# Funding the Local Green New Deal

Finance for the Future

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## 1. Background

The Green New Deal plans local transformation of the economy to deliver sustainability within every community. The goal is to create an economy that works within the constraint of no more than 1.5° Celsius global temperature change.

Although the objective is to literally save the planet the Green New Deal has always emphasised that this transformation has to happen house by house, street by street, community by community. The task is inherently local as a result. There is in that case a need to empower local communities and their governments to deliver a Green New Deal.

Some mechanisms for delivery of local sustainability initiatives are within the reach of local authorities now. We note our previous recommendations on this issue in Appendix 3 to this report.

However, much of what the GND requires involves capital spending, even if some of the outlays are relatively small and this impact is inherently local. Examples include the installation of:

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- Insulation
- Double glazing
- Heat pumps
- Solar power
- Electric car charging points.

This paper considers how these parts of a local Green New Deal might be enabled by new forms of funding.

## 2. The funding sources for a local Green New Deal

There are three types of funding available for virtually any local project, including a local Green New Deal:

- Revenue
- Borrowing
- Capital

Central government does, of course have another option:

- Money creation

However, money creation is an activity reserved for central banks and the other banks that they licence, and as a result is not an option available to local Green New Deals.

The constraints on these issues types of funding are addressed in the following sections.

### a. Revenue

Revenue funding for the Green New Deal can be generated in two ways:

- Local taxation
- Charging for services.

Given the demands on local authority spending it is unlikely that council tax is an available resource for a local Green New Deal of any significance at present.

Other revenues can be generated based on:

- Rents
- Charges
- Interest.

These, however, create returns on activity and do not fund it, so revenue is not the way to initially finance a local Green New Deal.

## b. Borrowing

Local authorities can borrow from the Public Works Loan Board, or banks, or they can alternatively issue bonds.

As the Debt Management Office of the UK Treasury notes[2]:

> *The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury and provides loans to local authorities, and other specified bodies, from the National Loans Fund, operating within a policy framework set by HM Treasury. This borrowing is for capital projects.*
>
> *Prior to 25 February 2020 PWLB loans were provided by the Public Works Loan Commissioners. Following a government consultation in 2016 the Public Bodies (Abolition of Public Works Loan Commissioners) Order 2020 abolished the Commissioners and transferred their statutory powers to HM Treasury.*

It would, therefore, appear entirely possible for a local authority to use such borrowing to fund its Green New Deal. There are, however, quite strict rules in place that require that authority to be able to demonstrate how it will repay the loan. Given that some aspects of any local Green New Deal might take time to generate a return this can impose real impediments except, perhaps, with regard

[2] https://www.dmo.gov.uk/responsibilities/local-authority-lending/about-pwlb-lending/

to borrowing for electric car charging points and, maybe, the making of very specific loans that can be secured on property for solar installation and maybe insulation. This does, in practice, mean that there are some considerable constraints on borrowing in this way, which would also be applicable to bank borrowing as well.

It is possible for local authorities to issue bonds as an alternative to borrowing from the Public Works Loan Board or banks. Appendix 1 to this note explains what bonds are. The problem with their use is that they are expensive to issue, which is why there are very few local authority bonds in the UK at present. This is deliberate: since the time of Margaret Thatcher successive governments have tried to make the issue of local authority bonds difficult and have largely succeeded.

### c. Capital

The use of capital to fund Green New Deal projects is usually considered to be outside the realm of local authorities. In this context we use the term capital to describe the direct supply a funds from individuals or organisations to a local authority for that authority to use in exchange for an anticipated rate of return over future periods without the date of repayment of the funds provided necessarily being fixed.

It could be argued that bond issues are one way in which capital could be accessed, but given the very formalised nature of most bond issues, and their relative inflexibility, what we are referring to when discussing capital are arrangements that allow more focused relationships between the owners of wealth and a local authority with the funds made available by a saver being specifically allocated for the purpose of supporting a Green New Deal to the exclusion of all other activities.

At a national level we have already addressed this issue by proposing changes to the taxation rules relating to ISAs and pension funds so that these savings vehicles can be used as mechanisms to deliver funds for the purposes of funding a national Green New Deal[3]. Given that £70 billion a year is saved in ISAs each year in the

[3] See https://www.taxresearch.org.uk/Blog/wp-content/uploads/2021/10/The-QuEST-for-a-Green-New-Deal.pdf

UK, about half of that sum being new funds and the rest being recycled accounts, and given that annual subsidies to these accounts cost more than £3 billion a year, we think that redirection of these funds towards a social purpose, backed by a government guarantee of repayment and an attractive interest rate, should be a matter of social priority for any government.

In addition, with pension contributions considerably exceeding £100 billion a year in the UK, with the annual cost of subsidy for these savings now likely to cost in excess of £60 billion a year, we think that to expect that part of any pension contribution should be invested in the Green New Deal is a reasonable bargain to make for the subsidy provided.

With changed rules for tax relief on these two types of saving we think that these two sources alone could provide all the funding required for a Green New Deal in the UK. The only problem is that no one knows if or when the required changes in tax law might happen. In the meantime, those who want to save in ways that help their locality become sustainable have great difficulty in doing so. This is why we are seeking alternative arrangements to fund a local Green New Deal in the UK.

## 3. Raising the funds for local Green New Deals

In the absence of reforms to ISA legislation that might permit ISAs hypothecated to the needs of particular Green New Deal issues or specific localities to be promoted under the general banner of a government run Green New Deal ISA, an alternative firm of local saving is required to promote funding to support sustainability. The obvious alternative type of savings institution is a credit union.

The Association of British Credit Unions provides an excellent guide to credit unions[4]. As they say:

> *A credit union is a financial co-operative which provides savings, loans and a range of services to its members. It is owned and controlled by the members.*

[4] findyourcreditunion.co.uk/about-credit-unions/

> *Each member has one vote and volunteer directors are elected from the membership, by the membership.*
>
> *Credit unions are owned by the people who use their services, and not by external shareholders or investors. So the emphasis is always on providing the best service to members – not maximising profits.*
> *Membership of a credit union is based on a common bond. This can be working for a particular employer or in a particular industry, or simply living or working in a specified geographical area which could be as small as a village or as large as several local authority areas.*

As they also note:

> *All credit unions offer savings accounts and loans. Many offer a wide choice of additional products such as junior savings accounts, Christmas savings accounts, prepaid debit cards, insurance products, cash ISAs and in some cases even mortgages.*
>
> *There's no "one size fits all" rule in credit unions, and there is great diversity in the sort of service and access points that different credit unions offer in order to meet the different range of consumer preferences and expectations.*
>
> *Some credit unions will run one or more branches or service points to offer a face-to-face cash service. Others will exclusively offer an online or phone banking service. Some credit unions have developed an app for mobile devices and make instant loan decisions, while others prefer to interview all prospective borrowers.*

Vitally, they add:

> *And there's no need to worry about the money you save in a credit union, as all deposits in a credit union are protected by the Financial Services Compensation Scheme up to the value of £85,000 per person – exactly the same level of protection as savings in a bank or building society.*

In other words, so long as a Credit Union can be registered it can provide those who save with it all the security that they need for their savings. In that case we suggest that credit unions could become a vital source of funding for the Green New Deal. They may not be the major or final solution to addressing the needs that so many communities have in becoming sustainable. What they could, however, do is make the case for local saving for local investment in sustainability, which we think is key.

## 4. What could Green New Deal Credit Unions do?

It is vital to note that Green New Deal Credit Unions must have a point of common interest for all their members. We suggest that this be association with a locality. A locality can be as small as a village. It can be as big as a region e.g. East Anglia, the West Midlands or the Highlands and Islands in Scotland. However, overall, we think it best to link the Green New Deal Credit Union to a local government unit of reasonable size e.g. a town or district council of a county council. Mayoralties might work, but only where they really reflect an identifiable community of common interest. We think it vital that people saving with these funds must be able to associate their savings with activity in the area where they live.

It is important to note that a Green New Deal Credit Union would not be a bank. This is an important distinction to make. Modern banks that are licensed by a central bank, such as the Bank of England, and do not lend out their depositors' funds. Instead, they make loans by creating new money[5]. Credit unions do not behave like this. Instead, they behave in the way that most people think banks still do. In other words, they only lend out the funds that are deposited with them.

To secure deposits a Green New Deal Credit Union would need to do three things:

- Raise awareness of its own existence;
- Offer accounts that will attract savers;
- Provide assurance to those who save with it that their funds are safe.

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[5] To understand this process read chapter 3 in the free eBook 'Money fir nothing and my tweets for free' by Richard Murphy, a co-author of this report, which is available here. https://www.taxresearch.org.uk/Blog/wp-content/uploads/2021/04/Money-for-nothing-and-my-Tweets-for-free.pdf

Credit Unions are allowed to offer all the types of accounts that a bank or building society usually provides. Current account facilities are not, however, usually available, and nor are credit cards common. Instead, the focus is upon savings accounts, including ISAs, which credit unions are allowed to supply.

Latest data from the Bank of England suggests that approximately £4.2 billion is saved in credit unions in the UK as a whole[6], although £2 billion of this is in Northern Ireland. This sum might be contrasted with the total estimated financial wealth of UK households as reported by the Office for National Statistics[7] for March 2020, which amounted to £1,933 billion. Approximately 0.22% of UK wealth is saved in credit unions in that case, but that shows that there is considerable scope for more to be saved in this way if the imagination of savers is captured by innovative local marketing.

Of the total £4.2 billion saved with credit unions, about £1.6 billion was used to provide loans to members, who are those who are entitled to borrow from such organisations. It is our suggestion that these loans could be used to fund:

- Insulation
- New energy efficient doors and windows
- Heat pumps
- Electric car charging points
- Other energy saving arrangements.

Whilst loans could be secured by mortgages on properties on occasion, the reality is that most credit unions have quite low bad debt records, probably because the borrower also identifies quite closely with the organisation that has made a loan to them.

Quite what the level of loans that local Green New Deal credit unions might make for these purposes is hard to estimate. That there is, however, an appetite to save for green purposes has been indicated by the government launching a green bond through National Savings and Investments. In 2022 they note that the funds

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6 https://www.bankofengland.co.uk/statistics/credit-union/2021/2021-q2

7 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/totalwealthwealthingreatbritain

saved in this bond, which has a fixed rate three years term, would be used in this way[8]:

> *Money invested in Green Savings Bonds will also go to HM Treasury and be held in a general account. HM Treasury then plans to allocate an amount equivalent to the proceeds raised from Green Savings Bonds, to its chosen green projects, within two years.*
>
> *The Government will publish details about how the money is being spent and what the environmental benefits are, so you can see the difference you're making.*

Despite the vagueness of these objectives, the government has suggested that in a little over a year £16 billion has been saved in accounts of this sort and in green gilts (government bonds)[9]. There is, very clearly, a strong market for government guaranteed green saving, which is what local Green New Deal credit unions could also supply.

The advantage of Green New Deal credit unions is that they could provide a much stronger association between the funds saved and local benefit, and a clearer explanation of how the funds saved might be specifically used for the benefit of the communities in which people live. As a result, we think that there is a considerable potential advantage to be gained from the promotion of local Green New Deal credit unions for the benefit of promoting local saving and investment in the sustainability that every community in the UK now needs.

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[8] https://www.nsandi.com/products/green-savings-bonds

[9] https://www.gov.uk/government/publications/uk-government-green-financing

## Appendix 1 - Bonds

A bond is a type of savings account. Many people are familiar with bonds, although they may not really be aware of it. That is because many of the fixed term savings accounts offered by banks and building societies are bonds. You save a fixed sum. You are offered a fixed interest rate. The savings account lasts for a fixed period. Then the money comes back to you. That is all a bond does.

Sometimes in such accounts you can get out early by foregoing some of the interest you might have earned. Other times you cannot. But either way this is all a bond is: it is a fixed term savings account on which a fixed interest rate is paid.

The twist with regard to government bonds, some corporate bonds and some local authority bonds is that they are packaged up in such a way that instead of a saver being able to get out of their account early there is instead an organised market in the bonds, usually arranged through a stock exchange, which means that the bonds can be sold before they have reached the end of their life.

The further twist in the case of these bonds that can be sold is that because the bond carries a fixed rate of interest but interest rates in the market can vary over time the price quoted on these markets for these bonds varies over time. So, if the pre-agreed interest rate payable on the bond is higher than current interest rates available in the financial markets the value of the bond tends to go up, especially if there is some time to go before the bond comes to the end of its life. Similarly, if the interest rate on the bond is below the current rate then it is likely that the price or value of the bond will fall, maybe below the price paid for it.

Bonds carry interest rates that vary depending upon the rates at the time that they are issued, their duration (the longer the lifespan of bond, the bigger the risk and so the higher the interest rate) and the risk associated with the organisation issuing the bond. Since most developed country governments cannot default on their debt[10] the bonds that they issue are considered the safest form of investment available and as

[10] This is because in a country like the UK that has its own currency and its own central bank, with that currency being readily acceptable in international currency markets, if at any time the UK government could not pay its debts the Bank of England could always advance it the funds required to make that payment, meaning that the government cannot default. This is only possible because the UYK government only borrows in sterling. If it borrowed in other currencies it could default.

such they usually have the lowest available interest rates. In contrast, some companies are considered very risky and their bonds are described as ‘junk’ as a result.

Local authority bonds are considered almost as safe as those issued by governments.

Many UK based bonds issued by banks, building societies and credit unions are also covered by the UK government’s deposit guarantee scheme[11], meaning that a sum of up to £85,000 held by any individual with that institution is guaranteed to be repaid to any individual saving with it.

[11] https://www.fscs.org.uk/making-a-claim/?gclid=CjwKCAiAvaGRBhBlEiwAiY-yMGRNVstiV2uaxooQRDOwCKAi9ml4qYS8pPPhV7F9bqq_PfGeAzMxMxoCu9kQAvD_BwE

## Appendix 2 - Lending long, borrowing short

UK banking institutions, whether they be banks, building societies or credit have tended to undertake what looks to be a superficially risky form of lending operation. These institutions tend to 'borrow short' and then 'lend long'. What this means, and why it is not nearly as risky as it might seem to be, needs to be explained if the risk that many people might think exists within credit unions is to be explained.

### Borrowing short

Borrowing short refers to the fact that most bank, building society and credit union deposits are in accounts that the person saving can get access to quite quickly. Some, like current accounts, are repayable whenever the customer demands. Others, like many deposit and bond accounts, are subject to notice of withdrawal or are made for fixed durations, but these notice periods often vary between periods as short as 30 days to maybe a year or two. In other words, most deposits are at least in theory repayable in the relatively short term.

### Lending long

Borrowing short would not create risk for any financial institution if it also lent short i.e. the funds it lent out were repayable at on demand or at short notice by those that they lent them to. Overdrafts are loans of this type, but they are unusual precisely because they are repayable on demand.

The vast majority of lending is for longer terms. For example, many car loans and other types of funding to acquire domestic or other equipment are for periods of at least three years. Loans to buy property ('mortgages' as they are commonly called) are often for periods of 25 years or more. The lending is, then, for very much longer periods than the periods for which savers are willing to commit their funds to any institution.

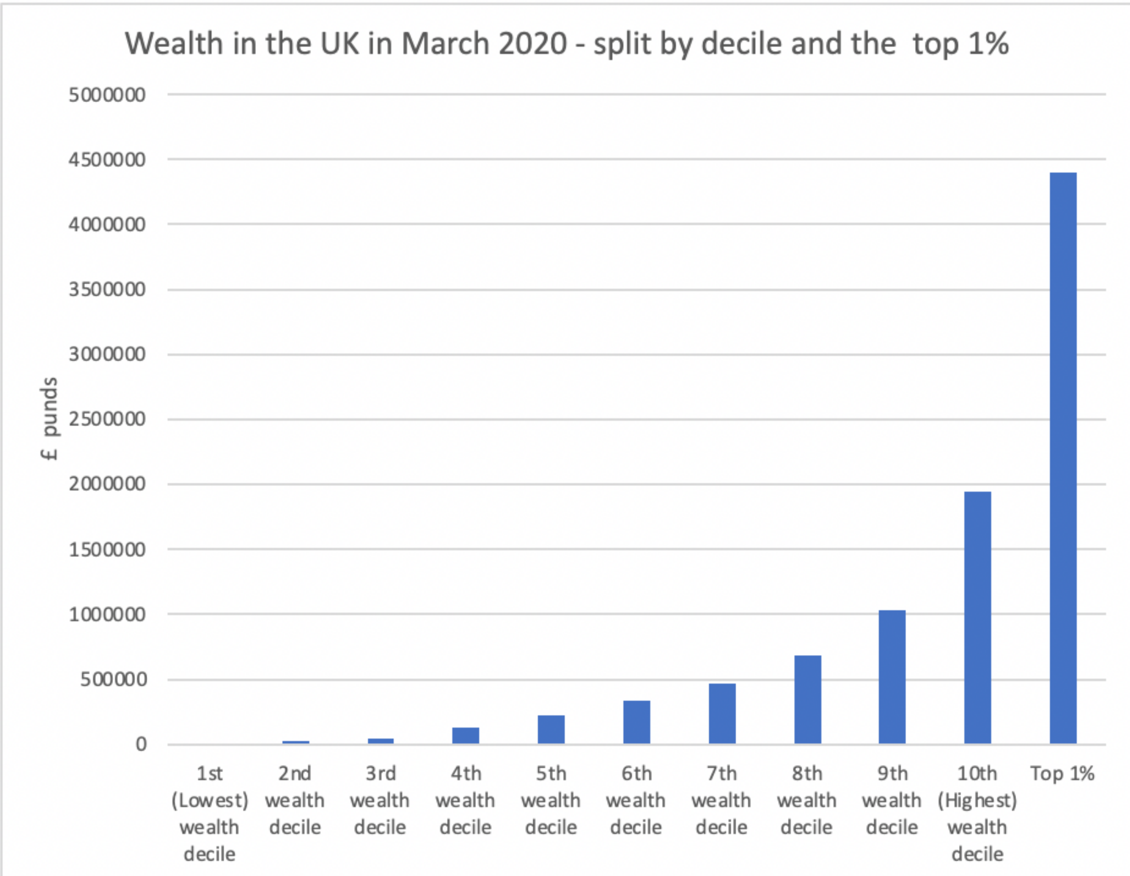
### How does borrowing short and lending long work?

For technical reasons banks are not as constrained by this problem as are proper building societies and commercial unions. The reasons are complex and need not be discussed in detail here but refer to the fact that technically banks do not lend out depositors funds when marking loans, unlike building societies and credit unions, which do make loans out of funds deposited with them, as most people imagine is the case for banks as well.

It would be thought that building societies and credit unions might face real problems with lending long in that case, but in reality that is not a problem in the vast majority of cases.

The reason for this is that there are very many more borrowers in the UK than there are savers, and those who save tend to do so for the long term, even if they do not commit their funds to any account for nearly as long as they tend to hold money.

If the UK population is split into ten groups, each of which has, on average, the same wealth, each such group has the following average wealth:



Source: Office for National Statistics[12]

Note that the top 1% are shown separately but data for them is also included in the data for the top 10% as well, indicating by how much they skew the averages at the top of this distribution.

The same data is portrayed slightly differently in this table:

| | Total | Financial assets | Pensions |
|---|---|---|---|
| | £ | £ | £ |
| 1st (Lowest) wealth decile | 8,000 | - | - |
| 2nd wealth decile | 23,000 | 500 | 2,500 |
| 3rd wealth decile | 47,300 | 1,000 | 15,800 |
| 4th wealth decile | 129,200 | 2,000 | 38,200 |
| 5th wealth decile | 222,200 | 6,800 | 56,700 |
| 6th wealth decile | 339,600 | 12,900 | 97,600 |
| 7th wealth decile | 470,300 | 22,900 | 180,400 |
| 8th wealth decile | 685,500 | 41,800 | 292,700 |
| 9th wealth decile | 1,031,200 | 79,500 | 520,200 |
| 10th (Highest) wealth decile | 1,941,300 | 201,000 | 1,035,100 |
| Top 1% | 4,403,500 | 779,400 | 2,046,700 |

Total wealth, as plotted in the previous chart, is noted in the first column. The second column does, in effect, represent non pension savings, and the final column represents the average value of pension funds for each decile group.

As is apparent, the top 10% of wealth owners within society own vastly more then all other groups within it. The total household savings of the bottom 90% of the wealth distribution do, in fact, own £167,400 of wealth per household between them whilst, as will be noted, the top decile own an average of 201,000 pounds of financial assets per household, with the top 1% having £779,000 per household.

It is the fact that the wealthy have more to save than they can possibly need to use in the short term that solves the conundrum of borrowing short and lending long. although in theory depositors can withdraw their money from savings accounts, in practise they do not because they have no immediate use for the money that they save.

12 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020

## Appendix 3

### The Green New Deal and local government

It's easy to think the Green New Deal is all about massive programmes for change. And in part that is true. But there is also a great deal that can be done locally. This note addresses what can be done by local authorities, in particular.

### 1. What the Green New Deal is

The Green New Deal is a programme to manage the rapid transition of the UK to become a sustainable economy, which is required if we are to stop an impending environmental crisis. Whilst seeking to achieve this aim it will also:

- Tackle the damage caused to the UK by austerity;
- Provide a unifying social, economic and environmental strategy for the post-Brexit UK and its constituent countries;
- Seek to solve emerging crises in the UK, including on housing, education, training, security of earnings, gender equality and access to work.

To achieve these goals the Green New Deal will:

- Invest in the new businesses, technologies and skills that will be needed to achieve these environmental, social and economic goals;
- Invest in the new infrastructure that will be required to manage a sustainable economy, including new power generation and supply networks, transformed transport systems and buildings that have low or no carbon footprint;
- Create long term, well-paid employment to deliver this programme in, quite literally, every constituency in the UK with the aim of delivering environmental change, creating secure employment and so social stability, and a fairer and more equal society in which all can prosper;
- Reform the UK's finances to make this possible. This will require change to banking, financial markets, our tax system, the ways we save and the role of government in making this work.

With the aim that we will build a fairer society where we can all coalesce around these goals that we all must share if we are to survive in the long term.

## 2. The Problem for subnational government

Local authorities, as well as the devolved authorities of Wales, Scotland and Northern Ireland, would all face considerable funding constraints if they tried to promote a full Green New Deal as we imagine it within the areas or countries for which they have responsibility. These problems arise because of:

- Funding constraints imposed by the Westminster government;
- Restrictions on the capacity of devolved and local governments to vary taxation rates;
- Limited borrowing powers, many of which are also constrained by 'prudential borrowing' rules;
- The limited reserves of many of these authorities;
- The restriction on many of these authorities engaging in trading-related activity where risk to authority funds might arise.

## 3. The local interpretation of the Green New Deal

The Green New Deal is seeking to challenge a global problem. However, the solutions it proposes are inherently local. The GND aim is to create local transformation in

- Housing
- Transport
- Energy use
- Raw material usage and waste
- Food production and consumption
- Employment
- The way we live and work
- The way that the local economy supports itself - the circular economy.

Whilst it would seem that many of the GND issues require major upfront funding (and that is indisputable) as much can be done by highlighting how local people might work together to effect change.

## 5. So what could a sub-national authority do?

Using the headings noted in the previous section the following are issues those local authorities who are committed to a Green New Deal might address. The list is not meant to be exhaustive, and we accept that it is not detailed. It is provided for discussion purposes.

### a. Housing

- Promote energy efficiency schemes and exploit other grant funding as if it is a local programme;
- Promote new carbon neutral housing schemes either as authority owned projects or with partners, and emphasise this is local planning arrangements;
- Transform its own properties to maximise their own potential for energy production and saving;
- Consider a local 'Green New Deal Credit Union' to fund such a policy.

### b. Transport

- Promote energy efficiency in local transport;
- Promote cycling;
- Promote car sharing;
- Consider car exclusion zones or access charges;
- Promote the use of electric cars by providing charging points;
- Consider innovative approaches to local transport and its licensing to overcome 'the last mile problem' that means so many commute by car when they would prefer to use other arrangements;
- Improve public transport integration;
- Consider how transport contracts can be used to promote green travel.

### c. Energy use

- Promote low energy use;
- Consider providing funding for solar energy installations on the basis of shared returns;
- Review the authority's own energy use;
- Consider creating a green energy service company.

### d. Raw materials

- Review waste and recycling policies;
- Consider changing licencing arrangements with regard to these issues to ensure that their management is really sustainable.

### e. Food consumption

- Is there a consideration here for school meals contracts or are these all outsourced to schools now?
- Are there any licensing issues that could be considered?

### f. Employment

- Is a local employment fund or even a local venture capital fund possible - or can it be encouraged by the council to provide match funding to supplement grants the authority can give? This is a longer-term goal and yet it seems to have much local savings potential.

### g. The way we live and work in the local economy

- Promote a local currency;
- Create effective ways to work at home;
- Support people who want to do so;
- Promote support services for local businesses;
- Provide training for GND related businesses;
- There is a great deal of potential here.

### h. The important point

- Make it one policy;
- Do not think it is all about big spending;
- Make partnership possible;
- Do the small as well as the big stuff;
- Promote it, heavily.