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The world has changed, but the urgency of building a clean and resilient UK hasn't

Rachel Reeves delivered her Spring Statement on 26 March, laying out her plans to adjust policy to meet her fiscal targets in a changing world. Daisy Jameson and Esin Serin argue that the Statement involved avoidable trade-offs – including cuts to international climate spending – resulting in part from sticking rigidly to self-imposed fiscal rules despite new geopolitical realities. Going forward, the increased focus on defence should not come at the expense of urgent investment in clean energy and resilience at home or abroad.

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There is a clear need for the UK to prioritise spending on defence to address the geopolitical challenges it faces. In her Statement, Rachel Reeves announced an additional £2.2 billion in defence spending in 2025-26, which will be partly funded by cuts to overseas aid, following on from the Prime Minister's announcement last month.

However, in prioritising defence, the Government should not lose sight of the urgency of investing in building a clean and resilient UK economy. Most of the required investment will come from the private sector, but public investment will need to lead the way and remove barriers facing the private sector in certain areas. This investment – which needs to be **frontloaded over the coming decades** – is a prerequisite for the wellbeing and prosperity of current and future UK generations. Delaying this investment would mean increased costs further down the line, lost competitiveness in global markets and greater exposure to shocks.



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While the Statement was broadly quiet on the climate front, cutting Official Development Assistance (ODA) to 0.3 per cent of Gross National Income to fund the increase in defence spending, as confirmed by Reeves, will inevitably undermine the UK's leadership on global climate action. The UK has a **responsibility to help other countries** halt and reverse nature degradation, decarbonise and adapt to the consequences of climate change. Under the Paris Agreement, the UK has committed to spend £11.6 billion by 2025/26 to contribute to these requirements through the International Climate fund . The decision to cut ODA will see it primarily be used for asylum spending in the UK and supporting Ukraine – leaving little room to maintain the UK's International Climate Finance (ICF) commitments, despite the **mounting threat** from a changing climate.

We therefore call on the Government to prioritise an ambitious investment programme to transition the UK towards a clean and resilient economy and find alternative ways of maintaining their ICF commitments through innovative, fiscally efficient means.

Cleaning up the economy is a growth priority

Delivering the domestic transition to clean energy goes hand-in-hand with the Government's growth mission. Switching to clean domestic sources will help protect the UK's energy security and shield the country from future fossil fuel price shocks. The Climate Change Committee's **Seventh Carbon Budget** highlights that such shocks have caused around half of the UK's recessions since 1970. Further, the transition to clean electric technologies like heat pumps and EVs will bring efficiency gains and cheaper energy bills. These efficiency gains will underpin economy-wide operational savings which will **start outweighing** investment costs of the transition from 2040 and continue to grow.

The UK is also well-positioned to be a lead player in global markets for clean technologies and services, with **strengths over other countries** along supply chains of crucial technologies like offshore wind and carbon capture and storage. The International Energy Agency **estimates that** the global market for key clean technologies will triple to more than \$2 trillion by 2035, with **more**

investment now flowing into clean technologies than into fossil fuels in many parts of the world. This underscores the clear direction of the growth opportunity for the UK.



The defence industrial strategy can complement, but not substitute for, an ambitious and long-term clean industrial strategy that the UK desperately needs to capture the clean growth opportunities ahead.



Indeed, the UK's net zero economy is estimated to have grown **over three times** faster than the economy as a whole between 2023 and 2024. **According to another estimate**, clean energy industries have added £68 billion (and more, if we account for associated services) to the UK economy in 2023 – almost seven times the estimated contribution of the defence sector that year. It is clear that the defence industrial strategy can complement, but not substitute for, an ambitious and long-term clean industrial strategy that the UK desperately needs to capture the clean growth opportunities ahead.

The UK should be supporting the global clean energy transition

Regardless of how fast the UK decarbonises, the need to reduce emissions remains a global challenge. Many low- and middle-income countries are more exposed to the physical impacts of climate change and lack the ability to sufficiently invest in transitioning their economies or adapting to a changing climate. By 2030, the estimated annual funding required for climate action in emerging market and developing economies (EMDEs) will be an estimated US\$2.3 – 2.5 trillion. Therefore, historically the UK has committed to supporting these countries through ICF} under the Paris Climate Agreement. UK ICF has been scored as ODA, meaning the recent ODA cuts threatens the vital role the UK can play in supporting developing countries to access **clean energy, reduce deforestation and protect nature, build green infrastructure and increase capacity for climate adaptation and resilience**.

Designing defence spending to support resilience and climate priorities

Like other European countries, the UK should consider potential routes to building climate priorities into the increasing defence budget. The **Spanish Prime Minister Pedro Sánchez** has called for defence spending to include cyber security, anti-terrorism and efforts to combat climate change. He correctly identifies disasters fuelled by global warming as a key threat. This wider definition of security threats should be adopted by the UK to ensure resilience against all threats is adequately prepared for.



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While not a substitute for explicit investment in clean industrial capabilities, efforts can be made to capture the many synergies across clean and defence industries. Innovation in the technologies required for the climate transition could benefit from the knowledge spillovers generated by additional investment and research in defence technologies, and vice versa. Indeed, **evidence suggests** government-funded defence R&D has potential to induce private sector R&D and productivity. The ambition to capture such synergies was visible in the Chancellor's recent **statement of strategic priorities** for the National Wealth Fund, asking the Fund to consider investments in dual-use technologies across its priority sectors (including clean energy) which better support the UK's defence and security.

Looking ahead to the Spending Review and the Autumn Budget

Defence is a national economic, security and resilience concern, but so is a changing climate. What the UK needs is a **smarter fiscal strategy** that can enable parallel progress on both of these crucial objectives. There are several actions that the Chancellor can take to this end:

- Consider raising taxes to fund essential spending and investment including in key domestic and international climate commitments.
- Identify fiscally efficient ways of maintaining and increasing the UK's ICF commitments, despite the cuts to ODA. Specifically, consider expanding the UK's use of guarantees for development and leveraging British International Investment's (BII) balance sheet.
- Ensure that clean industries and services remain at the forefront of the upcoming Industrial Strategy, underpinned by ambitious public investment to crowd-in private investment, to capture the huge growth potential they represent.
- Build more flexibility into the fiscal rules, for example by setting the target in a way that allows for a headroom range as opposed fixing the headroom to avoid having to do marginal policy tinkering at the expense of policy certainty.

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