led system, these zones risk causing a negative long-lasting impact on the area. Development should be required to consider climate

change mitigation and adaptation. There is a danger that the Zones will simply encourage businesses to relocate, rather than create new jobs.

## Resources and waste

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- What was announced: Nothing.

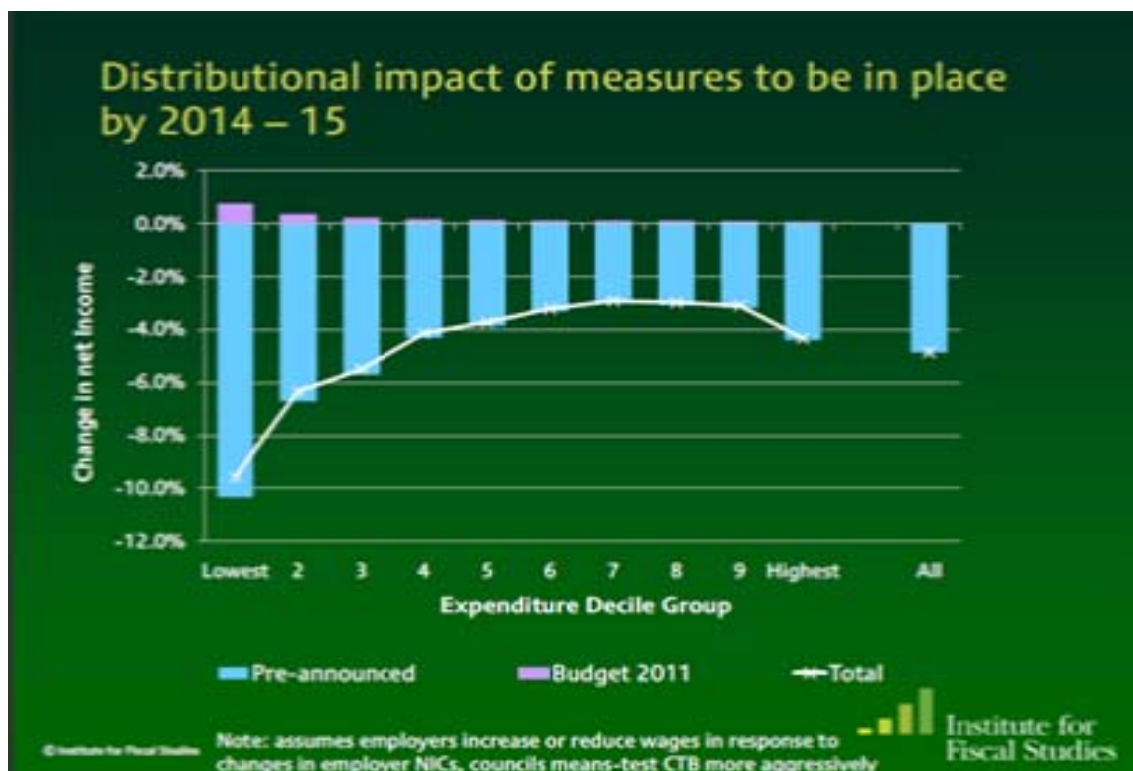
With the Government's Waste Review due for publication in May this Budget was an opportunity to foreshadow genuine commitment towards a zero waste economy. Instead actions on waste and resource efficiency were absent. The Government could have extended landfill tax to all residual waste treatment including and especially incineration. And with Defra only last week estimating "no cost / low cost savings" opportunity for business of £23billion the lack of support for resource efficiency to SMEs in particular is as much economic as environmental negligence.

## Fairness

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This budget did not change economic course. Along with many other organisations Friends of the Earth is deeply concerned that the continuing focus on extremely deep and rapid public sector spending cuts is economically very risky, and deeply regressive. As David Cameron said, "we've got to do this in a way that is responsible and fair"<sup>xiv</sup>. Investing in a green economy and using environmental taxation offer alternative, less risky, fairer routes to economic recovery.

Figures from the Institute of Fiscal Studies (IFS) published after the Budget<sup>xv</sup> show that the total impact of measures announced so far is to continue to hit the poorest hardest - and this is before the impact of lost services is taken into account.



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