Briefing

Five recommendations for the spending review and industrial strategy

green alliance…

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Summary

On 11 June, the government will deliver its multi-year spending review (SR), detailing public spending plans for the bulk of the rest of the parliament. It will cover a minimum of three years of day to day spending up to 2028-29 and will also set capital budgets for five years.

A white paper on industrial strategy, setting out how the government will grow and improve the UK's industrial base, is due around the same time.

A new infrastructure strategy, which will need funding from the SR, will also be launched

These announcements take place against a backdrop of global economic turmoil and extremely tight UK public finances, meaning the government will struggle to avoid damaging cuts to unprotected departments.

Together, the SR and industrial strategy will send a strong signal about the government's plan for the trajectory of the UK economy.

It is vital that the drive for decarbonisation and clean growth is central to this agenda. Investing in the green economy also makes economic sense as low carbon industries are among the economy's fastest growing sectors.

This briefing acknowledges the difficult choices the government faces but sets out five things it must deliver: the Warm Homes Plan; resources for farming and nature; addressing regional inequalities in transport infrastructure and investment; an industrial strategy with clean technologies and the circular economy at its core; and a long term commitment to invest in the green economy.

Delivering on clean, fair growth

The government has staked its reputation on growing the economy, investing in public services and delivering clean power. These goals are complementary. Decarbonising industry and society will produce cleaner and more energy efficient homes, and businesses able to compete in a global market that is increasingly looking for lower carbon goods and materials. Renewable power will provide more stable energy bills for companies and consumers, avoiding future fossil fuel price spikes. This will help raise productivity and purchasing power and improve the investment environment.

As we have argued previously, developing the new green industries of the future will give the UK a competitive edge in the fastest growing and most high value segments of the global economy. And a more circular economy can help to secure supply chains and capture more value from them within the UK.

Green sectors must be at the heart of the industrial strategy, both as sources of growth and as providers of important inputs into other industries.

But producers and power companies also need reliable infrastructure to operate, and their workers must be able to heat their homes affordably and travel to their jobs. The spending review must deliver on the greater investment needed to make this a reality.

Investing for green prosperity

All the evidence shows that higher investment - in improving infrastructure, nurturing the industries of the future, and making homes and businesses more energy efficient - will deliver growth benefits for decades to come.

But the UK has under-invested for decades, to the tune of half a trillion pounds lower than our OECD peers over the past two decades. This is a colossal lost opportunity.

An extra £500 billion would have been enough to build over 150GW of offshore wind, along with the interconnectors necessary to export electricity to the EU. By 2030, accounting for the expected electrification of heat and transport, this would have been enough to make the UK a net energy – not just electricity – exporter, supplying a sixth of the EU's total electricity demand. Put another way, the UK would have been able to export more power than either France or Germany were consuming in 2023, making electricity a large export earner for the UK.[1]

Eighty to 85 per cent of investment comes from the private sector and the government is trying to raise further private investment through reforms set out in the forthcoming pensions bill. But initial public investment is often essential to provide what the private sector won't supply on its own. Public investment often has a catalysing effect, increasing private investment.

According to CBI analysis, the net zero economy grew by ten per cent in 2024, compared with 1.1 per cent for the economy as a whole. The CBI argues that the value of green industries and infrastructure within the UK's reach is worth a potential £57 billion boost to GDP by 2030.

Research by the Resolution Foundation indicates that the UK has a comparative advantage in clean technologies, compared with some other economic sectors (as measured by the concentration of patents, a proxy for innovation strength). Estimates of the ability to turn research activity into economic value show the return on clean energy innovation exceeds that of any other technology.

The Resolution Foundation also found that commercial returns from research and development in offshore wind, tidal and carbon, capture and storage (CCS) technologies are well above biotechnology and AI, for instance, which featured prominently in the industrial strategy green paper. Investment in clean innovation outside the 'golden triangle' of South East England also tends to generate relatively high economic returns.

The SR and industrial strategy should also look beyond the headline missions and glamour of new technologies. There are many other areas of environmental policy that underpin wealth creation and improve people's ability to contribute to the economy and society, while lowering the burden on overstretched public services.

For example, transport badly needs capital investment to improve regional connectivity, cut costly congestion and increase economic opportunities for poorer households. However, the Department for Transport received a real terms decrease in its spending limits between 2023-24 and 2025-26.

Improving flood defences prevents economic disruption and the wasteful destruction of farmland and property. More investment in agriculture can improve national resilience through greater food security, make diets healthier and contribute to exports. In both cases, the benefits more than justify the upfront costs.

Dilemmas for the government

The government knows that more investment is needed. The autumn 2024 budget promised an extra £100 billion of capital investment over the parliament, and the spring statement found an extra £13 billion. But this rise merely cancelled out the steep cuts planned by the last government, meaning public investment, as a share of GDP, is on course to be largely flat through to 2028-29.

The Resolution Foundation estimates that, taking into account the effects of inflation and a rising population, as well as other recent commitments (for example to defence and health), there is only between £24 billion and £54 billion of extra capital spending still to be allocated over the period.

Instead of holding to this course, the government should 'invest to save' by raising investment to improve UK growth prospects, health outcomes and keep greenhouse gas emissions reductions on track to meet targets.

The major problem for the government is the extremely tight fiscal situation. It is already on course to break its fiscal rules owing to rising borrowing costs and global economic headwinds. The rules require the government to fund day to day spending entirely with tax revenues by 2029-30. In the last budget, the pledge to have debt levels falling by the end of the parliament was softened by excluding borrowing for investment from the calculation and including a wider range of assets on the public balance sheet to offset against liabilities.

However. the margin for error in meeting the rules has evaporated thanks to President Trump's imposed tariffs. The chancellor also faces pressure from backbenchers to reverse cuts in disability and winter fuel payments to pensioners, and to scrap the two child cap on child benefit, which altogether are estimated to cost up to £10 billion.

There is speculation the fiscal rules could be softened further to accommodate the extra welfare spending. The IMF has sensibly suggested making the rules less tied to regular reports from the Office for Budget Responsibility (OBR), which makes spending decisions overly reliant on shifting forecasts.

There is a risk that further changes could unsettle financial markets and raise the cost of financing government debt, now at over 100 per cent of GDP. Market disquiet caused a spike in borrowing costs after the last budget and renewed turmoil could be worse, this time due to fears in global bond markets over the affordability of President Trump's plan for US tax cuts.

The interest bill on the UK's debt burden is expected to be £600 billion over the remainder of the parliament, meaning even a small rise in borrowing costs caused by market jitters will be extremely costly and will put further pressure on the government's finances. But international investors also recognise that the UK can't continue to stagnate and must invest to raise its long term growth prospects.

These actions will improve growth prospects:

- **To break out of the 'low growth, low investment' trap the Treasury should adopt a 'spend to save approach'** to key government departmental budgets in the spending review. This means committing to fund projects that might take time to deliver an economic payoff.
- **If tax rises are necessary to balance the books, these should be levied on immobile assets** held by the very wealthy, such as land and housing, and not on the wealth-generating areas of the economy or the more vulnerable in society.
- **Adjusting how different modes of transport are taxed could raise significant sums.** The Department of Transport could find £15 billion of savings by scrapping expensive road building projects, many of which have been identified as poor value for money, and ending tax freezes and breaks for the most polluting forms of transport. This should include ending the 14 year fuel duty freeze and reversing the temporary 5p cut to fuel duty.
- **The government should signal an intention to base its investment fiscal rule on a measure of the public finances based on Public Sector Net Wealth,** which offsets all public assets against liabilities and incentivises investment.

Our five recommendations

1. Increase the farming budget, and deliver more from it for society, nature and upland rural communities

It was positive to see the farming budget maintained in the 2024 autumn statement, but independent analysis shows that legally binding climate and nature targets are at risk of being missed without a farming budget for England of £3.1 billion per year.

Spent well, and supported by well enforced legislation, this can lead to benefits far in excess of that cost, for example by supporting climate adaptation to protect farm yields against increased weather extremes, and restoration of peatlands to reduce flooding and water quality issues faced by communities downstream.

Better value for money would be achieved by directing more of the budget to more ambitious Environmental Land Management (ELM) schemes (ie Higher Tier Countryside Stewardship and Landscape Recovery), and by ratcheting up requirements under the Sustainable Farming Incentive.

Given the pressure on the public purse, raising private finance to improve environmental outcomes will be crucial. This can be achieved by giving the National Wealth Fund a stronger mandate to invest in nature, and by regulating businesses to invest in the protection of natural assets, which they depend on to maintain their profits. This should start with food and water companies.

2. Deliver the Warm Homes Plan, for lower bills and better health

The spending review should provide the full £13.2 billion promised in the Labour Party's manifesto for domestic energy efficiency and clean heat to help end fuel poverty, reduce reliance on volatile fossil fuel markets and put buildings on the path to net zero by 2050. While a substantial financial commitment, this offers wider advantages than, for example, subsidising oil and gas company investment in carbon capture and storage (CCS). This funding should be rapidly moved to a 'polluter pays' approach instead.

The government is making good progress in improving the regulatory framework for warm homes by refreshing Energy Performance Certificate metrics and tightening Minimum Energy Efficiency Standards for rented properties, but it is vital that government-backed schemes to upgrade fuel poor homes and catalyse the market for heat pumps continue to be adequately funded. Reinstating the Winter Fuel Allowance, while cutting investment in the long term measures needed to reduce fuel poverty permanently, would be a mistake.

Lessons should be learned from existing and past schemes which have often been plagued with administrative and financial challenges. The spending review should also support an effective Warm Homes Plan by setting out more certain long term funding settlements for schemes to provide confidence and maximise the positive potential for supply chains.

Warm homes are not a 'nice to have'. It is estimated that upgrading all homes capable of reaching EPC 'C' up to this standard could save the NHS billions, by reducing respiratory disease and cutting new cases of childhood asthma by 650,000. E3G modelling shows that delivering the full £13.2 billion pledged by the government to the Warm Homes Plan could boost GDP by 0.08 per cent annually with economic benefits spread across the UK, particularly benefitting some of the UK's most deprived cities.

3. Put green growth at the heart of the industrial strategy

Clean energy was among the eight growth sectors singled out for attention in last year's industrial strategy green paper. But it is vital that the strategy adopts the broadest possible definition of clean energy including technologies, like heat pumps and zero emission flight.

It should also recognise the cross-cutting potential of green growth to underpin other sectors through provision of clean power, the futureproofing of existing foundation industries like steel via decarbonisation, and the improved productivity and resource security than can come from the circular economy.

For instance, we estimate that, in 2030, material efficiency measures could reduce the carbon embedded in the steel used in UK products by an additional 14 per cent. More efficient steel use would save consumers money and mean UK steel can be deployed for more applications. Greater circularity would also retain critical raw materials, making the UK less reliant on other countries like China.

This approach should also consider where industries will need to transition in years to come and jobs could be lost. The situation at Port Talbot, illustrates the need for the government to act earlier, involving workers and communities in the development of new industries in key areas.

For instance, the government should intervene to help the automotive sector move into to electric vehicle (EV) production to preserve the 800,000 jobs dependent on the industry. Neither steelmaking nor electric vehicles (EVs) featured prominently in the industrial strategy green paper, an omission that should be rectified in the final strategy.

The government should act with equal decisiveness to foster the green industries of the future. For example, the global alternative proteins industry is growing fast. The UK has several sources of competitive advantage, including some of the world's highest food quality and safety standards, significant consumer demand and a burgeoning domestic industry.

Similarly, the UK's aerospace industry is a world leader, and the UK is well positioned to lead the development of zero emission flight technology.

4. Ensure the industrial strategy council takes a long view on green industry

To succeed, the industrial strategy needs to be genuinely strategic and backed by believable long term commitments. Pivoting, with snap decisions such as the previous government pushing back the phase out of petrol and diesel engines in passenger vehicles from 2030 to 2035, undermines investor confidence.

The government should fulfil its pledge soon to put the industrial strategy council (ISC) on a statutory footing, and ensure it is staffed with people familiar with green industries. The SR should include adequate financing to support green industries and enable a circular economy. Effective co-ordination with Skills England and Local Skills Improvement Plans will be vital regarding the skills needed.

The ISC should monitor the security of supply chains, and the extent to which the industrial strategy will provide work and good incomes in low wage areas. We suggest inclusion of a specific 'mission', overseen by the ISC, to grow the size of the green economy at a specific rate year by year.

The industrial strategy must link to other policies, such as the forthcoming steel plan and industrial decarbonisation strategy, to ensure the UK retains capacity and skills to make a range of materials like steel as the world shifts to cleaner production methods.

5. Use transport investment to boost growth and address regional inequalities

Investing in a better transport network, especially across historically under-funded regions, is essential to fulfil the government's ambitious transport modernisation agenda.

For too long, regions and nations across the UK have had far lower rates of per capita investment in transport than London, which receives around three times more capital investment as Wales, the South West or Yorkshire and the Humber. In 2023-24, London received about 80 per cent more transport spending per head than other regions with major cities, like the North West and West Midlands.

This historic disparity in investment has seen London deliver tens of billions of pounds of economic and social benefits with world-class infrastructure projects like the Elizabeth Line; while many of other cities have been left without mass transit systems, languishing in the slow lane behind comparable European cities. The announcement that the government intends to boost capital investment with £15.6 billion for transport projects in the North, Midlands and South West is a welcome move to address this.

As the government devolves more powers to regional leaders, it also needs to provide sufficient long term flexible funding to mayoral authorities, through Integrated Funding Settlements and the City Region Sustainable Transport Settlements, to support the forthcoming national integrated transport strategy and bring the UK's biggest cities up to the same standard of public transport provision as London and equivalent European cities.

Revenue support must be set at a level that keeps public transport fares affordable and encourages more people to use trains, trams and buses for more of their daily journeys.

Investing in better public transport can deliver on government missions to accelerate to net zero, improve health, create safer streets and boost growth. Evidence from the National Infrastructure Commission suggests investing in better regional public transport connectivity could raise productivity, increase business access to high skilled labour and attract new investment and firms to areas.

Continued investment is necessary to rollout EV charging infrastructure, particularly in regions with lower rates of coverage. The local EV infrastructure (LEVI) fund should be extended to 2028-29 and the government should continue to concentrate funding in regions where charger coverage is low to address regional inequalities. In January 2025, Westminster Borough Council had more charging points than Greater Manchester and Merseyside combined, despite these metropolitan counties together having more than 20 times the population.

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Endnotes

[1] This is assumed to be additional to any existing plans in the UK for offshore wind. Looking forward to 2030, we used the UK's electricity needs (fossil fuel baseload electricity generation estimations from the CCC's 6th carbon budget (6CB), and 2023 electricity import figures, scaled by expected electricity demand increases of 19 per cent for 2030, also based on the 6CB) and fuel imports (using government 2022 figures, also scaled, a reduction of 29 per cent based on the 6CB). The global average price for offshore wind, $3,461 perkW, was used. The price of the electricity interconnectors were based on the UK-Denmark Viking Link, and the capacity required was estimated based on research conducted by the North Sea Wind Power Hub consortium.