Balancing the books

Public spending cuts that would do us all a favour

There is general agreement that the UK's public sector finances are in a critical state. The UK is forecast to borrow £178bn this financial year, with net public sector debt expected to reach well over 50% of GDP[1]. In the next financial year borrowing is expected to be around £170bn[2] – equivalent to more than £2,700 for every UK resident for just one year's debt.

While political debate continues about how soon to curtail public spending[3], there can be no question that substantial cuts will be needed.

Yet that is not the end of our financial troubles. Britain's infrastructure is in need of a substantial overhaul, possibly requiring investments of as much as £400bn[4]. A large proportion of this will be focused on the renewal of our energy infrastructure as the UK converts to a low-carbon economy. While the money for such infrastructural improvements will mainly come from the private sector they will also need government seed money in some areas, along with further regulation to provide market certainty.

In the light of this, the purpose of this briefing is to identify ways in which environmentally damaging spending and tax anomalies can be rectified to the benefit of the public sector balance sheet.

Drawing on Greenpeace's own research as well as other sources, we have highlighted potential cuts that would save more than £32bn over the lifespan of the next Parliament, with considerable further savings over subsequent years – removing damaging public sector subsidies, white elephants and outdated tax breaks from the nation's balance sheet.

1) Abandon controversial defence projects[5]

The government currently plans to invest substantial funds in two major defence procurement projects – a new generation of nuclear weapons, and the UK's largest ever aircraft carriers to be equipped with US F35 jets.

Both projects have been criticised by military and defence analysts as outdated and irrelevant to the security threats the UK now faces. Head of the army Sir David Richards recently said: "Hi-tech weapons platforms are not a good way to help stabilise tottering states – nor might their cost leave us any money to help in any other way. We must get this balance right." [6]

Defence adviser to the Tory party and former head of the army Sir Richard Dannatt has also argued that many of the Ministry of Defence's new equipment programmes are "irrelevant" to modern warfare[7] and suggested that Trident replacement could well prove to be unnecessary within five to 10 years.

Due to the secrecy around the time lines and contract payment schedules for both the Trident and Supercarrier projects, it is hard to determine the exact dates of savings so we have only included minimal data in the years up to 2014 in the accompanying table at the end of this document. Obviously if the government abandons these projects, savings will continue well beyond that date.

a) Trident

The government gives two figures for replacing Trident. The first is the cost of designing and building new submarines, warheads and 'infrastructure'. This was said in 2006 to be £15bn–£20bn and to take up 3% of the defence budget every year between 2012–27. On top of that are the running costs, which will take up around 5–6% of the defence budget (approximately £1.9bn–£2.3bn) every year. This gives a total of £72.9bn–£89.5bn for building and operating a replacement for Trident. Yet these estimates ignore key factors – factors that Greenpeace believes will push the final cost up to £97bn, or more than 8.5% of the current defence budget every year over the system's 30-year lifetime.

In terms of the immediate costs of Trident replacement, the first expenditure would come with the 'initial gate' decision to fund development of the submarines' design, estimated at £1.5bn. This decision is expected imminently.

The so-called 'main gate' decision, on whether to commit funds to build new submarines, is expected to be taken between 2012-14, according to the government. This will commit £11bn-14bn, of which the 'initial gate' decision will already have spent £1.5bn. Given that defence contracts routinely over-run and that expenditure from the 'main gate' decision would be expected to be spread over about 10 years, a ball-park estimate would be that expenditure before 2015 on Trident from a 'main gate' decision in 2012 would be a further £2.5bn. Greenpeace believes that the actual figure would in fact be higher because of flaws in the government's original submarine cost estimates, which the National Audit Office has also questioned[8].

b) **Atomic Weapons Establishment (AWE)**

One of the 'hidden costs' Greenpeace believes should be considered as part of the overall Trident project is the planned investment in the AWE sites at Aldermaston and Burghfield as it can be argued that this expenditure would not be necessary without Trident renewal. The investment between 2011-15 is estimated at £3.8bn. Although strictly this spend continues up to 2015, we have recorded it in the table in the conclusion for the year 2014.

c) **Aircraft carriers**

The lifetime costs of the two proposed Supercarriers and their aircraft were estimated by the government in 2005 to be £31bn, a figure that includes a £12bn procurement cost and £19bn in running costs. Since then, however, both the build costs of the ships and the planes that will fly from them have risen substantially, as have the projected running costs.

The latest cost estimate for building the carriers is £5bn, which is £2.1bn higher than the official estimate given in 2005. Although the two carriers are not due in service

until 2015-16 and 2016-17, the vast bulk of the capital expenditure will need to be committed in advance.

d) **Planes for the Supercarriers**

The government has consistently stated that it will cost £10bn to buy the F35 planes needed to equip the aircraft carriers. Some £2bn of this budget has already been spent on development. The government originally stated that it planned to purchase 150 of these planes. However, it is now refusing to say how many it intends to buy – or can afford to pay for with its remaining £8bn budget – or when it intends to buy them. However, given that sea testing of the carriers, presumably with planes, is expected to commence well before the ships come into service, it is reasonable to estimate that cancelling the planes (as a result of the cancellation of the carriers) would save £2bn by the end of 2014.

All parties have committed to a strategic defence review after the election and it is crucial that Trident and the aircraft carrier project are not excluded from this process.

2) End Common Agricultural Policy (CAP) subsidies[9]

The major agricultural programme of the European Union is the CAP, which dates back many decades. This coordinates the payment of subsidies to farmers, introduced as a way to maintain stable prices and ensure farms remain solvent.

However, the objectives of these payments are now very poorly defined, as they are weighted in favour of large landowners who are less in need of financial support. In addition, the vast majority of the subsidies fail to support the maintenance of biodiversity, landscape protection or the transition away from fossil fuels.

In consequence the UK spends more than £2.5bn on CAP subsidies every year without securing any tangible public policy benefits. While it is true that a small proportion of the CAP budget is set aside for environmental work on farms, such as conservation through wild land protection, this is dwarfed by the scale of the subsidies themselves.

Greenpeace believes CAP subsidies should be scrapped following the next review, scheduled for 2013. This would save £2.5bn per year, which could then be earmarked for environmentally sustainable projects.

3) Halt biofuels expansion[10]

Since 2008, the Renewable Transport Fuel Obligation has made it a legal requirement to include a proportion of biofuel in all UK vehicle fuels. This was intended as a measure to help reduce greenhouse gases, but a number of loopholes and lack of safeguards means that the policy may actually be causing more environmental harm than good. For example, it is possible to use palm oil as one such biofuel feedstock. Yet far from being environmentally beneficial, the expansion in palm oil usage has almost certainly resulted in deforestation to create ‘new’ land for palm oil plantations. Under these circumstances, the UK’s biofuel obligations may well result in an *increase* in emissions.

Under current proposals the proportion of biofuel in transport fuel will increase from 3.25% this year to 5% by 2014. The inclusion of biofuel has already increased the costs to the average car owner by a few per cent and this is set to rise by around £500m by 2014 if the biofuel proportion increases as planned.

Given the commitment, the government should freeze the proposed increase in biofuel proportion and instead levy a small charge, which could become direct government revenue. This move would be given even more credibility if it was linked to a scheme to protect forests – commitments the UK has already entered into internationally.

4) Moratorium on road building and further roads budget cut[11]

Transport is responsible for 28% of the UK's CO2 emissions, with road transport accounting for the vast majority of that. Any attempt to contain road transport emissions will therefore require all further expansion in road capacity to come to a halt. While current road building commitments will not produce a huge increase in emissions, numerous other factors – from air pollution to habitat destruction – suggest alternative approaches are needed in the medium term to tackle the problems of congestion and the UK's wider transport needs.

One reason the supposed economic advantages of roads have achieved such primacy in government circles is because of the way the cost-benefit analysis is done. But there is good evidence that the assessment methodology for transport spending is in need of reform. At present, for example, it fails to take proper account of carbon reduction targets, which are now legally binding, and gives insufficient attention to alternative schemes that could offer better value for money – factors highlighted by the New Approach to Transport Appraisal (NATA) carried out by Green Alliance and Campaign for Better Transport.

Until an appraisal of these issues is carried out there is a compelling case for a halt to further road building, and Greenpeace would like to see a long-term moratorium in favour of investment in public transport such as high-speed rail.

The initial moratorium could save up to £2.4bn by 2011-12. Additional savings made through a reassessment of the methodology for transport spending could save a further £2.8bn by 2013-14 as road schemes that are currently seen to be financially viable would no longer be viewed as such once a properly balanced assessment is made.

5) Reduce public sector energy and fuel consumption[12]

More efficient buildings spend less on fuel. Almost every study that has looked at ways to reduce fuel use or climate change emissions has found that one of the most cost-effective solutions to the problem is to improve energy efficiency in buildings. In the case of public buildings, this will obviously lead to a reduction in taxpayer costs.

The three main parties have made commitments to reduce government energy consumption, which currently costs £3.2bn each year. A 10% reduction in energy use

would result in an annual saving of more than £300m, which would be cumulative. In subsequent years, efficiency savings could increase, estimated at a further 6% for 2 years, leading to greater cumulative savings.

The largest consumer of energy in the government is the Ministry of Defence (MoD), which in 2007 spent £788m on fuel alone. This figure does not include associated support costs – for example, of protecting the fuel supply lines of overseas bases. According to the Royal United Services Institute, seven litres of fuel are required to get one litre of fuel to the front line, not to mention the human cost. The potential reduction in costs that could be made by the MoD are included in the figures for overall government efficiency savings.

6) Abolish petroleum revenue tax allowances[13]

Even the most basic back-of-the-envelope analysis of climate change emissions suggests we cannot burn a significant proportion of our *existing* fossil fuel reserves and avoid "dangerous" climate change[14].

And yet, in spite of this, oil exploration receives concessional tax treatment from the UK government in the form of an 'oil allowance' that gives a tax exemption on profits up to a set amount in certain North Sea fields.

This exemption, which is aimed at increasing investment in North Sea oil and gas exploitation, flies in the face of efforts to tackle climate change and convert to a low-carbon economy. Instead, we should be looking to promote alternative energy sources that will allow us to leave the oil in the ground.

The oil allowance will cost the taxpayer £550m in 2010-11, according to the Treasury. In previous years, at times of higher oil prices, this figure has reached as much as £700m, so an average saving of £600m a year has been used in the table.

7) Abolish VAT exemption for aircraft and ships[15]

A number of essential goods in the UK, including water services, food, books and prescription drugs, are exempt from VAT.

But while other seemingly essential items such as energy and adults' clothes attract VAT, ships and aircraft above a certain size are granted a zero rating.

There seems to be no rationale for this anomaly, which is effectively a subsidy to the aviation and shipping sectors, even when it is widely acknowledged that both need to take dramatic action to curtail their emissions[16].

The VAT exemption granted to ships and aviation costs the taxpayer £600m every year, according to Treasury figures.

8) Abolish Climate Change Levy exemption[17]

The Climate Change Levy (CCL) is a tax on energy targeting non-domestic users in the UK. Its aim is to provide an incentive to increase energy efficiency and to reduce carbon emissions.

At present, exemptions in the Climate Change Levy are granted to companies that sign a voluntary climate change agreement. This exemption has recently been reduced, but abolishing it entirely would yield a further £250m each year.

In 2012, the current Climate Change Agreements – under which companies can claim for a reduction in the levy – will come to an end, at which point the government should abolish the exemption entirely. This would not only provide additional government revenue but also offer a greater incentive for businesses to invest in efficiency measures.

9) Conclusion

The table below summarises the potential savings that could be made over the next Parliament. It should be stressed that the total savings beyond 2014 would be considerable as well – for the Trident and Supercarrier projects this would amount to well over £100bn by 2040, but clearly savings on CAP, improved cost-benefit analysis on road projects and ending tax exemptions can all be presumed to deliver longer-term benefits to the public balance sheet. Without these cuts, the public sector is subsidising further environmental damage. With them, the incoming government could also protect investment for the necessary transition to a low-carbon economy, at this time of economic and ecological crisis.

Project or Policy	Amount saved each year – £bn				
	2011	**2012**	**2013**	**2014***	**2011-14**
Trident	1.5			2.5	4
AWE				3.8	3.8
Supercarriers				5	5
Planes				2	2
CAP			2.5	2.5	5
Biofuels				0.5	0.5
Moratorium on roads	1.4	1			2.4
Roads budget cut (due to changes in assessment methodology)			1.4	1.4	2.8
Public sector energy consumption	0.15	0.3	0.45	0.6	1.5
Petroleum revenue tax allowances	0.6	0.6	0.6	0.6	2.4
VAT exemption for aircraft and ships	0.55	0.55	0.55	0.55	2.2
Climate Change Levy exemption			0.25	0.25	0.5
Total each year (definite)	4.2	2.45	5.75	19.7	32.1

* Where the timing of the spending is unclear it has been recorded in the column for 2014

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