March 2014

friends of the earth
see things differently

Briefing

A Budget for a changing climate?

"… We are seeing more abnormal weather events. Colleagues across the House can argue about whether that is linked to climate change or not. I very much suspect that it is."
David Cameron, January 2014

"I'm someone who believes climate change is happening, that it's caused by human beings. We should do what we can to prevent it and if we can't prevent then mitigate against it for example by building flood defences... [but] let's try and do this in as cheap a possible way as we can."
George Osborne, February 2014

A winter of devastating floods has seen the re-emergence of climate change into the heart of UK political and public debate.

The Chancellor, George Osborne, was just one amongst the Cabinet that stressed the need for action on climate change. This Budget will be an opportunity to test his commitment.

Friends of the Earth has set the Chancellor four key tests for Budget 2014**:**

1. **Immediately increase flood defence spending** – reversing real terms cuts, and pledging increases to keep up with the likelihood of future floods caused by climate change.

2. **Finally announce that the Green Investment Bank is free to borrow –** a thriving GIB is vital to fill the low-carbon funding gap.

3. **Announce he will no longer pursue a review of the UK's fourth carbon budget** – the speculation has been very damaging for investment; if anything, the budget should be tightened, not relaxed.

4. **Face down big business demands to freeze carbon tax –** the demands of some business groups for the Chancellor to freeze the 'carbon price floor' (CPF) must be faced down, although it is right to give specific help to genuinely disproportionately affected sections of industry. The CPF money should be used to **underpin a comprehensive, job-creating and economy-boosting programme of home insulation**, starting with the fuel poor.

For more information, contact David Powell, Friends of the Earth: david.powell@foe.co.uk / 0117 924 9945

Four tests for a post-floods Budget

1. Increase flood defence spending

The value of proper flood defences has been underlined this winter. But after months of claiming otherwise, the Government was forced to admit[1] that it cut flood defence spending in cash terms – from £2.37bn committed by the previous government between 2007-2011, to £2.34bn between 2011-2015. **Even with new funding announced in February, the Coalition has still presided over a real-terms cut to flood defences**[2]. The Institute for Civil Engineers has called for this Budget to restore flood investment to pre-2010 levels[3].

Yet the floods this winter may only be the start. Climate science is clear that a warming world will increase the likelihood and severity of floods. So, flood defence spending actually needs to be sharply increased.

The Committee on Climate Change – the Government's advisors on the economics of carbon reduction – say that **there is a £500 million gap between current investment in flood defences**, and what's required to keep pace with climate change[4].

The Chancellor must increase flood defence spending to keep pace with climate change – current policies will lead to 250,000 more homes at flood risk as climate change makes flooding worse[5].

2. Let the Green Investment Bank borrow from 2015/16

A thriving Green Investment Bank should be the pulsating heart of the mobilisation of the £200 billion of investment needed to fund the move to a low-carbon, cutting-edge UK economy. The GIB has been given an initial £3.8 billion in capital by the Government, which is certainly a good start. But until it is allowed by the Chancellor to borrow its own money to invest, it will be perpetually reliant on Government handouts, and a shadow of the institution it needs to be.

The Chancellor's condition is that the Bank can not borrow until the national debt is declining as a share of GDP. Friends of the Earth has long considered this to be misguided: a full-firing Bank could have been at the centre of an infrastructure-led, sustainable economic recovery. Even without it, one-third of the UK's growth in 2014 is set to come from low-carbon businesses[6].

In any event, even the Chancellor's own condition may now be met. A powerful committee of MPs, the Environmental Audit Committee, called in March 2014 for the Chancellor to lift the borrowing restriction: **"The Government should declare in Budget 2014, on the basis of the flat projections for Government debt in the last Autumn Statement remaining valid, that the Bank will be permitted to borrow in 2015-16**."[7]

3. Announce he will not pursue a review of the UK's fourth carbon budget

The Chancellor has previously held the opinion that the UK should "cut our carbon emissions no slower but also no faster than our fellow countries in Europe". The Treasury has secured a review of the level of the fourth carbon budget (covering the period 2023-27), which is due to be completed in a matter of weeks. **There is no case for reviewing the carbon budget, and the uncertainty this creates is damaging energy investment.**

The Climate Change Act 2008 says that there must be "significant changes" in areas such as the underlying science or the pace of other countries' emissions reductions to support any amendment. The Committee on Climate Change says that the scientific imperative to act has only increased following the publication of the UN IPCC's 5th report last year.

Nor is there evidence that the UK is powering ahead of other nations: earlier this month a new report from the London School of Economics and the Centre for Climate Change Economics and Policy concluded that while "the UK remains a global leader in the way it tackles climate change… it is by no means acting alone"[8]. **If anything, the fourth carbon budget should be <u>tightened</u> in light of the climate crisis.**

In March 2014 a group of major investors including Unilever, EDF Energy and even Shell wrote to the Chancellor asking him for a "clear and consistent" decision on the level of the fourth carbon budget:

> *"… delay or confusion will add to the costs of doing business and undermine investment and job creation… we urge you to take an early decision to keep the budget at its current level in order to improve the conditions for business investment."*[9]

4. Face down business lobbying to freeze carbon tax

George Osborne's Carbon Price Floor (CPF) has only been operational for a year and is already the target of fierce lobbying from some business and industry groups. There are calls for the Chancellor to freeze the tax, which is due to rise over time. He must face these demands down.

Friends of the Earth does not think the CPF is perfect. It is a UK-only tax on the carbon content of generating electricity, paid on top of the price of permits in the EU Emissions Trading Scheme (EU ETS). The money received (an estimated £975 million for 2013/14, rising over time as the CPF escalates) disappears into general Treasury spending, when the money would be much better and more popularly put to use to insulate homes and help industry decarbonise. Ideally, the CPF would not be needed, because the EU ETS would not have been such a disaster – with rock-bottom permit prices and myriad leaks and caveats in the way it operates[10].

But the CPF is one of the very few polices that discourages investment in high carbon infrastructure in the UK. The coal industry lobby group, Coalpro, has said that the rising Carbon Price Floor will "suffocate long-term investment in coal": frankly, ending coal use is exactly what needs to happen if we are serious about decarbonisation.

Will the rising CPF will disproportionately hurt UK energy intensive industry? Certainly it is critical that vital industries like ceramics, iron and steel are supported in the process of the inevitable and rapid move to a low-carbon economy. But this **support should be through targeted exemptions from carbon pricing, only given to those industries at genuine, demonstrable risk** – and with any support strictly linked to improvements in energy efficiency.

It is rational for business to argue for a reduction in its costs, and it was inevitable that the Chancellor would face calls to reign in one of the few parts of the overall cost base that he directly controls – carbon taxes. Do note, however, that these same industries will benefit from April 1st 2014 from a rate of UK corporation tax at 21% that will be one of the lowest in the world.

Rather than cutting the CPF, the Chancellor should harness its revenues to help fund a large-scale energy efficiency programme for low-income households, as called for by the Energy Bill Revolution campaign[11]. Doing this could create over 100,000 jobs and save the NHS at least £860m per year[12].

Notes

[1] The Independent, 17 January 2014, 'Defra concedes flood defence figures were inaccurate': http://www.independent.co.uk/news/uk/politics/defra-concedes-flood-defence-figures-were-inaccurate-spending-falls-from-237bn-to-234bn-under-the-coalition-despite-repeated-claims-to-the-contrary-9068443.html

[2] FactCheck, 6 February 2014, 'Government still mired in dubious flood claims': http://blogs.channel4.com/factcheck/factcheck-government-floundering-flood-defence-claims/17705

[3] Institute of Civil Engineers, 26 February 2014. 'Use Budget to return flood investment to pre 2010 levels, says ICE': http://www.ice.org.uk/News-Public-Affairs/Media-and-press-centre/Use-Budget-to-return-flood-investment-to-pre-2010-

[4] Committee on Climate Change, 13 February 2014, 'More money for flood defence (repairs): http://www.theccc.org.uk/blog/more-money-for-flood-defence-repairs/

[5] Committee on Climate Change, 21 January 2014, 'Flood and coastal erosion risk management spending': http://www.theccc.org.uk/publication/policy-note-flood-and-coastal-erosion-risk-management-spending/

[6] Business Green, March 2014, 'Green Business set to drive a third of UK growth in 2014': http://www.businessgreen.com/bg/news/2332782/green-business-set-to-drive-a-third-of-uk-growth-in-2014-says-top-diplomat

[7] Environmental Audit Committee http://www.publications.parliament.uk/pa/cm201314/cmselect/cmenvaud/191/191.pdf

[8] Centre for Climate Change Economics and Policy / Grantham Institute, London School of Economics, March 2014, 'New study finds UK is a world leader in cutting greenhouse gas emissions but is not acting alone': http://www.cccep.ac.uk/newsAndMedia/Releases/2014/New-study-finds-UK-is-a-world-leader-in-cutting-greenhouse-gas-emissions-but-is-not-acting-alone.aspx

[9] Cambridge Corporate Leaders Group on Climate Change (CCLG), March 2014, letter to the Prime Minister on the fourth carbon budget: http://www.cpsl.cam.ac.uk/Business-Platforms/~/media/Files/Business_Platforms/CLG/Corporate_Leaders_Group_Letter_on_Fourth_Carbon_Budget_06_03_14_.ashx

[10] The Economist, 20 April 2013, 'ETS: RIP?': http://www.economist.com/news/finance-and-economics/21576388-failure-reform-europes-carbon-market-will-reverberate-round-world-ets

[11] Friends of the Earth is a founder member of the Energy Bill Revolution campaign which unites poverty, environmental and health charities. See www.energybillrevolution.org

[12] Chief Medical Officer's Report, 2009; 'Verco and Cambridge Economics report for Consumer Focus (2012) Jobs, Growth and Warmer Homes.