

Pension and ISA funding of the Green New Deal has to be...

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I have [already suggested](#) that the new Chancellor should abandon any pretence that there should be a fiscal rule when presenting UK's budget on March 11. That is because there are higher priorities that only government spending can deliver. Larry Elliott identified one of them in the Guardian yesterday. [As he said:](#)

[U]nless [the Chancellor] can ... find a way of making the budget consistent with the government's 2050 net zero carbon target for the economy a diplomatic failure of catastrophic proportions looms at the end of the year.

His reasoning is:

The [Cop26](#) is the most important summit the UK has hosted since the G8 met at Gleneagles in 2005 — and the task facing the government is much more daunting than it was then.

This is undoubtedly true, not least because the issues are so much bigger and the political will, at least in the UK, so much smaller. But as Larry notes:

All of which brings us back to the budget, which provides an opportunity for the government to announce measures that will accelerate the UK's progress towards a decarbonised economy. These need to be more than the mooted increase in fuel duty.

As he then notes:

The Green New Deal Group (of which I am a member) has estimated it will cost about £100bn a year for 20 years to make the transition to a net zero carbon economy. Investment on that sort of scale would be necessary to make the UK's 30m buildings energy efficient, turn buildings into power stations through the use of solar panels, and invest in renewable energy.

And then there is the critical question:

So where's the money going to come from? One answer would be a form of green

quantitative easing — money creation by the Bank of England that would pay for the decarbonisation of the economy rather than, as was the case during and after the financial crisis, being pumped into the banking system. The government doesn't seem keen on this approach, even though there are plenty of economists who think it is wholly feasible.

Another possibility would be for the government to borrow the money in the usual way, but this doesn't appeal to ministers either.

And then we come to the nub of this:

There is, though, a third option. At present about £100bn year is paid into pension schemes, all of it eligible for tax relief currently worth £54bn a year. There is also tax relief on the £70bn a year invested in Isas. The GND [proposal](#) is that 25% of pension contributions should go into green new deal investment in exchange for that tax relief and that all new Isa contributions — which currently go into cash or shares — should be invested in green new deal bonds issued by the government at a guaranteed rate of interest.

The idea is to provide a stream of income to transform the economy as well as offering a new secure investment vehicle for savers. Insurance companies and pension funds no longer risk being left with stranded fossil fuel assets and the City would be the place to do green finance. Above all, a strong signal of intent would be sent to the rest of the world.

Of course I am biased about this: these ideas might have begun life on the same keyboard that I am typing on now. But, candidly, this is the route to funding this.

As I have [already explained this morning](#), government debt is actually the flip side of public saving. And all debt has, of course, to be sold. So the job required to fund the Green New Deal is simply to match the right customer with the right government created funding arrangement.

That is what this proposal is all about. It matches pension and ISA bond holders (and most ISA accounts are in effect savings bonds, already) with the Green New Deal. Add in a competitive rate of interest, and abandon the absurd idea that the government may not compete in this market when the private sector has no constructive use for the savings offered to it, and there is a winning proposition in here that suits the government, those seeking a secure rate of return on their savings and those wanting a Green New Deal at no tax cost. Add in the fact that there is a growing move by savers towards safe assets - and with good reason - and this is a winner.

There is nothing else on the table that is.

Rishi Sunak needs to take note.