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Environmental Audit Committee

# Sustainability and HM Treasury

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## Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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The constitution and powers are set out in House of Commons Standing Orders, principally in SO No 152A. These are available on the internet via www.parliament.uk.

### Publication

Committee reports are published on the Committee's website at www.parliament.uk/eacom and in print by Order of the House.

Evidence relating to this report is published on the inquiry publications page of the Committee's website.

### Committee staff

The current staff of the Committee are David Slater (Clerk), Lauren Boyer (Second Clerk), Tom Leveridge (Senior Committee Specialist), Tom Glithero (Committee Specialist), Emily Purssell (Committee Researcher), Ameet Chudasama (Senior Committee Assistant), Baris Tufekci (Committe Assistant), and Nicholas Davies (Media Officer)

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# Contents


**Summary** 3

**1 Introduction** 4

Defining sustainability 4

**2 Importance of the Treasury** 6

**3 Understanding of environmental sustainability** 10

Short-term vs. long-term 10

Taking account of long-term issues 10

Political priorities 12

**4 Performance on environmental sustainability** 15

Meeting carbon budgets 15

Cancellation of the carbon capture and storage competition 17

Cancellation of the zero carbon homes policy 19

Landfill tax and PFI credits 21

Conclusion 23

**5 Improving performance and ensuring accountability** 24

Industrial strategy 24

Monitoring Treasury performance and ensuring accountability 25

**6 Conclusion** 29

**Conclusions and recommendations** 30

**Formal Minutes** 35

**Witnesses** 36

**Published written evidence** 37

**List of Reports from the Committee during the current Parliament** 39

# Summary

The Treasury is an influential government department with control over public spending, taxation policy, regulation and major projects. It is uniquely placed to take an overarching perspective and ensure departments and their policies across Government work to promote sustainability. There is considerable evidence, however, that the Treasury fails to do this.

We heard multiple examples of where the Treasury has ridden roughshod over other departments' objectives, changing and cancelling long-established environmental policies and projects at short notice with little or no consultation with relevant businesses and industries. These decisions caused "shock" and "uproar" among sectors affected, with some businesses describing them as "devastating". All these changes, taken together, have had a damaging effect on investor confidence.

We found that the technical and political frameworks the Treasury uses to support these choices consistently favour short-term priorities over long-term sustainability, and comparatively expensive, glamorous low carbon technologies (e.g. offshore wind, wave, tidal and nuclear) have received more attention than cheaper alternatives (e.g. onshore wind and energy efficiency) which might represent better value for money. In part, this is because the frameworks do not take adequate account of future environmental costs and benefits. As result, a number of Treasury's decisions could lead to higher costs to the economy in the future. Cancellation of the Carbon Capture and Storage Commercialisation Competition was a case in point.

Ministers cannot make well-informed decisions unless they have access to all relevant information including long-term costs and benefits. The Treasury needs to do more to factor these into its decision-making processes, so that decisions are subject to a systematic "green-check". It must set out concrete steps on how it will incorporate new evidence on natural capital into its 'Green Book' appraisal process and its reporting and accounting mechanisms.

# 1 Introduction

1. Our remit includes a responsibility to audit the Government's performance against sustainable development and environmental protection targets.[1] Our predecessor Committee carried out this function through a series of 'sustainability audits' of government departments.[2] This is something we have continued in this Parliament. This report contains the findings of our audit of HM Treasury.

2. We recognise that the Treasury, and indeed the whole Government, has undergone significant change over the past few months. Since our inquiry started, a new Prime Minister has appointed a new Chancellor and a new ministerial team, and the Government has developed a new focus on industrial strategy. This report aims to learn lessons from the past and provide proposals that we hope will be useful to Treasury in the future. In Chapter two we look at the role and influence of the Treasury. In Chapter three we explore how the Treasury takes account of the environment. In Chapter four we assess the Treasury's track record to date and focus on a number of specific policy areas. In Chapter five we identify areas where it might improve its performance in the future.

3. To support our work we asked the National Audit Office (NAO) to investigate whether the 2015 Spending Review process led to well-informed decision-making in relation to environmental protection and sustainable development (referred to as 'the report').[3] Separately we asked them to look at whether the Government was meeting its recycling and waste diversion targets and the extent to which the cancellation of PFI credits may have impacted its performance in this area.[4] We are very grateful to the NAO for their help and support throughout this inquiry. In addition, we issued two calls for evidence and received 68 written submissions. We held three public evidence sessions with a range of stakeholders including Treasury Ministers and officials. All written and oral evidence can be found on our website. We are grateful to all those who contributed and to Dr Martin Hurst, our Specialist Adviser during the inquiry.

## Defining sustainability

4. There are three pillars of sustainability: economic, social and environmental. These pillars of sustainability were brought together in the 1987 'Brundtland report' which set out a definition for 'sustainable development':

> Humanity has the ability to make development sustainable to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs. The concept of sustainable development does imply limits - not absolute limits but limitations imposed

1 Standing Order No. 152A
2 Environmental Audit Committee, 'Sustainability in the NHS,' accessed 2 November 2016; Environmental Audit Committee, Fourth Report of Session 2014–15, *Sustainability in the Home Office*, HC 222; Environmental Audit Committee, Sixth Report of Session 2013–14, *Sustainability in BIS*, HC 613
3 National Audit Office, *Sustainability in the spending review* (July 2016)
4 National Audit Office, *Memorandum for Environmental Audit Committee: Waste and recycling: review of Defra's 2010 decision to withdraw the provisional allocation of PFI credits from seven (out of 18) PFI projects* (September 2016)

> by the present state of technology and social organization on environmental resources and by the ability of the biosphere to absorb the effects of human activities.[5]

5. The Treasury most frequently uses the term sustainability in the context of economic growth. Its departmental objectives include placing the public finances on a sustainable footing and ensuring the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth.[6] Jane Ellison, Financial Secretary to the Treasury, told us that the Treasury "takes sustainability very seriously" and that "sustainable economic growth is absolutely key".[7] However, it was not clear whether the Treasury's use of the term sustainability aligns with the concept of sustainable development.

6. The Treasury acknowledged the relationship between the economy and the environment stating in written evidence that, 'there is a complex relationship between the natural environment and economic growth. Environmental capital plays a valuable role in supporting our economy'.[8] This was reflected in the views of a large number of respondents to this inquiry. Karen Ellis, Chief Adviser on Economics and Development at WWF, told us for example that the, "environment completely underpins the economy and the economy has a huge impact on the environment".[9] In this report we focus on environmental sustainability.

5 World Commission on Environment and Development, *Our Common Future* (March 1987), p16
6 HM Treasury, 'About Us,' accessed 18 October 2016
7 Q101 [Jane Ellison]
8 HM Treasury (SAT 0034)
9 Q1 [Karen Ellis]

# 2 Importance of the Treasury

7. During the last Parliament, all government departments were expected to embed sustainable development across their activities: policymaking, procurement and estates.[10] In December 2015, the Former Chancellor of the Duchy of Lancaster, Rt Hon Oliver Letwin MP, told us that sustainable development had been "mainstreamed" across government.[11] The current Government does not have a separate strategy for sustainable development but it does have a wide range of specific environmental and sustainable development objectives relating to, for example, greenhouse gas emissions, recycling, air pollution and biodiversity.[12]

8. Responsibility for meeting these obligations is split across departments, with the Department for Environment, Food and Rural Affairs (DEFRA) and the Department of Energy and Climate Change (DECC) - now incorporated into the Department for Business, Energy and Industrial Strategy (BEIS) - playing key roles. The policies of other departments - such as the Department for Transport (DfT) and the Department for Communities and Local Government (DCLG)–can also have significant environmental impacts.[13]

9. The Treasury is the Government's economics and finance ministry, which oversees public spending and sets the direction of the UK's economic policy.[14] It does this by controlling government spending, allocating funds between government priorities, setting the rules for choosing and approving projects, determining how much autonomy departments will have, and approving major projects. The Treasury also has control over taxation policy and significant influence over regulation. A large number of witnesses agreed that the Treasury was the most important department for ensuring the Government met its environmental obligations because it wielded considerable power and influence over Government policy and activity, the economy and, therefore, sustainability.[15] Budgets, autumn statements and, especially, spending reviews give the Treasury opportunities to engage senior decision-makers across government, draw together a range of policy relevant information, and importantly, shift the nature and direction of government policy.[16]

10. Its role at the centre of government puts the Treasury in a unique position to promote coordination and policy coherence on environmental policy between and across government departments. Witnesses highlighted the importance of this.[17] Michael Jacobs, Visiting Professor at UCL and LSE and Visiting Fellow at the IPPR, told us that the Treasury thought its role was to "bring a degree of intellectual coherence across Government as a

10 National Audit Office, *A Short Guide to Environmental Protection and Sustainable Development* (July 2015), p4; Department for Environment, Food and Rural Affairs, *Mainstreaming sustainable development: The Government's vision and what this means in practice* (February 2011), p2
11 Oral evidence taken on 9 December 2015, HC (2015–16) 388, Q2 [Oliver Letwin]
12 National Audit Office, *Sustainability in the spending review* (July 2016), p4
13 National Audit Office, *A Short Guide to Environmental Protection and Sustainable Development* (July 2015), p4
14 HM Treasury (SAT 0034)
15 Centre for the Understanding of Sustainable Prosperity (SAT 0039), Grantham Research Institute at the London School of Economics (SAT 0027), University of Exeter and the University of East Anglia (SAT 0010), WWF-UK (SAT 0003)
16 Q4 [Michael Jacobs], National Audit Office, *Sustainability in the spending review* (July 2016), p5
17 Q4 [Michael Jacobs], Q14 [Karen Ellis], WWF-UK (SAT 0003), University of Exeter and the University of East Anglia (SAT 0010) Professor Tim Jackson (SAT 0026), Grantham Research Institute at the London School of Economics (SAT 0027),

whole".[18] The Financial Secretary to the Treasury, said that the Treasury was in the best position of any department to look across government at how things work together and how different policies interact with each other.[19]

11. In its report, the NAO stated that because of its lead role in the spending review, the Treasury was in the best position to carry out a central assessment of environmental issues. The NAO reported that the Treasury expected that assessment of cross-government issues such as sustainability would be achieved through 'joint bidding' and coordinated work between departments. With the exception of carbon emissions, the Treasury looked to departments to determine the need for a coordinated assessment. While there was some informal cooperation and coordinated bidding, there were no formal joint bids for environmental issues. This led the NAO to conclude that, 'the Treasury did not make the most of the opportunity to encourage departments to work across government on environmental issues'. It argued that the spending review was still largely a bilateral process between Treasury and individual departments. The Treasury could have done more to establish strong incentives for collaboration on environmental matters and take more of an overview of environmental issues.[20]

12. Witnesses to this inquiry highlighted the extent to which the Treasury involved itself in departmental decisions.[21] Michael Jacobs told us that it could happen at a great level of detail.[22] Matthew Bell, Chief Executive at the Committee on Climate Change (CCC), argued that this level of involvement could have an effect on investor confidence who are unsure of the authenticity of departmental announcements if they were not aligned with the Treasury.[23] Rob Lambe, Managing Director of Energy Services at Willmott Dixon, said that his company often gave more credibility to Treasury announcements than announcements from departments with direct responsibility for that policy.[24] Matthew Knight, Business Development Director at Siemens, said that:

> "The Treasury has to decide is it involved in the detail of a policy, in which case it has to be shoulder to shoulder with the spending Department and engaged in that. Or if it is at a higher level it has to be genuinely hands off but supportive [ … ]".[25]

13. On 2 November 2016, the High Court ruled on a case between ClientEarth and DEFRA.[26] Mr Justice Garnham agreed with ClientEarth that the Environment Secretary had failed to take measures that would bring the UK into compliance with the law "as soon as possible".[27] The case explored the role of the Treasury in approving DEFRA's air quality plans as part of the 2015 Spending Review. It heard that the Treasury blocked plans for a more extensive network of clean air zones on cost grounds. In his ruling, the Judge acknowledged that for "understandable reasons HM Treasury did not wish more public funds spent than was necessary to achieve compliance".[28] But he explained that as the law

18 Q14 [Michael Jacobs]
19 Q101 [Jane Ellison], Q118 [Jane Ellison]
20 National Audit Office, *Sustainability in the Spending Review* (July 2016), p7 and p20
21 Q44 [Matthew Bell]
22 Q4 [Michael Jacobs]
23 Q44 [Matthew Bell]
24 Q1 [Rob Lambe]
25 Q49 [Matthew Bell], Q71 [Matthew Knight]
26 ClientEarth v Secretary of State for the Environment, Food and Rural Affairs [2016] EWHC 2740
27 As above, para 66
28 As above, para 93

requires the Government to achieve compliance as quickly as possible, the determining factor when comparing different options should be the "efficacy of the measure in question and not their cost".[29] This is an important example of the Treasury's view taking precedent over other departments' objectives and favouring short-term benefits over long term gains (something we explore in more detail in the next chapter).

14. In March 2016, the former Energy and Climate Change Committee (ECC) published a report into, Investor confidence in the UK energy sector, which highlighted that there had been 'a dip' in investor confidence in the UK energy sector since the election in May 2015. ECC identified a number of factors which, when combined, were having a damaging effect on investor confidence and that witnesses believed that investors' concerns were poorly understood across Whitehall and in particular within Treasury.[30] Dimitri Zenghelis, Co-Head Climate Policy at the Grantham Research Institute on Climate and the Environment at the London School of Economics (LSE), reinforced the importance of the Treasury in ensuring policy consistency in order to support investor confidence:

> "[The Treasury] absolutely matters because it is central to steering the investment landscape of the country and so both the structure of the economy and the structure of physical and natural capital will depend on decisions taken, which steer private and public investment. A lot of those decisions are either directly or quite powerfully indirectly affected by Treasury decisions, so if the Treasury is not cognisant of the impact of its actions and policy decisions, it is very difficult to take a long-term view in terms of the sustainability of economic growth in this country".[31]

15. The Financial Secretary to the Treasury, who highlighted that she was new to the job, said that reports about the Treasury's impact on investor confidence were "concerning to hear" and that she was "disappointed that they feel like that".[32] She said that the Treasury took its environmental impact very seriously and that she would "read the Committee's final report with great interest" and that it would inform her thinking in the future.[33]

16. **The Treasury, through its control over government spending, taxation policy and regulation is arguably the most important department for ensuring the UK meets its environmental obligations. It is uniquely placed to take an overarching perspective and ensure policies across government work to promote sustainability. It is clear from the evidence, however, that the Treasury has not done enough to encourage departments to work together on this issue. This is particularly the case during spending reviews where the Treasury could have done more to establish strong incentives for collaboration between departments on environmental matters.**

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29 As above, para 50

30 Energy and Climate Change Committee, Third Report of Session 2015–16, *Investor confidence in the UK energy sector*, HC 542, para 9 and 17

31 Q1 [Dimitri Zenghelis], Q33 [Dimitri Zenghelis, Rob Lambe], Qq45-46 [Lord Deben], Q71 [Matthew Knight], WWF-UK (SAT 0003), Renewable UK (SAT 0009), Scottish Renewables (SAT 0017), EDF Energy (SAT 0018), Anaerobic Digestion and Bioresources Association (SAT 0019), Independent Renewable Energy Generators Group (SAT 0028), Renewable Energy Association (SAT 0035), Resource Association (SAT 0056)

32 Q101 [Jane Ellison]

33 Q101 [Jane Ellison], Q170 [Jane Ellison]

17. **The Treasury plays an important role in ensuring policy coherence across government. However, there is considerable evidence that some of its decisions rode roughshod over other departments' objectives. A lack of transparency over how and why the Treasury has made decisions at odds with other departments has confused businesses and impacted investor confidence. We are pleased to hear that the new Financial Secretary is concerned about the Treasury's impact on investor confidence and we hope that this report will help identify ways the Treasury can address this issue.**

# 3 Understanding of environmental sustainability

## Short-term vs. long-term

18. The Treasury has an obligation to support interventions designed to meet the UK's overarching environmental targets. Dimitri Zenghelis and Rob Lambe highlighted that it was also the Treasury's job to "arbitrate against competing demands on the public purse".[34] It must be satisfied that a particular intervention is cost-effective: i.e. that the benefits of intervention will exceed the costs.[35] The Treasury's Green Book sets out a process for assessing the costs and benefits of an intervention to determine a Net Present Value (NPV) from which interventions can be compared and ranked.[36] The NPV is, therefore, one important criterion for deciding whether government action can be justified. Another criterion is affordability.[37] Even if an intervention has a positive NPV the Government could still deem it to be unaffordable because of its up-front cost or because another intervention is cheaper.

19. Solving environmental problems and meeting environmental targets often requires sustained action over a long period, and/or large up-front, and sometimes expensive, investment with long payback periods.[38] These interventions could help to avoid higher costs in the future and could therefore represent savings to the economy in the long-term. The long timeframes involved, however, can cause problems for both project appraisal and ministerial priorities, which can prioritise the short-term over the long-term. The Financial Secretary to the Treasury described a "tension" in environmental policy-making between affordability and value for money.[39]

## Taking account of long-term issues

20. In its report, the NAO looked at whether the Treasury fully took into account the best available evidence on long-term environmental risks, and the UK's legal commitments on biodiversity, air quality and carbon emissions. For both resource and capital bids, the Treasury expected departments to follow Green Book guidance in all appraisal and evaluation. This included valuing environmental impacts. The NAO reported that for capital bids, departments showed clear communication of environmental impacts that formed part of the primary purpose of a project, and a range of environmental impacts were monetised and factored into NPV calculations and therefore the Treasury's decision-making processes.[40]

34 Q12 [Rob Lambe], Q13 [Dimitri Zenghelis]
35 HM Treasury, *The Green Book: Appraisal and Evaluation in Central Government* (2003), p26
36 The Green Book defines Net Present Value (NPV) as the discounted value of a stream of either future costs or benefits. The term NPV is used to describe the difference between the present value of a stream of costs and a stream of benefits.
37 The Green Book defines affordability as an assessment of whether proposals can be paid for in terms of cash flows and resource costs.
38 National Audit Office, *Sustainability in the Spending Review* (July 2016), p22
39 Q101 [Jane Ellison]
40 National Audit Office, *Sustainability in the Spending Review* (July 2016), p18-20

21. A number of respondents were, however, concerned that the Treasury was not adequately taking account of wider impacts, especially economic benefits, of proposals.[41] This was supported by the NAO's report which highlighted that secondary impacts were not always highlighted in the bid summary submitted to the Treasury. For example, DEFRA's capital bid for floods monetised benefits from preventing flood damage to environmental sites, but did not assess the potential impact on overall biodiversity, landscape or water quality. Similarly, DfT's bid for local rail electrification did not highlight the potential benefits for carbon or air quality. This is a concern we highlighted in our report *Sustainability in the Department for Transport*.[42] The NAO suggested that greater clarity over the secondary impacts may have helped the Treasury to develop its assessment of cumulative environmental impacts across government.[43]

22. Respondents were also concerned about the use of models to support policy interventions. In particular, they were concerned that models used to assess climate and energy policy interventions were unable to account properly for the full range of long-term costs and benefits associated with decarbonisation. We heard that the Treasury may have relied too much on one particular model–Computable General Equilibrium (CGE) model–to assess the impact of the fourth carbon budget on the economy.[44] Witnesses maintained that despite the limitations of models–including taking account of long-term issues–they were useful for providing a range of evidence to support policy appraisal.[45] Treasury officials said that they were aware of the limitations.[46] Matthew Bell suggested that the most important thing was that the Government was able to "intelligently interpret" the results of the models.[47]

23. In the recent case between ClientEarth and DEFRA on the Government's air quality plans, the Judge said that Ministers knew that over optimistic pollution modelling was being used to justify their plans.[48] Justice Garnham stated:

> "In my judgement, the [the Government's Air Quality Plans] AQP did not identify measures which would ensure that the exceedance period would be kept as short as possible; instead it identified measures which, if very optimistic forecasts happened to be proved right and emerging data happened to be wrong, might achieve compliance. To adopt a plan based on such assumptions was to breach both the Directive and the Regulations".[49]

24. The NAO's report stated, 'aspects of HM Treasury's methodological approach to evaluating the relative merits of bids during the spending review favoured projects that deliver benefits in the short-term rather than the long-term, though for rational reasons'.[50]

41 Qq15–20, WWF-UK (SAT 0003), Aldersgate Group (SAT 0030), Renewable Energy Association (SAT 0035), Renewable Energy Systems (SAT 0036), Institution of Environmental Sciences (SAT 0037), Centre for the Understanding of Sustainable Prosperity (SAT 0039), EEF (SAT 0041)

42 Environmental Audit Committee, Third Report of Session 2016–17, *Sustainability in the Department for Transport*, HC 184,

43 National Audit Office, *Sustainability in the Spending Review* (July 2016), p18-19

44 WWF-UK (SAT 0003), Friends of the Earth (SAT 0006), Green House Think Tank (SAT 0013), Grantham Research Institute at the London School of Economics (SAT 0027), Aldersgate Group (SAT 0030), Christian Aid (SAT 0033)

45 Q28 [Dimitri Zenghelis], Q31 Karen Ellis], Q61 [Matthew Bell], Q62 [Lord Deben], Centre for Energy Policy, University of Strathclyde (SAT 0074), Grantham Research Institute at the London School of Economics (SAT 0075)

46 Q187 [Neil Kenward, Susan Acland-Hood]

47 Q61 [Matthew Bell]

48 ClientEarth v Secretary of State for the Environment, Food and Rural Affairs [2016] EWHC 2740, para 83

49 As above, para 86

50 National Audit Office, *Sustainability in the Spending Review* (July 2016), p23

These related to the discount rate used by the Treasury and the NPV method it used to rank capital projects. As is the case with all discount rates, future costs and benefits are considered to have less weight than present ones. The Treasury has a long-established 'discount rate' which it applies when assessing NPV. The NAO stressed that this approach was well established. There is considerable academic debate about what discount rate is most appropriate to use when assessing environmental and climate related projects.[51] The NAO highlighted that in addition to the Treasury's technical evaluation, the Treasury also considered other factors when determining allocation of capital budgets. It was concerned, however, that there was no consistent framework by which those factors were assessed.

25. It is apparent that the Treasury has made efforts to incorporate evidence on long-term environmental risks into its guidance. In 2011, the Treasury updated the 2003 version of the Green Book to include sections on valuation of non-market goods which included environmental assets, such as air quality and environmental landscape features.[52] Furthermore, the Treasury has been working with stakeholders such as WWF and the Natural Capital Committee (NCC) to incorporate new evidence on natural capital.[53] This is something our predecessor Committee encouraged in the last Parliament.[54] Rob Lambe and Karen Ellis argued that it was not necessarily that policy appraisal failed to take account of long-term environmental risks but that, in some cases, the relevant guidance in the Green Book was simply not being used.[55] The NAO highlighted the example of the Treasury's recent decision to cancel the carbon capture and storage (CCS) competition (something we discuss more in the next chapter). It highlighted that DECC did not have time to quantify all the costs and benefits of delaying CCS deployment, which meant that the risks of cancelling the competition were not factored into the decision.[56]

26. The NAO also suggested that the Treasury could have done more to make use of the expertise of independent advisory bodies (such as the CCC and the NCC). Bodies could be involved in scrutinising the bids and sense-checking the initial high-level assessments prepared for Ministers to inform their decision-making.[57] This idea was supported by the CCC. Lord Deben, Chair of the CCC and Matthew Bell emphasised the knowledge and expertise held within the CCC and expressed a desire to help the Treasury to assess, in confidence, the impact of specific decisions on the ability of the UK to meet its long-term climate targets cost-effectively.[58]

## Political priorities

27. It was not clear on what basis an intervention was accepted or rejected once it had been subject to appraisal and achieved a positive NPV and therefore considered to be cost effective. Michael Jacobs highlighted how the "conceptual frameworks" used by Treasury (and described above) were important in helping to "frame" decisions, "help guide policy" and could "push them in certain directions". But in the end he said, "those [frameworks] are never determinants of the decisions", "it is Ministers who make the decisions".[59] Susan

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51 Qq17-20
52 HM Treasury, *The Green Book: Appraisal and Evaluation in Central Government* (2003), p64-65
53 Q14 [Karen Ellis], Q172 [Jane Ellison], Q174 [Susan Acland-Hood]
54 Environmental Audit Committee, Fifteenth Report of Session 2013–14, *Well-being*, HC-59, para 24
55 Q15 [Rob Lambe], Q17 [Karen Ellis]
56 National Audit Office, *Sustainability in the Spending Review* (July 2016), p34
57 As above, p22
58 Q48 [Lord Deben], Q65 [Matthew Bell, Lord Deben]
59 Qq5-6 [Michael Jacobs], Q182 [Susan Acland-Hood]

Acland-Hood Director of Enterprise and Growth Unit at the Treasury supported this telling us that civil servants used NPV and other analysis to help Ministers make choices but emphasised that ultimately it was ministers who made the decisions.[60]

28. The Government's macro-fiscal and economic objectives in recent years have focused on trying to keep aggregate public spending and borrowing at economically sustainable levels. Treasury officials told us that the recent spending review was "tight" and "challenging" and that the Treasury had to "make a range of quite difficult decisions". They highlighted however that "through that process we spent a lot of time making sure we were thinking hard about the environmental impact of the decisions we took".[61] Neil Kenward, Deputy Director of Energy, Environment and Agriculture at the Treasury, said that ultimately there were "trade-offs" between interventions and associated costs to the economy.[62]

29. Respondents to this inquiry were concerned that these trade-offs had gone too far in relation to the environment. The number of environmental policies that have recently been changed or removed by the Treasury because they were deemed too expensive has led the UK Sustainable Investment and Finance Association to argue that the Treasury's financial outlook has been too short-term.[63] They and others argued that this could lead to greater long-term costs to the economy. They argued that this represented a failure by the Treasury to properly consider long-term business investment needs, environmental risks and the Government's wider long-term strategy to meet legally binding carbon reduction targets and international environmental agreements, such as the Nagoya Protocol.[64] Karen Ellis argued that the Treasury had a responsibility to think about what these risks meant for the economy and to start to manage them better through appropriate policy levers.[65] The Committee on Climate Change noted that, while long-term targets set out under the Climate Change Act 2008 would not be affected by the vote to leave the EU, the referendum result poses questions for "each of the individual sectoral levels in the power sector and in transport", and that the "mechanisms are intertwined with European mechanisms, the EU Emissions Trading Scheme, fuel standards for cars, product standards, the Common Agricultural Policy, a whole range of mechanisms are tied up then with Europe".[66]

30. Some witnesses argued that the Treasury had made a number of perverse decisions which were not necessarily cost effective. Alan Neale, a retired academic in business economics and environmental policy, highlighted comparatively expensive, glamorous low carbon technologies (e.g. offshore wind, wave, tidal and nuclear) had received more attention than cheaper alternatives (e.g. onshore wind and energy efficiency) which might represent better value for money.[67] Lord Deben explained the lack of focus on energy efficiency specifically:

60 Q182 [Susan Acland-Hood]
61 Qq104-110
62 Q120 [Neil Kenward], Q130 [Neil Kenward]
63 WWF-UK (SAT 0003), Friends of the Earth (SAT 0006), Green House Think Tank (SAT 0013), Carbon Tracker Initiative and Sandbag Climate Campaign (SAT 0020), Grantham Research Institute at the London School of Economics (SAT 0027), Independent Renewable Energy Generators Group (SAT 0028), UK Sustainable Investment and Finance Association (SAT 0032), Christian Aid (SAT 0033), Alan Neale (SAT 0040)
64 Q15 [Dimitri Zenghelis, Michael Jacobs], Q66 [Matthew Knight], UK Sustainable Investment and Finance Association (SAT 0032)
65 Q2 [Karen Ellis]
66 Q53 [Matthew Bell]
67 Alan Neale (SAT 0040)

> "[ … ] I think it is to do with boys' toys. I think it is fundamentally that politicians want to have things that you can point at and say, "We have done that" or, "We have built that". The problem with energy efficiency and with these things that are much deeper in their impact, but slower in their impact, it is very difficult to say, "Do you know, I have been responsible for a 22.2% increase in the efficiency of light bulbs". It just is not good on a platform. I think it is a real problem of how you articulate those kinds of things. You can see the audience turn off as you get on to the subject of not boiling as much water in your kettle, more than you need".[68]

31. **The Treasury's technical and political framework for assessing environmental interventions is geared towards favouring short-term priorities at the expense of long-term environmental sustainability, even when it could lead to higher costs to the economy in the future. In part, this is because its framework does not take account of long-term benefits adequately. Ministers cannot make well-informed decisions unless they have access to all relevant information including long-term costs and benefits.**

32. ***The Treasury needs to improve the way it captures and takes account of long-term environmental costs and benefits. It must ensure that it has the best available evidence when making decisions about specific interventions, for example, by including wider costs and benefits and establishing a consistent framework with which departments can provide supplementary evidence in addition to NPV calculations. It should also make more use of relevant independent advisory bodies during spending reviews to scrutinise bids and green-check – a systematic environmental stress test – initial high-level assessments prepared for Ministers to inform their decision-making. The Treasury should, after a spending review, make public who it has consulted with and how they incorporated any feedback into their decision-making.***

33. ***We welcome the Treasury's work to incorporate new evidence on natural capital into its decision-making processes. A natural capital approach has the potential to help account for the long-term environmental risks. However, we want to see evidence of how the Treasury will take this work forward. In its response to this report, the Treasury should set out concrete proposals about how, and by when, it intends to take forward and incorporate new evidence on natural capital into its policy appraisal process.***

68 Q54 [Lord Deben]

# 4 Performance on environmental sustainability

34. The Treasury uses a technical and political framework which favours short-term affordability over long-term benefits. In this chapter we explore this in more detail by looking at the Treasury's track record in a number of specific policy areas and assessing the extent to which the Treasury's approach to environmental sustainability is sufficiently joined-up.

## Meeting carbon budgets

35. The UK has an economy wide target to reduce greenhouse gas emissions by 80% by 2050 (from a 1990 baseline). To get there the Government sets five-yearly carbon budgets. The level of these budgets is recommended by the CCC which establishes the most cost-effective pathway towards meeting the UK's 2050 target.[69] Following initial research, the CCC determined that the first sector which needed to decarbonise was the energy sector and other sectors such as buildings, transport and industry soon afterwards.[70] The CCC recently reported that the Government was on track to meet the third carbon budget but, unless new policies are put in place, is likely to miss the fourth and fifth carbon budget.[71] The gap between the target and the UK's current emission trajectory is sometimes referred to as the policy gap.

36. The Treasury is in a critical position to ensure carbon budgets are met because of its control over capital spending, taxation policy, regulations and approval of major projects. During spending reviews, in particular, the Treasury has the opportunity to draw together policy relevant information from across different departments and ensure interventions across government are working towards achieving carbon budgets. But the Treasury does not seem to be doing this. A large proportion of respondents highlighted a number of recent policy announcements which could have the opposite effect. Grantham Research Institute at the London School of Economics gave a useful summary of recent changes:

> Markets are increasingly wary about the stability of policy and policy risk. Frequent changes to the subsidy regime for renewables, the abolition of rules for zero-carbon homes, the end of the Climate Change Levy exemption for renewable energy generators, the freezing of the carbon price floor after only two years of operation and cancellation of funding for the Carbon Capture and Storage commercialisation programme have helped undermine confidence in the policy environment and discouraged investors.[72]

69 Committee on Climate Change, 'Carbon Budgets and targets,' accessed 21 October 2016
70 Committee on Climate Change, *Building a low-carbon economy – The UK's contribution to tackling climate change* (December 2008)
71 Committee on Climate Change, *Meeting Carbon Budgets – 2016 Progress Report to Parliament* (June 2016), p11
72 Grantham Research Institute at the London School of Economics (SAT 0027)

37. Another major area of concern is the Government's reluctance to give details on the future of the Levy Control Framework (LCF), the capital available to fund low carbon electricity technologies.[73] The NAO recently published a report on the LCF which concluded that the Framework has not met its potential to support investor confidence.[74] Matthew Knight highlighted the negative effect of this combination of factors and the harm it has done to investor confidence. He told us that the cumulative effect of the Treasury's decisions on the industry and investors was greater than the sum of its parts. The perception, he said, is that the Government has changed its policy on energy and climate change.[75]

38. In its report, the NAO highlighted how the Spending Review had not contributed to closing the existing 'policy gap' required to meet the fourth carbon budget:

> Government's emissions projections published just before the spending review announcement forecast government was not on track to meet its carbon target for the mid-2020s (the fourth carbon budget, 2023 to 2027), with a gap of around 10%. Treasury analysis during the spending review concluded that bids would make a positive contribution to meeting carbon budgets, but might increase the gap slightly compared with the future assumed policy contributions already built into forecasts. However, it considered that there was scope to meet the gap through non spending measures or future fiscal events in advance of the start of the fourth carbon budget (2023). More recent analysis suggests that spending review bids may have improved the expected policy contribution to emissions reductions though a substantial gap remains.[76]

39. A failure to meet the fourth carbon budget would suggest that the Government is not decarbonising the economy cost-effectively. The CCC flagged up this shortfall in Government policy. Matthew Bell told us that the Government had committed to publishing further proposals to meet the fourth and fifth carbon budget by the end of the year.[77]

40. **The cross-government nature of carbon budgets means that the Treasury is well placed to ensure there is coordinated action across government to meet them. Its control over capital spending, taxation policy, regulation and approval of major projects means that it can promote joined-up policy to ensure cost-effective decarbonisation of the economy. But we have seen no evidence that it does this effectively. We were disappointed to learn that the Treasury had signed off the 2015 Spending Review knowing that it would not do anything to close the policy gap required to meet the fourth carbon budget. While we acknowledge that the Treasury believes the shortfall can be made up through non-spending measures, we note that these usually manifest themselves as regulations, which the Treasury is known to dislike. The cumulative impact of Treasury decisions taken since the election, especially the cancellation of**

73 Q4 [Michael Jacobs], Q70 [Barbara Vest], Q83 [Barbara Vest], Q121 [Neil Kenward]
74 National Audit Office, *Controlling the consumer-funded costs of energy policies: The Levy Control Framework* (October 2016), p10
75 Q80 [Matthew Knight]
76 National Audit Office, *Sustainability in the Spending Review* (July 2016), p8
77 Q42 [Matthew Bell]

**the zero carbon homes policy and the CCS competition leaves us with reason for scepticism that its attitude to other measures, especially regulatory measures, will be more favourable.**

## Cancellation of the carbon capture and storage competition

41. Lord Deben described CCS as "absolutely essential" for meeting our climate change targets cost effectively.[78] The CCC recently reported that, without the reduction in emissions delivered by CCS, meeting the 2050 target would require full decarbonisation of every building and every vehicle in the stock by 2050, or closing down of heavy industry.[79] CCS is a group of technologies that enables carbon dioxide to be captured, followed by transportation to a storage site, usually underground.[80] It can be fitted to fossil-fuelled power plants as a form of low- or no-carbon electricity. In comparison to wind and solar, CCS is currently expensive. Matthew Bell explained that CCS was important because it would help to decarbonise a range of sectors, in addition to the power sector, such as transport and industry. Indeed, it is currently considered to be the only feasible option for decarbonising heavy industry.[81]

42. Stuart Haszeldine, Professor of Carbon Capture and Storage at the University of Edinburgh, explained how the cost of CCS in the UK would reduce significantly once the comparatively expensive first-of-a-kind projects had been built and their associated infrastructure and supply chains established.[82] For this reason, EEF, the manufacturers' organisation, highlighted CCS as an example of a technology which requires investment in the short-term to realise savings in the long-term.[83] DECC estimated that without CCS in the UK energy mix it would cost an additional £30 billion to meet the 2050 carbon targets.[84]

43. For these reasons witnesses were concerned about the Treasury's decision in the 2015 Spending Review to cancel the £1 billion capital funding available to support CCS projects in the UK, which was due to be awarded following a competition.[85] Following the decision, competition bidders announced that, without government support, they would be unable to continue their projects. We know from figures provided by EEF that, before the decision to withdraw funding support, developers in the Competition spent £100 million, an amount equivalent to the Government's investment.[86] But some estimates are much higher. Stuart Haszeldine estimated the amount of private and public sector money which had been spent on CCS in the UK to date could exceed £500 million – comparable, he argued, to the cost of one CCS competition project.[87]

78 Q51 [Lord Deben]
79 Committee on Climate Change, *Meeting Carbon Budgets – 2016 Progress Report to Parliament* (June 2016), p69
80 National Audit Office, *Sustainability in the Spending Review* (July 2016), p31
81 Q60 [Matthew Bell]
82 Stuart Haszeldine (SAT 0024)
83 EEF (SAT 0041)
84 Q59 [Matthew Bell], Institution of Environmental Sciences (SAT 0037), EEF (SAT 0041), National Audit Office, *Sustainability in the Spending Review* (July 2016), p33
85 Institution of Environmental Sciences (SAT 0037), Aldersgate Group (SAT 0030), Independent Renewable Energy Generators Group (SAT 0028), Stuart Haszeldine (SAT 0024)
86 EEF (SAT 0041)
87 Stuart Haszeldine (SAT 0024)

44. In its report, the NAO set out the Treasury's main arguments for cancelling the project. These were:

a) The competition was aiming to deliver CCS before it was cost-efficient to do so; the costs to consumers would be high and regressive;

b) The competition would not guarantee the further investment required to expand CCS; and

c) There were better uses for the £1 billion, though they did not elaborate what those better uses were.[88]

Neil Kenward also said that the Treasury was concerned that, "the projects when up and running, would have added potentially many billions of pounds to consumers bills over the lifetime of the contracts" designed to support them.[89]

45. Some witnesses were concerned about the timing of the decision. Michael Jacobs told us:

> "[ … ] when it comes to a spending review the Treasury is in total control and you have seven years—in fact, the original policy was longer—of consistent policy by three different kinds of Government just overturned in a unilateral Treasury decision for which was there no explanation other than that this was more money than could be spent at the time. [ … ] if there was a time to cancel it, it would have been in 2011 with the new Government saying, "Look, we can't do this. It's too expensive"."[90]

Furthermore, delaying the role out of CCS now could mean that the UK misses the opportunity to utilise the knowledge and expertise in the North Sea oil and gas sector which is considered to be important for the development of the infrastructure to safely and effectively store captured carbon dioxide underground.[91]

46. Several witnesses were unhappy with the way the decision had been communicated to business, industry and investors. Matthew Knight, who said he had some sympathy for the Government's decision, said the issue was with the "speed with which the decision was made and the lack of notice or debate".[92] Barbara Vest, Director of Generation at Energy UK said that the Government had not told the industry before the announcement.[93] She described the decision as "devastating".[94] Lord Deben said that CCS was in "abeyance".[95] Michael Jacobs commented that the Treasury had treated CCS businesses in an "arbitrary way".[96] Claire Jakobsson, Head of Energy and Environment Policy at EEF highlighted how the industrial sector had been working closely with government on CCS and so it had a "huge shock" when the competition was cancelled.[97] The CCC stressed the importance

88 National Audit Office, *Sustainability in the Spending Review* (July 2016), p35
89 Q109 [Neil Kenward]
90 Q4 [Michael Jacobs]
91 Stuart Haszeldine (SAT 0024), National Audit Office, *Sustainability in the Spending Review* (July 2016), p36
92 Q72 [Matthew Knight]
93 Q81 [Barbara Vest]
94 Q82 [Barbara Vest]
95 Q57 [Lord Deben], Q81 [Barbara Vest]
96 Q4 [Michael Jacobs]
97 Q3 [Claire Jakobsson]

of a new strategy for CCS for meeting our climate change targets cost-effectively. Lord Deben called for the new CCS strategy to be included in the carbon plan, and published before the end of the year, saying:

> "If it is not in that Government statement then in fact we will have made a decision about the way in which this was developed that is wholly contrary to the cost-effective way of delivering what the Government agrees has to be delivered. So that is the date, in very clear terms".[98]

47. The NAO highlighted some of the immediate consequences which included loss of knowledge about the technical and project management aspects of CCS in government as people move on; a failure to utilise existing oil wells which may be decommissioned; and an impact on investor confidence.[99] The latter point was picked up by our witnesses. Michael Jacobs commented that the decision was "deeply damaging" not just to CCS but to "all kinds of policy, because businesses look at this and say, "Are the Government going to go through with anything they have committed to?"."[100] Commenting on the impact on investor confidence Claire Jakobsson said:

> "In terms of giving investor confidence to business for the long-term, this was not a very good signal to send. From our point of view, we saw that as a very negative result for sustainability and for encouraging business to take those kind of leaps of faith into making those investments in long-term, sustainable technologies and clean-tech goals".[101]

48. **Carbon capture and storage is an essential technology because it has the potential to help decarbonise a range of sectors including power, transport and heavy industry. The Treasury's decision to cancel the CCS competition will delay the roll out of CCS in the UK and will increase the cost of deploying it in the future. Without CCS it could cost an additional £30 billion to meet the 2050 carbon targets. The way the Treasury communicated its decision to industry left businesses in "shock", and was described as "devastating", potentially undermining the Government's efforts to deploy CCS in the future.**

49. ***It is vital the Government produces a new strategy for CCS this year. Treasury should work with BEIS to ensure the new strategy is published as part of the carbon reduction plan due to be published by the end of the year. Failing to do so will make it more expensive to meet our long-term legally binding climate change targets. In creating this strategy the Treasury should investigate the possibility of using proceeds from the proposed sale of the Green Investment Bank to fund CCS.***

## Cancellation of the zero carbon homes policy

50. Energy efficiency, and resource efficiency more broadly, is an issue which cuts across the economy. It enhances productivity by reducing costs to both industry and households. Responsibility for promoting resource efficiency spans several government departments including BEIS, DEFRA and DCLG. The Treasury has a key role to play in

98 Q60 [Lord Deben]
99 National Audit Office, *Sustainability in the Spending Review* (July 2016), p36
100 Q4 [Michael Jacobs]
101 Q3 [Claire Jakobsson]

promoting economy wide efficiency. It is for this reason that a number of respondents were disappointed by the Treasury's decision to cancel the zero carbon homes policy in July 2015 with the aim of 'reducing net regulation on house builders'.[102]

51. Since the zero carbon homes policy was proposed in 2006, successive governments have used the planning system and building regulations to increase the efficiency of new homes over time. All new homes would have to be 'zero carbon' from 2016 onwards. Mathew Knight described the Treasury's cancellation as significant because "it is a policy that I am sure everybody would agree is completely sensible".[103] Rob Lambe also cited the policy as an example of where the industry had "come together with Government departments to do something that is arguably in the long-term interest".[104] He described the decision to cancel the policy as "arbitrary" and with "no credibility" or "substance" which produced "uproar from the industry". He went on to say:

> "[Treasury] simply said, "This is going to be a burden on industry. We need homes and cannot afford any sort of burden on industry, therefore we are going to reverse this policy that has been in place for 10 years." It is a further illustration of decisions being made where there is a wealth of evidence to support the decision made in the first instance, but being overturned by a dearth of evidence to say otherwise".[105]

The Aldersgate Group reported that this decision from the Treasury came as a 'considerable surprise to the construction industry' and had 'produced unhelpful signals for investors and businesses'.[106]

52. Treasury officials justified the Treasury's decision to cancel the policy on the grounds that it did not align with the Government's aim of increasing housing supply. They explained that a specific element of the policy, the "Allowable Solutions" carbon off-setting scheme, was effectively a tax on development because it did not increase energy efficiency.[107] The CCC recently made the point, however, that abolition of this policy could increase costs in the long-term because these homes will need to be retrofitted to make them more efficient in the future.[108]

53. ***In 2015 the Treasury abolished the zero carbon homes policy. Despite the Treasury's justification for doing this, the decision surprised and in some cases angered many in the industry–including the construction industry–because it had been working towards implementing the policy for over a decade. There is a risk that costs to the economy and householders will increase in the long-term as a result of the last minute decision because new homes will need to be retrofitted to improve their energy efficiency and therefore contribute towards meeting the UK's 2050 carbon targets. The decision harms the development of new markets for innovative energy-saving products, and wastes years of the industry's sunk costs. We recommend that the Government reinstate the zero carbon standard for new homes.***

102 British Woodworking Federation (SAT 0025), Aldersgate Group (SAT 0030), Renewable Energy Association (SAT 0035), Alan Neale (SAT 0040), HM Treasury, *Fixing the Foundations: Creating a more prosperous nation* (July 2015), p46
103 Q80 [Matthew Knight]
104 Q9 [Rob Lambe]
105 Q9 [Rob Lambe]
106 Aldersgate Group (SAT 0030)
107 Q106 [Susan Acland-Hood], HM Treasury (SAT 0076)
108 EEF (SAT 0041), Committee on Climate Change, *Next steps for UK heat policy* (October 2016), p7

## Landfill tax and PFI credits

54. The Government has targets to divert waste from landfill and increase recycling. These are based on a waste hierarchy which scores waste prevention as best for the environment and disposal as worst for the environment, with recycling sitting in between.[109] There is a target for the UK to recycle at least 50 per cent of household waste by 2020.[110] DEFRA has lead responsibility for meeting its waste responsibilities but the Treasury has an important role to play through control over waste taxes and its support for schemes designed to build waste infrastructure.

55. The Treasury controls the landfill tax designed to divert waste from landfill. The landfill tax was introduced in 1996 and was the first UK tax with an explicit environmental purpose. The price of the tax has risen over time.[111] Most waste businesses and organisations agreed that the landfill tax had played a positive role in helping the UK to meet its waste targets and divert waste from landfill to other ways of dealing with waste such as recycling or energy from waste.[112] Dan Cooke, Director of Communications and External Affairs at Viridor told us that the landfill tax was the biggest single driver of recycling and resource efficiency in the sector over the last 10 years.[113] Estelle Brachlianoff, Senior Executive, Vice-President UK and Ireland at Veolia said that the landfill tax had encouraged investment because of the certainty in the direction of travel the tax provided to the sector.[114] The recycling rate for England has recently dipped for the first time since records began in the 1990s. When we asked whether the UK would reach its 50% target by 2020, Treasury Minister Jane Ellison replied: "We are committed to those targets [ … ] I cannot add a great deal of detail inasmuch as I have only just begun to look at some of this, so I do not want to tell you things that I have not yet looked at".[115]

56. The landfill tax is, however, a 'blunt instrument' when it comes to the waste hierarchy. It has no effect on what happens to the waste once it has been diverted from landfill. Dan Cooke suggested that we were starting to see unintended consequences resulting from the landfill tax which included a rise in waste crime and an increase in the export of waste from the UK.[116] The UK exports two to three million tonnes a year of waste to Europe, where it is processed.[117] The Dan Cooke was critical of this, saying the UK is effectively "paying other countries to create jobs, investment and their own energy, when we could do that ourselves."[118] This raised questions about the extent to which the Treasury was concerned with supporting wider environmental goals and targets outside of the tax.

57. One measure which helped to drive recycling rates was the Treasury supported PFI credits for the waste and recycling sector. The Local Government Association described how the Government previously provided Waste Infrastructure Credits (payments to

109 Department for Environment, Food and Rural Affairs, *Guidance on Applying the waste hierarchy* (June 2011), p3
110 Department for Environment, Food and Rural Affairs, *UK Statistics on Waste* (August 2016)
111 Landfill tax: introduction & early history, Standard Note SN/BT/237, House of Commons Library, October 2009
112 Q88 [Jerry McLaughlin], Veolia (SAT 0046), Renewable Energy Association (SAT 0052), Resource Association (SAT0056), DS Smith (SAT 0057), Environmental Services Association (SAT 0058), Local Authority Recycling Advisory Committee (SAT 0059), Local Government Association (SAT 0061), Mineral Products Association (SAT 0062), Green Alliance (SAT 0064), Chartered Institution of Water and Environmental Management (SAT 0070)
113 Q86 [Dan Cooke]
114 Q86 [Estelle Brachlianoff]
115 Q156 [Jane Ellison]
116 Q86 [Dan Cooke], Q88 [Dan Cooke], Veolia (SAT 0046), London Councils (SAT 0053)
117 Q91 [Estelle Brachlianoff], Renewable Energy Association (SAT 0052)
118 Q86 [Dan Cooke]

councils over the life cycle of a PFI contract), which gave a financial incentive to councils to promote recycling rather than using waste treatment facilities.[119] The Environmental Services Association described how this scheme attracted much needed investment in waste infrastructure and, it argued, enabled the Government to meet its targets early.[120] ESA estimated that the waste and resources management sector had invested £5 billion in new infrastructure over the past five years, and could do the same in the next five, given the right policy environment.[121]

58. In October 2010, DEFRA announced the withdrawal of these credits from seven out of 18 projects which it deemed were no longer needed to meet 2020 landfill diversion targets. We asked the NAO to assess the extent to which this decision impacted on the Government's ability to meet its targets. The NAO concluded that DEFRA's decision was rational and that it was still likely to meet its targets.[122] The NAO's assessment, however, highlighted that the main reason the Government would meet its target was because there was predicted to be roughly 6 million tonnes less waste in the system per year than expected. It is not possible to pinpoint the reason for this but it is likely to be a combination of changes in the economy, attitudes to waste, access to finance and government policy.[123] The Treasury told us that there had been no indication that the withdrawal of PFI funding from certain projects had had any negative impact on the appetite to invest in waste infrastructure development.[124]

59. The landfill tax is now the main mechanism for driving the waste and recycling industry.[125] Estelle Brachlianoff argued that the tax was not enough to develop the sector, saying, "I don't think the landfill tax alone will help us move into the next step" and Dan Cooke argued that more clarity was needed from the Government on how it wants the sector to grow.[126] Green Alliance noted that 'the flat lining of recycling rates over the last few years suggests the landfill tax has reached the limits of its impact on recycling rates'.[127] Dan Cooke also said that while DEFRA have engaged a lot with the industry, it is less clear whether there is a connection between the ideas in DEFRA and Treasury.[128] Witnesses hoped that the Treasury would engage constructively with DEFRA and the industry on future policy proposals to encourage investment in the sector.[129] Some witnesses pointed out that the devolved administration in Wales had taken a better approach. Dan Cooke told us that Wales was showing leadership on waste management by setting clear targets, and the Local Authority Recycling Advisory Committee praised the Welsh administration's approach to working with local authorities to achieve a recycling rate of 59 per cent.[130]

119 Local Government Association (SAT 0061)
120 Environmental Services Association (SAT 0058)
121 Environmental Services Association (SAT 0001)
122 National Audit Office, *Memorandum for Environmental Audit Committee: Waste and recycling: review of Defra's 2010 decision to withdraw the provisional allocation of PFI credits from seven (out of 18) PFI projects* (September 2016), p6
123 National Audit Office, *Memorandum for Environmental Audit Committee: Waste and recycling: review of Defra's 2010 decision to withdraw the provisional allocation of PFI credits from seven (out of 18) PFI projects* (September 2016), p4
124 HM Treasury (SAT 0076)
125 The Association of Directors of Environment, Economy, Planning and Transport (SAT 0060)
126 Q86 [Estelle Brachlianoff, Dan Cooke], Q99 [Estelle Brachlianoff], Renewable Energy Association (SAT 0052)
127 Green Alliance (SAT 0064)
128 Q88 [Dan Cooke]
129 Green Alliance (SAT 0064)
130 Q89 [Dan Cooke], Local Authority Recycling Advisory Committee (SAT 0059)

60. **The Treasury has, through the landfill tax, played an important and positive role in diverting waste from landfill. Businesses have had confidence in the long-term certainty of the tax and invested accordingly. The landfill tax is, however, a 'blunt instrument' and is not sufficiently nuanced to drive continued increases in recycling rates. We have seen no evidence to suggest that the Treasury has been working with DEFRA – which has lead responsibility for waste and recycling policy – to find new ways of boosting recycling to achieve our EU targets. The Treasury should set out in its response to this report its future plans for the landfill tax and how it plans to support further investment in the waste and recycling sectors in the future.**

## Conclusion

61. **This chapter has highlighted a number of examples which show that, even where it might be possible for the Treasury to justify specific policy decisions in isolation, the sum of all these decisions harm environmental sustainability. It is clear that the Treasury is taking these last minute decisions without an overarching strategy. For example, its decisions to change or cancel long-established policies were often sudden and unexpected. The way in which it communicates these decisions and the reasons behind them were greeted with shock and uproar by stakeholders. This has had the undesirable effect of undermining investor confidence as investors become increasingly concerned with policy risk. This was compounded by the perception that the Treasury have done little to coordinate with other departments and support them to find alternative solutions to meeting their policy objectives.**

# 5 Improving performance and ensuring accountability

## Industrial strategy

62. The Government has recently signalled a renewed focus on industrial strategy. Following the Prime Minister's appointment in July 2016 she abolished the old DECC and created a new Department for Business, Energy and Industrial Strategy (BEIS). In his first speech Rt Hon Greg Clarke, Secretary of State for the new department, set out what he thought the use of the word strategy implied:

> - That we should take a long-term, predictable and sustained approach to policy making.
>
> - That we should recognise that our government should be actively engaged in promoting, and also defending, those things that contribute to a successful environment in which businesses can be founded, can expand and can prosper.
>
> - A strategy makes connections between what might otherwise be disparate forces. Aligning them, rather than leaving them isolated or even opposed–between government policy and business decisions, between government departments, between industries and places, between research and practice.
>
> - That we should be aware of and capitalise on our strengths while constantly seeking new opportunities that, together, will determine how we make our way in the world.[131]

The Financial Secretary to the Treasury said that the Government's new focus was about, "trying to look holistically at what are the conditions we need to create and put in place in this country to deliver sustainable economic growth". She highlighted as an example focusing on skills gaps and education policy to ensure the "UK would be successful and world-leading in international terms in a particular area that we have perhaps intrinsic strength in".[132]

63. Dimitri Zenghelis highlighted that the Treasury "tends not to like broad strategic visions if possible" and that "it doesn't like picking winners".[133] Indeed the Financial Secretary made it clear that the Government's new focus was "not any sort of return to the days of trying to pick winners".[134] When asked about what the Government's new focus on industrial strategy would mean for the Treasury specifically, she said that, "it is quite obvious if that is going to work well then clearly we do need to be working right across Government, because by the nature of it, it is going to be a cross-government strategy".[135]

131 Department for Business, Energy & Industrial Strategy, '*New ministerial team to develop industrial strategy*,' accessed 21 October 2016
132 Q132 [Jane Ellison]
133 Q13 [Dimitri Zenghelis]
134 Q132 [Jane Ellison]
135 Q133 [Jane Ellison]

64. Some witnesses to our inquiry were supportive of efforts to develop an industrial base especially in the low carbon sector.[136] The Grantham Research Institute at the London School of Economics argued that while 'policies should be as neutral as possible, to allow a broad range of technologies to emerge and compete, and to avoid the problem of picking winners', 'governments cannot avoid making strategic choices [ … ], given that there are a range of technological options that will be available over the coming decades with specific barriers and opportunities that may require targeted assistance'. He argued that, 'choices should be well-informed, open and transparent, made in collaboration with civil society and the private sector'.[137] Lord Deben also emphasised that in the context of rapid technological progress, "there will need to be some much greater concentration on how we help the technologies we need".[138] Claire Jakobsson told us:

> "One of the things EEF is currently really pushing for is an overarching industrial strategy. We feel that we are currently lacking something where we can work across all government departments, so that industry and business can be given that clear signal and message—"This is the direction of travel. This what we are going to do and look to achieve for the longer and medium term"—rather than it just being very short-term, quick decision-making that can upset or, conversely, change behaviour".[139]

65. ***The Government's new focus on industrial strategy has the potential to improve long-term policy-making. The Treasury could use its position to ensure that strategic choices made by the Government work across the economy to promote sustainability and in particular carbon reduction and resource efficiency. However, the analysis in the previous chapter shows the Treasury failing to support a coherent, green industrial strategy and take a long-term, predictable and sustained approach to policy making. If the Treasury is going to contribute constructively to industrial strategy it will have to reflect on, and learn lessons from, its recent past and make decisions which help, rather than hinder, investor confidence. It should commit to work with BEIS and other departments with environmental policies so that the Government's new industrial strategies explicitly explain how the potential of the UK's green economy will be realised and how environmental sustainability objectives will be supported. Doing so would help develop and protect skills and jobs in the construction, waste, and Scottish offshore industries, as well as their associated supply chains.***

## Monitoring Treasury performance and ensuring accountability

66. Treasury officials argued that the Treasury already received a good level of scrutiny.[140] But during our inquiry a number of witnesses claimed that the Treasury was not transparent in the way it made decisions and in its influence over other departments. The Aldersgate Group described its decision-making as 'opaque' and Friends of the Earth claimed that

136 Q33 [Karen Ellis], Anaerobic Digestion and Bioresources Association (SAT 0019), Grantham Research Institute at the London School of Economics (SAT 0027), Aldersgate Group (SAT 0030), EEF (SAT 0041), Confederation of Paper Industries (SAT 0048)

137 Grantham Research Institute at the London School of Economics (SAT 0027)

138 Q56 [Lord Deben]

139 Q12 [Claire Jakobsson]

140 Q170 ff.

its 'behind the scenes' influence was 'considerable but rarely subject to public scrutiny'.[141] This view supports a theme we have heard repeatedly throughout this inquiry: the basis upon which the Treasury makes its decisions is not always clear and transparent.

67. We have found that the Treasury could be more forthcoming with information that supports its decision-making processes. For example, the Treasury hasn't agreed to publish the information it compiled during the 2015 Spending Review on carbon budgets.[142] The Treasury has also performed worse than other departments in its accountability to this Committee. Treasury Ministers declined to attend our inquiry into The Government's Approach to Sustainable Development. Requests for the Chancellor or Chief Secretary to give evidence to us have also been declined, during this inquiry and in the last Parliament. The repeated refusal of Cabinet-level Ministers to give evidence to the Committee is not something we have experienced from other Government departments and reflects poorly on the Treasury's commitment to environmental concerns and sustainable development principles.

68. There are a number of external scrutiny bodies. These include the Office for Budget Responsibility, the Institute for Fiscal Studies and, of course, Parliament. There was concern, however, that the Treasury's impact on the environment was not scrutinised by these bodies.[143] WWF suggested that the Government could establish a new Office of Environmental Responsibility (OER)–something for which our predecessor Committee has also called.[144] Both Dimitri Zenghelis and Michael Jacobs thought that there was merit in having an institution or organisation which could think about long-term issues.[145] The Financial Secretary to the Treasury, however, did not thing such an institution was necessary.[146] Rather than establish a new organisation there could be scope to utilise existing bodies such as the CCC, the NCC and the NAO. These organisations already publish reports which assess the Government's performance on environmental impact in certain areas. We will consider scrutinising future fiscal events for their environmental impact.

69. The value of internal processes, which the Treasury and external stakeholders could use to assess the Treasury's impact on the environment, was questioned. Single Departmental Plans (SDPs) set out a high level overview of the Government's objectives, and sustainability reports, produced as part of the department's annual reports and accounts, reflect the Treasury's impact in a given year. In its report, the NAO said that the role SDPs could play in improving public accountability over environmental commitments was limited.[147] It said that the commitments in the plans are 'vague, lacking targets or timeframe in most cases and rarely made intended actions clear'.[148] In another report looking specifically at sustainability reporting, the NAO identified that, while reporting had improved overtime, there was 'room for further improvement' in areas such as reporting on a department's wider impact on sector sustainability issues.[149]

141 Aldersgate Group (SAT 0030), Friends of the Earth (SAT 0006)
142 Qq140-142
143 Friends of the Earth (SAT 0006), Independent Renewable Energy Generators Group (SAT 0028), Chartered Institution of Wastes Management (SAT 0029), Christian Aid (SAT 0033)
144 Q8 [Karen Ellis], Q15 [Karen Ellis], Environmental Audit Committee, Fifth Report of Session 2014–15, *An environmental scorecard*, HC 215, para 58
145 Q15 [Dimitri Zenghelis, Michael Jacobs]
146 Q175 [Jane Ellison]
147 National Audit Office, *Sustainability in the Spending Review* (July 2016), p9
148 As above, p30
149 National Audit Office, Sustainability reporting in central government: An update (February 2016), p5

70. WWF argued that assessing environmental impact could be improved by utilising and developing existing metrics and indicators established and monitored by the Office for National Statistics (ONS) (i.e. National Well-being and Sustainable Development indicators) and the NCC (i.e. natural capital). The ONS will also develop and publish regularly a set of nationally relevant indicators on the UK's progress towards meeting the UN Sustainable Development Goals (SDGs), and we will be scrutinising the Government's plans to implement these at home in the UK over the coming months.[150] These metrics would provide a broader perspective on prosperity unlike, for example, Gross Domestic Produced (GDP).[151] WWF argued that the Treasury's focus on GDP was not conducive to setting policy that delivered the best long-term outcomes because it did not provide an assessment of the economic risks of natural capital depletion and degradation. WWF proposed that the Treasury should incorporate a new section on natural capital into the annual Budget including information on stocks, service/benefit provision, risks, liabilities and future outlook. It could also introduce a new natural capital 'stress test'. These would help to assess future natural capital investment requirements, potential impact of other policies on natural capital stocks/risks and exposure of the UK economy to risks associated with potential future changes in natural capital stocks. .

71. The Financial Secretary to the Treasury and her officials were positive about developing existing metrics and indicators especially natural capital. Susan Acland-Hood told us that the Treasury was "very supportive of the work that is being done by the ONS to incorporate natural capital into the environmental accounts by 2020".[152] Neil Kenward said that the Treasury had been supporting WWF and their work on 'stress tests'. The Financial Secretary said that that "this is an area I am personally very interested in". She also stated:

> "I think it goes without saying that the Treasury is clearly going to make sure that all these things are at the heart of how it thinks and go into the mix, but it is a mix in terms of how we look at things inevitably—just reflecting where we started this session and the need to make sure that things offer good value for money and that they are sustainable in their funding. Obviously the perfect policy solution is something that offers great value for money, does what it sets out to do and plays into those longer-term ambitions".[153]

72. **A common theme throughout this inquiry has been that existing accountability arrangements are not adequate, making it difficult to hold the Treasury, and Government as a whole, to account on its environmental impact. This is something our predecessor Committee explored in the past, in light of the abolition of the Sustainable Development Commission, advocating the creation of an Office of Environmental Responsibility. The Treasury needs to be much more transparent about the reasons for its decisions which impact on environmental objectives. Recognising this deficit we propose the following arrangements to increase the level of scrutiny.**

150 Office for National Statistics (SDG 0026)
151 Q32 [Michael Jacobs, Karen Ellis, Dimitri Zenghelis]
152 Q173 [Susan Acland-Hood], Office of National Statistics, 'Natural Capital,' accessed 2 November 2016
153 Q172 [Jane Ellison]

73. ***In response to this report, the Treasury should set out concrete actions which demonstrate how it is working with the Office for National Statistics (ONS) and the Natural Capital Committee to integrate natural capital into environmental accounts by 2020 and how this will influence Treasury decision-making. The ONS will also publish nationally relevant indicators as part of the UN Sustainable Development Goals. We intend to look into how these new metrics could supplement traditional metrics such as Gross Domestic Product (GDP).***

74. ***Fiscal events such as budgets and autumn statements are key moments in the setting of a Government's short-term agenda. The Treasury did conduct an analysis of the net impact of the 2015 Spending Review on carbon budgets. We welcome the fact that this analysis took place. However, the Treasury has refused on several occasions to publish it so it is difficult to determine how the analysis influenced the Treasury's decisions. Members of Parliament and the public should have access to this information so that they can hold the Government to account for the decisions it takes. We therefore request that the Committee on Climate Change publish, as part of its annual progress report to Parliament, an analysis of the net impact of measures announced during the previous year's Budget and Autumn Statement on meeting carbon budgets.***

75. ***Spending reviews are also key political and fiscal events for setting the Government's medium-term agenda. The Treasury did take steps in 2015 to encourage departments to put forward information on environmental risks, impacts and obligations as part of the process. However, the Treasury did not use the opportunity to encourage departments to work across government on environmental issues. We therefore request that the NAO repeats its assessment of sustainability in the spending review after each future spending review so that the public and Parliament can monitor the Treasury's progress on incorporating environmental information into its future spending decisions.***

# 6 Conclusion

76. **The environment and the economy play an important role in supporting each other. As the Government's economic and finance department, the Treasury is arguably the most important department for ensuring the Government meets its environmental obligations. It wields significant control over all aspects of government policy including spending, taxation policy, regulation and approval of major projects. The Treasury uses a technical and political framework for policy appraisal which results in a preference for promoting projects which deliver benefits in the short-term rather than the long-term – in part because this framework does not take adequate account of environmental long-term benefits. This could lead to higher fiscal and environmental costs in the future.**

77. **Even if it might be possible for the Treasury to justify specific policy decisions in isolation, the sum of all these decisions have harmed environmental sustainability. It is clear that the Treasury could do more to support alternative policy solutions when it deems an existing solution to be unaffordable or not cost-effective. The Treasury could help to promote environmental sustainability in future by using its position in government to ensure that any strategic choices made by the Government work across the economy to promote sustainability and in particular carbon reduction and resource efficiency. This would require taking a more joined-up approach to its policy appraisal that looked at its decisions overall rather than focusing on justifying its decisions in relation to individual projects. It also needs to be much more transparent about the reasons for its decisions which impact on environmental objectives.**

78. **The Government's new focus on industrial strategy has the potential to improve long-term policy-making. However, the Treasury is currently failing to take a long-term, predictable and sustained approach to policy-making – the hallmarks of a good industrial strategy. If the Treasury is going to contribute constructively it will have to step-up efforts to reassure investors and promote industries which help environmental sustainability.**

# Conclusions and recommendations

## Importance of the Treasury

1. The Treasury, through its control over government spending, taxation policy and regulation is arguably the most important department for ensuring the UK meets its environmental obligations. It is uniquely placed to take an overarching perspective and ensure policies across government work to promote sustainability. It is clear from the evidence, however, that the Treasury has not done enough to encourage departments to work together on this issue. This is particularly the case during spending reviews where the Treasury could have done more to establish strong incentives for collaboration between departments on environmental matters. (Paragraph 16)

2. The Treasury plays an important role in ensuring policy coherence across government. However, there is considerable evidence that some of its decisions rode roughshod over other departments' objectives. A lack of transparency over how and why the Treasury has made decisions at odds with other departments has confused businesses and impacted investor confidence. We are pleased to hear that the new Financial Secretary is concerned about the Treasury's impact on investor confidence and we hope that this report will help identify ways the Treasury can address this issue. (Paragraph 17)

## Understanding of environmental sustainability

3. The Treasury's technical and political framework for assessing environmental interventions is geared towards favouring short-term priorities at the expense of long-term environmental sustainability, even when it could lead to higher costs to the economy in the future. In part, this is because its framework does not take account of long-term benefits adequately. Ministers cannot make well-informed decisions unless they have access to all relevant information including long-term costs and benefits. (Paragraph 31)

4. *The Treasury needs to improve the way it captures and takes account of long-term environmental costs and benefits. It must ensure that it has the best available evidence when making decisions about specific interventions, for example, by including wider costs and benefits and establishing a consistent framework with which departments can provide supplementary evidence in addition to NPV calculations. It should also make more use of relevant independent advisory bodies during spending reviews to scrutinise bids and green-check – a systematic environmental stress test – initial high-level assessments prepared for Ministers to inform their decision-making. The Treasury should, after a spending review, make public who it has consulted with and how they incorporated any feedback into their decision-making.* (Paragraph 32)

5. *We welcome the Treasury's work to incorporate new evidence on natural capital into its decision-making processes. A natural capital approach has the potential to help account for the long-term environmental risks. However, we want to see evidence of how the Treasury will take this work forward. In its response to this report, the*

*Treasury should set out concrete proposals about how, and by when, it intends to take forward and incorporate new evidence on natural capital into its policy appraisal process.* (Paragraph 33)

## Performance on environmental sustainability

6. The cross-government nature of carbon budgets means that the Treasury is well placed to ensure there is coordinated action across government to meet them. Its control over capital spending, taxation policy, regulation and approval of major projects means that it can promote joined-up policy to ensure cost-effective decarbonisation of the economy. But we have seen no evidence that it does this effectively. We were disappointed to learn that the Treasury had signed off the 2015 Spending Review knowing that it would not do anything to close the policy gap required to meet the fourth carbon budget. While we acknowledge that the Treasury believes the shortfall can be made up through non-spending measures, we note that these usually manifest themselves as regulations, which the Treasury is known to dislike. The cumulative impact of Treasury decisions taken since the election, especially the cancellation of the zero carbon homes policy and the CCS competition leaves us with reason for scepticism that its attitude to other measures, especially regulatory measures, will be more favourable. (Paragraph 40)

7. Carbon capture and storage is an essential technology because it has the potential to help decarbonise a range of sectors including power, transport and heavy industry. The Treasury's decision to cancel the CCS competition will delay the roll out of CCS in the UK and will increase the cost of deploying it in the future. Without CCS it could cost an additional £30 billion to meet the 2050 carbon targets. The way the Treasury communicated its decision to industry left businesses in "shock", and was described as "devastating", potentially undermining the Government's efforts to deploy CCS in the future. (Paragraph 48)

8. *It is vital the Government produces a new strategy for CCS this year. Treasury should work with BEIS to ensure the new strategy is published as part of the carbon reduction plan due to be published by the end of the year. Failing to do so will make it more expensive to meet our long-term legally binding climate change targets. In creating this strategy the Treasury should investigate the possibility of using proceeds from the proposed sale of the Green Investment Bank to fund CCS.* (Paragraph 49)

9. *In 2015 the Treasury abolished the zero carbon homes policy. Despite the Treasury's justification for doing this, the decision surprised and in some cases angered many in the industry–including the construction industry–because it had been working towards implementing the policy for over a decade. There is a risk that costs to the economy and householders will increase in the long-term as a result of the last minute decision because new homes will need to be retrofitted to improve their energy efficiency and therefore contribute towards meeting the UK's 2050 carbon targets. The decision harms the development of new markets for innovative energy-saving products, and wastes years of the industry's sunk costs. We recommend that the Government reinstate the zero carbon standard for new homes.* (Paragraph 53)

10. The Treasury has, through the landfill tax, played an important and positive role in diverting waste from landfill. Businesses have had confidence in the long-term certainty of the tax and invested accordingly. The landfill tax is, however, a 'blunt instrument' and is not sufficiently nuanced to drive continued increases in recycling rates. We have seen no evidence to suggest that the Treasury has been working with DEFRA – which has lead responsibility for waste and recycling policy – to find new ways of boosting recycling to achieve our EU targets. The Treasury should set out in its response to this report its future plans for the landfill tax and how it plans to support further investment in the waste and recycling sectors in the future. (Paragraph 60)

11. This chapter has highlighted a number of examples which show that, even where it might be possible for the Treasury to justify specific policy decisions in isolation, the sum of all these decisions harm environmental sustainability. It is clear that the Treasury is taking these last minute decisions without an overarching strategy. For example, its decisions to change or cancel long-established policies were often sudden and unexpected. The way in which it communicates these decisions and the reasons behind them were greeted with shock and uproar by stakeholders. This has had the undesirable effect of undermining investor confidence as investors become increasingly concerned with policy risk. This was compounded by the perception that the Treasury have done little to coordinate with other departments and support them to find alternative solutions to meeting their policy objectives. (Paragraph 61)

## Improving performance and ensuring accountability

12. *The Government's new focus on industrial strategy has the potential to improve long-term policy-making. The Treasury could use its position to ensure that strategic choices made by the Government work across the economy to promote sustainability and in particular carbon reduction and resource efficiency. However, the analysis in the previous chapter shows the Treasury failing to support a coherent, green industrial strategy and take a long-term, predictable and sustained approach to policy making. If the Treasury is going to contribute constructively to industrial strategy it will have to reflect on, and learn lessons from, its recent past and make decisions which help, rather than hinder, investor confidence. It should commit to work with BEIS and other departments with environmental policies so that the Government's new industrial strategies explicitly explain how the potential of the UK's green economy will be realised and how environmental sustainability objectives will be supported. Doing so would help develop and protect skills and jobs in the construction, waste, and Scottish offshore industries, as well as their associated supply chains.* (Paragraph 65)

13. A common theme throughout this inquiry has been that existing accountability arrangements are not adequate, making it difficult to hold the Treasury, and Government as a whole, to account on its environmental impact. This is something our predecessor Committee explored in the past, in light of the abolition of the Sustainable Development Commission, advocating the creation of an Office of Environmental Responsibility. The Treasury needs to be much more transparent about the reasons for its decisions which impact on environmental objectives. Recognising this deficit we propose the following arrangements to increase the level of scrutiny. (Paragraph 72)

14. *In response to this report, the Treasury should set out concrete actions which demonstrate how it is working with the Office for National Statistics (ONS) and the Natural Capital Committee to integrate natural capital into environmental accounts by 2020 and how this will influence Treasury decision-making. The ONS will also publish nationally relevant indicators as part of the UN Sustainable Development Goals. We intend to look into how these new metrics could supplement traditional metrics such as Gross Domestic Product (GDP).* (Paragraph 73)

15. *Fiscal events such as budgets and autumn statements are key moments in the setting of a Government's short-term agenda. The Treasury did conduct an analysis of the net impact of the 2015 Spending Review on carbon budgets. We welcome the fact that this analysis took place. However, the Treasury has refused on several occasions to publish it so it is difficult to determine how the analysis influenced the Treasury's decisions. Members of Parliament and the public should have access to this information so that they can hold the Government to account for the decisions it takes. We therefore request that the Committee on Climate Change publish, as part of its annual progress report to Parliament, an analysis of the net impact of measures announced during the previous year's Budget and Autumn Statement on meeting carbon budgets.* (Paragraph 74)

16. *Spending reviews are also key political and fiscal events for setting the Government's medium-term agenda. The Treasury did take steps in 2015 to encourage departments to put forward information on environmental risks, impacts and obligations as part of the process. However, the Treasury did not use the opportunity to encourage departments to work across government on environmental issues. We therefore request that the NAO repeats its assessment of sustainability in the spending review after each future spending review so that the public and Parliament can monitor the Treasury's progress on incorporating environmental information into its future spending decisions.* (Paragraph 75)

## Conclusion

17. The environment and the economy play an important role in supporting each other. As the Government's economic and finance department, the Treasury is arguably the most important department for ensuring the Government meets its environmental obligations. It wields significant control over all aspects of government policy including spending, taxation policy, regulation and approval of major projects. The Treasury uses a technical and political framework for policy appraisal which results in a preference for promoting projects which deliver benefits in the short-term rather than the long-term – in part because this framework does not take adequate account of environmental long-term benefits. This could lead to higher fiscal and environmental costs in the future. (Paragraph 76)

18. Even if it might be possible for the Treasury to justify specific policy decisions in isolation, the sum of all these decisions have harmed environmental sustainability. It is clear that the Treasury could do more to support alternative policy solutions when it deems an existing solution to be unaffordable or not cost-effective. The Treasury could help to promote environmental sustainability in future by using its position in government to ensure that any strategic choices made by the Government work

across the economy to promote sustainability and in particular carbon reduction and resource efficiency. This would require taking a more joined-up approach to its policy appraisal that looked at its decisions overall rather than focusing on justifying its decisions in relation to individual projects. It also needs to be much more transparent about the reasons for its decisions which impact on environmental objectives. (Paragraph 77)

19. The Government's new focus on industrial strategy has the potential to improve long-term policy-making. However, the Treasury is currently failing to take a long-term, predictable and sustained approach to policy-making – the hallmarks of a good industrial strategy. If the Treasury is going to contribute constructively it will have to step-up efforts to reassure investors and promote industries which help environmental sustainability. (Paragraph 78)

# Formal Minutes

## Tuesday 8 November 2016

Members present.

Mary Creagh, in the Chair:

Peter Aldous
John Mc Nally
Peter Heaton-Jones

Draft Report (*Sustainability and HM Treasury*), proposed by the Chair, brought up and read.

Paragraphs 1 to 78 read and agreed to.

Summary read and agreed to.

*Resolved,* That the Report be the Fifth Report of the Committee to the House.

*Ordered,* That the Chair make the Report to the House.

*Ordered,* That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

*[The Committee adjourned*

# Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

| Tuesday 28 June 2016 | *Question number* |
|---|---|
| **Karen Ellis,** Chief Adviser on Economics and Development, WWF, **Professor Michael Jacobs**, Visiting Professor, the School of Public Policy, UCL, and the Grantham Research Institute, LSE, and Visiting Fellow, the Institute for Public Policy Research, **Claire Jakobsson**, Head of Energy and Environment Policy, EEF, **Rob Lambe**, Managing Director, Energy Services, Willmot Dixon, and **Dimitri Zenghelis**, Co-Head Climate Policy, the Grantham Research Institute, LSE, and Associate Fellow of the Energy, Environment and Development Programme, Chatham House | Q1–34 |

## Tuesday 5 July 2016

| | |
|---|---|
| **Lord Deben,** Chair, Committee on Climate Change, and **Matthew Bell**, Chief Executive, Committee on Climate Change | Q35–65 |
| **Matthew Knight**, Business Development Director, Siemens, and **Barbara Vest**, Director of Generation, Energy UK | Q66–85 |
| **Estelle Brachlianoff**, Senior Executive, Vice-President UK and Ireland, Veolia, **Jerry McLaughlin**, Director, Economics and Public Affairs, Mineral Products Association, and **Dan Cooke**, Director of Communications and External Affairs, Viridor, and Chairman of Communications Committee, Chartered Institution of Wastes Management | Q86–99 |

## Thursday 15 September 2016

| | |
|---|---|
| **Jane Ellison MP**, Financial Secretary to the Treasury, **Susan Acland-Hood**, Director, Enterprise and Growth Unit, and **Neil Kenward**, Deputy Director, Energy, Environment and Agriculture, HM Treasury | Q100–190 |

# Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

SAT numbers are generated by the evidence processing system and so may not be complete.

1 ADEPT (SAT0060)

2 Alan Neale (SAT0040)

3 Aldersgate Group (SAT0030)

4 Bond Beyond2015UK (SAT0015)

5 Bristol City Council (SAT0045)

6 British Woodworking Federation (SAT0025)

7 Carbon Tracker Initiative (SAT0020)

8 Centre for Energy Policy, University of Strathclyde (SAT0074)

9 Centre for the Understanding of Sustainable Prosperity (SAT0039)

10 Centre for the Understanding of Sustainable Prosperity (SAT0055)

11 Chartered Institution of Wastes Management (SAT0029)

12 Christian Aid (SAT0033)

13 CIWEM (SAT0070)

14 Community Energy England (SAT0008)

15 Confederation of Paper Industries (SAT0048)

16 Derby and South Derbyshire Friends of the Earth (SAT0068)

17 DS Smith (SAT0057)

18 EDF Energy (SAT0018)

19 EEF, the manufacturers' organisation (SAT0041)

20 EEF, the manufacturers' organisation (SAT0072)

21 Environmental Services Association (SAT0001)

22 Environmental Services Association (SAT0058)

23 Friends of the Earth (England, Wales and Northern Ireland) (SAT0006)

24 Grantham Research Institute at the London School of Economics (SAT0027)

25 Grantham Research Institute at the London School of Economics (SAT0075)

26 Greater London Authority (SAT0071)

27 Green Alliance (SAT0064)

28 Green House think-tank (SAT0013)

29 Grundon Waste Management Ltd (SAT0043)

30 Hampshire County Council (SAT0069)

31 Historic England (SAT0004)

32 HM Treasury (SAT0034)

33 HM Treasury (SAT0076)

34 Institution of Environmental Sciences (SAT0037)
35 IREGG (SAT0028)
36 John Pavitt (SAT0050)
37 Joint Waste Disposal Authorities (SAT0047)
38 Landscape Institute (SAT0031)
39 Local Authority Recycling Advisory Committee (SAT0059)
40 Local Government Association (SAT0061)
41 London Councils (SAT0053)
42 Mineral Products Association (SAT0022)
43 Mineral Products Association (SAT0062)
44 Mr Peter Jones (SAT0073)
45 Mrs H. Gilbert (SAT0007)
46 ODI (SAT0012)
47 Professor Stuart Haszeldine (SAT0024)
48 Professor Tim Jackson (SAT0026)
49 Renewable Energy Association (SAT0035)
50 Renewable Energy Systems Limited (SAT0036)
51 RenewableUK (SAT0009)
52 Resource Association (SAT0056)
53 Scottish Renewables (SAT0017)
54 Society for the Environment (SAT0011)
55 Society for the Environment (SAT0042)
56 South Tyne and Wear Waste Management Partnership (SAT0054)
57 Sustrans (SAT0023)
58 The Anaerobic Digestion and Bioresources Association (ADBA) (SAT0019)
59 The Renewable Energy Association (SAT0052)
60 Transition Evesham Vale (SAT0002)
61 UKSIF (SAT0032)
62 United Kingdom Without Incineration Network (UKWIN) (SAT0044)
63 University of Exeter and University of East Anglia (SAT0010)
64 Valpak Limited (SAT0049)
65 Veolia (SAT0046)
66 Vestas Celtic Wind Technology (SAT0016)
67 Waste and Resources Action Programme (SAT0038)
68 Waste Transition Ltd (SAT0051)
69 Woodland Trust (SAT0014)
70 WWF-UK (SAT0003)
71 Zero Waste England (SAT0063)

# List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

## Session 2016–17

| | | |
|---|---|---|
| First Report | Soil health | HC 180 (HC 650) |
| Second Report | Flooding: Cooperation across Government | HC 183 (HC 645) |
| Third Report | Sustainability in the Department for Transport | HC 184 (HC 819) |
| Fourth Report | Environmental impact of microplastics | HC 179 (HC 802) |
| First Special Report | EU and UK Environmental Policy: Government Response to the Committee's Third Report of Session 2015–16 | HC 644 |

## Session 2015–16

| | | |
|---|---|---|
| First Report | The Airports Commission Report: Carbon Emissions, Air Quality and Noise | HC 389 |
| Second Report | The Future of the Green Investment Bank | HC 536 |
| Third Report | EU and UK Environmental Policy | HC 537 |
| First Special Report | Local Nature Partnerships: Government Response to the Committee's Twelfth Report of Session 2014–15 | HC 377 |
| Second Special Report | Climate change adaptation: Government Response to the Committee's Tenth Report of Session 2014–15 | HC 590 |