



2016

A GREENER BUDGET

CHOICES FOR A PROSPEROUS FUTURE

This leaflet introduces WWF-UK's 2016 *A Greener Budget* report, which recommends practical policy measures that HM Treasury could introduce through the 2016 Budget and beyond to drive the transition toward a sustainable, resource-efficient, low-carbon economy.



CHOICES FOR A PROSPEROUS FUTURE

"Britain is already leading the way in work to cut emissions and help less developed countries cut theirs - and this global deal [Paris Agreement] now means that the whole world has signed up to play its part in halting climate change. It's a moment to remember and a huge step forward in helping to secure the future of our planet"

HM government, 2015¹

It is now widely recognised that a healthy natural world is the foundation of a productive and resilient economy. Yet environmental degradation, resource scarcity and climate change are worsening. This presents a trinity of unprecedented risks to the UK that jeopardise our future prosperity and wellbeing.

Government, business and wider civil society are increasingly recognising the need to structure economic policy so that it promotes investment in our natural assets – our forests and grasslands, soil, rivers and oceans – and moves us towards a resource-efficient, low-carbon economy.

HM Treasury has a key role to play: it has a duty to safeguard the asset base on which the economy depends, and create a policy framework that encourages the innovation and investment needed to drive this transition, and promote sustainable economic development that preserves the environment for future generations.

WWF-UK's 2016 *A Greener Budget* report sets out a suite of practical policy measures (see overleaf) that HM Treasury could introduce through the 2016 budget and beyond to help drive this agenda forward. Drawing upon a range of expert sources and analyses, and incorporating the latest developments, the report updates the analysis in our 2015 report and supplements our previous recommendations.

Walking the walk

A key conclusion of the report is that there is a misalignment between the government's current policy decisions and its long-term aspirations for a sustainable economy. For example, the UK government signed up to an ambitious climate deal at the UN's 2015 Climate Change Conference (COP21), but since the general election it has introduced a number of policy measures that risk making it harder for the UK to meet its climate change targets.

Similarly, the government has committed to protecting and improving our natural capital as a key part of the economy's asset base, and is developing a '25-year plan for nature', yet recently decided not to include a long-term investment strategy for natural capital in the National Infrastructure Plan. Plus, the government is separately developing a 25-year plan for food and farming that may not adequately take into account that a thriving UK agricultural sector depends on natural capital.

There is an urgent need to adopt a longer-term sustainable economic policy framework that integrates and supports the environmental aspirations the government has set out. Our *A Greener Budget* report proposes a number of the things HM Treasury can do to bring this about.

Opportunities and risks around natural capital

The economic costs of failing to manage environmental impacts are already significant. For example, mismanagement of river catchments (such as loss of upstream wetlands and trees, river straightening and canalisation, and poor land-use practices) is widely accepted to be a major contributing factor to flooding. With the cost of the winter 2015/16 floods estimated to be at least £5bn¹, and with extreme weather events predicted to become more frequent with climate change, it's vital that the government's review of flood defences puts natural capital at the centre of a new, more integrated approach.

Soil degradation, another key problem, is already costing the economy £1.2bn a year in England and Wales, through its impact on carbon emissions, flooding, water quality and reduced agricultural productivity for example.² Poor agricultural practices are a major cause – an issue that is highly relevant now, given the government's ambition to boost agricultural production through its forthcoming 25-year plan for food and farming.³

"Well-designed policy measures to sustain natural capital are positive for long-run economic prospects, helping to drive resource productivity, a key competitive factor."

HSBC, 2015

1 KPMG., 2015. *Flooding economic impact will breach £5bn*. Press release, 28 December 2015.

2 Graves, A. R., Morris, J., Deeks, L. K., Rickson, R. J., Kibblewhite, M. G., Harris, J. A., Farewell, T.S. & Truckle, I., 2015. *The total costs of soil degradation in England and Wales*. Ecological Economics, 119, pp 399-413.

3 HM Government., 2015. *Industry kick-starts work on Great British Food & Farming Plan*. News article. 16 March 2015.

4 HM government, 2015. *World agrees historic global climate deal*. News story.

5 Eftcc, 2016. *Developing a UK national economy natural capital stress-test*. A report prepared for WWF-UK

"The government has a huge credibility problem, having signed a treaty of historic importance, and yet [having] been pursuing a path of [energy policy] travel that is 180 degrees opposed to what is needed."

Jeremy Leggett,
founder of renewable
energy company
Solarcentury⁶

"The low-carbon revolution is already offering huge opportunities for business, the economy and society as a whole. Companies have the potential to unleash a wave of innovation in low-carbon technologies, creating new products and services, generating employment, reducing energy consumption and increasing savings if the right policies are in place"

We Mean Business
Coalition, 2016⁷

Analysis commissioned by WWF-UK shows that under a scenario of a 1% increase in annual agricultural output per year (and based on current rates of soil degradation per unit of output), the total annual economic cost of soil erosion in 25 years' time could amount to more than 70% of the additional annual agricultural output.⁵ In other words, a significant proportion of the benefits to the UK economy from increased agricultural production will be offset by the economic costs of soil degradation, unless action is taken to avoid this scenario.

For all of these reasons, we've proposed that HM Treasury develops a 'natural capital stress test' to quantify the potential risks to different sectors of the economy from natural capital depletion, including impacts on productivity, competitiveness and jobs, to prioritise remedial action. We've also proposed that HM Treasury includes information on natural capital in the annual Budget, to help ensure that natural capital risks are being properly monitored and considered in economic policy-making.

Opportunities and risks around low carbon development

The UK's low-carbon sector – the market for goods and services that reduce our carbon emissions, such as renewable energy and energy efficiency measures – has boomed over recent years. In March 2015, the government estimated that the low-carbon sector generated some £122bn in revenues in 2013.⁶ This is more than double the UK's car manufacturing industry, and about five times as large as the UK aerospace industry in terms of Gross Value Added (the value of goods and services produced).

But a series of recent policy announcements withdrawing support from the sector have significantly increased investor uncertainty. Ernst and Young recently downgraded the UK in its global rankings of perceived attractiveness for investment in renewable sources of energy (such as wind and solar).⁷

The UK risks being left behind by the global move to decarbonise after the Paris COP21, which will have implications for our competitiveness and industrial development. Going forward, this could mean we lose out on a rapidly growing new market for low-carbon technology, with all the income and jobs it could bring.

HM Treasury urgently needs to provide a clear, long-term policy package that will give industry the confidence to invest in renewables and energy efficiency, and to clarify what financial support is available to the UK's renewable energy industry beyond 2020.

Seizing the prize

The prize awaiting is substantial. If the government actively drives the transition needed - through decisive policy action - it will reduce public and private sector risks and costs, promote competitiveness, and stimulate innovation, investment and job creation.

Business groups talk not only about the risks to business from climate change but also about the huge new opportunities that a low-carbon transition brings to them. In 2014, the global market for renewable sources of energy grew at the fastest rate to date: around 50% of energy supply additions worldwide are now renewables.⁸

And there are substantial opportunities to be captured through the restoration of key natural assets. The Natural Capital Committee showed how adapting land (mainly agricultural) to provide a range of benefits – from peatlands, forests, grasslands and other ecosystems – would generate economic benefits to society worth as much as £9.2bn over 50 years. These benefits are between two and three times the size of the investment costs involved.

Reversing nature's decline and promoting a sustainable, resource-efficient and low-carbon future are wise investments. 'Business as usual' will be far more costly in the long run.

6 BIS, 2016. *The size and performance of the UK low-carbon economy - report for 2010 to 2013*. Department for Business, Innovation & Skills, March 2015

7 EY, 2015. Renewable Energy Investment Country Attractiveness Indices.

8 IEA, 2015. *World Energy Outlook 2015*. International Energy Agency, Paris, France.

9 Guardian newspaper, 2015. *Major energy U-turn needed to meet Paris targets, government warned*. Published 13th December 2015.

10 We Mean Business Coalition.

PRIORITY AREAS FOR ACTION IN THE BUDGET: A SUMMARY OF WWF-UK'S RECOMMENDATIONS

1/ Promoting the protection and improvement of natural capital

- Develop and implement a new 'natural capital stress test' to evaluate the exposure of the UK economy and individual economic sectors to risks associated with potential future changes in stocks of natural capital, and to help inform policy responses.
- Incorporate a new section on natural capital in the annual Budget report, including information on stocks, service/benefit provision, risks, liabilities and future outlook.
- Initiate a natural capital investment strategy within the context of the 25-year plan for nature, and integrated with the National Infrastructure Plan.
- Establish a new UK business-focused Natural Capital Task Force, to provide a forum through which to identify how the private sector can best contribute towards natural capital goals, and to identify how public policy intervention can best incentivise action, innovation and investment.

2/ Decarbonising the UK economy and driving investment in low-carbon industries

- Demonstrate support for a long-term policy package that will give industry the confidence to invest in renewables and energy efficiency, and clarify what financial support is available to the UK's renewable energy industry beyond 2020.
- Support a major programme of investment in domestic energy efficiency as part of the government's long-term infrastructure plan, under the new National Infrastructure Commission, including retrofitting the UK's existing building stock to reduce carbon emissions.
- Channel research and development funding to ensure the development of low carbon and energy efficient technologies essential for the security of the future energy system.

3/ Developing a sustainable, thriving UK bioeconomy

- Develop a bioeconomy strategy (to guide the development of those sectors of the economy that use renewable biological resources) that comprehensively assesses the competing demands for biomass (organic matter that can be used as a source of energy), taking into account the economic growth potential and sustainability benefits of each sub-sector of the bioeconomy.
- Only provide further subsidy for the use of biomass to generate power if it also generates heat, as using biomass for power only is inefficient, and there are many other clean solutions for the power sector. Strengthen existing sustainability rules for bioenergy subsidies in line with the sustainability requirements of the Forest Stewardship Council (FSC) and Roundtable on Sustainable Biomaterials (RSB).
- Strengthen support for generating bioenergy from waste, in efficient applications (such as heat and Combined Heat and Power) and in sectors without other renewable solutions (such as industrial heat, freight, aviation and shipping).
- Strengthen and broaden existing procurement policy to favour bio-based products, with a preference for reused and recycled products certified to FSC or RSB standards.

4/ Promoting a more resilient and sustainable UK financial system

- Commit to a clear time frame for adopting a legislative framework for climate- and natural capital-related financial risk disclosures by financial companies, on a mandatory comply-or-explain basis, in order to speed up and mainstream action by the financial sector to develop practical methodologies for assessing and managing these risks.

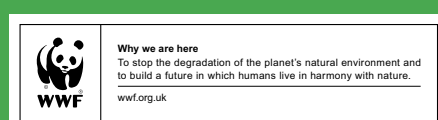
To download the report, please visit: wwf.org.uk/greenerbudgetreport

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