

June 2010



**Friends of
the Earth**

Briefing

June Budget 2010

Friends of the Earth suggests environmental measures that will cut the deficit by £9 billion this year and also tackle climate change.

The headline measures are:

- **Reforms to aviation taxation, raising £3 billion a year;**
- **Cuts to the road building programme, saving £4.5 billion; and**
- **Introduction of a Robin Hood Tax on major sterling transactions, raising £1.5 billion a year for deficit reduction.**

Friends of the Earth makes life better for people by inspiring solutions to environmental problems.

We are:

- the UK's most influential national environmental campaigning organisation
- the world's most extensive environmental network, with around 2 million supporters across five continents and 77 national organisations worldwide
- a unique network of campaigning local groups, working in more than 230 communities throughout England, Wales and Northern Ireland
- dependent on individuals for over 90 per cent of our income.

To join or make a donation call us on 0800 581 051

Friends of the Earth, 26-28 Underwood Street, London N1 7JQ
Tel: 020 7490 1555 Fax: 020 7490 0881 Web: www.foe.co.uk

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Summary

The UK's increased deficit is mainly caused by falling tax receipts as a result of the recession. Cutting the deficit requires a strong economic recovery.

Friends of the Earth believe that the Budget must prioritise measures which help that recovery. Action on the environment should be a core element of the Budget, because:

- Green technologies such as renewable electricity and heat will be one of the fastest growing sectors in the UK, and central to securing a strong, diverse and resilient economy. But they need support if they are to realise their full potential.
- Investments in environmental measures are very cost-effective job creators – creating more jobs per pound than money spent on more polluting alternatives. Reducing unemployment is a central element of ensuring a strong recovery.
- Measures to increase energy efficiency are one of the most cost-effective and economically sensible actions households, Government departments and businesses can take. These would save billions a year, as well as help tackle climate change.

We are very concerned that much of the media commentary and political discourse around the deficit has focussed primarily on public spending cuts. Spending cuts which lead to job losses – as well as causing major suffering to families and communities – are a major danger to the economic recovery. Job losses mean a lowered tax take, increased welfare spending, and reduced spending in the economy. Spending cuts have the potential to damage the recovery, reduce the quality of services upon which people rely, and to not do their intended job of cutting the deficit.

We advocate that strengthening the economy and tax rises should be given a higher priority in overall plans for deficit reduction than they are accorded at the moment. Proposed spending cuts need to be scrutinised far more carefully for their impacts on the economic recovery, and on poorer households. Although we believe that savings in public spending can be found, there is an extreme danger that concentrating too heavily upon spending cuts for deficit reduction will have a deeply regressive and long-lasting impact – this must be avoided.

In this Budget briefing we briefly set out headline measures we believe the Chancellor should take to secure an environmentally sustainable economic recovery.

We also advocate that the Government carries out a review, reporting at the next Budget, on how to ensure that policy measures to transform the UK into a low-carbon economy are an essential element of the Government's strategy for long-term economic recovery.

Specific Budget asks

1. Securing the recovery

Green Investment Bank (GIB)

We strongly support the Coalition's commitment to setting up the GIB – this is an essential action to secure and reduce the risk of investment in renewable technologies and energy efficiency programmes. We believe the GIB will play a transformational role in building a dynamic and successful low carbon economy. In particular it can play a critical role in supporting a national programme of energy efficiency and the development of renewable energy infrastructure, manufacturing and deployment.

We now urge the Chancellor to ensure that the GIB:

- is set up within a year
- has a clear focus on renewables and energy efficiency, and
- has at least £2 billion capitalisation in its first year. Such funds would leverage in many multiples more of private investment, and represents a very strong investment in the UK's economic recovery. We urge the Government to include this commitment to adequate capitalisation at this Budget.

Green Industrial Strategy

The extent to which the low-carbon manufacturing sector flourishes in the UK is heavily influenced by how hands-on the Government is prepared to be to support and nurture new industries. We strongly support the Liberal Democrat manifesto commitment to invest £400m in shipyards in the North East for building components for marine renewables. There is a potential major supply chain bottleneck for building offshore wind-farms – it is essential that UK manufacturing is supported so that the UK economy and businesses benefit from what will be a huge manufacturing boom.

We believe that Government should adopt this policy. The alternative is losing out in a big way to other countries that are prepared to nurture and support their rapidly growing low-carbon industries.

We welcome the Prime Minister's statement of 9 June committing to preserving the £20m grant to help develop electric cars in Sunderland; we now urge the Chancellor to not to row back on the previous administration's other policies to support green manufacturing.

2. Cutting the deficit

I. Tax

Aviation

We welcome the Coalition's commitment to reforming Air Passenger Duty to be a per plane duty, also covering air freight. We also support the Liberal Democrat manifesto proposal for this reform to raise an additional £3 billion, and urge the coalition to adopt this policy.

We note that this rise would still leave aviation undertaxed by at least £5 billion because airlines currently pay neither VAT nor duty on fuel. We advocate that the Government undertakes a full review of all of aviation's other tax exemptions, and works in Europe to remove aviation's zero VAT rating – a move that would benefit other EU countries' deficit reduction programmes as well as our own.

Robin Hood Taxes

International taxes on financial transactions could raise hundreds of billions of pounds. Such taxes, set at very low rates on the huge volumes of financial transactions – which total trillions every year – could be a major component of countries' deficit reduction plans, as well as funding international poverty alleviation and climate change programmes. We urge the Government to work internationally to implement such taxation as a matter of urgency.

However, in the meantime the UK can introduce a unilateral tax on Sterling trades. This would not harm the UK financial sector, as it is a tax on the global trade of Sterling, not the trading of currencies within the UK. Because of the globalised, electronic system for major currency transactions, the UK can capture the tax regardless of where in the world the trade takes place. This would raise at least £3 billion a year, which the Robin Hood campaign advocates should be spent half (£1.5bn) on domestic deficit reduction, and half on international climate change efforts and poverty alleviation. This would also help drive progress internationally on other taxes on other currencies and transactions.

Progressive taxation

We welcome the Coalition's commitment to creating a "fairer tax system". We note that the richest decile of the population pays a smaller percentage of its income in tax than the poorest decile, that the UK is one of the developed world's most unequal countries, and that the recession has had the deepest and worst effects on poorer people. We are deeply concerned that responses to the deficit will be regressive – for example proposals to increase VAT, one of the most regressive taxes. We urge the Chancellor to ensure that the overall effect of his Budget is progressive.

We support the campaign by the Federation of Master Builders and others to reduce the rate of VAT on refurbishing properties.

We also urge the Chancellor to take major steps to tackling tax evasion, avoidance and non-payment – estimated to cost the UK over £100 billion.

II. Spending:

Homes

Action to tackle emissions from UK homes is strongly associated with social and economic benefits. More efficient homes mean lower energy bills, freeing up money for families to spend elsewhere in the UK economy. Retrofitting homes will generate jobs and cut fuel poverty – not just a moral imperative but one that will also reduce costs to the NHS. Almost one in five UK homes are classed as being “excessively cold” - a Category 1 Hazard under the Housing, Health and Safety Rating System (HHSRS).

The Private Rented Sector makes up 14 per cent of the UK housing stock. These properties are in a worse overall condition than in other sectors, are poorly insulated and often house vulnerable families. The current level of the Landlord’s Energy Saving Allowance (£1,500) is too low to cover anything but the most basic energy efficiency measures. Friends of the Earth believes LESA should be raised to £10,000 and promoted heavily to landlords if progress is to be made in the sector. Alongside raising LESA the Government should legislate as part of the forthcoming Energy Bill to set a minimum standard of energy efficiency for rented properties.

We welcome the commitment in the Queen’s Speech to introduce the ‘Green Deal’ (otherwise known as Pay As You Save - PAYS). However we believe that energy bill savings alone will not be enough to persuade households to take up the scheme in sufficient numbers and will not without additional measures encourage whole-house retrofits. As it is well established that the best point to encourage homeowners to make significant improvements to a property is when it is empty or they have just moved in, a Stamp Duty rebate should be introduced for households who undertake refurbishment of their properties to high standards within six months of purchase. In addition, as PAYS is unlikely to work for fuel poor households and those on low incomes who may be unwilling to take on debt (even debt attached to a property), it is essential that existing grant support under the Warm Front scheme is expanded for vulnerable households.

Roads

The eight most expensive road schemes in the previous Government’s roads programme will alone cost at least £5 billion. Road building is an ineffective and expensive solution to Britain’s congestion problems, and actively makes our contribution to climate change worse: increasing road capacity not only increases reliance upon the car, but can become futile as new roads soon fill up with traffic. Alternatives such as a roll out of Smarter Travel Choices schemes (packages of 'soft' measures that are proven to cut car trips and increase walking, cycling and public transport use, as recently piloted in the Sustainable Travel Towns) and investments in public transport are a far more cost-effective solution to Britain’s transport problems, and also higher job creators per pound spent. Roads spending should be heavily cut, with a fraction diverted to support councils to introduce Smarter Travel Choices and improve public transport in their Local Transport Plans.

We do not believe that highway maintenance budgets should be cut – they are necessary and also create more jobs per pound than road building.

Public Transport

The Chancellor should maintain support for essential public transport investments such as the Tyne and Wear Metro light rail, the Birmingham and Black Country tram line, Leeds trolleybus and Nottingham tram. These investments are strong regional job creators, cut congestion and cut carbon emissions.

Waste Infrastructure

The Labour government allocated £2.8 billion in PFI credits to 29 waste infrastructure projects, the majority of which are incinerators. Incinerators are not just bad for the climate and destructive of precious recyclable materials, they are also considerably more expensive than more sustainable waste management processes such as recycling schemes and reuse networks, create far fewer jobs and lock councils into decades long inflexible contracts.

Of the £2.8 billion, nearly £2 billion is associated with projects for which no contract has yet been signed. We welcome the Coalition's recent announcement of a review of English waste policy and urge the Chancellor to scrap all future PFI funding for incineration and to explore options for breaking contracts for schemes where contracts have already been signed.

Nuclear

We welcome the unequivocal commitment of the Coalition to not use public funds to subsidise nuclear power. To honour this commitment, the Chancellor needs to disband the Office for Nuclear Development, and commit to a review which leading to a removal of all other nuclear subsidies – for example restrictions on liabilities in the event of accidents.

Support for local carbon reduction

We strongly urge the Government not to cut the budgets of the EST and Carbon Trust – the work of these organisation on energy efficiency and carbon reduction is saving far more money for the UK's businesses, public sector and households than they spend. This extremely cost-effective spending also delivers on the Government's climate change goals.

Contact

Simon Bullock
Economy Team, Friends of the Earth
Devonshire House
37 York Place
Leeds LS1 2ED
simon.bullock@foe.co.uk
0781 652 9857