House of Commons

Environment, Food and Rural Affairs Committee

The Work of the Committee in 2007

Third Report of Session 2007–08

Report, together with formal minutes

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Environment, Food and Rural Affairs Committee

The Environment, Food and Rural Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Environment, Food and Rural Affairs and its associated bodies.

Current membership

Mr Michael Jack (Conservative, Fylde) (Chairman)
Mr Geoffrey Cox (Conservative, Torridge & West Devon)
Mr David Drew (Labour, Stroud)
Mr James Gray (Conservative, North Wiltshire)
Patrick Hall (Labour, Bedford)
Lynne Jones (Labour, Birmingham, Selly Oak)
David Lepper (Labour, Brighton Pavilion)
Miss Anne McIntosh (Conservative, Vale of York)
Mr Dan Rogerson (Liberal Democrat, North Cornwall)
Sir Peter Soulsby (Labour, Leicester South)
Dr Gavin Strang (Labour, Edinburgh East)
David Taylor (Labour, North West Leicestershire)
Paddy Tipping (Labour, Sherwood)
Mr Roger Williams (Liberal Democrat, Brecon & Radnorshire)

James Duddridge (Conservative, Rochford & Southend East), Daniel Kawczynski (Conservative, Shrewsbury & Atcham), Mrs Madeleine Moon (Labour, Bridgend), and Mr Jamie Reed (Labour, Copeland) were also members of the Committee during 2007.

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via www.parliament.uk.

Publications

The reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at

www.parliament.uk/efracom

Committee staff

The current staff of the Committee are Chris Stanton (Clerk), Nerys Welfoot (Second Clerk), Marek Kubala and Joanna Dodd (Inquiry Managers), Andy Boyd and John-Paul Flaherty (Committee Assistants) and Mandy Sullivan (Secretary).

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Contents

1 Overview of the Committee's work in 2007

Introduction

1. This report is a review of the Environment, Food and Rural Affairs Committee's work in 2007. The Committee is charged with the responsibility of examining the expenditure, administration and policy of Defra and its associated public bodies. In carrying out our remit we seek to strike a balance between undertaking detailed inquiries into major policy issues, systematic examination of the Department's discharge of its duties across the range of its activities, and responding rapidly to important developments, including the publication of key consultation documents and legislation in draft.

2. We review the Committee's performance in relation to the 'core tasks' the Liaison Committee sets for select committees. In the final section of our report we discuss the working methods we have used.

3. The Committee examined the following subjects in 2007:

Table 1: Subjects covered by the Committee in 2007

Subject	*Evidence sessions in 2007*	*Sub-committee?*	*Outcome*
Avian influenza	N/A	No [an informal 'Observatory' has monitored developments in this area]	Briefings from Defra
Badgers and Cattle TB: Final Report of the Independent Scientific Group	6	Yes (one evidence session)	Report in early 2008
British Waterways	6	Yes	Report, July 2007; Government response, October 2007
Climate change: the "citizen's agenda"*	5	No	Report, September 2007; Government response, November 2007
Defra priorities	2	No	Evidence, October and November 2007
Defra's Departmental Report 2006 and Defra's budget*	0	No	Report, February 2007; Government response, April 2007
Defra's Departmental Report 2007	1	No	Evidence, July 2007

Subject	*Evidence sessions in 2007*	*Sub-committee?*	*Outcome*
Draft Climate Change Bill	4	Yes (for one session)	Report, July 2007; Government response, October 2007
Flooding	6	No	Evidence continues in 2008
Implementation of the Environmental Liability Directive	1	No	Report, July 2007; Government response, October 2007
Rural Payments Agency*	1	Yes	Report, March 2007; Government response, July 2007
The UK Government's "Vision for the CAP"*	0	No	Report, May 2007; Government response, November 2007

* The Committee also took oral evidence in these inquiries in 2006.

Visits

4. We find it valuable to leave Westminster to hear people's views and to see for ourselves places of interest and examples of best practice. Usually these are domestic visits, but on occasion we travel to other countries. For example, our visit to Germany provided us with a very clear picture of how successful that country's system for encouraging local renewable energy generation had been—a system that is now being seriously examined in the UK. On some occasions we take formal evidence on these visits, and we describe this in more detail in Section 3. The Committee's visits in 2007 were:

Table 2: Visits by the Committee in 2007

Location	*Date*	*Purpose of visit*
Machynlleth, Powys	January	Inquiry into Climate change: the "citizen's agenda"
Community Carbon Reduction Programme (CRed), University of East Anglia, Norwich	January	Inquiry into Climate change: the "citizen's agenda" (Visit and oral evidence session)
Stuttgart and Freiburg, Germany	February	Inquiry into Climate change: the "citizen's agenda". Examination of German systems for encouraging renewable energy and decentralised

Location	*Date*	*Purpose of visit*
		generation
Woking Borough Council	February	Inquiry into Climate change: the "citizen's agenda", and in particular local combined heat and power schemes
National Waterways Museum, Gloucester	April	Inquiry into British Waterways (Visit and oral evidence session)
Olympic Lock, Prescott Channel, Bow	June	Inquiry into British Waterways
Gloucestershire	August	Inquiry into Flooding, in particular the immediate response to the floods
Fontainebleau, France	October	'Enjoy & Protect our Forests' Conference (travel in a representative capacity)
Devon	October	Inquiry into Badgers and cattle TB: farm visits
Veterinary Laboratories Agency, Weybridge	November	Inquiry into Badgers and cattle TB
Lyon, France	December	Inquiry into Flooding, particularly to examine sustainable urban drainage systems

2 Core tasks

5. Following a resolution of the House made on 14 May 2002, the Liaison Committee established a set of common objectives or ‘core tasks’ for select committees. Committees are invited to review how they have met these objectives in their annual reports. Committees are also invited to report on ministers’ appearances before them, and on how they have assisted the House in debate and decision. Accordingly we set out to show how our work in 2006–07 relates to these tasks.

6. Table 3 summarises our work in relation to the ‘core tasks’. This is followed by a more detailed commentary. In a number of cases pieces of work by the Committee will fulfil more than one of the core tasks. In most of these cases we discuss the work in the section to which it is most directly relevant.

Table 3: Liaison Committee ‘core tasks’ relevant to 2007 inquiries

	Government and EU policy proposals	Examination of emerging policies and of deficiencies	Draft bills	Decisions and documents from Defra	Expenditure of Defra and associated bodies	Public Service Agreements	Work of Defra’s associated public bodies	Major appointments	Implementation of legislation and major policy initiatives	Informing debates in the House	Evidence from Ministers
Avian influenza		x		x		(x)	(x)				
Badgers and Cattle TB: Final Report of the Independent Scientific Group on Cattle TB	x	x		x	(x)	(x)	(x)				x
British Waterways		x		x	x		x			x	x
Climate change: the "citizen's agenda"	x	x				(x)			x		x
Defra priorities	x	x		x	x	x		(x)			x
Defra’s Departmental Report 2006 and Defra’s budget				x	x	x	x				
Defra’s Departmental Report 2007				x	x	x	x				
Draft Climate Change Bill	x	x	x	x		(x)			(x)		x
Flooding		x		(x)	x		x				
Implementation of the Environmental Liability Directive	x	x		x		(x)	(x)		x		x
The Potential of England’s Rural Economy		x			(x)	x	x		x		

	Government and EU policy proposals	Examination of emerging policies and of deficiencies	Draft bills	Decisions and documents from Defra	Expenditure of Defra and associated bodies	Public Service Agreements	Work of Defra's associated public bodies	Major appointments	Implementation of legislation and major policy initiatives	Informing debates in the House	Evidence from Ministers
Rural Payments Agency		x			x	(x)	x		x	x	
The UK Government's "Vision for the CAP"	x			x		x				x	

x= the work of the Committee on this inquiry fulfils the criterion
(x) = the work of the Committee on this inquiry is relevant to the criterion
Subjects in the shaded area relate to inquiries on which the Committee has not yet reported.

Government and EU policy proposals

7. A large part of Defra's work is EU-related, none more so than its duties under the Common Agricultural Policy (CAP). We concluded a substantial inquiry into the UK Government's "Vision for the Common Agricultural Policy" in 2007, during which we had heard formal evidence from the European Agriculture Commissioner among others. Our Report criticised the Vision document as a disappointing lost opportunity to put forward something truly revolutionary. We called for the CAP to be scrapped and replaced with a rural policy for the EU, based on the only justification for taxpayer support that we believe is justifiable in the long term: the provision of public benefits. We subsequently published our comments on the Government response we received, adding that we believed that we and Defra should both do further work on the issue of food security.

Examination of emerging policies and deficiencies

Rural Payments Agency and the implementation of the Single Payment Scheme

8. The most glaring deficiency in Defra's performance in recent years has been the failed implementation of the Single Payment Scheme by the Department and its Rural Payments Agency (RPA). Payments to which farmers were entitled were months or years late and hundreds of millions of pounds of public money were lost. We took much of the evidence in 2006, but this year we produced our Report. We concluded that Defra had required its Agency to bring in a highly complicated system in too short a time and that the Agency did not understand its own processes properly.

9. But our Report was as much about a lack of proper accountability as about the failure of policy implementation. The collapse of the single payment system led to the removal of the RPA's Chief Executive. We were however extremely critical that the Secretary of State and senior Defra officials involved had stayed in post or moved on unscathed. We believed that

a culture where ministers and officials could preside over failure of this magnitude and not be held personally accountable risked further failures in public service delivery. The policy failure in this case was so serious that it should have resulted in those responsible being removed from their posts.

10. In order to reach conclusions on this inquiry, we needed to hear from the former Chief Executive of the RPA, Johnston McNeill. We agreed to do so in a private session in January in order to address the witness's concerns about appearing before at a meeting held in public, but published the whole transcript the next day so that the transparency of our inquiry was not compromised.

Climate change

11. Climate change is a continuing theme of the Committee's work and we are conducting a series of inquiries on the subject. In 2006 we studied the role of bioenergy. It is becoming clear that our conclusions in that Report about the weaknesses of Government policy in this area, and in particular the disadvantages of its emphasis on the contribution of first generation biofuels, were well-founded. In 2007 we examined what the Government was and should be doing to help individuals and communities reduce their climate change impact: what we have called the "citizen's agenda". We concluded that the Government was not doing all it could to make it easy for people to 'do their bit'. Again, we decided to publish a further Report commenting on the Government Response, which was not only negative in parts, but disappointingly failed to take account of important Government announcements that were made only days after it was sent to us. We believe that our work on this subject provides much useful material to inform parliamentary scrutiny of the Climate Change Bill. We refer in more detail in paragraph 14 below to our pre-legislative scrutiny of the Draft Climate Change Bill.

Badgers and cattle TB

12. When the 10-year work of the Independent Scientific Group (ISG) on Cattle TB was published, we took evidence from the ISG and other interested parties. This long-running and very serious problem of cattle TB has been examined by us before, and we had expected to hold only a short inquiry this time. However the ISG's conclusions, subsequently challenged by the Government's Chief Scientific Adviser Sir David King, led us to decide to hear from a number of witnesses and the responsible minister. We will report in early 2008.

Flooding

13. The serious floods that affected parts of the country in the summer has led us to examine the complex arrangements that govern flood management. We have had constructive contact with the official review of lessons learned, led by Sir Michael Pitt, in order to avoid unnecessary duplication. We believe that our transparent method of proceeding will be of benefit to Sir Michael and others who are also addressing this issue. We will take evidence from Sir Michael before we report our findings.

Draft Bills

14. The Secretary of State published the Climate Change Draft Bill on 13 March. In view of the Government's desire for the widest possible discussion, we decided to examine the draft Bill. We took oral evidence over a fortnight in May and published our Report on 4 July. A Joint Committee of both Houses was also set up to examine the Bill. We exchanged memoranda with that Committee and were pleased to see that the Report which it published in August echoed many of our own conclusions. The Government replied to both reports in a Command Paper in October, adopting a number of our recommendations.

15. The Government has announced that a draft Marine Bill will be published in Spring 2008. We will wish to conduct pre-legislative scrutiny of that document.

Decisions and documents from Defra

16. A number of serious animal diseases have broken out in 2007: foot and mouth disease (from premises licensed by Defra); bluetongue; and avian influenza (twice). We heard about Defra's response to these from the Secretary of State when he gave evidence in October. Members of the Committee have also met the then Deputy Chief Veterinary Officer of Defra for a briefing on avian influenza. The Committee intends to meet the Acting Chief Veterinary Officer in 2008 to discuss disease preparedness.

Expenditure of Defra and associated public bodies

17. In financial year 2006–07 Defra responded to a budget deficit of £200m by imposing in-year budget cuts which affected the work of a number of its delivery bodies. We decided to examine the reasons for this as an adjunct to our regular inquiry into Defra's Departmental Annual Report. We concluded that this was a serious failure of financial management. Defra had failed to take action early enough to deal with the pressures, and the budget shortfall was itself partly caused by a lack of clarity on the part of Defra about the Treasury rules on end year flexibility—something which the Permanent Secretary noted in her Statement in Internal Control in Defra's 2006–07 Resource Accounts.[1] The National Audit Office has responded by conducting its own study of financial management across Defra and its delivery bodies. Its report is likely to appear in early 2008.

18. It became apparent in November 2007 that Defra was requiring cuts in its programmes and delivery bodies from financial year 2008–09 even though it had received a real terms budget increase for the next three financial years under the Comprehensive Spending Review 2007. We took evidence from the Permanent Secretary at short notice and she confirmed the pressures that her budgets were under and that she was seeking savings of £270m from existing budgets in order to meet the new priorities set by ministers. In addition, the Department needed to make a further £50m of savings on administration in the remaining four months of the 2007–08 financial year in order to keep within its administration budget of £269m and meet its existing efficiency target. We intend to take

1 HC 585, page 43

further evidence on Defra's budget and how it is allocating money to its priorities early in 2008.

Public Service Agreements

19. We examined both the Permanent Secretary and the Secretary of State on their existing and new PSA targets in oral evidence, and also took written evidence from the Department. Our forthcoming inquiry into the potential of England's rural economy will indicate how well Defra has met its existing PSA target on enhancing opportunity in rural England.

Work of Defra's associated public bodies

20. British Waterways (BW), a public corporation, was one of Defra's delivery bodies affected by the in-year budget cuts in 2006–07. We subsequently inquired (through a Sub-committee chaired by David Drew MP) into how BW was working towards its ambition of an expanding and largely self-sufficient inland waterways network. We concluded that lower grant levels in the coming years would put at risk BW's ability to keep the network to an acceptable standard and we called on Defra to ensure funding to BW to fulfil its responsibility for this vital public asset. We also recommended that BW be allowed to be given more commercial freedom and to be able to gain financially from planning developments at its waterside. Other departments should also contribute to BW to reflect the work it did to further their agendas.

21. Our most unexpected finding was that relations between BW and Defra had recently been tense. The responsible minister had criticised BW in public on a number of grounds, and it appeared that BW and the Department were not communicating clearly enough. We called for a fresh start under the new minister.

22. Our current inquiry into flooding has involved us examining the role of, and taking evidence from, the Environment Agency.

Major appointments

23. We heard evidence on 23 October from the new Secretary of State, Rt Hon Hilary Benn, on his priorities for Defra.

Implementation of legislation and major policy initiatives

24. We inquired into the implementation in England of a piece of European Union legislation, the Environmental Liability Directive (ELD). This has the purpose of making the polluter responsible for serious environmental damage in certain circumstances. Not only did compromises at the EU level make the Directive complex, but member states were given wide discretion as to how to implement it. We concluded that Defra's consultation on this matter had been undermined by the Government's statement in advance that it would not go beyond the minimum requirements other than in exceptional circumstances. We argued that the Government needed to provide a proper justification for its policy choices, and not just rely on its 'minimum implementation' mantra. This was particularly important in cases where its own cost-benefit analysis showed that there would be benefit

from going beyond the minimum requirements of the Directive (for example bringing nationally-protected biodiversity within its ambit, not just EU-protected biodiversity). The Government is still to announce its final policy choices on implementing the ELD following its consultation and our Report.

Informing debates in the House

25. Two substantial Reports from us—*The Rural Payments Agency and the implementation of the Single Payments Scheme* and *The UK Government's 'Vision for the Common Agricultural Policy'*—were debated on an Estimates day debate in the House on 9 July. This allowed the House as a whole to discuss two related subjects of great financial and policy importance, and to debate the issues of accountability that we raised in the former Report. It was also the first debate on agriculture in the House for several years.

26. There was a 90 minute debate in Westminster Hall on British Waterways on 25 April. With the permission of the Member in charge of the debate, oral evidence we had heard from British Waterways on 12 March, and from the responsible minister only two days before, was listed as relevant to the debate and was referred to by Members.

Evidence from Ministers

27. In addition to hearing evidence from the new Secretary of State on his priorities (see above), we heard evidence from ministers in connection with our inquiries into the Climate Change Bill (Rt Hon David Miliband, then Secretary of State), on Climate Change: the "citizen's agenda" and the Environmental Liability Directive (Ian Pearson), on British Waterways (Barry Gardiner) and on Badgers and Cattle TB: the final report of the ISG (Lord Rooker).

3 Working methods

Setting priorities for our work

28. Several times this year serious and unforeseen events have occurred which have required Defra to respond: the serious summer floods, avian influenza outbreaks, the bluetongue outbreak, and the foot and mouth disease outbreaks.

29. In addition, policy developments have occurred which have required us to find room in our programme for them at short notice: for example the draft Climate Change Bill, the final report of the Independent Scientific Group on Cattle TB, the report by Sir David King (the Government Chief Scientific Adviser) on TB in cattle and badgers, and the news that Defra was seeking over £270m of budget cuts from existing programmes for 2008–09.

30. This meant that some of our inquiries which we expected to have undertaken in 2007, such as those into the potential of England's rural economy and into the Government's *Waste Strategy for England 2007*, have been delayed. But we firmly believe that we are right to remain light on our feet, and we will continue to respond to significant new issues as they emerge.

Maximising our time-effectiveness

31. We are conscious that there is a great deal that we could scrutinise, but time does not always allow us to do all that we would wish. We have devised a number of ways of working to maximise the impact we can make within the time available to us.

32. We devised a new form of inquiry for our examination of the Government's implementation of the Environmental Liability Directive. This involved initial exploration of this complex issue by two Members of the Committee, who recommended an inquiry by the Committee as a whole. The Committee announced that it would take written evidence and use it as a basis for the single oral evidence from the Minister. We are very grateful for those who responded and who identified key issues to raise with the Minister. This was a very time-efficient inquiry and we expect to use the format again in the future.

33. We have continued to use sub-committees, notably for our inquiries into the Rural Payments Agency and British Waterways. These sub-committees have generally met on Mondays while the main Committee has met on Wednesdays, allowing us to pursue two matters at once. In the case of British Waterways, the sub-committee was chaired by Mr Drew, with the Chairman a member of the Sub-committee. We have continued our practice of disbanding sub-committees once evidence has been concluded. The draft report is then considered informally by the members of the former sub-committee and the resulting text is then presented to the Committee as a whole in the name of the Chairman of the former sub-committee.

34. We have continued with our avian influenza 'Observatory', consisting of volunteers from among our membership who can keep the matter under review and report back to other Members. During 2007 we received two private briefings from the then Deputy Chief Veterinary Officer, Fred Landeg. In view of the recent outbreak of the disease the Observatory will continue in existence for the foreseeable future.

35. Members of the Committee were also given a briefing by Defra officials on the Department's 'Renew Defra' change programme, which provided useful background to evidence from the Permanent Secretary.

Government responses to our Reports

36. Our work does not finish when we publish our Reports. The Government is supposed to reply to our Reports within two months. Those replies are sometimes late, but more seriously they are often of disappointing quality. They are frequently negative in tone and often fail to engage with our arguments. In three cases—on bioenergy, the Common Agricultural Policy and climate change—we have seen the need to make substantive comments on the Government response. In the last of these cases, we also intend to hear oral evidence from the Secretary of State on the response.

37. We attach as an Annex a table showing the Government responses to our Reports' various conclusions and recommendations.

Public involvement in the Committee's work

38. We have sought to work in ways which make it as easy as possible for members of the general public to take part in our inquiries and give us their views. In January, with the help of the Community Carbon Reduction Programme at the University of East Anglia, we took evidence in Norwich from citizens who were trying to reduce their own or their local community's carbon emissions. This was a great help to us in formulating our recommendations on how the Government should help people reduce their climate change impact. We took evidence in April at the National Waterways Museum, Gloucester, from a number of users of British Waterways' canal network. Again, this evidence was a valuable addition to that which we heard from the other organisations that are our customary witnesses. We repeat our thanks to CRed and the Waterways Trust for their generous help with the organisation of these events.

39. In our flooding inquiry, we have asked anyone affected by the recent floods to contact us with their views and recommendations. As a result of this we have received a very large number of pieces of written evidence from individuals. We also invited Members of Parliament for affected constituencies to write to us, and received very helpful comments from our colleagues. We took oral evidence from five of those Members in December.

Media coverage

40. The Committee has continued to have a high media profile during the year, particularly with the launch of our Reports on the RPA and on Defra's budget, and with the progress of our inquiries into flooding and cattle TB. Specialist agriculture and environment journals frequently carry stories about our Reports and evidence sessions. The daily BBC radio programme *Farming Today* often broadcasts extracts and reports of our evidence sessions and interviews our Members and witnesses, provoking further interest in our work from the public. In addition Members have contributed to local and regional media outlets interested in our work.

41. On two occasions in the past year—in connection with our inquiries into *Climate change: the "citizen's agenda"* and *The potential of England's rural economy*—the BBC radio programme *You and Yours* has invited the Chairman of the Committee to appear on air to take calls and e-mails from listeners. In both cases there was a very high response from the public. The BBC kindly collated the comments of listeners to the earlier programme and sent it to us as a piece of written evidence. This allowed a wider selection of people than normal to send their thoughts to the Committee. In the case of programme on the rural economy, the purpose was for listeners to suggest areas for the Committee to concentrate on. This has been useful in shaping the inquiry which we will begin in 2008.

Reducing our own climate impact

42. In view of our remit and our recent work on climate change, we are particularly conscious of the climate impact of our own activities, particularly travel. Our domestic visits are largely made by train, with local transport by bus or taxi. Both the Committee's visits abroad in 2007—to Germany and to France—were made by train both because it was convenient and because it would minimise our carbon footprint.

Sources of information and assistance

43. We record our gratitude to all those people and organisations who have sent us evidence and otherwise helped us during the year.

44. Within the House, we have continued to make use of the Commons Scrutiny Unit. This has been particularly important in connection with our work on Defra's budget and finances.

45. As last year, we have benefited from the assistance of the National Audit Office. We asked the NAO to examine the financial figures that were in dispute between Defra and British Waterways, and we have now received its response.

46. We have had the benefit of the assistance of Jim Watson of the Science Policy Research Unit at the University of Sussex as our special adviser on our climate change inquiries this year. We have also been advised on our flooding inquiry by Professor Colin Green of the Flood Hazard Research Centre at the University of Middlesex, and Frank Farquharson, Director of Water Resource Associates Ltd. We record our thanks to them all.

Annex: Table of Government responses to Committee reports

Contents

Page

Government Response Table

CLIMATE CHANGE: THE ROLE OF BIOENERGY—8TH REPORT (2005–06), PUBLISHED 18 SEPTEMBER 2006

Conclusion/Recommendation	Government Response
2. Introduction	
UNITS, MEASUREMENTS AND TERMINOLOGY **1. In conducting this inquiry we encountered a wide range of different units, measurements and terms which are all used in calculations of energy and emissions. We recognise that different kinds of data are needed for different purposes, but the Government should ensure that its use of units and terminology is consistent across departments so that those outside the science community can form a clearer view of the relative merits of different forms of energy in the context of climate change. (Paragraph 12)**	We recognise the need for greater consistency of units and terminology, wherever possible and appropriate, in Government sponsored publications and will endeavour to ensure comparisons or values are expressed in uniform terms.
2. The Government has estimated the contribution that bioenergy could make to the UK's energy mix by sector as percentages of the total, and using different dates for each sector. This does not facilitate useful comparison and suggests a lack of consistency in approach across Government departments. We recommend that the Government recast its estimates, settling on one target date and indicating what the relative percentages, in million tonnes of oil equivalent (Mtoe), actually represent. (Paragraph 14)	It is difficult to set a single target or target date for the different renewable energy sectors because the targets reflect a mixture of EU and domestic objectives. They are set to encourage the expansion of the individual renewable energy industries, which are at different stages of development. However, we recognise that this lack of uniformity can be confusing and may make drawing comparisons more difficult. We are looking to assess and report on the overall contribution that bioenergy can potentially provide within the UK Biomass Strategy across a range of target dates.

3. Potential carbon savings from bioenergy	
BIOMASS FOR HEAT AND ELECTRICITY **3. Current Government policy focuses on renewable electricity generation at the expense of the prospects for the development of renewable heat. We note that in its response to the Biomass Task Force Report the Government has undertaken to increase the use of biomass heat and electricity. We recommend that the Government build on this commitment by setting out clear and quantifiable targets for biomass heat in its forthcoming Biomass Strategy. We further recommend that the Strategy redress the balance between biofuels, renewable electricity and renewable heat, to reflect the greater potential carbon savings offered by biomass heat. (Paragraph 35)**	We noted, in the Energy Review, that in the absence of an equivalent mechanism to the Renewables Obligation for renewable heat, there was the potential for a distortion of the market for biomass on a revenue basis. In responding to the Biomass Task Force report we agreed that renewable heat provides important opportunities and is a particularly efficient way of cutting carbon emissions, provided that development is planned appropriately with a secure market for the heat generated. We therefore committed, in both the Government's Response to the Biomass Task Force Report and in the Energy Review, to consider options for providing longer-term support for renewable heat, including biomass. A project is being commissioned to assess the case for longer-term support and, if appropriate, the potential mechanism(s) for delivering such support. At this stage we are not ruling out any potential mechanisms or approaches, including targets. This review does not affect the decisions already taken to support development including the five-year capital grant scheme for biomass heat and CHP projects as announced in March 2006 in the Climate Change Programme Review. The Government is also currently consulting on a number of changes to the Renewables Obligation.
4. Reflecting on the conclusions of the Biomass Task Force, and acknowledging that the Government has already published its response to the Task Force report, we are disappointed that the Government has failed to take the opportunity offered by the Energy Review properly to address the issue of biomass heat, and has only committed to producing the Biomass Strategy "over the coming year". Given the urgent need for concrete measures to support biomass heat, we should not have to wait until 2007 for the Biomass Strategy, and recommend that the Government make clear in its response exactly when it anticipates publishing this strategy, and further suggest that it does so at the earliest possible opportunity. (Paragraph 36)	In preparing the Government's Response to the Biomass Task Force Report, it was judged that a full twelve months would be needed to undertake this work, including the commissioning of underpinning research. We have considered this timetable carefully in light of the EFRA Committee's recommendation but believe that consideration of the complex issues and in-depth discussions with key stakeholders are required, such that the quality of the final strategy would be seriously compromised should we bring forward the publication date significantly. We are giving this work high priority and will also take account of its links to the Energy White Paper which is due to be published in early 2007. The Committee will wish to note that we are about to commission a project, due to start early in November 2006, to examine the case for, and mechanisms available to deliver, longer-term support for renewable heat. This should report early in 2007. In the meantime the biomass heat sector continues to be supported via the Bioenergy Capital Grants Scheme—for which a further round of applications were considered in July 2006—the Low Carbon Buildings Programme and the Defra-funded biomass heat capital grant scheme, which it is expected will be open to applications early in 2007. Capital support was considered by the Biomass Task Force to be the most appropriate measure to support this sector in the short to medium term.

MARINE BIOMASS **5. We agree with the Biosciences Federation and Royal Society of Chemistry that the potential of marine biomass as a source of energy should not be overlooked. We recommend that the Government conduct a scoping study to investigate the potential for and anticipated carbon savings from the use of marine bioenergy, and to establish the likely up to date costs associated with developing this technology. We emphasise, however, that any research in this field must be carried out in addition to—and not instead of—research and development into land-based bioenergy production. (Paragraph 42)**	We welcome the attention drawn to the potential of marine biomass. We agree that a scoping study to investigate the potential use of marine bioenergy is an appropriate way forward. The issues to be addressed are wide ranging and complex, including whether the marine biomass could be harvested from wild or cultivated algal resources, what positive and negative impacts this would have on the wider marine environment including fish stocks, the scope for production, and economic viability. It would probably be appropriate to categorise this study as "Horizon Scanning'" and will be resourced separately to the ongoing work programme on land-based bioenergy. Marine biomass is an important potential theme in the new EU R&D framework programme (FP7).
POTENTIAL CARBON SAVINGS FROM BIOFUELS **6. No analysis of the relative benefits of different forms of energy is complete without consideration of the cost, in both financial and sustainability terms, of reducing emissions. The difficulties of making reliable calculations—owing to the volatility in oil prices, and consequently biofuel prices, as well as cost differences in feedstocks and processing methods—are well understood. We seek confirmation from the Government that the Stern Review on the Economics of Climate Change will provide clarity in this area. (Paragraph 50)**	The Stern Review is the most comprehensive study ever carried out on the economics of climate change. It was published on 30th October, and is available at: www.hm-treasury.gov.uk/independent_reviews/ stern_review_economics_climate_change/stern_review_report.cfm
SECOND GENERATION BIOFUELS BARRIERS TO PRODUCTION **7. Defra does not say when in the future it expects second generation biofuels to become cost-effective, or what contribution the Government intends to make in terms of research and development in this field. While we accept that the Government may be reluctant to pick**	The Government is committed to promoting biofuels in the context of our climate change objectives, and we are particularly keen to encourage the development of fuels offering the greatest level of greenhouse gas (GHG) savings, including second generation fuels.

technology 'winners' and 'losers' at this stage, it is vital that the Government examine the barriers to further progress on second generation biofuels, and—as a matter of urgency—establish the level of investment and policy support required to accelerate development of this technology. (Paragraph 63)	The Government has funded R & D into second generation biofuels and will continue to do so, including a new Defra-funded National Non Food Crops Centre study on Biomass to Liquids. This will look specifically at the feasibility of introducing this technology in the UK. Revenue expenditure on R & D will also continue to benefit from general tax credits of 125% for large companies and 150% for small and medium sized enterprises. The Government's central policy mechanism to deliver a significant biofuels market in the UK into the long term is the RTFO that we announced last year. The RTFO has been designed specifically to enable and incentivise the sort of long term, high capital investment required for the best biofuel production facilities. Although the Obligation will be framed in terms of volume in the early years, we have made it clear from the outset that the policy is about reducing emissions of greenhouse gases and that we intend to move, over time, towards a system under which we offer different levels of credits to different biofuels on the basis of the carbon savings that they offer. As set out in the Energy Review, we will be consulting next year on future enhancements to the RTFO beyond 2010/11. We will work closely with stakeholders to develop proposals that would directly incentivise fuels giving a higher level of carbon saving as soon as that becomes feasible. We will also assess the extent to which these proposals would stimulate R&D and investment into advanced technologies in this area. The Energy Review also announced that a Low Carbon Transport Innovation Strategy would be developed to spur vital innovation in low carbon transport technologies. The Strategy will include all generations of biofuel technology. We have examined and will continue to examine the barriers to progress, and to assess policy options to maximise GHG savings from renewable fuels. For example, a DTI Global Watch mission on next generation biofuel technologies took place earlier this year. The report, which was published in the summer, concluded that the very high capital cost of advanced production facilities is the primary reason for the low level of deployment. It recommended that policy for encouraging biofuels should be on a GHG reduction basis to provide incentive for investment in second generation technologies[2] The Government also announced in the 2006 Budget that it had applied for State Aid approval for introducing an Enhanced Capital Allowance Scheme to support the cleanest

[2] The report is available in full on the DTI Global Watch website (www.globalwatchservice.com/mission/)

	biofuels production plant, including those using designated advanced processes. Discussions are continuing to be taken forward with the Commission and interested parties, and the Government hopes to introduce a scheme in 2007. We expect the EU R&D framework programme (FP7) to give significant emphasis to second generation biofuels.
SECOND GENERATION BIOFUELS FOR AVIATION SYNTHETIC KEROSENE **8. Although we recognise the valid safety concerns raised by witnesses regarding second generation aviation fuels, we note that synthetic kerosene is already being used in aircraft departing from Johannesburg. We are puzzled as to why the Government does not appear to be pursuing the option of second generation Fischer-Tropsch kerosene—as used in South Africa—to deal with the rapidly growing climate impact of aviation. If a biomass-derived process for producing synthetic kerosene can be made economically viable, the UK Government must support its development. We recommend that the Government take immediate steps to investigate the economic viability of using biomass as the feedstock for synthetic kerosene. (Paragraph 72)**	The UK project "The Potential for Renewable Energy Sources in Aviation" produced by Imperial College Centre for Energy, Policy and Technology in 2003 for DTI, studied the options for potential renewable fuels for civil aviation. The study examined a whole range of alternative fuels and energy sources including Fischer-Tropsch (FT) kerosene. The report acknowledged that the physical properties of FT kerosene made it potentially suitable for use in aircraft, but concluded that the cost of producing biomass-derived FT hydrocarbons was likely to rule out their commercial development for the foreseeable future. Whilst this was a useful examination of the subject, it should be noted that biofuel technology has developed since that report was produced. South Africa has certified FT kerosene for aviation but it should be noted that this is derived from coal (South Africa has huge reserves of coal and the energy costs for its production might not make it a commercial proposition elsewhere). The fuel, produced by SASOL, is a 50/50 blend of synthetic and conventional kerosene. We are aware that Brazil has developed a bioethanol-fuelled single seater aeroplane for agricultural use, e.g. for spraying but this is an alcohol type gasoline and therefore is not similar to aviation kerosene. Given that biomass is a limited resource, the Government needs to consider the cost effectiveness of its use in different applications. At present, it is easier and more cost effective to integrate biofuel use in road transport and heat and power generation, than for use in aircraft. However, the Government is actively keeping the area of alternative aviation fuels under review and it was identified as an area for co-operation, particularly with the US, after the G8 Gleneagles commitment to extend research aviation science and technology. Discussions with the US have focused on building upon their initial work within their PARTNER research network.

	It is most likely that, as with the early South African experience, second generation biofuels would feature only as part of a kerosene blend but significant work remains before this could demonstrated as viable in cost, energy and environmental terms and thus become be a system-wide reality. The energy required for the production of second generation biofuels (from biomass) should be improved, but the efficiency of the process on a large scale is as yet uncertain. Other second generation fuels such as ethanols, whilst suitable for motor vehicles are not compatible with aircraft jet engines at this time and have a lower energy density than the Fischer Tropsch kerosenes. UK scientists and technologists have been involved in a series of EU workshops to share and improve understanding of the wide range of alternative fuels issues: fuel formulation, technological implications, infrastructure and availability, safety, environmental impacts and cost effectiveness. The fuel companies are also committing considerable resource to this work and the pace of activity is accelerating dramatically. Apart from consideration of biofuels, attention is also being given to kerosene sulphur levels (linked to aviation induced cirrus cloudiness) and to the potential pros and cons of fuel additives. The subject of alternative fuels is expected to be a prime study area for a new UK knowledge transfer initiative led by Manchester Metropolitan University. Project OMEGA will engage UK academic institutions to assess problems and develop solutions in response to the aviation sustainability challenge, as announced by Trade and Industry Secretary Alistair Darling in May with £5 million from the UK Government. OMEGA will bring together world-class academic institutions to assess known and newly-emerging environmental challenges that the air transport and aeronautical industries must overcome during the next 50 years. It is highly likely that there will be a study supported by OMEGA into aspects of alternative fuels, especially biomass kerosene, linking with key stakeholders
BIOGAS BIOGAS FOR TRANSPORT **9. We recognise the carbon saving potential of biogas as a transport fuel, but acknowledge that the necessary adjustments to transport infrastructure represent an obstacle to biogas uptake. We note the Government's acknowledgement of the need to assess the feasibility of using biogas as an alternative to diesel and welcome the Government's Surrey-based pilot project to examine the use of landfill gas as a transport fuel. We recommend**	The Government acknowledges the potential role for biogas to contribute to the renewable fuel mix for use in road transport. Natural gas, including biogas, benefits from a significant duty discount compared with main road fuels, and this is guaranteed until 2008–09. The Government is currently considering whether and if so how biogas might be incorporated within the Renewable Transport Fuel Obligation. We will consult early in 2007 on the details of the RTFO, including on the question of which fuels should count towards the Obligation.

that a feasibility study be undertaken in time for the results to contribute to the Government's Biomass Strategy, expected in the coming year. (Paragraph 77)	
ANAEROBIC DIGESTION **10. We recognise the potential of anaerobic digestion significantly to increase the use of waste as a source of renewable energy. We reiterate the point made by the Biomass Task Force that care must be taken in selecting the most efficient anaerobic digestion technologies. We note that the Government has committed to reviewing its current approach to anaerobic digestion by April 2007. This is too late. Defra's current review of the Waste Strategy—which is due to be published later this year—provides a more suitable opportunity to fulfil this commitment and we recommend that the Government use the review to bring forward all of its work in this area. (Paragraph 84)**	The Government acknowledges the potential of anaerobic digestion (AD) to generate renewable energy from a range of organic material, whilst also contributing to our objectives on waste management and methane mitigation from agriculture. AD is already supported under the Renewables Obligation. Defra is giving active consideration to its role in relation to a range of our objectives, including its potential contribution to waste management as part of the current Waste Strategy Review. The complementary review, announced in the response to the Biomass Task Force, will be completed as soon as possible.
4. Land use	
FOOD SECURITY **11. We conclude that second generation biofuel production is less likely to have the same impact on world commodity markets as first generation biofuel production, which competes with the food industry for corn and oil feedstocks, further pointing to the desirability of investing in the necessary technologies. (Paragraph 102)**	We agree with the Committee's conclusion. The steps being taken to encourage the development and deployment of second generation biofuels are set out in the response to recommendation 7.
ENERGY FROM WASTE **12. It was made clear to us that organic waste material—much of which currently goes to landfill—represents an**	The Government is committed to reducing significantly the volume of biodegradable waste disposed of to landfill by 2020. We fully recognise the value of this waste, both in terms of

untapped source of energy. We support the work of the Biomass Task Force and its leader Sir Ben Gill in highlighting the energy potential of waste, and trust that this line of thinking will be fully integrated into the Government's forthcoming new strategy for waste. We see the generation of heat and electricity as an important part of any effective waste strategy. The contribution of waste to energy production could be substantial. However, this should be made alongside, and not instead of, efforts in other areas. (Paragraph 108)	the materials it contains and its energy potential, which was highlighted in the Climate Change Programme Review and the Energy Review. Energy from the biodegradable fraction of waste may be supported through the Renewables Obligation and exempt from the Climate Change Levy. The consultation document on the current Waste Strategy Review proposed significant increases in recycling and composting, as well as anticipating an increase in energy recovery. The revised Waste Strategy is due to be published in early 2007.
GENERAL CONCLUSIONS ON LAND USE **13. Questions over land use are at the heart of bioenergy policy. We are concerned by the implications of the Government's claim that "by 2050 the UK could produce as much as one third of its transport energy needs" from renewable sources. We recommend that the Government make clear in its response to our report the evidence—and assumptions made in relation to land use—to support this claim. Biofuels for transport currently offer an important way to reduce carbon emissions from the growing transport sector, but increased production may have an adverse effect on food production and biodiversity. If the Government goes ahead with the increase in the Renewable Transport Fuel Obligation beyond 5%, as proposed in the Energy Review, there may be serious UK land use implications. Exploiting the 'dualfunctionality' of crops to provide both food and bioenergy may go some way to mitigating this. (Paragraph 113)**	The conclusion that the UK could produce as much as one third of its transport fuel by 2050 was arrived at in a report entitled *Liquid Biofuels and Renewable Hydrogen to 2050*, commissioned by the Department for Transport and produced by E4Tech in 2004. The report assumed that ethanol from fermentation and hydrolysis processes would replace petrol, and that vegetable oil based biodiesel and synthetic diesel from a lignocellulosic biomass-based Fischer-Tropsch process would replace fossil diesel. It assumes an ambitious estimate that 4 million hectares of agricultural land could be diverted to biofuel production (based on estimates by ETSU (1998) and Eyre et al (2002)). In addition biofuels from non-crop sources could produce up to 10% of total road fuel. We are aware that land use may be an increasing issue, not only in the UK, but in other Member States and beyond. As the Committee suggest, exploiting the multiple functionality of crops and other biomass sources may reduce the pressure. This could be by using part of the crops for food and part for bioenergy or part for fuelling the process plant and part for feedstock, while also producing by-products. We will consider the importance of, and the impact of bio-energy developments on land use, biodiversity and commodity markets when determining the future support levels of biofuels and bioenergy, drawing upon the developing research base.
14. Biomass crops used for heat and electricity can have a positive impact on biodiversity, and offer greater carbon savings per hectare, but in the case of short rotation coppice, are costly to establish and yield no output for	We have taken careful note of the Committee's comments on the choices which are available on different sources of bioenergy. As indicated above, we aim in the Biomass Strategy to set out conclusions on cost-effectiveness and other factors which influence the optimum direction of development. In the specific case of energy crops, the evidence

four years. They therefore require considerable investor confidence. Whilst we recognise that the complex matrix of advantages and disadvantages relating to the various uses of arable land precludes any simple choice between sources, the Government must act now to help reconcile and rationalise these apparent inconsistencies in order to maximise carbon savings. (Paragraph 114)	suggests that farmers are prepared to choose to invest in production if a secure market for the output is available. While market forces play a key role in determining the pattern of industry development, we recognise that Government incentives and strategies can also be used to direct development in an appropriate and cost-effective direction.
5. Government policy on bioenergy	
15. Government policy does not leave room for newer, more efficient technologies to develop and become commercially viable because it does not link incentives to carbon savings. We recommend that the Government begin to remedy this initially in implementing the Renewable Transport Fuel Obligation. (Paragraph 115)	The Government agrees with the principle that policies designed to address climate change should link incentives to carbon savings where it is feasible and appropriate to do so. For the RTFO, the Government has been clear from the outset that the primary objective of the policy is to reduce greenhouse gas (GHG) emissions from the transport sector. In this context, the RTFO feasibility study considered the prospects for directly incentivising fuels giving the highest level of GHG savings. The study concluded that integrating GHG fully into the RTFO was fundamental to ensure the potential of the mechanism to achieve its objectives. However, it also found that the additional complexity, legal uncertainty and short term implications of incentivising GHG savings directly suggested that a staged approach toward integration was advisable. It recommended a reporting requirement in the first instance, developing into a hardened carbon incentive over time. The Government will be consulting on this basis with draft regulations early in the New Year. However, the Government is keen to move toward direct incentivisation as soon as it becomes feasible to do so.
BIOMASS SUPPORT SCHEMES **16. We are pleased that Defra is keeping the prospect of a Renewable Heat Obligation under review: this option should not be ruled out altogether without further consideration. We recommend that Defra undertake a full analysis of such an Obligation, but emphasise that such an analysis should not be the cause of any delay to other Government measures in support of biomass heat. (Paragraph 125)**	We have commissioned work—following discussions with the industry and other stakeholders—to analyse the business case for longer-term support for renewable heat and the potential support options. The project specification for this work specifically mentioned the need to consider a Renewable Heat Obligation among a number of other suggested options. The outcome of this work will be reflected in the UK Biomass Strategy. As we have indicated previously, this should not delay the introduction of the measures announced in the Climate Change Programme Review or the Government's Response to the Biomass Task Force Report, i.e. the development of a capital grants scheme for biomass

	boilers and biomass CHP systems (which should be operational before the end of 2006/07, subject to State Aids approval) and launching a second round of the Bio-Energy Infrastructure Scheme (which should take place before the end of 2006/07).
BARRIERS TO BIOMASS HEAT **17. Biomass heat has great potential to generate significant carbon savings. But we do not believe that the Government has properly positioned itself to exploit this potential. The Government must also quantify what it means by the "optimum use" of biomass. Despite the Government's acknowledgement that the contribution from biomass "can be very significant", we note that the Renewable Transport Fuel Obligation is predicted to save 16 times more carbon than the new subsidy for biomass heat. The Government should publish the evidence base—including the basis for its calculation of the carbon savings anticipated to be made from the RTFO—for its current policies. We recommend that financial and policy support for biomass-derived heat be increased to a level that ensures associated carbon savings are at least on a par with those anticipated from the Renewable Transport Fuel Obligation. We further recommend that the Government take the opportunity provided by its long-term Biomass Strategy to make these changes. (Paragraph 134)**	We agree with the Committee's recommendation that the UK Biomass Strategy is the correct forum for presenting the detail of current and future strategy on biomass. Within the Strategy we will be identifying the key policy objectives that bioenergy should help to address and, at the same time, we will consider whether the appropriate mix of policy, financial and technical frameworks are in place to ensure the "optimum" use of biomass, i.e. the best use of biomass to deliver the hierarchy of policy objectives in a sustainable manner. With respect to the evidence base for the Road Transport Fuel Obligation, the assumptions underlying the Government's calculation of carbon savings anticipated to be made from the RTFO are included in the partial regulatory impact assessment available on the Department for Transport's website at: http://www.dft.gov.uk/stellent/groups/dft_roads/documents/page/dft_roads_610330-06.hcsp#TopOfPage These assumptions are based on a range of publicly available studies looking at the greenhouse gas savings of biofuels, including the JRC Eurocar Concawe and Sheffield Hallam studies. As the feasibility report acknowledges, the actual savings biofuels offer are highly dependent upon precisely how the fuel is produced, and there can be a significant variance in the net GHG savings associated with biofuels depending upon the feedstocks and technologies used in their production. To ensure that the Government is able to measure the effectiveness of the RTFO, companies will be required to report on the level of GHG savings that they achieve. While, as the Committee notes, the anticipated carbon savings from the introduction of the RTFO exceed those predicted to arise from the 5 year capital grant scheme for biomass boilers and biomass CHP, the capital grant scheme was only ever envisaged by the Biomass Task Force as being a short-term measure. It is one of a suite of actions to encourage biomass heat which are being driven forward as part of the implementation of the Government's Response to the Biomass Task Force Report. This suite of actions includes the work currently being undertaken on potential future longer-term support mechanisms. The successful delivery of these actions would significantly increase the overall use of biomass heat in the UK and the resulting carbon savings. In relation to the RTFO's predicted carbon

	savings [at the 5% by volume level by 2010], the potential exists for biomass heat to deliver even larger carbon savings—the Carbon Trust, for example, identified possible carbon savings of 5.6 million tonnes of carbon per annum from domestically sourced biomass[3]. We continue to work hard to realise this potential.
RENEWABLE TRANSPORT FUEL OBLIGATION (RTFO) **18. We note that the 2010 Renewable Transport Fuel Obligation target of 5% biofuel inclusion *by volume* falls far short of the indicative target of 5.75% *by energy* as set down by the EU Biofuels Directive. We support the recent announcement made in the Energy Review that the Government is considering increasing the level of the Obligation. However, the Government must take action to ensure its three "critical factors" are met. The Government must also outline specific—rather than hypothetical—targets beyond 2010 as soon as possible, in order to encourage the level of investment necessary for the Obligation to be a success. In addition, the Government should set out the assumptions and evidence base that underpin the Energy Review's conclusion that doubling the level of the Obligation will prevent the emission of a further million tonnes of carbon a year. (Paragraph 141)**	As set out in the Energy Review, the Government has committed to consult in early 2007 on the long-term direction of the RTFO, including on how we might develop the RTFO targets beyond 2010/11. As acknowledged in the Government's RTFO feasibility report, the actual 'lifecycle' carbon savings that biofuels provide can vary widely so any estimates of carbon savings must be treated with caution. Our current analysis suggests that a 5% biofuel commitment would produce carbon savings equivalent to taking 1 million cars off the road. It cannot be assumed, however, that moving to a 10% commitment will deliver twice the carbon savings. Moving beyond 5% will require three critical factors to be met, and the Government is taking action in these areas: • We are working with the Low Carbon Vehicle Partnership to develop robust sustainability and carbon assurance schemes for biofuels. We will be requiring companies to report on these issues as part of the obligation to ensure that we can monitor the effect of the policy. • We have encouraged the European Commission to look at revising the current technical limit of 5% biofuel blends appropriate for ordinary vehicles. The Commission's EU Biofuels Strategy[4] recognizes that action is needed to resolve this problem, and the Commission have now tasked the European standard making body responsible, CEN, to consider revising this limit to 10%. • The RTFO has been designed to help lower the costs of biofuels over time and thus help ensure as far as possible that costs are acceptable to the consumer. However, the actual costs of biofuels beyond 2010 will be dependent on a number of external market factors over which the Government has little control, including the price of oil. Government will monitor the cost of the mechanism following its introduction in 2008, and that will

[3] *Biomass Sector Review* – Carbon Trust, PAA and B&V, October 2005, http://www.carbontrust.co.uk/publications/publicationdetail?productid=CTC512

[4] http://ec.europa.eu/energy/res/legislation/biofuels_consultation_en.htm

	inform the direction of future policy. The costs of biofuels and the availability of resources will also be considered in the context of the UK Biomass Strategy. Ultimately, the reporting requirement in the RTFO will ensure that the Government is able to make a more refined assessment of the level of carbon savings achieved once the obligation comes into effect.
CARBON ASSURANCE SCHEMES **19. We welcome the news that the Government is developing a carbon and sustainability assurance scheme, but we were extremely disappointed to hear that there will not be a "carbon balance requirement" in the initial phase of the Renewable Transport Fuel Obligation. First generation biofuels are easier to produce and cheaper to buy than second generation biofuels, which require more investment but offer greater carbon savings. We have serious concerns that the RTFO—as it currently stands—could 'lock in' first generation biofuel technologies and so damage the prospects for development and use of more advanced fuels. 'Well-to-wheel' life-cycle analyses of potential carbon savings from all biofuels must be in place to inform policy before the Government pushes ahead with the RTFO. We support calls to link carbon savings with RTFO certification. No biofuel which causes more CO2 emissions on a 'well-to-wheel' basis than its fossil fuel counterpart should be eligible either for the RTFO or the 20p duty derogation. (Paragraph 158)**	As set out in our response to recommendation 15 above, the Government is keen to move toward direct incentivisation of GHG savings under the RTFO as soon as it becomes feasible to do so. We are working to develop a methodology to enable companies to measure and report on the GHG savings of biofuels on a life-cycle basis from the outset of the RTFO. These reports will be publicly available and ensure that companies are thinking about GHG savings when sourcing their fuels and negotiating contracts. However, placing a direct additional economic value on levels of GHG saving from biofuels through the RTFO before standards have been developed and agreed, and before verification systems have proved sufficiently robust, would leave considerable scope for fraud, and risk discrediting the RTFO scheme as a whole. Higher targets under the RTFO in the future, potentially including specific GHG saving targets or otherwise directly incentivising GHG saving, should provide good prospects for development and use of more advanced fuels as the obligation develops. Encouraging the development of the best biofuels will be a key consideration when we consult on future enhancements to the RTFO next year.
20. We are also aware of the implications of first generation biofuels for sustainable development and the environment. We support the work of the Low Carbon Vehicle Partnership in its work to develop reporting systems for carbon savings and environmental standards and we recommend that the Partnership's study be extended to assess the feasibility of linking these standards to RTFO certification. As far as imports for the	The RTFO feasibility study examined the legal and trade implications of accommodating sustainability criteria within the RTFO. It concluded that a reporting mechanism could be made consistent with the existing legislative framework, but that proposals to include carbon or other sustainability assurance requirements were vulnerable to risk of legal challenge. However, the report also said that a full analysis would need to await the final design.

purposes of bioenergy generation—either of the raw feedstock or of finished biofuels—are concerned, we further recommend that the Government take immediate steps to examine the legal and trade implications of accommodating international sustainability criteria within the RTFO. (Paragraph 159)	The Government would like to move toward including sustainability requirements for the RTFO if it can be done in a way consistent with WTO rules. We will conduct a further analysis once the final design of the carbon and sustainability criteria and reporting mechanisms for the RTFO have been established. We will also support the European Commission in exploring options for a European sustainability standard as part of their review of the EU Biofuels Directive.
ENHANCED CAPITAL ALLOWANCE SCHEME **21. It is not yet clear what effect the Government anticipates the Enhanced Capital Allowance scheme will have on encouraging biofuel development. But we are keen to see evidence of its impact and to receive details of the analysis that led to this scheme being introduced. We recommend that the Government take all necessary steps to ensure that State Aids approval is received from the European Commission and that Defra monitor the effectiveness of the scheme and report on a regular basis. (Paragraph 163)** **22. We were dismayed to be told by Treasury officials that Defra will run the Enhanced Capital Allowance Scheme, and by Defra that it is "principally a matter for the Treasury". This kind of confusion at the heart of Government hardly sends encouraging signals to this potentially important industry. We recommend in the first instance that the Government make clear which Department will have the final word on qualification criteria for the Scheme. Both Defra and the Treasury told us that a series of discussions took place with industry when developing the proposed Enhanced Capital Allowance Scheme. We recommend that the Government, in its response, set out its estimate of the proportion of businesses within the industry that are expected to benefit from the scheme. (Paragraph 164)**	 **(Joint response)** The Government has set out a partial Regulatory Impact Assessment, which is available on the HMRC website. HMT, Defra and HMRC have been working closely together on the ECA proposal. As the ECA is a taxation measure, HMT and HMRC have led on the State Aid approval. Defra will be responsible for the administration of the scheme if it goes forward. Defra will issue the qualifying criteria and equipment list, but this will be dependent on what is allowable under State Aid rules. Officials from the Departments are currently consulting with stakeholders again following clarification by the Commission on a number of issues, including the 'aid intensity' rules which mean that only a certain level of aid is allowable. As part of our consultation we are assessing the number of businesses which would be likely to receive enhanced allowances and for whom the ECA would be likely to be a material benefit. We will reflect the expected costs and benefits in our final RIA.
23. We further recommend that Defra publish a comprehensive list of bioenergy-related derogations, allowances and other incentives, stating in each case	We agree that this would be a useful list and we undertake to publish such a document by the end of 2006, building on the list published by the Biomass Task Force at Appendix B of their report to Government.

which Government department has the lead in overseeing its operation and what its latest estimate is of the take-up of each scheme. (Paragraph 165)	
CROSS-GOVERNMENT STRATEGY **24. We are disappointed that much of the evidence we received suggests a distinct lack of 'joined-up' Government concerning bioenergy. On a cross-cutting issue such as this it is essential that all relevant Government departments are—and are seen to be—pulling in the same direction. The evidence we received during our inquiry leads us to conclude that Defra appears to have 'all of the targets and none of the levers'. This is unacceptable. If the Government is to honour its commitment to reduce CO2 by 20% below 1990 levels by 2010, much more effective co-operation between departments is critical. No one department appears to take ultimate responsibility for the issue of climate change, and we are disappointed to have to reiterate the recommendation made by our predecessor Committee and *again* call for a central co-ordinating post to be created at Cabinet level to deal with this important crosscutting issue. (Paragraph 168)**	The centrality of climate change objectives to the delivery of a broad range of Government policies was underlined in the exchanges of letters between the Prime Minister and the Secretaries of State appointed to the Departments concerned in May 2006. In September the Government established an Office of Climate Change (OCC) to work across Government to provide a shared resource for analysis and development of climate change policy and strategy. The OCC will support Ministers as they decide future UK strategy and policy on domestic and international climate change by: management and reporting of progress on existing commitments; developing a cross-government consensus on current progress and outstanding issues; identifying short and medium term goals for particular sectors, and consequent priorities for action; carrying out time-limited policy-focussed projects; and promoting understanding of climate change across government and supporting departments to adapt their policies.
25. We acknowledge that bioenergy is not a 'silver bullet' that will in itself overcome the UK's climate change challenge, but we believe that it must play an important role in a range of measures—which must also include demand reduction and increased energy efficiency—to reduce the UK's climate impact. We will examine some of these other measures in our next inquiry into Climate change: the "citizen's agenda". (Paragraph 170)	**(No response)**

RESEARCH AND DEVELOPMENT	
26. We welcome the Environment Agency's offer to undertake a life-cycle study of alternative land-use study and recommend that Defra support and oversee this work. (Paragraph 176)	Defra has invested in research to deliver a comprehensive software package to enable the environmental assessment of bioenergy production and use. This builds on the previous 'Environment Assessment Tool for Biomass Energy (BEAT)' life-cycle assessment based tool developed by the Environment Agency. The new tool will comprise a comprehensive LCA data base of bioenergy options and will enable impacts on a land use basis to be examined. The research will be complete by summer 2007.
27. By cutting its investment in established research centres such as the Institute for Grassland and Environmental Research (IGER), the Government risks missing a valuable opportunity to be at the forefront of new renewable bioenergy technologies. The Government has said it wishes to focus its research and development effort on climate change and sustainable development but, as we have noted, land use is a critical element of climate change policy. Therefore, we are concerned that this restructuring of investment might be to the detriment of land-based research at a time when land-use issues, particularly in terms of non-food crops, are coming to the fore. We further note that Defra's own Chief Scientific Adviser shares these concerns and has said that an additional £20–30 million needs to be spent on research and development if the Government is to achieve its objectives. We recommend in the first instance that the Government publish a breakdown of its spending on bioenergy research and development, pending a full review of its resources for land-based research. (Paragraph 177)	To deliver its new agenda, Defra has to realign its R&D spending to give greater support to Ministers' environmental priorities, especially climate change and energy. Defra has publicised well, via the Science Forward Look[5] and the consultation on the Evidence and Innovation Strategy[6], its intention to increase investment towards key environmental priorities and re-direct research programmes in agriculture. Defra has maintained its research investment in support of the non-food use of crops. It has not terminated early any existing programmes at IGER, and the Institute remains a very important research partner for Defra in the development and delivery of its policy objectives. This is reflected in the Department's continuing significant investment at IGER. Defra has developed good strategic partnerships with IGER over many years and in 2005/06 invested almost £6.4m at IGER. Significant national funding currently also goes into this area through the DTI Technology Programme, and the Research Councils (particularly EPSRC/BBSR and projects such as the Supergen Bioenergy consortium). Research Council expenditure on bioenergy (including biomass and biofuels) is rising and accounted for over £2m in 2005–6. This includes two new large research consortia (funded at £3m and £2.2m each over 3–4 years) as well as projects supported under response mode and research undertaken in Council Institutes. BBSRC has recently consulted on its review of Bioenergy Research, which contains a range of recommendations for further activity. BBSRC is particularly keen to support capacity building in bioenergy in the UK research community and in promoting increased joint working between its institutes in this area. The proposed Energy Technologies Institute and Environmental Transformation Fund will also increase funding into energy research, development, dissemination and deployment.

[5] *Evidence and Innovation: Defra's needs from the sciences over the next 10 years*, July 2004, http://www.defra.gov.uk/science/publications/documents/ScienceForwardLook3rd.pdf

[6] *Evidence and Innovation Strategy 2005–2008* – consultation document issued October 2005, http://www.defra.gov.uk/corporate/consult/ei-strategy/eis-consultdoc.pdf

	Bioenergy also features within the key technology themes set out in the prospectus for the Energy Technologies Institute published on 14 September 2006, from which industrially relevant R&D programmes and projects will be selected. Defra chairs the Government Bioenergy R&D Funders' Forum which keeps an overview of all UK public research dedicated to the production and use of bioenergy crops. The Forum will examine the government-wide portfolio of work and publish a breakdown of spending on bioenergy research and development. Insight into the Forum's work is available online at http://aims.defra.gov.uk/. The Forum is also producing a Research Priorities paper that will help with development and implementation of the UK Biomass Strategy, which is due to be published in 2007.
6. International comparisons	
BIOMASS **28. The Biomass Task Force argues that "the potential for biomass district heating systems needs to be better understood", highlighting their use in Finland and Sweden in particular, and supporting the use of planning obligations to establish district heating systems, particularly in new housing developments. We agree and note that measures such as these are also relevant to policy on tackling fuel poverty. (Paragraph 183)**	We recognise the carbon and efficiency savings which district or community heating systems potentially offer and are taking steps to encourage their use via the planning system. Planning obligations already play a useful role in ensuring that, where renewable energy policies are included in local development frameworks, local authorities can ensure that new developments contribute to the implementation of these policies. In considering the scaling back of planning obligations alongside the possible introduction of a Planning-gain Supplement, the Government will ensure that any new arrangements support the role of the development industry in promoting the use of renewable energy. We are also including district heating systems (boiler and infrastructure) in our design for the biomass heat capital grant scheme which will provide support in the industrial, commercial and community sectors.
29. We commend the Government's decision to adopt the Biomass Task Force's recommendation that it consider the use of biomass across the Government estate, and call upon the Government to publish a detailed plan, before the end of 2006, showing how biomass will be fully utilised across the Government estate, and what contribution this will make towards the achievement of the target to make Government carbon neutral by 2012. We also call upon the Chancellor to use the 2007 Comprehensive Spending Review to ensure that the	We recognise the importance of Government leading by example and are therefore examining our estate's suitability for using biomass heating. A mapping exercise of the suitability of the Defra estate (Phase 1, covering the 52 most promising sites) for biomass boilers has just concluded and the results are currently being analysed. Further Phases, during which the remaining Defra sites will be assessed, are planned for 2006/07. At the same time we are carrying out a 'Lessons Learned' exercise on the initial mapping work before formally rolling out the mapping exercise across the other main procuring Government Departments.

Departmental Budgets contain sufficient resources to fulfil this commitment. (Paragraph 185)	The Government's commitment[7] to make the Government office estate carbon neutral by 2012 and also its aspiration of reducing the estate's carbon emissions by 30% by 2020 will require a range of technologies for them to be met. We expect biomass heat to play a key role, but we are not yet in a position to predict the overall contribution it will make across the Government estate. As part of its preparations for the 2007 Comprehensive Spending Review (CSR07), the Government is taking forward a fundamental assessment of its expenditure, with the aim of maximising value for money across all public spending. The possible introduction of biomass boilers on the Government estate will be assessed in this context.
BIOFUELS ALTERNATIVE VEHICLE TECHNOLOGIES **30. Vehicle manufacturers have the technology available for E85 and flex-fuel vehicles, and uptake in Sweden is already high. We recommend that the Government assess the model provided by Somerset County Council which has established a pilot scheme to encourage E85 uptake at local level. We further recommend that Defra work with HM Treasury to produce a cost-benefit analysis of proposals to introduce a range of incentives similar to those used successfully in Sweden. (Paragraph 192)**	 Our primary mechanism to ensure the supply of renewable fuels into the UK market is the RTFO, and it will be left to the market to decide what is the most efficient way to deliver the fuels. However, we recognise that additional actions can be taken to support the development of niche markets and gather evidence about future policy options. Through our infrastructure grant programme we have also provided grant funding for ten E85 bioethanol stations in Norfolk and Somerset, and we are currently considering applications for E85 facilities in other areas of the country. Departments will keep under active review the cost benefit of these and other measures to inform future policy in this area.
31. As the availability of low carbon vehicles increases, the Government should develop a uniform system to help consumers make informed choices about the CO2 savings which can be achieved from different types of vehicle. Such a scheme should employ the same approach as is currently used to make fuel consumption comparisons under differing kinds of driving conditions. (Paragraph 193)	In July last year Department for Transport Ministers launched a colour-coded vehicle labelling scheme developed through the Low Carbon Vehicle Partnership. The labels are similar to those currently displayed on fridges and other white goods. They rank vehicles in bands from A to G, so that consumers will be able to see the environmental impact of vehicles when they are shopping for a new car. The labels display a variety of information to car buyers, such as how fuel efficient a particular vehicle is, how much motorists can expect to pay in fuel bills, and whether it qualifies for a reduction in Vehicle Excise Duty. Over 80 major car brands, which represents over 98% of new vehicles sales, in the UK have signed up to the introduction of the scheme.

[7] http://www.defra.gov.uk/news/2006/060612a.htm

	The Government announced this summer that it would introduce a new transport and climate change communications campaign to promote consumer information on buying greener vehicles and on eco-safe driving. The campaign will also target businesses by promoting the benefits of workplace travel planning. The car purchasing strand of the campaign will provide consumer information and advice on the CO_2 emissions of new cars and on different car types. The method by which supporting data will be ranked and presented is currently being developed.
FUEL STANDARDS **32. The Government must make clear its long-term targets for the Renewable Transport Fuel Obligation as soon as possible, in order to give car manufacturers and the petroleum industry sufficient lead time to develop vehicle engines and make the infrastructure adjustments necessary to support the use of fuels containing higher proportions of biofuels. We note that increasing the current limit of 5% will require the European Committee on Standardisation (CEN) to develop new fuel standards for higher inclusion levels of biofuels by volume. We recommend that the Government work with the CEN to ensure that new standards are set as a matter of urgency. (Paragraph 197)**	The Government has made it clear that it intends to move beyond the 2010 target of 5% renewable fuels if certain conditions are met. We will be consulting next year on enhancements to the RTFO beyond 2010/11, including the issue of future targets. This could include for example, whether simple volumetric targets remain appropriate, or whether the system should move to one based on GHG targets. As indicated above, action is in hand to address the problems arising from the current European fuel standards.
OVERALL CONCLUSION **33. Climate change is a long-term concern but action is needed today. Bioenergy is only one part of a many-faceted solution to the pressing problem of climate change, but we must make use of all the measures available to us. If the UK is to be a credible leader, setting the global agenda for tackling climate change, the Government must take every opportunity to reduce domestic carbon emissions. Bioenergy represents one of the most significant such opportunities available today. (Paragraph 198)**	We share the Committee's conclusion that climate change is a long term concern but action is needed today. The Government is committed to act to reduce domestic carbon emissions and the Prime Minister has made clear that climate change is a top priority for Government at home and internationally. We recognise that climate change is one of the biggest problems facing the UK and the world, and we need to ensure that the actions we are taking as a Government are co-ordinated and as effective as possible. The new Office of Climate Change will help us meet that challenge and will be a key resource to help us achieve the challenging targets we have set to reduce carbon dioxide emissions by 60% by 2050. Its first task is to begin an audit of existing work to develop a clear picture of where we currently stand on climate change and what outstanding issues need to be addressed most urgently, taking as our starting point the Climate Change Programme Review carried out earlier in the year. As indicated earlier in this response we welcome publication of the

	comprehensive review led by Sir Nicholas Stern which has confirmed that the Government is right to set climate change at the top of our domestic and international agenda. As the Committee has recognised, efforts to reduce carbon and other GHG emissions require a wide combination of approaches and initiatives and calls for a collective effort to ensure we move toward a lower carbon future. Energy efficiency is, of course, an integral element of the UK's strong domestic programme to tackle climate change but other measures such as the new Planning Policy Statement on climate change will be important to start to lock in low carbon living. Finally, we strongly agree that sustainable bioenergy can make an important contribution to Government's renewable energy and climate change objectives and the UK Biomass Strategy will be a key vehicle to take this forward.

DEFRA'S DEPARTMENTAL REPORT 2006 AND DEFRA'S BUDGET—2ND REPORT (2006–07), PUBLISHED 23 FEBRUARY 2007

Conclusion/Recommendation	Government Response
2. Financial Management	
1. We have considered a substantial amount of evidence about the causes of Defra's £200 million deficit in 2006–07. This deficit ultimately resulted in action to reduce, in-year, the 2006–07 budgets of several Defra executive agencies and Non- Departmental Public Bodies (NDPBs) and disrupt a number of important environmental programmes and projects. The evidence suggests that the Department itself has to take much of the blame for the precarious financial situation it found itself in 2006–07. We regard this whole episode to be a serious failure in the Department's financial management. (Paragraph 28)	The Government accepts that the budget allocations for 2006/07 agreed in January 2006 did not take full account of all potential financial pressures. Risk was managed to some extent by instructing key delivery bodies not to commit more than 90% of their budget until the allocations were re-confirmed in March 2006. Procedures were also put in place for intensive financial management throughout the year. The allocations remained under scrutiny by the Finance team during February and March 2006. By insisting on corrective action as soon as the new Ministerial team was in place after the Cabinet reshuffle, the Government demonstrated decisive financial management, albeit that it could have been sooner and the disruption reduced. Nevertheless, whilst it would have been less disruptive to have recalibrated budgets more quickly, earlier action would not have reduced the level of budgetary pressure that Defra faced. Lessons have been learned and changes put in place. The Government is far more sensitive to potential risks in setting the 2007/08 budgets and in the approach to the CSR07 period. Programme allocations for 2007/08 were issued to policy areas and sponsored bodies in December 2006, as promised. Since then new pressures have emerged but these will be managed down within the control totals set by Treasury. The Department is also strengthening controls already in place and developing new procedures to ensure that new spending commitments are tightly aligned to priorities. Defra is maintaining an open dialogue with sponsored delivery bodies about the overall financial position. Ministers are being kept fully informed of all significant developments. The actual out-turn for 2006/07 will be very tight demonstrating that although the action on the budget was taken later than it should have been, it was well-justified.
2. We acknowledge that some minor factors for the deficit, such as costs related to the Spring 2006 avian influenza outbreak, were largely beyond the Department's control. However, many of the financial problems carried over from 2005–06 occurred because the Department had made budgeting commitments	The Government does not agree that, when setting budgets for 2005/06, the assumption that full planned End Year Flexibility (EYF) drawdown would be available in 2005/06 was irresponsibly over-optimistic. If planned EYF were not included in the budgets until the drawdown was absolutely certain, then it would be too late that year to use that funding for valuable outcomes, as the normal drawdown point is the Spring Supplementary Estimate towards year-end. The EYF stock would then simply roll forward as an underspend from year-to-year, and not be available to

based on unsubstantiated assumptions about the generosity of HM Treasury in a tight fiscal period. We believe the Department was irresponsibly over-optimistic and complacent in budgeting on the assumption that, first, it would be allowed its drawdown its full End-Year-Flexibility (EYF) from the Treasury in 2005–06 and, secondly, that it would be able to switch £85 million from non-cash to near-cash that same year. These two factors alone amounted to £110 million of the £200 million deficit. We are not convinced that the Department explored fully with the Treasury at an early enough stage the possibility of making these kind of transactions, particularly bearing in mind the tight financial climate. This complacency had unplanned-for severe consequences. (Paragraph 29)	help manage spending pressures or promote priority policies. There would be no incentive for departments to plan an underspend in one year to fund additional, better value expenditure in the following year, consistent with the objectives of resource accounting and the nature of long-term programmes. This particular EYF entitlement resulted from a planned underspend in 2004/05 specifically to fund additional better value programme expenditure in 2005/06. In following Treasury's guidance when completing the return for the Provisional Out-turn White Paper during June 2005, there was no indication that the EYF drawdown would be restricted. Only after we had submitted the resulting EYF entitlement claim in July 2005 were we informed (in common with all Government Departments) that the permitted drawdown should be zero unless a compelling case was made to the Chief Secretary to the Treasury (CST). A combination of new budgetary pressures and restrictions on EYF drawdown meant we faced a £140m deficit in the resource budget and £27m in the capital budget for 2005/06. The then Finance Director agreed with the then Secretary of State that we should seek to make a compelling case for Defra to the CST. After extensive negotiations, the CST agreed on 23rd November 2005 to an EYF drawdown of £65m resource and £27m capital, by which time we had addressed the remaining shortfall with a package of restraining measures and expenditure deferrals agreed across Defra and its sponsored bodies. This successful negotiation reduced, but did not eliminate, the upheaval to budgets we encountered in 2005/06 and, as a consequence, costs were carried over into 2006/07. The Department did not expect to be able to switch the full £85m from non-cash to near-cash resource in 2005/06. The Spending Review 2004 settlement letter stated that such flexibility was only available within the context of the fiscal rules and having worked through the EYF negotiations the Government was well aware of the tightness of the fiscal position. Defra was not complacent. The Department assessed the risk and concluded that the pressure on near-cash resource could be managed in-year. Treasury's budgeting guidance, available in draft form from August 2005 and finalised in December 2005, set out in more detail the switching rules and therefore in November and December 2005 the Department had discussions with the Treasury (at the same time as other Government departments) to see what could be achieved for Defra. These discussions secured a £20m switch to near-cash resource for each of 2005/06, 2006/07 and 2007/08. The remaining £65m in 2005/06 was successfully managed out across the rest of the year because the out-turn was a £1m underspend.
3. We are particularly unimpressed with the Department's explanation of how the Treasury "re-classification" of near-cash and non-cash spending	The Department did not assume that an £85m transfer could be made from non-cash to near-cash for 2006/07. Moreover, since 2005/06 was the first year that the distinction between near-cash and non-cash resource was formalised no transfers would have been needed for earlier years. The

impacted on its budget. Our evidence shows that no good reason existed for the Department to assume it could make a transfer of £85 million non-cash into near-cash, and to make budgetary commitments based on this assumption. The Department had never made such a large transfer before. No Treasury guidance existed permitting it to do so. This financial pressure was therefore caused more by the Department's self deception, as well as its misguided assumptions about Treasury rules. To blame the Treasury was on this occasion incorrect. The result was a sudden, unplanned, poorly explained and highly disruptive mid-year restriction on budgets. Defra's agencies and NDPBs—as well as voluntary groups reliant on Defra funding—found themselves with wholly unanticipated financial problems as a result. In its response, the Department should tell us when Ministers were informed by officials about the rule changes and their financial consequences. (Paragraph 30)	detailed Treasury rules brought in for 2005/06 onwards did provide for the possibility of large transfers (in excess of £20m) provided they were affordable fiscally and complied with the guidance. Defra had already secured a £20m transfer under these rules for 2005/06, 2006/07 and 2007/08 and had by then a thorough understanding of the Treasury rules and the overall fiscal position. The Department knew the likelihood of further transfers was very remote so the remaining £65m was being carried as a pressure to be managed in-year, as it had been in 2005/06. As the position became clearer, the Department decided that the full scale of the pressures had to be dealt with as a specific exercise rather than leave all or some of it to in-year management. Ministers were advised of the impact of this tighter financial regime in May 2006 when the budget review exercise was launched.
4. We also remain doubtful whether the £23 million figure that Defra says the Rural Payments Agency (RPA) contributed to its budget deficit tells the full story. In its response to this report, the Department should state how much the RPA was within or over budget on a monthly basis throughout the financial year 2005–06. The Department must also indicate what parts of its internal budget were affected during this period by financial transfers to the RPA, and the consequences of these financial movements. (Paragraph 31)	The Government can confirm that RPA was also provided with an additional £23m of capital budget for 2006/07 at the same time as the additional resource budget. This funding was available within the overall capital budget so did not require any separate action. Compared to the budget allocated at the beginning of 2005/06, RPA was provided with an additional £19.7m of resource budget (£18.7m in November 2005 and £1m in March 2006) to cover the increased running costs of the Common Agricultural Policy Single Farm Payment Scheme (SPS). The additions were managed as part of controlling the centrally held pressures, with no other part of the internal budget being affected. During the year, RPA's actual spend each month was less than the original cumulative budget up to October 2005 and then remained less than the revised cumulative budget for the remaining months, with the exceptions of December 2005 and March 2006. For December 2005, the cumulative overspend for the year-to-date was £4.6m, but this position was recovered by the end of the following month. For March 2006 the cumulative overspend for the year was £6.7m on a total running cost budget of £229m (3%) reflecting the problems on SPS which became apparent in that month. This overspend was contained within the Department's overall £1m underspend for the year.

Analysis of RPA Expenditure Against Budget in 2005–06			
	Actual Expenditure (cumulative)	**Budget (cumulative)**	**Variance (- = overspend)**
	£m	£m	£m
Jun 05	52.2	57.0	4.8
Jul 05	77.7	79.0	1.3
Aug 05	94.4	95.8	1.4
Sep 05	109.8	114.5	4.7
Oct 05	127.4	131.5	4.1
Nov 05	149.6	151.8	2.2
Dec 05	173.6	169.0	-4.6
Jan 06	187.7	191.2	3.5
Feb 06	210.3	211.7	1.4
Mar 06	235.7	229.0	-6.7

5. Our evidence shows that the chaos and disruption caused by imposing budget reductions in-year could have been prevented by the Department. Defra was fully aware by the end of the calendar year 2005 that it was deferring at least £150 million worth of costs into 2006–07. Yet, when 2006–07 budgets were set in January 2006, the Department decided not to revise substantially budgets to take account of these deferred costs. The Permanent Secretary told us several times that it was a "matter of judgement" as to whether the Department could absorb these additional costs within its 2006–07 budget. It is clear to us that this judgement—made by senior Defra officials and ministers—was seriously flawed. The Department was over-optimistic to assume it could cope with the additional deferred costs from 2005–06 and not incur any further significant unexpected costs in 2006–07. The error of this decision was exposed within

The Department was aware by the end of the calendar year 2005 that it was deferring a maximum of £95m worth of costs into 2006/07. Nonetheless, the decision taken in January 2006 to over-allocate the budget for 2006/07 to such an extent failed to take account of all potential budgetary risks. This became increasingly apparent through February and March 2006 as the assessment challenged the capacity to manage the rising pressure whilst positioning the Department more realistically for a very tight CSR07. Decisive action was then taken in conjunction with new Ministers, (the core Department and the wide-range of delivery bodies), which meant examining the full extent of Defra's budget.

just two months, when the relatively minor additional costs from the Rural Payments Agency and the Spring 2006 avian influenza outbreak were enough to 'tip the balance'. Given that neither additional RPA running costs or an avian flu outbreak in 2006–07 could have been totally unexpected, the decision not to revise budgets substantially in January 2006 appears even more inexplicable, and unwisely risky. (Paragraph 44)	
6. We were taken aback by the Permanent Secretary's acknowledgement that she might have acted more cautiously in January 2006—when setting budgets for 2006–07—if she had been aware that much of Defra's money was spent at the start of the financial year. This decision had severe repercussions for those bodies affected, particularly British Waterways which had little choice in-year but to postpone major works and repairs. The Permanent Secretary was relatively new to Defra, so the blame for her lack of awareness must be shouldered by the Finance Director and his team. (Paragraph 45)	The Government accepts that better insights into spending commitments at a time of budgetary pressure are required and should be built into the financial management procedures and into the assessments of budgetary risk. An improved appreciation of the elements of budget over which there is limited discretionary control is being developed. Actual payments to delivery bodies and for other policy programmes are spread fairly evenly across the year, although within this profile several programmes are fully committed in the first quarter of the year. The point made to the Committee was that the department enters the financial year with a variety of financial commitments. Some of these commitments necessitate the early release of funds; others oblige Government to make payments over the course of the year; whilst others, although not legally or contractually committed represent clear and agreed undertakings to fund important programmes of work. The exercise undertaken in May exposed the difficulty of scaling back expenditure in a number of areas.
7. The Department's communication about the causes of its deficit has been poor. Ministers should have provided a much more complete and comprehensive explanation about the budgetary changes instead of often placing emphasis on avian influenza and Rural Payments Agency spending and vague references to changes in Treasury accounting rules. (Paragraph 49)	The Government accepts that the causes of the deficit could have been communicated sooner and more clearly. As the report acknowledges, government accounting and budgeting is complex. In addition, this is compounded by the complexity of Defra's portfolio of programmes. In seeking to explain the situation in layman's terms, the Department could have done a better job sooner. Important lessons have been taken from this. There was no intent to hide behind avian influenza or issues at the Rural Payments Agency.
8. We acknowledge that many of the issues related to Defra's budget are complicated and opaque, particularly those related to various Treasury procedures. However, this complexity does not excuse Ministers—who took important decisions and approved much of what occurred in 2005–06 and 2006–07—from blame for giving confusing explanations. This raises some important	The Government accepts the need to provide good clear explanations to help lay-people understand the complexities of government finances in Defra. We have taken a number of steps to raise Ministers' understanding in this area, for example: • regular presentations by the Finance Director to Ministerial Business Meetings; • direct support to Ministers when they meet with the heads of sponsored bodies; • the lead Minister on finance matters is receiving a series of one-to-one briefings on the

questions about the understanding levels both within Defra, and outside, about how the Department's budgetary processes operate. Government accounting is complex, but the Department has a responsibility to provide good, clear explanations to help lay-people—including us—to understand these matters. Ministers should also ensure that they master the complex matters within their brief—especially those relating to financial issues. The Department should say what steps it is taking to raise Ministers' understanding in this area. HM Treasury should also try harder to be more transparent in the language and rules it uses. (Paragraph 50)	budget and estimate processes from senior financial managers and technical experts. The same briefings are available to the Committee members, individually or collectively; • the monthly Management Board Finance Report is copied to the Ministerial team and the authors made available to provide explanations and answer any questions; • all Ministerial submissions with financial implications have to be approved by the Finance team to ensure that those implications are clearly explained and put into the context of the Department's financial position; and a summary of 2007/08 budgets was placed on Defra's website when budgets were decided in December 2006 (this was the first time that this has happened).
9. We are extremely concerned by the Permanent Secretary's statement that funding will continue to be extremely tight for the Department, and its agencies, over the next few years. Although we recognise that this reflects the financial reality across the whole of Whitehall in the next few years, it raises the question that if expenditure on environmental work remains a departmental priority, what then will happen to other areas of Defra responsibility. Defra must publish as soon as possible what its spending priorities will be and how much will have to be met from further efficiency savings. In the tighter financial environment that is likely, however, Defra has not helped its case for a good settlement from HM Treasury for the Comprehensive Spending Review 2007 period with its poor financial management in the past two years. (Paragraph 53)	The Government's Five Year Strategy for Defra is published on the Department's website. The Department spent considerable time during 2006 reviewing and refreshing the Five Year Strategy to ensure it meets changing needs and is fit for purpose to address the challenges for the CSR07 period. The refreshed strategy is supported by eight Departmental Strategic Objectives and these form the structure for the Government's plans under consideration for the CSR period. These will be published once CSR07 is settled later this year. The Government has accepted that certain elements of the management of Defra's finances over the last two years could have been better handled. However, other elements have been successful: • the Department has dealt with the unexpected and rapid reclassification of all EU income and expenditure on the Common Agriculture Policy into the budget; • the actual out-turns for 2004/05 and 2005/06 contained no surprises compared to budgets and forecasts; • the systemic underspend for which the Department had been criticised in the past has been eliminated; • unqualified audit opinions have been received on successive resource accounts despite all the complexities; • the Department has successfully migrated to the new Treasury financial information system (COINS) which requires much greater detail on a monthly basis; • the monthly Management Board Finance report has been distributed to time and quality for two years;

	• the Government successfully managed the financial consequences of abolishing compensation paid for cattle under the Over Thirty Months Scheme in January 2006 and its replacement by compensation under a time-limited Older Cattle Disposal Scheme and new stricter testing regime; • Defra also successfully managed to stay within its 2005/06 budget despite not receiving £40m from the Department of Health as its agreed contribution towards the continuation of the Over Thirty Months Scheme; and the rapid creation of delivery bodies, including the Marine and Fisheries Agency, Animal Health (formerly the State Veterinary Service), the Government Decontamination Service and Natural England: all at no extra cost but with improved customer focus and greater transparency on spending through business plans and annual accounts.
10. We are extremely concerned about the changes in accounting rules whereby the Department will now bear the costs of EU disallowance directly from 2006–07 onwards. This could have a serious impact on Defra Departmental Expenditure Limit (DEL) budgets in the future, in a period when the Department will already be under increased financial pressure. We recommend that the Department keep us informed at an early stage, by means of a ministerial letter, about any future EU disallowance which could potentially affect Defra's DEL budget. (Paragraph 57)	The Government accepts this. The latest assessment of the non-cash resource DEL requirement to provide for disallowance payments was laid before Parliament on 28 February for the Spring Supplementary Estimate. This was explained further in the Estimates Memorandum submitted to the Committee on the same date. The potential near-cash resource DEL impact on 2008/09 budgets onwards is being considered as part of the Government's CSR07 plans.
11. We are extremely disappointed that the Department will not meet its efficiency headcount reduction target by the end of 2007–08, and will most likely miss this target by some margin. This is yet another example of how the Rural Payments Agency debacle has had wider negative repercussions across the whole Department. The Department is more optimistic about meeting its financial efficiencies target by 2007–08. However, gaining the remaining financial efficiencies necessary to meet the target may be more difficult than anticipated because the Department will be operating in a much tighter spending environment over the next couple of	Current forecasts indicate that the Department will over-deliver on its £610 million financial efficiency target. The risk-based forecast is that savings of £673m will be delivered, of which £360m is attributable to departmental activity (£49m over-delivery) and £313m to local authority efficiencies on waste management and street cleansing activity (£14m over-delivery). The Government shares the disappointment expressed by the Committee over the difficulties in achieving planned headcount reductions. The position on headcount has recently changed as a result of a bilateral between the Secretary of State and the Chief Secretary to the Treasury. At the efficiency moderation meeting with the Treasury and Office of Government Commerce in November 2006, Defra reported that, due to difficulties with the RPA Change Programme, it would only be able to deliver 1,100 headcount reductions against the target of 2,400. Since then, the forecast has risen to 1,200 reductions. The Government is also looking at further options for

years. At the same time, the tighter spending environment only increases the importance of making these efficiency savings, so that money can be freed up for other purposes within the Department. We consider it imperative that the Department does not lose focus in attempting to meet its financial efficiencies target of £610 million by 2007–08. Failure to achieve both the financial and headcount efficiency targets would amount to another major embarrassment for the Department. Defra should now provide a clear statement as to how these efficiencies will be made and the timescale to achieve them. (Paragraph 63)	workforce reductions before the end of March 2008. On top of this and in line with its recovery plan, the Rural Payments Agency will reduce by 600 posts by the end of the CSR07 period. The Committee asks for a clear statement on how these efficiencies will be made and for information on the timescales. Defra's Efficiency Technical Note (ETN) sets out the key initiatives that are delivering efficiencies. With the exception of the RPA Change Programme, information in the ETN remains valid. In terms of timescales, efficiencies must be delivered by the end of March 2008. There is no interim deadline. But the Government is tracking actual and forecast efficiencies. It's on this basis that Defra expects to over-deliver by approximately £63m.
3. Managing Defra	
12. Defra is responsible for a large number of delivery bodies. It is of paramount importance that the Department has the appropriate resources and robust management information structures in place to monitor effectively all its delivery bodies. The serious failings in the performance of the Rural Payments Agency (RPA) in the past year have raised concerns—which we share—that such systems and structures are not fully in place. The recent creation of an important new executive non-departmental public body—Natural England—which will have a crucial role in the delivery of many of Defra's primary responsibilities, only adds to our concerns. We will report soon specifically on the problems experienced by the RPA. (Paragraph 67)	The Government is making a single response to this and the following (closely related) conclusion. The Government fully advocates the importance of effective governance and management of its relationship with its delivery bodies. The Department's review of its governance of delivery in 2006 confirmed that governance needs to be fit for purpose, and specifically related to the capacity of the delivery organisation to manage its delivery challenges and risks. This means that Defra must balance governance structures and their operation against risk associated with delivery and the organisational capacity and capability of the delivery organisation. Implementing the actions from the governance review is one of the agreed actions to follow up the Department's Capability Review. The Department is taking forward these and other actions resulting from the Capability Review that are designed to enhance the effectiveness of the department's partnership with its delivery bodies through the Renew Defra programme. Specific actions include: • implementing a consistent approach to managing the performance of delivery bodies that takes account of their constitutional status, with clear accountability for relevant Defra senior managers for ownership/management of delivery and inclusion in personal performance agreements; • the introduction of a consistent model, again taking account of constitutional status, for providing specific flexibilities and freedoms to delivery bodies according to performance, risk, capability and capacity. As part of this we will develop with delivery bodies a more robust model for reporting delivery performance to the Defra Management Board. This will help establish when a more or less interventionist approach is needed in specific cases;

	• enhanced holding of delivery bodies to account for performance by Defra Ministers and Management Board, with the board corporately owning responsibility for delivery effectiveness and regularly discussing delivery performance; and • experience of delivery to be necessary for promotion to the Senior Civil Service within Defra in future, subject to any necessary transition arrangements, and enhanced interchange of staff with delivery partners and other external stakeholders. The Government aims to complete the necessary actions by March 2008. We have in place a comprehensive Action Plan for following up the governance of delivery review (as part of the detail of the implementation of the Renew Defra programme). In parallel with this review of governance, the Department also undertook a review of its advisory non-Departmental Public Bodies. This concluded that the non-executive body landscape was broadly fit for purpose, with little appetite for fundamental reform. There is scope for some reduction in the number of bodies, and opportunity to strengthen the processes for establishing, reviewing and monitoring the performance of these bodies. The Department also identified a number of good practice recommendations, which will help to improve how the existing non-executive body landscape operates. (The Government will send the full report, if the Committee would find that useful). A follow-up action plan is under development.
13. We are pleased that the Permanent Secretary acknowledges the need for the Department further to develop its relationships with its delivery bodies, and we support her view that the Department should be ready to adopt a more interventionist approach to its bodies as circumstances require. (Paragraph 68)	The Government welcomes the Committee's acknowledgement of the possible need for intervention. The previous response outlines the work in this area.
14. On several occasions in the past we have stressed the necessity of effective 'joined-up Government' in achieving Defra's aims, and expressed concerns that Defra lacks sufficient 'clout' to be taken seriously by other Government departments in framing their key policy decisions. We agree with the Permanent Secretary that Defra has had some success in influencing some major decisions at the highest level in recent times, and in working effectively with other Government	The Government accept this in part. On policy issues where Defra leads, the normal principles of collective responsibility apply, and policies are determined following consultation and discussion with those Ministers who have an interest (and, in respect of policy areas which have implications for the devolved administrations, with devolved Ministers). In many cases, policy on climate change needs to be carefully coordinated with other policies, including security of energy supply, planning policy, and so on—and vice versa. The Energy and Environment Committee has overall responsibility for policy in this area.

departments. However, we are still concerned that Defra's ability to influence other departments on a number of issues it considers important—such as bioenergy—remains limited. We recommend that the Department works to take full ownership of the decision-making process for those areas for which it has overall policy responsibility. This is especially relevant for climate change issues where Government as a whole has still to put a Cabinet-level minister in overall charge of policy in this area. (Paragraph 72)	Nonetheless, the Government recognises the importance of a joined-up and consistent approach to international climate change issues. Defra leads a cross-departmental International Climate Change Work Programme precisely to address this issue. The Department also works closely with other Government Departments, particularly the Foreign Office, DFiD, Treasury and DTI to co-ordinate activity on climate change. On top of the work Defra leads directly, this enables the Department to achieve environmental objectives working with and through the rest of Government. The Prime Minister set up the Energy and Environment Committee to develop the Government's energy and environmental policies, to monitor the impact on sustainable development of the Government's policies, and to consider issues of climate change, security of supply and affordability of energy.
15. We were also disappointed at the lack of concrete examples provided in the Report about policy co-ordination across Government, and the Department's role in this coordination. In particular, we believe that the Report should include more information about the important work carried out by the various Cabinet Committees that deal with areas of Defra's remit. We recommend that future Departmental Reports provide information about what has been achieved through these mechanisms. (Paragraph 73)	The Government does not accept this. Defra's Departmental Report includes numerous examples of policy co-ordination across Government (and beyond)—notably on climate change, energy, fuel poverty and air quality—where Defra has taken a clear lead. The Government also questions the appropriateness of using the Departmental Report to disclose the workings of cabinet committees. Nonetheless, the Government accepts the general principle that the Departmental Report should include good examples of cross-departmental co-ordination and will work towards that.
4. Defra policy	
16. The Government, and the Department, often reiterate their commitment to 'sustainable development'. Sustainable development, however, is a complex concept and is embedded within a vast range of policies across Government. Although bodies have been created specifically to monitor and promote sustainable development across Government, Defra is ultimately responsible for overseeing this work. From the information available—in the Departmental Report and elsewhere—it is unclear how successful the Department has been in carrying out this responsibility. The Department has also failed to communicate clearly how it takes the lead in ensuring sustainability is embedded in other Government departments' work. We recommend	The Government welcomes the Committee's recognition that the concept of sustainable development is complex. Sustainable development needs to be delivered by Government as a whole. Defra's role is to champion sustainable development at all levels of Government. This role includes putting in place governance arrangements for the co-ordination of policy and delivery, for monitoring, scrutiny and evaluation. It also includes working in partnership with organisations at national, regional and local level, as well as engaging people. Although sustainable development is a concept with many dimensions, and relies as much on the quality of partnership working and co-ordination, as on the contribution of each individual player, the Government now has a number of processes by which overall performance as well as that of individual departments are made transparent. First, the Government's indicators for sustainable development are updated and published annually. Secondly, Government departments publish Sustainable Development Action Plans. And the Sustainable Development Commission, in its strengthened independent "watchdog" role, reports on these plans. Finally,

that future Departmental Reports include a more coherent and freestanding 'mini cross-Government sustainability report', including objective performance measures for both Defra and other Government departments. The mini-report should comment on the Sustainable Development Commission's conclusions about Government departments' Sustainable Development Action Plans. (Paragraph 77)	the Sustainable Development Commission reports on Departments' performance against the sustainable operations targets for the Government estate.
17. We welcome the Permanent Secretary's candour that the Department needs to improve the rigour of its approach to biodiversity and related issues. A broader understanding of biodiversity and its value, as well as eco systems, can only improve the formulation and enactment of Government policy in this important area. We look forward to seeing evidence of such a new approach soon. (Paragraph 82)	The Government notes the Committee's conclusion. The aim of the Government's Ecosystems Approach project is to help deliver the natural environment outcomes more effectively and more efficiently. The Government is defining an ecosystems approach in two main ways: (1) managing the natural environment in a more holistic, 'whole ecosystems' way, and designing policies and delivery on that basis; (2) communicating more clearly and reflecting in decision-making the value of the ecosystem services which a healthy natural environment provides for people. This work is underpinned by a dedicated programme of research which includes development of a robust framework for economic valuation of ecosystem services. The shift towards a whole ecosystems focus is reflected in biodiversity policy. The highly fragmented natural ecosystems typical of much of the United Kingdom will be a major constraint for the long term viability of many species and habitats. As a result, broader landscape-scale actions to overcome the fragmentation of priority habitats and to reduce pressures on biodiversity in the wider environment through which species move, are reflected in some of the new targets as published in the revised November 2006 UK Biodiversity Action Plan (UK BAP). This represents a shift of focus from protection of individual species towards adaptive management of whole ecosystems. A recent high-level meeting of key stakeholders to discuss revisions to the UK BAP endorsed this shift in focus.
5. Public Service Agreement targets	
18. We believe that several of the Department's current Public Service Agreement (PSA) targets are inappropriate, and we have made similar criticisms in the past few years. Many of the targets are too vague. We recommend that careful consideration be given to the formulation of new PSA targets for the next Comprehensive Spending Review period. The new	The Government agrees that it is important to develop effective new PSAs for the forthcoming Comprehensive Spending Review (CSR) period and that these have clear outcomes and performance measures. The department is working up proposals for new PSAs, which will be agreed with the Treasury as part of the final CSR settlement. The Government's approach to developing PSAs in this Spending Round is different from the previous Spending Round in several ways, notably:

targets should have much clearer outcomes and performance indicators, and be able to be measured appropriately. We look forward to receiving draft copies of the targets for comment. (Paragraph 88)	• There will be a much smaller number of PSAs—around 30 rather than 120; • PSAs will be cross-cutting, focused on key Government priorities; and are likely to involve several departments in delivery; • PSAs will be outcome-focused rather than output-focused; • Each PSA should be underpinned by one or more key national performance indicators (up to a maximum of five); • With regard to measurement, these indicators should be outcome-focused; specific, use robust data subject to quality control, and be sufficiently accurate and reliable as to enable decision-making. • PSAs will be accompanied by delivery agreements showing what different departments, delivery bodies and stakeholders will contribute to delivering the PSA; and • PSAs will be supported by departmental strategic objectives. These will cover the full range of a department's work. The Government's new approach to setting PSAs was explained in more detail by the Chief Secretary to the Treasury, Rt Hon Stephen Timms MP, to the Treasury Committee on 30th January 2007. Defra is developing its proposals for new PSAs and Departmental Strategic Objectives within this new framework. Two new Defra-led PSAs are under development, one covering climate change, and the other the natural environment; both with strong participation of other departments in their delivery. The current proposed text of these PSAs and the key indicators is attached at Annex 1. This is still work in progress, and details may well change; the indicators particularly need further development. They will need to be agreed as part of the final suite of government-wide PSAs as part of the final Comprehensive Spending Review settlement, but they are included here to give the Select Committee an indication of the way these are developing. To complement the two PSAs to be led by Defra, there will also be a suite of Departmental Strategic Objective (DSOs) which describe the full range of strategic outcomes the department is looking to deliver. These are similarly still under development and will be agreed as part of the CSR, but the latest draft is attached at Annex 2.
6. Format and presentation of the Departmental Report	
19. We commend the Department's report-writers for incorporating many of our previous recommendations relating to the presentation of the Report. (Paragraph 89)	The Government welcomes the Committee's findings and also the specific recommendations in their report on improving the lay-out of the Departmental Report.

20. We believe the usefulness of the Departmental Report would be improved if it were set out in a style more like that used by quoted commercial companies. The Report should focus much more on the Department's performance in the year in question instead of continuing simply to re-state Defra policies and core philosophies. We recommend that future Departmental Reports include at the beginning of the Report clear information about how the Department has performed against its stated objectives and key performance indicators in the past twelve months. More detailed information relating to Defra's policies and core philosophies should be relegated to the appendices of the Report. (Paragraph 93)	The Government accepts this in part. Defra's Departmental Report includes an appendix which summarises progress against each of the Public Service Agreement targets. The body of the report brings out the performance against indicators. Many of Defra's targets have very long lists of indicators, as well as having many medium to long-term target dates. Expanding on each of these would only add to the length of the report. The Government is aware of the complexity of indicators and aims to develop a far smaller number of indicators for Public Service Agreements and Departmental Strategic Objectives for the forthcoming Comprehensive Spending Review period.
21. We recommend that key financial information be included at the beginning of the Report. More detailed financial information can be provided in the appendices. (Paragraph 94)	The Government will make every effort to bring out key financial information in the report. That said, the Departmental Report is written well before the publication of the resource accounts. Therefore, it is not possible to publish audited figures for the financial year in the Departmental Report.
22. The recent changes to the Defra budget highlight the lack of transparency about how the Department's financial control mechanisms operate. They also demonstrate that the financial information provided in the Departmental Report is not helpful in understanding the reality of the Department's financial situation at a given time. We recommend that the Department employ quoted company transparency standards to the way it reports its financial situation, and that future Departmental Reports provide more commentary on the Department's overall financial position. (Paragraph 95)	The Government does not entirely accept this recommendation, as it conflates the purpose of the Departmental Report with that of the resource accounts. At present, there is a significant gap in time between the publication of the Departmental Report and the resource accounts. It is the resource accounts (audited by the National Audit Office) which set out the overall financial position. The resource accounts, of course, comply with relevant accounting and audit standards. However, the Government accepts that there is a requirement to publish some information on finances in the Departmental Report. The Treasury specifies which information is to be published. And the information that is used is taken from a Treasury system on a specified date (within the Financial Year covered by the Departmental Report). Faster closing of accounts and, in due course, the merger of accounts with the Departmental Report will overcome this and meet the Committee's wish to see a way of reporting that more closely meets the standards adopted by listed companies.
23. We recommend that an executive summary be included at the beginning of the Report, alongside the key performance and financial data. Its purpose should	The Government accepts this and plans that Defra will include an executive summary from the Permanent Secretary along with an extract from the Department's Balanced Scorecard, summarising overall performance.

be to highlight frankly and clearly areas of success, failure and uncertainty, and major changes in the Department's objectives in the past twelve months. (Paragraph 96)	
24. The sub-chapter on the Rural Payments Agency (RPA) in the Departmental Report is of extremely poor quality, owing to the lack of frankness and detail about the RPA's performance in the past year. The Departmental Report would have greater weight, and credibility, if it provided a candid account of the Department's failings as well as its successes. We welcome the Permanent Secretary's commitment that a clear explanation of the RPA's problems will be included in next year's Departmental Report. (Paragraph 100)	The Government accepts this though the extent of the difficulties in the RPA was not wholly apparent at the time the Departmental Report was being drafted. The Departmental Report does, nonetheless, include some indications of the emerging difficulties over the Single Payment Scheme.
25. This year's Departmental Report is still too long, despite a welcome reduction in the number of pages since last year's report. The sheer volume of writing often serves to hide rather than reveal the Department's key messages and data. We recommend that future Departmental Reports make greater use of simple devices in order to prioritise key issues and to signal these to the reader. For example, a 'key issues' box could be included at the start of each chapter or section. (Paragraph 102)	The Government accepts this. Defra's Departmental Report for 2006 was almost a hundred pages shorter than in the previous year but the Department recognises that the report could be shorter still. The Government will also make sure that highlights, key issues and facts on funding are set out in boxes at the start of each chapter.
26. Long blocks of text are off-putting to readers and can obscure key information. We believe tighter editorial control should be employed to sift essential information from that which can be relegated to appendices or presented in less detail. More information could also be presented in graphical and tabular form. We recommend that the Department aim, in the style and readability of its report, at something which mirrors a magazine such as 'The Economist'. (Paragraph 103)	The Government accepts this. The Departmental Report for 2006 included many charts, graphs and tables but the Department will try to ensure that complex sets of figures are always presented graphically.

27. The long chapters of the Departmental Report, such as Chapter 3, contribute to the difficulties experienced by the reader when attempting to navigate the Report. The Departmental Report would be more user-friendly if it were split into a greater number of shorter chapters, each beginning with a clear contents list. (Paragraph 104)	The Government accepts this. The Defra Departmental Report for 2007 will avoid long chapters. And the contents page will direct readers to specific topics within each chapter.
28. Whilst it is sometimes necessary to mention some key issues more than once, repetition in the Departmental Report should be kept to a minimum. We recommend that tighter editing be used to ensure repetition occurs only when absolutely necessary. (Paragraph 105)	The Government accepts this and, by shortening the report, aims to reduce the incidence of repetition.
29. Embedding numbers into long blocks of text makes them difficult to assimilate easily. Numbers are generally better presented in charts, graphs, tables or bullet-pointed lists. We recommend that the Departmental Report make more use of these kinds of devices in order to help the reader identify and understand key statistics. We also recommend that comparative statistical data be incorporated in the Report to enable the reader to establish a clear view about the trends encapsulated by the published numbers. (Paragraph 107)	The Government accepts this in part. Defra's Departmental Reports include many charts and graphs. Nonetheless, the Government recognises that there is scope for improving the presentation of statistics along the lines of these recommendations.
30. We recommend that cross-referencing in the Departmental Report be improved by making references more specific, directing readers to a specific page number. Cross-referencing would be improved if sections or paragraphs were numbered. The report would also benefit from an index which differentiates between passing references and significant data or discussion. (Paragraph 109)	The Government accepts this in part. However, by shortening the report and improving its structure, the aim is to reduce as far as possible the need for cross-referencing. The production of the index is largely automated and there would be an overhead (in a short production life-cycle) in devoting much time to the index. Improving the contents page (along the lines suggested in Recommendation 27 above) and shortening chapters will also help guide readers to significant blocks of text on specific topics.

THE RURAL PAYMENTS AGENCY AND THE IMPLEMENTATION OF THE SINGLE PAYMENT SCHEME—3RD REPORT (2006–07), PUBLISHED 29 MARCH 2007

Conclusion/Recommendation	Government Response
1. Defra should establish why its decision making processes did not require an adequate examination in 2003 of the implications and changed risk profile associated with introducing the Single Payment Scheme in parallel with the RPA's Change Programme and its associated new business processes. **2. The policy reasons for the Government choosing the dynamic hybrid are appreciated, but such decisions should not be made in isolation from practical realities. The choice of the dynamic hybrid model made the RPA's task a more complex one than implementation on a historic basis, especially with the Change Programme being implemented in parallel with the SPS. The policy suffered from the closed nature of discussions during its development and a lack of real scrutiny of the implications of what was proposed, such as the fact that payments would henceforth be made outside the farming mainstream.** **3. We conclude that Defra ministers selected the 'dynamic hybrid' model in the knowledge that it was inherently more complex and risky. But they did not seem to be aware of what they were letting themselves in for. Defra officials did not quantify these risks for them, and relied too easily on RPA assurances that the choice was deliverable in the time available. These assurances were not based on detailed analysis, and were partly motivated by a desire to escape from difficulties with the development of IT systems to pay the previous schemes. No proper appraisal was made of the volume of work that the chosen policy would entail,**	In its evidence to the Committee the Government sought to demonstrate that both Defra and the RPA undertook a substantial programme of work involving the farming community and their main representatives to analyse the implications of the June 2003 CAP reforms and preferred policy options. The policy development was taken forward in an inclusive and fluid process. The outcomes of discussions with key industry stakeholders and the analysis of the real world impact of the various possible options contributed to the internal discussions that took place involving Defra and RPA officials, the ministerial team and special advisers. Substantial analysis underpinned the decision on the dynamic hybrid model including distributional impacts and impacts of decoupling. In parallel, with the developing knowledge of the shape, if not the detail, of the CAP Reforms, the RPA carried out an assessment of what impact these reforms would have on its business. In particular, this assessment looked at the implications for the Agency's existing Change Programme and at the suitability and capacity of its IT systems and processes. In September 2003, the Agency recommended to Defra's Restructuring Board that the CAP Reform work should be integrated into the existing RPA Change Programme. This was approved by the Board and recommended to Ministers for final agreement. When Ministers subsequently selected the dynamic hybrid model, it was fully recognised that this approach would add complexity and increase the risks to the RPA Change Programme. However, at no point did the Agency or the independent assessors say that it was not possible. Question marks have been raised – with the benefit of hindsight – as to whether the Agency had the capacity or capability to make an informed assessment necessary of the likely impact of the new scheme on the systems and processes it was developing. However, as explained in evidence to the Committee, the Agency's record in meeting its objectives and external assessments before March 2006 did not suggest that those question marks existed at the time. Following the decision to proceed with the dynamic hybrid model and in line with best practice, close working with stakeholders continued and amendments were made in light of their inputs. This included making the further division of the Severely Disadvantaged Area to identify

both in terms of the number of claims and, even more significantly, the number of land changes that the RPA would have to deal with: land not formerly incorporated would now be within the system and there was a strong incentive for landowners and farmers to register as much land as possible. Defra should now identify those who were responsible for this fundamental failure to recognise the consequences of its own actions on the RPA payment delivery mechanism. Senior officials who presided over the lack of policy analysis should indicate why those actions were not undertaken. **4. The amendment of the original dynamic hybrid decision so soon after it was announced, by adding a third region, reinforces our conclusion that the wider implications of the dynamic hybrid model had not been properly thought through when the decision was made. It also made the RPA's task yet more complex and lost them more time. Defra should provide a commentary to explain this failing in its internal decision making process.** **6. We conclude that the numerous changes to the SPS rules and late policy decisions contributed to the delay in implementation by reducing the time available to build and test systems. Defra was not to blame for all of these delays: the EU was slow to finalise the common rules of the SPS. However this should have been a foreseeable risk, as Defra should have realised that other Member States were not in such a hurry to have the details worked out, either because they were implementing in 2006 or because they were using a historic system. In addition, some of the RITA components were not able to cope with the required volumes when delivered, which reduced the amount of time the RPA had to process the 2005 SPS claims. RITA itself did not work reliably enough. Defra failed to anticipate the volume effects on their**	moorland as a separate region to which the Committee specifically refers and which it supported in its 7th Report of Session 2003–2004. With hindsight it is now clear that the extent of policy changes and their timing, combined with the problems within the RPA, overstretched the Agency’s ability to deliver. The Government does recognise the importance of getting the working relationships right with its delivery bodies. Changes have been made to the way in which Defra and RPA work together (some of which are detailed below) forming part of the wider Departmental review of Defra’s governance structures with its delivery bodies.

systems arising from the implications of the SPS policy for the numbers of additional landowners who could now benefit from the new arrangements. Ultimately ministers and Defra senior management must accept full responsibility for their failings.	
5. RPA efforts to reduce risk of EU disallowance in fact increased the risk of failure in policy delivery. The RPA and Defra ended up with worst of all worlds: both a failure to deliver and the likelihood of substantial EU disallowance. Defra should identify which ministers and officials contrived to agree a scenario that was a precursor to failure. **13. Defra should explain why its concerns that disallowance prevention was interfering too much with the preparations for payments were not heeded by the Agency.**	The former Permanent Secretary made it clear to the former RPA Chief Executive that the Agency needed to balance appropriately the risk of disallowance against the risk of failure to deliver. Possibly as a result of a lack of understanding of how its new systems and processes would operate in practice, subsequent experience would suggest that the RPA remained overly focused on compliance and avoidance of disallowance and did not sufficiently balance those concerns against the need for efficient processing of payments to farmers. Disallowance risks were reviewed during this period by the RPA Audit Committee, under external chairmanship, and reported orally to the RPA Ownership Board. However, in July 2006, the Department established the Disallowance Working Group to strengthen the assessment of financial, legal, regulatory and reputational risks associated with the delivery of CAP payments, particularly concerned with the SPS. The Group's work includes evaluation of options and assessment of measures to manage and mitigate risks between principally the Department and the RPA and advises the Accounting Officers from both the Agency and the Department. Following some recent additional internal analysis, the Department's capacity to address disallowance issues is being further strengthened.
7. Accenture witnesses appeared to have been well schooled in not venturing comment on matters which they deemed were beyond their contractual observations. This attitude denied the Committee an important perspective on the way the SPS project was being run from the standpoint of a company at the heart of the venture. We regard this as an unacceptable attitude from a company of international repute and which may still aspire to work with UK government in other areas.	The Government notes the Committee's observation.
8. What this supervisory structure confirms is that Defra did not simply let its executive agency get on its own and try to deliver the SPS on time. The Department	The Government has set out the key actions it is taking to enhance the effectiveness of the Department's partnership with its delivery bodies in its response to the Committee's report on Defra's 2006 Departmental Report and Defra Budget (published on 15 May 2007).

effectively established joint ownership of the project, 'warts and all'. In so doing it reaffirmed its share of the responsibility for the project. **9. The Committee very much regrets the former Secretary of State's attempts verbally to distance herself from the consequences of policies which she herself must have approved. Expressing annoyance or dismay was no substitute for her need at the time fully to engage in her Department's efforts to deliver the SPS on time.** **14. The Department should indicate in detail what steps it has taken, and plans to take, to ensure that lines of communication between Defra and its Agencies are clear so that parties can be certain in the future that each has understood what the other is saying. Defra must also incorporate in its next Annual Report a section giving a clear and unambiguous account of how it is correcting its weaknesses and responding to the lessons learnt.**	Although organisationally at arms length from the Department, Executive Agencies such as the RPA are responsible to the Secretary of State and are indistinguishable from the Department itself. This relationship by its nature is generally closer than other types of delivery bodies. There is no question therefore that the Department should at any stage renounce its interest in an Agency's work. In the case of implementing the SPS it was important to ensure that policy development and delivery responsibilities were closely aligned, without affecting the key accountabilities of core Defra for the former and RPA for the latter. The roles of the key mechanisms – notably the CAP reform implementation programme board (CAPRI) and the Executive Review Group (ERG) – have been documented in the Government's evidence to the Committee. The governance structures put in place to oversee progress of the programme were commented upon favourably in the reviews carried out by the OGC and NAO at the time. Specific reference was made in those reviews to the fact that the structures followed best practice and provided a sound basis through which to manage risks. The Government accepts that as the delivery deadline loomed, the degree of overlap between the responsibilities of these two groups increased. However, there is no evidence that this undermined the RPA Chief Executive's responsibilities in respect of delivering the SPS, or that it added to RPA's difficulties. On the contrary, the attention of senior Defra officials ensured that providing whatever support was requested was afforded the necessary high priority and that decisions were made quickly. The closure of the RPA Change Programme in Spring 2006 and the arrival of a new RPA Chief Executive provided an opportunity to revisit the governance arrangements for the RPA. The Defra Management Board's corporate ownership interest has been placed with the Director General (DG) for Food and Farming, in line with new practice across Defra of placing this interest for any given executive agency with an individual member of the SCS, usually the DG with the greatest policy interest in the performance of the body concerned. He is supported by a new Strategic Advisory Board, replacing the old Ownership Board, providing support and challenge to RPA at the strategic level and focused on the ownership interest. The new board has a smaller tighter membership and its members have been chosen as personal experts, rather than representatives, against a skills mix template for the Board. The resulting higher proportion of non executives (3 out of 7 members) has enabled greater non executive challenge. The corporate customer interest in the RPA has similarly been placed with the SRO for the 'Farming for the Future' Programme. Again in line with new practice to introduce greater clarity in the management of ownership, customer and stakeholder interests for all our executive

	agencies. The RPA Oversight Group has been established as a temporary body to give Defra oversight of the Agency's performance on SPS delivery (and its broader portfolio) as it recovers from the crisis of SPS 2005. A new joint policy-delivery Division has also been established, reporting jointly to a Director in Defra and the Chief Operating Officer in RPA, bringing together key officials responsible for the complete policy to delivery chain. A more substantial update on the SPS was included in the Department's 2007 Annual Report published in May 2007 and further analysis will be incorporated into the RPA's Annual Report and Accounts for 2006–07.
10. The RPA did not adequately take into account the effects of losing a large number of experienced people. Lord Whitty should have acted at the time to prevent the departure of so many such staff.	Staffing levels in the RPA were primarily an issue for the Agency and its Chief Executive. The former Defra Permanent Secretary did however make clear to the RPA that delivery success was of paramount importance and that if the Agency was failing to meet the SPS delivery as a result of its efficiency targets then the issue should be elevated to him. At no point was this done. Once the negative impacts of the staff efficiencies did become clear, the second wave of exits was cancelled. In addition, a number of staff yet to leave under the first wave were asked to delay their departures. The RPA currently has a headcount of 4,500 of which approximately 50% work directly on SPS with the remainder dealing with the Agency's other work. As part of the RPA's Recovery Campaign, the Agency is introducing a systematic manpower planning system which will provide a sound basis for future planning and the stabilising of permanent recruitment and promotion needs. In the meantime the Agency has made changes to convert long-serving Agency staff to fixed term appointment and plans to regularise the position of managers on temporary promotion.
11. The Office of Government Commerce should review its procedures and warning assessment systems which allowed a project to reach a rating of probability of success of only 40% seemingly without effective preventative action being taken.	Varying assessments of the probability of success were made at different stages of the programme. The key point was that action was taken at each stage to improve that probability. Mindful of the NAO report on 'The Delays in Administering the 2005 Single Payment Scheme in England', the recent OGC Gateway Refresh exercise has updated the Gateway workbooks to improve the focus on assessing the softer skills present in projects. For example, areas to be probed by review teams include determining stakeholder support for the delivery approach and mechanisms, and the adequacy of skills and experience of the Project Team including risk management. Evidence expected includes: documentation that the project decision-making process is inclusive of all the relevant stakeholders and that their views are recorded; and that the

	results of stakeholder consultations are documented and acted upon. Reviewers should also ensure that the project resource plan properly identifies all the project skills and experience required to deliver each stage, and that measures are in place to determine whether these skills are available internally, or whether external skills should be acquired. OGC has also sought to address the situation where an SRO uses the Gateway process as the primary source of assurance. The updated Gateway workbooks remind users that its purpose is to provide a quick snapshot view of progress at a particular point in time. It positions Gateway clearly as a source of external assurance which is complementary to, but not a replacement for, a public sector body's internal review, healthchecks and audits of its activities, including projects and programmes. In particular, departments are reminded that an OGC Gateway review does not replace the need for a full audit opinion on the effectiveness of risk management control and governance in the audited area.
12. Given the high importance of successful implementation of the SPS scheme, to the reputation of the Department and the RPA let alone to the claimants, we find it extraordinary that Defra seemed prepared merely to aim to keep the probability of success above 50% just eight months before payments were due to begin. **15. We welcome the RPA's live test of 2006 scheme year payments in January 2007. Defra should have demanded** **that such a test take place in the 2005 scheme year before it went ahead with the attempt to pay all claims.**	Throughout this programme, the Government's aim was to make payments in line with ministerial commitments. Formal risk management processes used by the RPA were based on a standard best practice approach and were supplemented by additional internal risk identification and reporting mechanisms. Quality assurance was sought from a wide range of external experts, including through appointment of a non-executive director to the CAPRI Board, and participation in a full OGC Gateway Review process. These formal processes were used to define the programme's structure and to track its implementation, with frequent consideration and balancing of system and policy development priorities. The Government does, however, recognise that risk identification and management was largely focused on adherence to the delivery timetable; once operational problems began to occur risk mitigation was therefore largely taken in order to reduce threats to this timetable as they occurred, rather than to identify and avoid potential higher level delivery issues including the descoping of end-to-end testing. The Government welcomes the Committee's support for the live end-to-end testing carried out for the 2006 Scheme. A key focus for the RPA now is to improve the information available to manage its business. This includes risk identification and management of risk. The Agency is developing a new Management Information Strategy which will develop existing processes and will also seek to establish a robust performance management culture with the aim that business will, in short time, have a more informed understanding of progress against performance targets.

16. We seriously question the decision to spend more than half a million pounds in fees to private consultants as part of the Hunter Review of the single payment scheme. The Department must publish an explanation about why use of such a sum was thought necessary and where the resources to fund the review have been found at a time when Defra has been cutting the budget of a number of its agencies.	Whilst this work was formally commissioned as part of the Hunter review, and was reported to the Committee in those terms, in practice the consultancy's work also fed into RPA's short term action plan. The Government was conscious of the importance in taking action quickly so that a basis for making early progress was achieved. Corven Consulting was therefore commissioned to undertake a rapid organisational Capability Review of RPA. The main focus of Corven Consulting was to: • review Mark Addison's 2005 scheme payments plan to ensure maximum traction and release money into the industry quickly, to identify scope for improvements and quick wins; • review plans and issues in respect of SPS 2006 and make recommendations; • review RPA budgets and cost base to establish resourcing requirements etc. • deliver an organisational capability assessment to set the baseline and ability to deliver • facilitate early definition of scenarios for RPA's future role and produce a gap analysis of current capability against these scenarios (to feed into later work by the Hunter Review) • make recommendations in respect of operational business improvements, tactical delivery plans and evaluated strategic options for RPA's organisational development. The output of this review started to rebuild Defra's relationship with RPA. The new arrangements put in place for Defra governance and oversight of RPA are also based on the work of Corven Consulting. The cost of the work came from within existing budgets.
17. The Committee requests that the Secretary of State continues to keep the House fully informed of progress with payments and important operational developments.	The Government will keep the House informed on progress with the SPS. Since the significant problems with the SPS came to light in March 2006, the Government has made nine statements to the House as well as providing regular updates in answers to Parliamentary Questions and via the Defra and RPA websites. The Government's last statement on the SPS was on 2 July 2007.
18. Although the move away from the task-based system is welcome, we remain concerned that the RPA is still using an IT system that was designed for a task-based system and has been difficult and unreliable in service. We require the Department and the RPA now to cost and publish details of the further IT changes which will now have to be made to overcome current problems and speed up the SPS payments process.	The Department accepts that the RPA's RITA system was built to support a task-based approach and that elements of the system were removed in favour of delivering to time and meeting the core needs of SPS. The RPA has a planned programme of enhancements which will improve the processing of claims and the underlying architecture of the RITA system. The first changes to RITA to support whole case working will be made in 2007 with full benefits in 2008 and subsequent years. Other changes include a management information system, test environments, improvements to the Rural Land Register, support within RITA for a simpler SPS claim and the automation of a number of activities. The activities to be automated include calculation of the

extra subsidies farmers receive as a result of reform of the EU Sugar regime and the transfers of entitlements.

The RPA's programme of IT releases is planned for January, March and October in 2007, 2008 and 2009. This projected expenditure is set out in the following table (figures are in £000s):-

	2007/2008		2008/09			2009/10	
Release date	Jan-08	Mar-08	Oct-08	Jan-09	Mar-09	Oct-09	Total
Business process Re-engineering	986	6732	3300	2700	300	0	14018
Technology	582	6136	3290	60	1200	2400	13668
Services including release management and live support	2701	2748	4880	3382	1394	5300	20406
RLR mastermap update		-	-	1900	-	-	1900
Contingency	-	-	-	-	-	-	5722
Total programme costs	4270	15616	11471	8042	2894	7700	55714

19. Johnston McNeill was Chief Executive and Accounting Officer of the independently accountable delivery body that failed so clearly to deliver, and which failed to foresee in time the fact that it would not deliver. As such he is accountable for, and must bear responsibility for, the failings of the RPA. If he felt that he was being asked to carry out a task that he would not be able to defend on value for money grounds to the PAC, he should have sought a formal written instruction in accordance with the Treasury's rules on Government Accounting.

The Government has already acknowledged with regret the significant difficulties experienced with the delivery of the new SPS and the impact that this has had on individual English farmers and the wider farming community. Defra considered questions of responsibility and took strong action in the light of the failings as recorded in the introduction to this response. Officials past and present also gave a full account of the Department's actions to the Select Committee. When the report was published, the Prime Minister and Sir Gus O'Donnell made it clear that Sir Brian Bender continues to enjoy their full confidence.

Successive Governments have taken the clear view that discipline and employment matters are matters of confidence and trust, and Select Committees have agreed that it is not their task to act as disciplinary tribunals[8]. The Government therefore strongly regrets that the Select Committee

8 Departmental Evidence and Response to Select Committees [also known as the Osmotherly Rules], Cabinet Office, July 2005. http://www.cabinetoffice.gov.uk/propriety_and_ethics/documents/osmotherly_rules.pdf

20. But Mr McNeill was not personally and solely responsible for the failure to pay farmers. The Agency failed largely because Defra asked it to do too much in too short a time and did not pay enough heed to the Agency's warnings about the risks of what was being proposed. The governance arrangements stipulated that Johnston McNeill should share senior responsible ownership with Andy Lebrecht, and all the crucial decisions and recommendations to ministers on implementation were made jointly with Defra by committee through CAPRI or the ERG. We conclude that it is unfair for McNeill to be the only person to be held accountable when he was not given the sole responsibility for delivery. **21. If a failure to deliver on such a scale had occurred in a major plc, the chairman and the senior operating executives would have faced dismissal from post. With this in mind the Committee continues to be astonished that Sir Brian Bender continues to hold the rank of Permanent Secretary. If he does not tender his resignation the Head of the Home Civil Service should explain why a failure such as this results in no penalty.** **22. His long standing knowledge of the importance of timely payments to farmers and his full involvement in the SPS project from its inception mean that he should now consider his position. If he chooses to stay, the Department in its response to this report should explain to us in straightforward language why being so closely associated with the waste of large sums of Government and farmers' money and the widespread disruption of England's rural economy should result in no personal penalty being paid.** **23. It will seem strange to many in the rural economy that right at the top of Defra no price for failure has been paid by the now Foreign Secretary. Leaving others to get on with the day to day delivery of services should**	have chosen to make criticisms of named civil servants in the way that they have done in these conclusions. The accountability and responsibility of Ministers is set out clearly in the Ministerial Code. The Government does not believe there is a need for any further guidance.

not remove the obligation from the holders of high office to do more than just apologise and mouth the words "I am taking responsibility". It should be the case that when a Department fails to deliver a key programme right at the heart of its fundamental responsibilities the holder of the office of Secretary of State should not be rewarded with promotion but its reverse. New ministerial guidelines should now be drawn up to make it even clearer that if individuals are prepared to accept the glories that come with high office they also know precisely what to do if fundamental Departmental failure occurs.)	

THE UK GOVERNMENT'S "VISION FOR THE COMMON AGRICULTURAL POLICY"—4TH REPORT (2006–07), PUBLISHED 23 MAY 2007

Conclusion/Recommendation	Government Response
4. Timing	
1. Further reform of the CAP is both necessary and inevitable. However, we conclude that the Government showed a naivety in believing that its Vision for the Common Agricultural Policy document could be its catalyst to a reform agenda when it was introduced so near to the end of its Presidency and without any programme in place to gain support for its British position. Not only did this approach subsequently damage its prospects for Pillar 2 development, it may well have undermined the UK Government's ability fully to influence the reform agenda in the future by antagonising the European Commission and the other EU Member States. We call on the Government to provide an assurance that any future reform proposals will be developed in a more thorough and considered way. (Paragraph 24)	Response to conclusion 1, 11, 14 and 20 Publication of the vision in December 2005 was a careful judgement designed to support our position in the EU Budget negotiations, in particular by answering the question which had been put to the UK about what we meant when we called for further reform of the CAP. There is no doubt that its publication, and the Government's subsequent engagement in the EU, have provoked constructive debate, much sooner, and in respect of much more fundamental reform, than would otherwise have been the case. Indeed the Committee's report acknowledges (para 99) that "even if the European Commission had been antagonised by the publication of the Vision, there seems little doubt that the report encouraged it to engage with the UK over its support plans for reform". We reject the claim that there was no programme in place to gain support for our position. On the back of the vision's publication, an intensive programme of engagement was launched by Defra, Treasury and the Foreign and Commonwealth Office to take forward debate about the long term future of the CAP. That engagement continues today and has included contact with every Member State (including at ministerial level with more than half), frequent contact with the Commission at all levels, seminars, conferences and articles in the European press. Far from undermining our influence, several other countries have followed our lead and published, or are debating, long term perspectives of their own. Agriculture Commissioner, Mariann Fischer Boel, has similarly signalled the intention to set out her long term vision for the future CAP. Crucially, that represents a real shift from the short term "quick fix" which has tended to characterise CAP reforms of the past and is a significant factor in why, as the Committee acknowledges, there is now a widespread acceptance in the EU that the status quo is not sustainable. We continue to work closely with the Commission, Member States and stakeholders to build alliances and consensus on the detail of the reforms ahead.

5. Analysis and the use of data	
2. We believe there are several instances where some clarification would have enabled a more balanced representation of the statistics, where information could have been nuanced to alert the reader to the fact that some data predated the most recent reforms, and where it would have been helpful to have noted the assumptions upon which the analysis was based. The Government's lack of analysis to underpin its proposals was both a practical and intellectual failing. We require the Government to explain why it thought it right to publish a document which has been so heavily criticised for its lack of rigour and up-to-date statistical data by key groups whose support for CAP reform was vital. We recommend that Defra publish a full impact assessment of the consequences of its proposals, as requested by Commissioner Fischer Boel, in time for the CAP 'health checks'. (Paragraph 30)	Response to conclusion 2, 3, and 4 In preparing the paper we used the most recently available and relevant figures, and believe they provide as robust an assessment of the overall costs and benefits of Pillar 1 and its removal as anyone has so far provided. Indeed the OECD's Director of Food, Agriculture and Fisheries, Professor Stefan Tangermann, wrote to the EFRA Committee shortly after the paper was published to commend our accurate use of OECD data. Other independent academics have given similar endorsements in their evidence to the Committee. Whilst the memorandum from Professor Tangermann appears at page 142 of Volume II (oral and written evidence) of the EFRA Committee's report, the Government notes that it is not referred to in the Committee's report itself, especially in the light of the profile which the Committee gives to criticisms of the way that data is presented and used in the Vision Paper. As the Committee's report notes, Defra provided a very detailed response to the criticisms made by a number of interested parties, pointing out the misconceptions and misunderstandings on which those criticisms were founded, but also acknowledging that the Vision could have averted some of those by giving fuller explanations in one or two places. We will urge the Commission to publish a full evaluation of the impacts of Pillar 1, and will shortly publish a more detailed assessment of our own of the impacts of eliminating it. We have already established in 2005 our Agricultural Change and Environment Observatory programme, the purpose of which is to monitor the impacts of reform, particularly the 2003 and 2005 reforms, on farm management practices and consequential environmental impacts. The Observatory published its first Annual Review in December 2006 and continues to publish reports from time to time on emerging issues. However, we urge the Committee to accept that evaluation of our proposals for future reform and of the 2003 reforms should be wider in scope than just their likely impact on the farming sector. Whilst we accept that it is important to understand the effects on farm businesses and landowners, it would be unbalanced not also to take account of benefits to consumers and taxpayers. We are continuing our own analysis of the impact of a range of reform issues and will publish that work over the course of the next year. That will include an impact assessment of the Commission's "healthcheck" proposals once they emerge in 2008.

6. Analysis of aspects of the Vision	
3. (see 2) The future credibility of the Vision document depends on the Government now committing itself to providing a full and detailed evaluation of the impact of these proposals on biodiversity, the environment, the markets for agricultural goods and individual farm enterprises. We call upon the Government to publish this by the middle of 2008. This analysis should be informed by the publication, by the end of 2007, of an evaluation of the effects on UK agriculture of the 2003 CAP reform. The Government must also provide an analysis outlining the effects on UK and EU agriculture of the elimination of Pillar 1. Without this, its assertions as to the value of removing Pillar 1 support will have little credibility amongst our EU partners. (Paragraph 63)	
4. (see 2 also) Properly targeted schemes delivering public goods and services and representing better value for the public money that is expended on them are clearly desirable. The Vision document suggests this is the direction down which the UK Government would like EU agricultural policy to travel. However, the Vision's argument has been weakened by a lack of detail on the development and agreed outcomes of Pillar 2, as Pillar 1 is progressively dismantled. A clear statement from the European Commission on the environmental and social objects of Pillar 2 should be sought by the Government. In addition, the Vision's failure to address the potential redistribution effects of modulation should also be rectified through the publication of an impact assessment. (Paragraph 70)	Response to conclusion 4, 7, and 10 The Government welcomes the Committee's agreement that future agricultural subsidy should be directed at public goods. We are lobbying extensively in the EU on the merits of that. On publishing our vision paper, Margaret Beckett and Gordon Brown were clear that they had "not set out a route map for getting there. That must be the subject of inclusive debate across Europe over the next few years and achieved through a carefully planned process and to a manageable timescale". The objective was to open up debate, not shut it down by setting out a detailed plan. That is not to say that we do not already have a good story to tell nationally, which we commend to others in the EU. There are now around 28,000 Environmental Stewardship Agreements in place covering nearly 4 million hectares of the country. The new Rural Development Programme for England provides £3.9 billion over its seven year life, more than double the budget for the last programme. £3.3 billion (virtually the maximum share of the programme possible under the current rural development regulations) of that will be devoted to schemes that enhance and protect the natural environment. That includes transferring (or modulating) up to 14% of the budget from Pillar 1 of the CAP to help fund environmental land management schemes, and providing over £700 million of national co-financing to accompany those modulated funds during the period 2007–13.

	We are keen to take that debate forward at EU and national level, including in the context of the current review of our stewardship schemes, in order to review what public goods should be delivered in future by agriculture and how best to do that. We are keen that the EU Budget Review starts from first principles in examining every aspect of the EU budget, including the whole of the CAP.
5. The UK Government's calls to increase the importance of Pillar 2 have been further undermined by its involvement as the Presidency of the EU when a budget deal was struck providing significantly less resources for Pillar 2 than in the original European Commission proposal. Those reductions in the rural development budget are inconsistent with the UK Government's stated objective of enhancing funding levels in this area. The UK Government should not call for cuts in Pillar 2 funding as part of its wider demands for CAP budget cuts, as this sends mixed signals to other Member States and the Commission. (Paragraph 71)	The UK Government did not call for cuts in the Pillar 2 budget as part of the 2005 budget deal. The agreement we achieved was the best available, given the level of opposition from other Member States to a switch in resources at that stage from Pillar 1 to Pillar 2 of the CAP. The agreement still provides broadly the same level of funding for rural development at EU level over the next financial perspective as over the preceding one. Our position has remained consistent and we continue to favour a shift in emphasis from Pillar 1 to Pillar 2. We are doing that in the UK via the mechanism of voluntary modulation, backed by a significant sum of national co-financing, putting our own money where our mouth is.
6. The Vision document gives insufficient coverage to the potential international consequences of its proposals. The arguments used lack balance and important issues, such as the potential erosion of trade preferences for poor countries, do not seem to be taken sufficiently seriously. We recommend that further analysis be undertaken by Defra, in collaboration with the Department for International Development and HM Treasury, to provide evidence to underpin what at present amounts to little more than an overview of these international aspects in the existing Vision document. (Paragraph 75)	The Government has championed the needs of developing countries and it remains one of the key reasons why we are seeking reform of the CAP along the lines of our vision. Agriculture is very important for developing countries, especially the poorest, where it accounts for 40% of GDP, 35% of exports and 50–70% of total employment. Economic modelling shows that the welfare benefits of CAP reform for developing countries would range between $24–43 billion annually)[9]. While some (generally middle income) developing countries may lose in the short term from higher food prices or from preference erosion, they are in a minority, and our vision is clear that transitional assistance should be provided. There has been much research on the impacts of preference erosion and the cases of ACP (African, Carribean and Pacific) banana and sugar exports to the EU are known to be particularly problematic. The Government has been successful in securing EU transitional assistance to help ACP producers deal with new market arrangements.

[9] Sources: Ruffer and Imber, 2006; Msserlin, 2004; Anderson, Martin and van den Mensbrugghe, 2005

	Aid for trade will also provide resources to support trade adjustment. Ultimately, such assistance must help those countries move away from a dependence on preferences since they are an inefficient mechanism for transferring resources to developing countries, carry substantial administrative burdens, and leave local economies distorted and vulnerable by encouraging dependence on a small number of commodities.
7. What kind of a CAP do we want?	
7. (see 4) The only long-term justification for future expenditure of taxpayers' money in the agricultural sector is for the provision of public goods. Payments should represent the most efficient means by which society can purchase the public goods—environmental, rural, social—it wishes to enjoy. For these payments to remain publicly acceptable, it is essential that they relate directly to the public goods provided and that, in turn, these public goods are measurable and capable of evaluation. Defra should harness the power of the internet to consult as widely as possible with the rural community about the type of rural policies which should be developed in the context of the 2008 'health checks' and subsequent CAP reform debate. (Paragraph 85)	
8. Moving towards specifically targeted policies under Pillar 2 of the CAP will inevitably entail greater national discretion than exists at present. Under this scenario, the Government must ensure that the UK does not once again become the poor relation in the area of rural development policy by conceding negotiating ground which could place our farmers and rural businesses in a position of comparative disadvantage compared to those of other Member States. In this regard, it is vital that the Government is successful in pursuing its case for a fairer, objective based method of allocating Pillar 2 funding during the EU budget review. (Paragraph 91)	The Government agrees that using objective criteria is a more effective means of allocating rural development funds than historic expenditure and it is regrettable that the Commission did not use more objective criteria as the basis for allocating funding last year. Nevertheless, the European Commission and Agriculture Council have already signalled their intention to pay attention to the financing of Pillar 2 in the context of the Healthcheck and we will want this to include a clear commitment to review the methodology for allocating funding.

9. The objectives of the CAP have remained unchanged for the last 50 years and now seem dated. European agricultural policy has moved on since then, encompassing issues such as rural development, protection of the environment and animal welfare. The UK Government should begin negotiating, at the earliest opportunity, for a redrafting of the existing Article which lays out the objectives of the CAP—Article 33(1)—with the new text reflecting the wider context of modern rural policy. (Paragraph 95)	The Government agrees that a new, rational objective needs to be defined for the CAP and our vision provides one. We would look favourably on any proposals to reconsider the Treaty of Rome's objectives in this respect, but we believe our vision can be achieved without such change. In recent years, for example, the EU has decoupled support from production and established the rural development pillar of the CAP and the principle of cross-compliance, without the need to revisit its original Treaty basis.
10. (see 4) The name, the 'Common Agricultural Policy' is now an anachronism. It should be replaced by a new 'Rural Policy for the EU'. The separation of the funding mechanisms for Pillar 1 and Pillar 2 represents a significant obstacle to re-tuning the balance of rural support measures in the EU and should be re-evaluated as part of the 2008/09 budget review. The UK should also use its influence in Europe to encourage other Member States fully to integrate their agricultural and environmental policies. The Government could point to the advantages that have flowed from such policies in England being the responsibility of a single department. (Paragraph 96)	
8. Is the UK Government's Vision achievable?	
11. (see 1) Further reform of the CAP is very necessary. However, for British ideas to succeed, it is important that the UK adopts a less naive approach to its agenda than when it launched its Vision document on an unsuspecting audience and without prior effort to prepare the farm ministers for its arrival. This approach was counterproductive and caused a negative reaction. A more consensual approach must be developed if success for the British reform agenda is to be secured in the future. (Paragraph 100)	

12. For all its revolutionary rhetoric, the Government's paper was ultimately disappointing. It merely described an evolution of the existing policy, primarily motivated by budget savings, rather than presenting a truly revolutionary vision, directing the debate towards scrapping the existing CAP and replacing it with a 'Rural Policy for the EU'. The failure of the Government to consult stakeholders prior to the launch of the Vision, or to debate its proposals on the floor of the House, or to encourage a wider debate after the Vision's publication, represents a regrettable lost opportunity for engagement. We, therefore, believe that the Government should publish, as soon as possible, a Vision 'mark 2' to address the deficiencies in the original document outlined above and to redirect the debate towards a more visionary replacement for the existing, outdated policy. (Paragraph 101)	Response to conclusion 12, 17, and 18 The Government disagrees with the Committee's criticisms about the nature of the CAP vision. Indeed, there is an element of inconsistency in the Committee's view that on the one hand the vision was not sufficiently revolutionary and on the other that its publication antagonised the Commission and Member States (conclusion 1). The fact is the CAP has already been evolving in the right direction and our vision is about taking that process to its logical conclusion, so that Europe has a policy which is fit for modern global realities. The vision represented the most radical and far sighted concept for the CAP of anything proposed in the EU, advocating the complete end of Pillar 1 and a cut in import tariffs to the levels in the rest of the economy. It is hard to imagine that the European Commission or any other Member State would view that as anything other than a radical shift from the basis upon which the policy was developed 50 years ago. The Government strongly defends financial savings as a worthwhile motive for further CAP reform; the CAP costs EU taxpayers €53 billion per year directly through the EU Budget, plus a considerable amount of additional funding from national budgets to cover both the costs of administering the CAP and co-financing under Pillar 2. The bulk of that spending is ineffective, unnecessary and wasteful. We reject the implication that we do not have a clear idea of what will replace the CAP. In the first place, much of what is proposed is about taking away, *without replacement,* substantial elements of a policy which has been so damaging. Our vision is clear that what remains, in terms of public funding for agriculture, should be directed solely at the delivery of public goods. In that regard the Government has set out extensively a comprehensive vision for the future of farming which includes: • the Government's Strategy for Sustainable Farming and Food, published in 2002, which set out a clear route map for achieving a farm sector which was profitable and sustainable; • the Environmental Stewardship schemes, established over the past few years, part of the Rural Development Programme for England which has £3.9 billion allocated to it for 2007 to 2013; • David Miliband's speech to the Oxford Farming Conference in January, which set out an ambitious, long term vision for English farming to deliver a net positive environmental contribution, particularly with respect to climate change. We will continue to debate with stakeholders and across the EU the issue of public goods and the best means of their delivery. We will disseminate our emerging thinking in due course. Indeed, a

	review of Stewardship is already underway to improve delivery and take account of new priorities arising from further CAP reform.
13. Defra's problems in introducing the Single Payment System in England and its demands for the ability to modulate voluntarily funds between the two CAP Pillars in the absence of match-funding may be perceived by some as having a direct relationship with its impatience to move the CAP reform process on at a faster rate. This is unfortunate, as it may well have undermined the Government's negotiating position on further CAP reform as we enter what will be a crucial time for the development of future EU policy. The UK Government must also recognise the differing priorities of many of the new Member States and the need for major restructuring of their agricultural industries. (Paragraph 108)	The Government believes it is right that the UK should show leadership on the CAP reform agenda by using the flexibility provided by the EU legislation to move the CAP in a direction which is less market distorting and which provides greater public benefits for public money. Rather than undermining our negotiating position, we believe that approach reinforces our message by demonstrating to others in the EU that we have belief in our vision and by providing a tangible demonstration of the benefits. The Government does, nevertheless, acknowledge with regret the significant administrative difficulties experienced with the delivery of the new Single Payment Scheme. It is important that Member States are given the choice over whether or not to match-fund voluntary modulation. Forcing them to do so would act as a disincentive in those countries which could not afford the cost, thus losing benefits that might accrue from spending such money under Pillar 2. With respect to England, the Government has boosted the funding available for environmental schemes by match-funding voluntary modulation used to fund such schemes at a rate of 40%. Pillar 2 of the CAP has the advantage of giving Member States much more discretion to use funding to target their specific needs. That is why we believe our vision is right for the new Member States as much as it is for us.
14. (see 1) We welcome the recent accord signed with Italy on the future of the CAP and encourage the UK Government to make further attempts to establish alliances with likeminded Member States, as these will be essential in attempting to achieve the most far-reaching reform possible. Despite assurances from the Prime Minister as to the balanced nature of the argument, the majority of the evidence suggests that the political consensus currently lies closer to those wishing to preserve the status quo than with the reformist camp of those sympathetic to the UK Government's Vision for the CAP. However, political changes in influential Member States, such as France, combined with a build up	The Government is pleased that the Agriculture Commissioner has set out her intention that the 2008 CAP "healthcheck" will be first in a two step process towards more fundamental longer term reform. The healthcheck allows the EU to make a detailed assessment of CAP mechanisms and to take decisions which will help farmers cope with the changing context they will face over the years to 2015–2020. The Government would like to see the healthcheck: • Complete the process of decoupling over a manageable timescale by removing any remaining coupled subsidy and eliminating constraints on production, such as quotas and set-aside. That would allow farmers to respond fully to market signals, boosting farm incomes and simplifying the CAP to a significant degree.

of pressure for reform going into the 2008/09 budget review, have the potential to shift the balance in the other direction. (Paragraph 109)	• For as long as Pillar 1 exists, to continue to use compulsory modulation to shift resources from Pillar 1 to Pillar 2 to secure improved public benefits. • Focus rigorously on simplification of the CAP, for example by reducing the burdens of cross-compliance and eliminating anomalies within the single payment scheme. That should bring real reductions in the burdens faced by farmers, reduce administrative costs and foster greater competitiveness. Avoid introducing any new distortions or complexities, such as the capping of direct payments or market distorting risk and crisis management measures.
15. We believe that the CAP 'health checks' are a vital opportunity for the UK Government to pursue its agenda on the future of the CAP. If the policy is to be developed in advance of the financial negotiations that will set its budget, the debate on its future direction cannot wait until the later step of the mid-term review of the Financial Perspectives. Advance warning of the future EU agricultural policy for the period post-2013 would help farmers prepare for their new policy environment and help facilitate a resolution in the ongoing multilateral trade negotiations. There seems to us no reason why decisions could not be made in 2008, during the process of the 'health checks', and then implemented in 2014, on the basis of a financial agreement reached in the budget review. The logic of this approach seems compelling, and we urge the UK Government to grasp the opportunity of the forthcoming negotiations to push hard for a new policy that better reflects the modern-day objectives of Europe—a 'Rural Policy for the EU'. (Paragraph 115)	
9. What kind of rural policy do we want?	
16. We note a distinctive shift in definitions of Defra policy regarding the CAP. Defra must now confirm that HM Treasury is in tune with this, as there is no guarantee that securing environmental goods and services is going to be less expensive than the old Pillar 1 dominated CAP. (Paragraph 120)	Response to conclusion 16, 19, and 21 Currently only 20% of the €53 billion CAP budget is directed at rural development. The rest is a legacy of its historic goal of stimulating production. There is, therefore, no correlation between the size of that budget and the cost of delivering public goods. On the contrary, there is every reason to believe that a policy targeted much more effectively on public goods would be considerably cheaper.

	The CAP vision paper was produced jointly by Defra and Treasury and states clearly that "spending on agriculture would be based on the current Pillar 2". That remains our position. In all policy areas, and looking ahead to the EU Budget Review, the Government believes that spending through the EU Budget should represent value for money, should add value compared to spending through national budgets, should be proportionate, and should be properly managed. The rebate is necessary because of the imbalances created by EU expenditure policy. There is now a range of so-called correction mechanisms applying to different Member States' EU contributions, all of which are subject to review, alongside the rest of the EU budget in 2008/9. The Government will be putting full effort into negotiating the best outcome from that process.
17. (see 12) The Government must also take a lead by deciding what a policy for a rural Europe should be, taking account of all relevant factors. These could include environmental and biodiversity protection and enhancement, promotion of employment and economic development, support for biocrops, and compensation for less favoured areas. In order to be politically sustainable, financial support mechanisms within a 'Rural Policy for the EU' would need to support wider public benefits. Otherwise the costs of such a policy would be unlikely to be justifiable to the majority of people in this country and the EU who live and work in urban or semi-urban areas. (Paragraph 121)	
18. (see 12) Some of the key issues the UK Government must address in devising and pursuing such a rural policy for the EU should include: • **The prioritisation of objectives (for example, between environmental and rural development considerations)** • **The degree of subsidiarity embodied in the new policy** • **The relative advantages and disadvantages of financing such a policy—at least to some extent (i.e. co-financing)—at the Member State level** • **How much of the current expenditure on the CAP**	

would be required to fulfil the policy objectives chosen • How best to manage the transition from the current CAP to this new 'Rural Policy for the EU' • The extent to which this new rural policy can contribute to the mitigation of, and adaptation to, climate change. (Paragraph 122)	
19. (see 16) In putting forward our recommendations for a 'Rural Policy for the EU', we acknowledge the serious and inherent difficulties in making a clear move away from the entrenched position of the existing CAP. This is made particularly difficult by the inertia of the EU policy process and the close connection of the CAP with the overall budget of the EU, which Member States will be reviewing again in 2008/09. However, the prize of CAP reform is worth the Government devoting all its persuasive power and negotiating effort to push for such a move. **(Paragraph 123)**	
20. (see 1) There is a widespread acceptance in the EU, including in some quarters that have traditionally supported the old style CAP, that the status quo is not a sustainable option. There is also an increasing acknowledgement among farmers and politicians in the EU that further agricultural reform is an inevitable consequence of increasing budgetary pressure and the liberalisation of agricultural markets. (Paragraph 124)	
21. (see 16) There is a historic opportunity for the Government to persuade other Member States and the EU institutions of the positive case for fundamental reform in the coming years. This may require the UK to decide if CAP reform is a prize worth having, even if the price that has to be paid is an erosion of the British rebate. (Paragraph 125)	

DRAFT CLIMATE CHANGE BILL—5TH REPORT (2006–07), PUBLISHED 4 JULY 2007

Conclusion/Recommendation	Government Response
2. Background	
1. Target setting alone cannot deliver policy objectives. However, enshrining one in law will strengthen the Government's resolve to achieve it, subject it to greater public accountability if it fails, and crucially give confidence and certainty to the business community whose mid- and long-term investment decisions are central to meeting the target. (Paragraph 10)	We welcome the EFRA Committee's support for the intended purpose of the Climate Change Bill.
3. Carbon targets	
2. There is inconsistency in the language within the Bill. Terms such as "UK carbon account" and "UK carbon dioxide emissions" are used seemingly interchangeably. We recommend that the Bill only use two terms, "carbon dioxide" or "carbon dioxide equivalent". To do otherwise will cause confusion. Not all greenhouse gases—as defined by the Kyoto Protocol—are carbon-based. Use of the word "carbon" in the Bill should be avoided to remove any further ambiguity. (Paragraph 19)	Different terms in the draft Bill are used deliberately and do have distinct defined meanings, as set out in the "Interpretation" clauses. However, revised drafting will clarify the position regarding CO2 and other greenhouse gases.
3. We recommend that the Government should also incorporate within the Bill targets relating to cumulative emissions. These should address overall budgets to 2020 and to 2050 in quantitative terms (tonnes of CO2eq) rather than only using annualised percentage reductions. This addition to target setting would help set the framework for each of the five-year budgets required by the Bill. (Paragraph 26)	The Committee on Climate Change is being set up specifically to advise us on the optimum trajectory to 2050. Setting a cumulative target now would constrain the Committee's consideration of future budget levels, and would prevent it from taking into account any further developments in the science. In addition, the cumulative emissions between now and 2020 will depend on the budgets for the period 2008–22, which will be set shortly after the enacted Bill comes into force. Finally, cumulative emissions targets would be inconsistent with international practice (both within the UNFCCC and EU), which are based on percentage reduction targets.

4. The Government sets much store by the Bill. We emphasise, however, that the Bill alone will not deliver the necessary emission reductions and note that CO2 emissions in 2006 were a mere 5% below 1990 levels. As such, whilst we agree with the substantial amount of evidence calling for the 2050 target to be higher than 60%, we recognise that this target itself is still extremely ambitious. We are not in a position to suggest whether the 2050 target should be higher than 60%. However, we recommend that the first task of the Committee on Climate Change should be to assess the current state of knowledge regarding climate science in order to determine what the 2050 target should be and the trajectory for achieving it. (Paragraph 32)	The Bill provides a legally binding framework for the UK to manage its domestic and international commitments but we agree that alone it is not enough. The net UK carbon account was 11% below the 1990 level in 2005 but we clearly need to do more, which is why the government has set out new policies and measures to cut emissions in the UK Climate Change Programme and Energy White Paper. It has also become apparent throughout pre-legislative scrutiny that a considerable body of scientific and public opinion considers that in order to avoid dangerous levels of climate change, the UK needs to reduce emissions by more than 60% by 2050. The figure of 60% was arrived at by the Royal Commission on Environmental Pollution (RCEP) in 2000, following extensive research and analysis. However, much of the most recent scientific analysis does indeed suggest that 60% may not be enough. In spite of this, no comparable amount of research and analysis has been done since the RCEP report and there is no broad consensus around what the figure should be, if it is not 60%. To address this issue we propose carrying out an early review of the 2050 target by the Committee on Climate Change, to ensure that any new target which is decided upon will have been reached following rigorous analysis. To add further weight to this process, we are amending the Bill to require the Government to seek and take into account the advice of the Committee before amending the target.
5. We are not convinced by the Secretary of State's arguments for designing a 'ball park' target. Whilst we agree that the target to reduce emissions by 26% below 1990 baseline levels by 2020 will be challenging, and welcome the medium-term indication of progress that the Government expects, we believe the Government is being unnecessarily prescriptive in placing an upper limit on the 2020 target. Having an upper limit serves no practical purpose. We recommend that Clause 3(1)(a) be amended by leaving out the words ", but no more than 32%,". This will bring it in line with the 2050 target to reduce emissions by "at least 60%". (Paragraph 38)	The 2020 target is included in the Bill to provide a useful "way-point" on the path to the 2050 target. It helps to define the possible trajectory, and therefore cumulative emissions reductions, to 2050. It is clear that business welcomes this clear and credible interim target, given the long-term nature of the trajectory to 2050. Each of the parliamentary committees has recognised that achieving the lower end of the 2020 target range (a 26% reduction in CO2 emissions) is likely in itself to be challenging. Including an upper limit to this range (a 32% reduction in CO2 emissions) also serves to provide greater certainty to business as to the likely path of the trajectory to 2050. This should help facilitate the investment decisions that will be necessary to pave the way to a low carbon economy. The importance of the 2020 target is important in driving investment decisions in the short-term can be demonstrated for instance in the fact that the UK will need around 20–25GW of new power stations by 2020 if we are to maintain levels of electricity generation capacity equivalent to those available today. These new power stations will need to be built in good time to replace the closures of capacity and to meet increases in demand. As this plant will typically have a lifetime of

	some 25–60 years, decisions about how this capacity is provided will be crucial in setting our emissions reduction trajectory to 2050 and beyond. The predictability provided by a clear, stretching 2020 target will be important in ensuring that the need to tackle climate change is properly taken into account in these investment decisions. In addition, the Bill does not rule out reducing emissions by more than 32% in 2020, as any surplus effort could be banked into the subsequent budget period. Although the Committee will examine this further as part of its review of the 2050 target, we would also note that initial analysis suggests the current 2020 range is consistent with progress towards both the existing 2050 target and a range of other possible 2050 target levels. For the reasons set out above, we therefore intend to retain the 2020 target range as set out in the draft Bill.
6. The Bill must make provision for the 2020 and 2050 targets to be revised, but we recommend that this provision be limited to an upwards revision only. We also recommend that the Committee on Climate Change be empowered to propose revisions to the mid- and long-term targets whenever it believes an amendment may be appropriate. (Paragraph 43)	As drafted the Bill allows for Government to increase the statutory emissions targets for 2020 and 2050, and we will ask the Committee to report on whether the 2050 target should be stronger still. We consider that to constrain future Governments to only allow them to increase these targets would reduce the flexibility provided in the Bill. Including emissions from international aviation and international shipping in our targets, for example, may impact on our ability to meet increased targets given the limited technological potential to reduce emissions in these sectors (at least in the short term). We are asking the Committee to examine the implications of including these emissions in our targets, as part of its overall review of the 2050 target. Moreover, it cannot be assumed that developments in our understanding of climate change science and economics will always point in the direction of more stringent targets. Allowing the Committee to propose revisions to the targets when it likes would impact on the long term signals the targets in the Bill send and reduce certainty for business, and we therefore do not intend to accept this recommendation. The draft Bill stated that the targets may only be amended with regard to scientific knowledge about climate change or international law or policy, and under our new proposals amendments to the target would also be subject to the advice of the Committee. As any amendment to the targets would also be subject to parliamentary consent by the affirmative procedure, we consider there are sufficient checks and balances to prevent inappropriate amendments to the targets.
4. Carbon budgeting	
7. We remain unconvinced that annual statutory targets should be used owing to inevitable fluctuations in energy demand and the unavoidable lag in reporting on progress. We accept the case for five-year budgetary	The Bill creates a duty for the Government to set carbon budgets, defined as an amount for the net UK carbon account for a given period. Three carbon budgets must be in legislation at any one time, providing a clear ongoing fifteen-year trajectory which provides UK businesses and households with improved certainty for future planning and investment.

periods, but we recommend that clear annual 'milestones' are set—and published—by the Committee on Climate Change in order that it may become apparent well before the end of a budgetary period whether or not policies are working. This also reflects the fundamental significance of cumulative emissions, and the trajectory involved, by which the five-year budgets are reached. (Paragraph 51)	The five-year budgets will ensure that the first budget period, 2008–12, runs concurrently with international timescales: the first commitment period under the Kyoto Protocol and the second phase of the EU ETS. There is flexibility under the Bill to amend the length of budget periods if international practice changes. We welcome the support of the EFRA Select Committee for the system of five-year budgets set out in the draft Bill. In addition, the degree of certainty provided by the proposed approach has been supported by businesses in responding to the consultation. This clear statement by the UK helps to mitigate the effects of current uncertainty about the international situation post-2012. In response to the proposal for annual targets or milestones in addition to the five-year budgets, the Government believes strongly that a longer budget period is more appropriate. An annualised approach would be inconsistent with the UK's international obligations, which are based on five-year budgets. In particular, it would be impractical to manage annual budgets for those businesses covered by EU ETS, representing around half of the UK's emissions, since that system operates on five-year periods and firms can trade freely within the period and across the EU to meet their obligations. In addition, a carbon budget makes very clear that every year's emissions count towards the overall budget. There are no consequences for high emissions in an individual year, as long as the aggregate emissions for the five-year period do not exceed the limit set out in the budget. This provides essential flexibility within the system, as annual emissions figures will vary naturally from year to year. Evidence shows for instance that annual fluctuations in the weather can have big impacts on emissions, as people turn up their heating. Lower temperatures in 1996 and 2001, for example, correlated with increases in emissions of around 3–4% compared to the years either side. It would be illogical for the UK to "miss its target" as a result of such normal annual variation; this would undermine the credibility of the system. In addition, there are considerable time-lags in the availability of emissions data which would make annual targets or milestones even more impractical. Provisional emissions figures are not available until after the year in question has already finished, and the final emissions figures are not available until more than a year later. Given these time-lags and uncertainties, and the circumstantial fluctuations outlined above, annual targets or milestones would increase the risk of greater mitigation costs (for example, costly policies might be rushed through towards the end of a year to achieve short-term reductions, or international emissions credits might need to be purchased after the year had already finished), when effort might instead be more effectively

	deployed in ensuring that emissions are reduced more smoothly over time to ensure that the budget as a whole was met. However, we recognise and strongly agree with the need for the Government to be held accountable on an annual basis for progress against the budget. The five-year budgets will therefore be backed by a strong annual emissions reporting system which builds on our existing EU and international commitments. In addition, every year the Committee will be required to give its independent report on progress towards meeting the targets and budgets, and every year the Government must respond to these reports. Both the Committee's report and the Government's response must be laid before Parliament, to ensure a high level of scrutiny. Furthermore, when setting each budget, Government must also produce a report on its policies and proposals for ensuring that the required emissions reductions are made. And after the end of each budget, the Committee will be required to give its independent assessment of the way in which the budget was or was not met. The concept of five-year budgets for national emissions reductions is already groundbreaking, as has been widely recognised. It is also a credible approach, providing a good balance between predictability and flexibility, while avoiding costly one-off reductions in target years only. And we will back it up with an enhanced framework of annual Government accountability to Parliament, scrutinised by the independent Committee. We therefore do not believe that annual targets or annual milestones are either necessary or helpful.
8. We recommend that once the Bill becomes law, the Government should publish a sectoral breakdown of its national emission reduction targets to help different sectors of the economy and society—including Government, businesses, communities, households and individuals—appreciate what action they will have to take if the UK as a whole is to achieve its emission reduction objectives. (Paragraph 52)	We do not consider it appropriate that Government should set out indicative figures for reductions in each sector. While it may be argued that a sectoral breakdown would enhance transparency and show how much effort each sector of the economy would need to make to meet the targets and budgets, it reduces the Government's flexibility regarding where effort should be made. It also risks increasing costs for individual sectors.
9. The provision to amend a budget more than a year after the end of a budgetary period makes a nonsense of the entire concept of budgetary periods, and would render any sanctions completely unworkable. This is simply wrong. Subsection (5) of Clause 13 should be removed in its entirety. (Paragraph 55)	On reflection, we agree with the EFRA Committee, and we propose to remove the clause in question from the revised Bill.

5. Carbon Credits	
10. We recommend that the facility to purchase credits from overseas should only be exercised as a last resort. The Government should ensure that any purchases of credits from overseas do not prejudice a country's attempts to meet its own environmental objectives. Because of the serious implications of over-utilising this facility in terms of the UK's credibility on the international stage, combined with the potential for unforeseen consequences and the importance of pubic opinion, we recommend that this provision be strictly limited to a quantifiable amount to be advised by the Committee on Climate Change for each budgetary period. It should be for the Committee on Climate Change to determine if and when the purchase of overseas credits is appropriate. (Paragraph 64)	The Bill includes trading of international emissions credits within the UK net carbon account, just as is done for the Kyoto Protocol, including allowing Government to trade international emissions reduction credits as part of its approach to meeting the targets and budgets. We believe it is important that the Government and UK organisations can make effective use of international mechanisms for achieving emissions reductions at least cost to avoid making our targets needlessly expensive. The Kyoto Protocol's "flexible mechanisms" and the EU ETS are based on this principle to provide this option, and to act as a means of securing and coordinating international action and as a way of helping developing countries achieve low carbon economies. We agree that it is essential that any credits bought by the UK represent real emissions reductions which would not have taken place otherwise. For this reason we are working hard at international level to support continued improvement in the procedures for the international mechanisms, such as in the setting of baselines and for the establishment of additionality. Increased transparency and public scrutiny can also play an important role in ensuring high standards are met. Regarding calls for a limit to be set on the number of credits that can be purchased overseas, we have given this proposal careful consideration, acknowledging that one of the Bill's key aims is to set a framework for domestic action. There is considerable potential for cost-effective measures to reduce emissions in the UK and bring benefits to the UK economy, and the Government's detailed policies and proposals for meeting each five-year budget will be set out in a report to Parliament. We consider that the key factor in determining how far emissions are reduced under the Bill will be the level of the UK's targets and budgets. In terms of the balance between domestic and international action, the Committee will advise on the use of international emissions reduction credits when making recommendations on each budget, and we anticipate that this advice will take into account the most recent international circumstances and best practice. We would also note that the UK remains strongly committed to the international principle of supplementarity, which states that "the use of the [Kyoto] mechanisms shall be supplemental to domestic effort and…domestic action shall thus constitute a significant element of the effort made by each Party…". We therefore envisage that the final decision on the level of credits purchased will need to be taken in the context of the Government's overall policy framework for meeting targets and budgets: given the existing international rules on supplementarity and on the use of overseas credits in the EU ETS, we do not believe that it would be appropriate to place further limitations in the Bill on the number of credits that can be purchased overseas.

	In response to concerns about the transparency and accountability with which the use of emissions credits will be reported, there are a number of provisions within the Bill which ensure a high level of transparency and accountability in relation to the purchase of credits. The Committee will report annually to Parliament on progress towards meeting the budget, including the amount and type of credits used in doing so. There were also concerns raised about the level of parliamentary scrutiny of the framework for using credits. As recommended by the House of Lords Delegated Powers Committee we will require the first set of regulations on credits and debits to be subject to the affirmative procedure, thereby ensuring transparency and robustness.
6. Enforcement	
11. Although sanctions may not be either likely or real, we recognise that having an Act of Parliament has its own merits. By institutionalising the targets, the political pressure to achieve them will be increased. The Government of the day will also be subject to 'the court of public opinion'. (Paragraph 72)	Although we consider that the sanctions in the Bill are both likely and real, we welcome the EFRA Committee's point that the Bill will itself increase political pressure for the target to be met – this is reflected in the Bill's proposed approach to enforcement and sanctions.
12. If a target is missed, we recommend that a debate on a remedial action plan is held on the Floor of the House on an amendable Government motion subsequent to the publication of the Government's response to the annual progress report by the Committee on Climate Change. (Paragraph 73)	We anticipate a debate will be very likely once the Government lays its response to the Committee's report, although we consider that it would be very unusual to stipulate the need for these on the face of the Bill. While the Government is sympathetic to the idea of regular debates on climate change, this is an issue for Business Managers to consider through the usual channels. The Bill will be amended to require the Government to provide an explanation to Parliament for any failure to meet budgets, providing improved transparency and accountability.
7. The Committee on Climate Change	
13. The Committee on Climate Change should not be a policy-making or delivery body. It should be focussed on the provision of advice with regard to the budgets, and the publication of progress reports, but it must not be prevented from advising the Government on any policy	We agree that the Committee is not a policy-making or a delivery body. While the Committee will need to look at the potential to reduce emissions in each sector to inform its advice on budgets and targets and the progress towards meeting them, it should not be able to offer unsolicited advice on individual policies at any time.

matters that may come to its attention while carrying out its duties. (Paragraph 85)	
14. In order to establish the independence of the Committee on Climate Change, the Secretary of State should be required to accept its recommendations without further debate. This would position the Committee's advice alongside that of the Monetary Policy Committee whose interest rate decisions are not challengeable by the Chancellor of the Exchequer except under very extreme circumstances. (Paragraph 86)	This recommendation would make the Committee on Climate Change a de facto policy making body. The role of the Committee on Climate Change is to provide expert advice and the role of the Secretary of State is to make decisions taking proper account of that advice. To strengthen accountability, we intend to amend the Bill to require the Committee to give reasons for its advice on the level of carbon budgets and to require the Secretary of State to explain why if this advice has not been accepted.
15. We do not see that the Bill prevents the Committee on Climate Change from recommending the mid- and long-term targets, but it is not clear that the Committee will have this power. We recommend that by 2009 the Committee should review and recommend to the Secretary of State what the 2020 and 2050 target should be. We would not expect these to be less than 26% and 60%, respectively, below 1990 levels. In addition, the Committee should have the power and responsibility to make recommendations to the Secretary of State at any time regarding the mid- and long-term targets. (Paragraph 88)	As discussed in response to recommendation 4, we propose carrying out an early review of the 2050 target, asking the Committee on Climate Change to report by autumn 2009 on whether the target should be strengthened to ensure that any new target which is decided upon will have been reached following rigorous analysis. To add further weight to this process, we are amending the Bill to require the Government to seek and take into account the advice of the Committee before amending the target. We feel the proposal that the Committee may make recommendations at any time on the targets is not appropriate as this could undermine the certainty and stability we are seeking to provide to business (see also our response to recommendation 6).
16. It is right that the Committee on Climate Change should be composed of experts rather than representatives. Although the essential expertise required of the Committee is not explicitly listed in order of importance, the way it is listed in the Bill appears to suggest that economic interests are going to be more heavily represented than environmental ones. The schedule should be redrafted to dispel this impression (for example, by using alphabetical order). We also recommend that the impact of climate change upon biodiversity be added. (Paragraph 93)	We agree with the recommendation to list the desired membership of the Committee in alphabetical order, to avoid giving any impression of priorities. On the inclusion of biodiversity as one of the areas of expertise desirable in the overall composition of the Committee, we consider that it would be very difficult for the Committee to assess the impact of different UK budget levels on biodiversity in a meaningful and robust way in its advice on the level of the carbon budget. Where biodiversity may be relevant to any advice given by the Committee, it will (as a public body) already be under a statutory duty under section 40 of the Natural Environment and Rural Communities Act to “have regard, so far as is consistent with the proper exercise of those functions, to the purpose of conserving biodiversity”. We do not, therefore, intend to amend the Bill to include biodiversity as an area of expertise for the Committee, but would like to reassure the EFRA Committee that this is fully considered in the development of Government policy.

17. It is not in anybody's interest to have a strict fixed-term appointment of five years such that the entire Committee on Climate Change is potentially replaced at the end of every budgetary period. We recommend that appointments are for five years at least, and could be longer to allow their contracts to expire at different times. The Government should make them non-renewable so as to underpin members' independence of Government. (Paragraph 95)	We agree with both the EFRA Committee and the Joint Committee that there is logic in aligning the appointments to marry with the carbon budget cycle. We are now looking into how appointments are staggered to ensure there is sufficient continuity between budget periods so that members' contracts will not all expire at the same time. However, we also note that it is possible that the length of carbon budgets may need to change (reflecting changes in international practice), and there are therefore risks around stipulating precise terms of appointment in the Bill.
18. It is imperative that the staff and information resources available to the Committee on Climate Change are completely independent of Government. We recommend that independent consultants be asked by the Government to recommend the correct level of resources available to the Committee in order to establish that it is properly resourced. This should ensure that it can be truly independent of Government interests in conducting the analysis and research which it believes necessary to help ensure that the targets set out in the Bill are met. (Paragraph 101)	We do not consider it appropriate to ask independent consultants to recommend the level of the Committee's budget, as the secretariat and Government analysts will have a much clearer picture of the type of analysis it requires. The initial estimate put forward in the draft RIA totalled £820k as ongoing costs for the secretariat, based on 10–15 analysts. While it is only an estimate at this stage, our scoping exercise suggests that the analytical resources available to the Committee should be increased by around 50%. We continue to believe that the proposed ongoing research budget is sufficient, especially given the substantial increases envisaged for the secretariat. It is also likely that the Committee's research budget will need to be increased in the shortterm, to support its review of the 2050 target which was announced by the Prime Minister in September. In addition, as the former Secretary of State indicated in his evidence to the Joint Committee, we will invite the shadow Committee to comment on the proposed budget arrangements before they are finalised.
19. Given that the emissions forecasting model used by the DTI is adapted from its energy model, and the delays experienced in publishing the Government's Review of the Climate Change Programme, we question whether the current forecasting model is suitable for use by the Committee on Climate Change in drawing up budgets three budgetary periods (15 years) in advance. Our evidence suggests that the resources proposed for the Committee on Climate Change may quickly prove to be inadequate. We recommend that adequate resources are made available to the Committee on Climate Change for a 'bespoke' emissions forecasting model to be developed. Given the importance that Defra attaches to climate change, we are sure the Department will be able to find the relatively small sums involved by	It will be for the Committee and its secretariat to consider whether this is necessary. We continue to believe that the proposed ongoing research budget is sufficient, especially given the substantial increases envisaged for the secretariat. We will also invite the shadow Committee to comment on the proposed budget arrangements. It is conceivable, however, that in future the Committee may want to develop and enhance its own in-house models to supplement the outputs of the Government's energy and transport models.

reprioritising from elsewhere within its budget. (Paragraph 106)	
20. We recommend that the work of the Committee on Climate Change—including its minutes and advice given—should be posted on its website within one month of transmission to the Secretary of State. (Paragraph 112)	We agree that it is important that the Committee be as transparent as possible and are proposing to amend the Bill to require the Committee to publish minutes of its meetings, its advice on budgets and the reasons for it.
21. We strongly recommend that the Government commits to holding an annual debate on a substantive amendable motion on the Floor of the House, subsequent to the publication of the Government's response to the annual report produced by the Committee on Climate Change. (Paragraph 113)	We imagine that it is highly likely that there will be parliamentary debates on the Government's response to the annual reports of the Committee, but it would be very unusual to stipulate the need for one on the face of the Bill. While the Government is sympathetic to the idea of regular debates on climate change, this is an issue for Business Managers to consider through the usual channels.
8. Trading Schemes	
22. We recommend that the Government explains more clearly—prior to the final version of the Bill being produced—which trading schemes will be introduced using the enabling powers within the legislation. (Paragraph 117)	We set out below further details regarding the kinds of schemes for which we envisage using these powers: • The first application of the new powers will be to support the introduction of the Carbon Reduction Commitment. • The powers may also be used to introduce a household energy supplier obligation, to succeed the Carbon Emissions Reduction Target (CERT) which ends in 2011. • As the then Secretary of State explained during pre-legislative scrutiny, we do not envisage using the powers to support the introduction of personal carbon trading. It is difficult to specify further at this stage how the powers might be used: their very purpose is to maintain flexibility in supporting activities which enable us to meet the targets set in the Bill.
23. We recommend that the requirement for allowances to be allocated free (Schedule 2, Section 5 (3)) be removed from the Bill so as to avoid any unnecessary confusion, particularly for those industries and sectors that will be subject to these schemes. (Paragraph 121)	We understand the wording in the draft Bill caused some discussion over the Government's approach to allocation of allowances in trading schemes. Auctioning or other procedures for the sale of allowances will be done on a case by case basis through the Finance Bill. We will clarify in the Bill that it does not authorise making the allocation of allowances conditional on the payment of consideration; however, payment may be required under other legislation (whether by auction or otherwise).

9. International aviation and shipping	
24. The inclusion of the UK's share of emissions from international aviation and shipping will have significant implications for the validity of the 2050 target. We recommend that the Committee on Climate Change should be required to report on the UK's emissions from international aviation and shipping, whether or not they are counted as part of the statutory target, in order more accurately to inform its recommendations regarding budgets and targets which will affect all other sectors of the economy. Pursuant to this, the Government must make every effort to achieve international agreement as soon as possible on allocation mechanisms so that the powers provided for in Clause 15 (3) can be exercised. We further recommend that once international agreement is reached, the Committee on Climate Change should include the UK's share of emissions from international aviation and shipping in its recommendations for the targets. (Paragraph 128)	The UK is pressing internationally to establish an agreed basis for allocating international aviation emissions and for international aviation to be brought within a global post-2012 framework for addressing climate change, as an international solution would be the ideal way to address this issue. However, we acknowledge that global agreement in relation to international aviation emissions may be difficult to achieve. While we want to allow time for these discussions to take place, and potentially for agreement to be reached, we cannot afford to wait indefinitely. As the Committee recognises, including international aviation and international shipping emissions in the UK's targets could have an impact on both the level of the targets and on other sectors of the economy. We will therefore ask the Committee on Climate Change to examine the implications of including these emissions in the UK's targets, as part of its overall review of the 2050 target. To include international aviation emissions in the UK's targets, we would need a workable methodology to calculate "the UK's share" of these emissions, and one which took account of international progress. In addition, given that aviation emissions are likely to be included in the EU ETS soon, any methodology to include these emissions in the UK's targets would also need to be compatible with the way that emissions and credits are allocated under the EU ETS rules. Therefore, once the EU ETS rules have been finalised, we will ask the Committee for their advice on whether there is a methodology for including international aviation emissions which was workable and compatible with the EU ETS and takes account of progress in the UNFCCC and the wider international context, and on the impacts of adopting it. In the meantime, the UK is continuing to press for the inclusion of aviation in the EU ETS as soon as possible, ideally within Phase II (2008–2012). The UK has led this debate within Europe since the UK Presidency of the EU in 2005 when, under our chairmanship, the EU Environment Council agreed that emissions trading seemed to be the best way forward and called upon the European Commission to produce a legislative proposal by the end of 2006. The issues regarding international shipping are also complex, and given the difficulties in identifying a coherent trend in shipping emissions figures or the key drivers behind them, the Government does not currently forecast the UK's international shipping emissions. Our current

	"best estimate" of future emissions from bunker fuel sales is a continuation of the current “long-term average”, although we would not describe such an estimate as a forecast as it contains a significant degree of uncertainty. However, to ensure greater transparency, we also intend to place a requirement on the Secretary of State to report annually to Parliament on emissions from international aviation and international shipping in line with UNFCCC practice.

IMPLEMENTATION OF THE ENVIRONMENTAL LIABILITY DIRECTIVE—6TH REPORT (2006–07), PUBLISHED 12 JULY 2007

Conclusion/Recommendation	Government Response
3. Defra's consultation and policy approach	
THE CONSULTATION PROCESS AND THE TIMETABLE FOR IMPLEMENTATION **1. We express our disappointment that the Government is vulnerable to further infraction proceedings from the European Commission in addition to those already pending. (Paragraph 28)**	The United Kingdom is late in implementing the Directive, for which domestic implementing legislation should have been in place by 30th April 2007. This is a matter of profound regret to the Government, which is doing all it can to ensure a speedy progress towards implementation, which is expected in 2008 for England, Wales and Scotland, somewhat later for Northern Ireland. Should Commission infraction proceedings lead to an adverse judgment by the European Court of Justice against the UK, then article 228 of the Treaty would allow the Commission to request the Court to impose a fine. However, it is not expected that fine proceedings would ensue in the case of the ELD as the Government expects to have implemented the Directive before any initial ECJ judgment.
2. We recommend that before final decisions are taken on the policies to be adopted in transposing the Directive, the new Minister hold an open meeting with stakeholders at which they can discuss the key policy choices face to face. It is important that the list of those stakeholders consulted in this way is representative, and is published. (Paragraph 33)	The Government agreed with this recommendation and has acted upon it. The Minister for Climate Change, Biodiversity and Waste held a meeting with stakeholder organisations on 4th September to discuss the key policy issues involved in transposition of the Directive. The organisations invited reflected a representative range of those with an interest in the Directive. For the Committee's information, Annex A lists the organisations invited and those which attended. The Government is currently considering the range of views and arguments made at that meeting, together with consultation responses and the Committee's Report in deciding upon the way forward.
WERE THERE DEFECTS WITH THE CONSULTATION? **3. We were disappointed that the Government was unable to provide complete clarity as to how the ELD will apply in the marine environment, including the distances from shore to which it will apply, or what the competent authority will be. The Department must provide that clarity in time for the next round of consultation on the**	The regulations will apply to parts of the seabed and subsoil situated in any area designated under section 1(7) of the Continental Shelf Act 1964. They will also apply to waters out to a maximum of 200 miles from the baseline (i.e. within British Fishery limits). Detailed consideration has already been given to the question of a competent authority in the marine area, particularly in relation to devolution and taking into account a future Marine Bill.

draft regulations. It must also commit itself to resolving the question of how the ELD and the Common Fisheries Policy will interact. (Paragraph 41)	The Government can assure the Committee that the position on this and in relation to competent authorities generally will be fully set out in the forthcoming second consultation. The relationship between the Common Fisheries Policy (CFP) and the Birds and Habitats Directives has already been considered in the context of the Offshore Marine Conservation Regulations 2007. There are mechanisms under the CFP which allow measures to be taken which are aimed at the protection of species or sensitive areas, but the Environmental Liability Directive itself does not deal explicitly with this issue. The government will endeavour to explain the position as clearly as possible in its second consultation.
'TEMPORAL APPLICATION' **4. In order to give complete clarity to interested parties, we recommend that the draft regulations for consultation this autumn make it clear that the ELD will only apply to incidents which occur after the regulations come into force. (Paragraph 44)**	The Government agrees with this recommendation.
THE GOVERNMENT'S APPROACH TO IMPLEMENTATION **5. The Government must, in the cases where its own analysis show that there would be overall benefits from going beyond the minimum implementation requirement, properly explain the reasons for its policy choices. It should also make clear what sort of results a cost benefit analysis would have to show in order to justify it going beyond the minimum requirements of the Directive. (Paragraph 50)**	When decisions have been made on the policy issues involved, the Government will explain the reasons for its choices in a second public consultation on draft regulations during the Autumn. The Committee has noted that in a number of areas the Impact Assessment published as part of the first public consultation identified benefits greater than the costs of decisions to go beyond the minimum implementation requirement. The Assessment also identified the uncertainties inherent in predicting future incidents of environmental damage. Impact Assessments are one source of information assisting Ministers in reaching decisions on policy choices. However, a number of factors, in addition to those that can be quantified, are relevant to those decisions, including in this case the Government's presumption against goldplating EU Directives. Because a number of factors are relevant to decisions on policy, there is no unique and mechanistic relationship between the size of net benefits that can be quantified and the determination of the policy.
EXTENT OF STRICT LIABILITY **6. We did not receive a clear answer as to why biodiversity damage from non-Annex III activities should**	The policy in this regard is still under consideration and was further explored at the stakeholder meeting on 4th September 2007. The Government takes note of the Committee's

be treated differently, other than the Minister's general preference not to over-implement "unless there is a compelling case to do so". The consultation document merely set out a number of pros and cons of applying strict liability in this case. The Government has also provided insufficient evidence to back up its assurance that existing controls are sufficient to protect against GM damage. In its response the Government must explain the reason for its choice not to extend strict liability for biodiversity damage to non-Annex III activities. (Paragraph 54)	recommendation. The reasons for the policy decision in this area will be fully explained in the second consultation.
THE 'PERMIT' AND 'STATE OF KNOWLEDGE' DEFENCES *GENETICALLY MODIFIED ORGANISMS* **7. The Minister failed to provide a clear reasoning of the Government's preference for the way it has chosen to apply the 'permit' and 'state of knowledge' defences. Defra must do so by the time it embarks on its second round of consultation on the form of the regulations to implement the Directive. (Paragraph 62)**	Further consideration of these issues was given at the stakeholder meeting on 4th September. The policy in this area is still under consideration and will be fully explained in the second consultation.
FINANCIAL SECURITY **8. The Government must make clear in the regulations how it will give effect to the Minister's undertaking that the Government would be the first point of recourse for remediation in cases where the operator is not liable for any reason, and what role it will require the competent authorities to play. It must also make clear what resources will be made available to competent authorities to carry out this role, especially in the light of the expectation of a tight Comprehensive Spending Review for 2008–11. (Paragraph 66)**	The directive provides for the enforcement authorities to recover their costs of investigation and, if necessary, remediation, from the operator. There is no requirement in the directive for member states to remediate in cases where the operator is not liable or cannot be identified. Under existing legislation, enforcement authorities make judgements about whether to undertake remediation themselves in circumstances in which the operator cannot be made to do so. The Government anticipates that these arrangements will continue after the ELD has been transposed. The Impact Assessment published as part of the first public consultation contained estimates of the possible costs of enforcement based on historical incidents of damage. These sums are being considered as part of the normal departmental budget planning processes and in the context of the Comprehensive Spending Review.

WHETHER THE ELD SHOULD BE EXTENDED TO APPLY TO NATIONALLY PROTECTED BIODIVERSITY **9. We question the Minister's claim that 90% of SSSIs will enjoy protection under the ELD and ask Defra to demonstrate how it reached this figure. (Paragraph 77)**	The Minister, in his oral evidence to the Committee, said that "approximately 90% of SSSI's will contain some European features because of the overlap between Natura 2000 sites and the Birds and Habitats Directive and for other reasons." The ELD protects the species and habitats listed in the Birds and Habitats directives (European features). These will lie (i) within sites designated under those directives (Natura 2000 sites) (ii) outside Natura 2000 sites but within SSSIs, and (iii) outside both Natura 2000 sites and SSSIs. According to figures supplied by Natural England, 75% of SSSIs overlap with Natura 2000 sites (by area not number), and thus definitely contain European features. Natural England estimates that a further 15% of SSSIs (again by area not number) are likely to contain some European features, although not in sufficient quantity or quality for such SSSIs to be designated as Natura 2000 sites. The estimate of 90% was supported by the Joint Nature Conservation Committee.
10. The Minister failed to make a convincing case for not extending the scope of the ELD so that, as well as protecting EU-protected biodiversity, it covers nationally-protected species and habitats too. We recommend that the Government should exercise its discretion to include nationally-protected species and habitats within the scope of the Environmental Liability Directive. In so doing it would be able to trade off any criticism of 'gold plating' against the gains arising from a better and more consistent implementation of the Directive. (Paragraph 80)	The Government notes the Committee's recommendation. Responses to the first consultation indicated that NGOs, regulators and members of the public favoured extending ELD to national biodiversity, whereas business generally did not. This issue was further considered at the stakeholder meeting on 4th September. The policy in this area is under consideration. The Government's decision will be fully explained in the second consultation.

British Waterways—7th Report (2006–07), published 31 July 2007

Conclusion/Recommendation	Government Response
RECOMMENDATION 1: STUDY INTO PUBLIC BENEFITS OF WATERWAYS	
1. The waterways network is a public asset, and Government has a responsibility to keep the network in good order. We therefore commend the commitment of Government, British Waterways and individuals over the past decade in improving the waterways network, and their success in doing so. Vibrant and flourishing canals and rivers provide significant economic, environmental and social benefits. Government should carry out a study to determine the full social benefit of the waterways network as a basis upon which to make future funding and strategic decisions. (Paragraph 18)	The Government supports this recommendation. We fully recognise the economic, environmental and social benefits of the inland waterways and the role they can play in supporting our objectives in health, recreation, regeneration, social inclusion, conservation of heritage and the environment. Numerous studies have been carried out on the contributions individual waterways can make in delivering Government objectives, (for example BW has just published a report on the economic benefits of the Welsh canal network), but it would be helpful to form a cohesive view of the ways in which the inland waterways contribute more widely to our objectives. We will carry out further research when resources allow, possibly as part of follow-up work to recent preliminary analysis carried out by Sheffield Hallam University of the economic benefits of inland waterways commissioned by the Inland Waterways Advisory Council (IWAC).
RECOMMENDATIONS 2, 3, 5, 9: 2006/07 IN-YEAR BUDGET CUT AND FUTURE FUNDING	
2. We acknowledge the difficulties British Waterways (BW) has faced in the last two years in having to cope with lower-than-expected grant levels. The 2006–07 in-year budget cut was particularly disruptive because BW had already committed resource to a series of projects. We have previously criticised the Department in our Report on Defra's Departmental Report 2006 and Defra's budget for not providing sufficient certainty to its delivery bodies about grant reductions. The Department should have recognised the particular disruption an in-year budgetary cut would have caused to BW, and should have looked at other ways to bring its budget into balance. We commend BW for adapting to these financial pressures at short notice. (Paragraph 23) **3. we are extremely concerned at BW's forecasts of the impact of a RPI -5% settlement on the maintenance of its**	Defra faced considerable budgetary problems as a result of unfunded pressures in the 2006/07 financial year. BW, in line with other Defra delivery bodies, was asked to make a contribution to managing these Departmental pressures. Capital investment was unaffected. In-year cuts are not ideal and take place in context of tight government spending priorities. Ministers had meetings with the Chief Executives and Chairmen of the Defra network to explain and explore the position. Officials forewarned BW of budgetary pressures as part of their regular contact with BW and advised them of the exact cut as soon as they were able to do so. BW and Defra are working closely together on planning for the CSR07 period. Defra's allocation to BW will be set in the context of the Department's overall priorities and financial resources. In preparation for the Department's CSR settlement which is expected in October, we are looking at scenarios for different spend levels and how impacts are to be managed in the context of options that BW is developing to inform a new long term strategy that will deliver a network that is sustainable and affordable. The strategy which will be agreed with Defra should set a transparent framework for BW decision making in the future. It will allow us to understand what a more self-sufficient network would look like over different time periods and how that might be financed so informing allocations to BW for the CSR period.

waterways network. (Paragraph 40) **5. The most important outcome from the CSR 07 negotiations must be to secure the future stability of the waterways network; something that the Government and BW both desire. We trust that BW and Defra will put their recent disagreements aside and work together closely to agree a CSR 07 outcome that ensures this stability. We expect Defra to consider carefully BW's claim that additional capital funding will be necessary for each year of the CSR 07 period if its grant settlement continues to reduce in real terms. (Paragraph 43)** **9. We fully support BW's desire for a longer-term funding contract with Government to provide greater stability to the waterways network, and remind Government that this was recommended in the Policy Review of 2004–05. Government should ensure such a contract is agreed sooner rather than later. (Paragraph 63)**	Defra and BW recognise the value of giving BW more security in its long term funding so that it can be more certain in its decision making, but the Department, like all other Government Departments, needs to retain some flexibility over budgets within what is likely to be a tight CSR settlement. We will continue to consider this issue in the context of the new strategy through which Defra and BW will agree key outcomes and performance indicators applicable to BW's business and maintenance of the network. These will be delivered through grant and through continuing investment of commercial income.
RECOMMENDATION 4: NAO VIEW ON BW FINANCES BETWEEN 2002–2012.	
4. We would welcome the National Audit Office's (NAO) view on the correct interpretation of the conflicting accounts given by the Department and BW about BW's finances between 2002 and 2012, taking into account whether BW's forecast income streams from a variety of sources—property, Government grant or elsewhere—are sufficient to maintain the network during the coming years. We recognise that the NAO has no audit access rights to BW and thus the NAO's work would need to be on the basis of a review of papers held by the Department and of seeking the views of British Waterways, as appropriate. (Paragraph 42)	Defra will work with NAO to enable them to respond to this recommendation.

RECOMMENDATION 6: FREE ENTRY TO THE NATIONAL WATERWAYS MUSEUM	
6. We recommend the Department for Culture, Media and Sport look favourably on introducing methods by which the Waterways Trust could adopt a free-entry policy to the National Waterways Museum—common with some other national museums—and thus increase visitor numbers to provide greater security for the care of the national assets which are its responsibility. (Paragraph 45)	It is for the trustees of the National Waterways Museum to assess the continuing financial viability of their business model. The Department for Culture, Media and Sport is working with the relevant stakeholders to ensure the museum's collection is conserved and made accessible to audiences as resources allow.
RECOMMENDATION 7 BW SELF-SUFFICIENCY	
7. We agree with BW senior management that it is healthy for the organisation to aim to lessen its dependency on Government in the long-term. If BW is to keep its ambition to become "largely self-sufficient", both Government and BW need to provide much more detail about what exactly this means in practice. They must also produce a detailed plan about how it can be achieved. Government should make it clear that it recognises the waterways network as a public asset and that it has a national responsibility to ensure the network is kept in good order. It must also recognise that income from property development is finite and may not always be available to compensate for further reductions in Government support. (Paragraph 51)	The Government is happy to confirm that we recognise that British Waterways' network of canals and rivers are a public asset which should be managed in the public interest. We look to BW to manage these waterways on behalf of government to ensure public policy objectives are delivered as set out following the 2004/5 policy review. The new strategy referred to above will address the possibilities over time for more self-sufficiency taking into account risks around growth in commercial income.
RECOMMENDATION 8: INCREASING BW INCOME	
8. We recommend that Government fully support, and provide assistance to, BW to ensure that it achieves its ambitions to operate on waterways other than those it owns or manages. Government should also grant BW an increased borrowing capability. We also confirm that	The Government supports in principle BW's ambitions to invest in land on waterways other than those it owns or manages. BW needs to work with other navigation authorities to gain their support.

there is a strong case for providing BW with income gained from planning obligations under Section 106 of the Town and Country Planning Act—or from planning gain supplement, if introduced by Government—in respect of the increase in property prices realisable from waterside developments. (Paragraph 62)	At present increasing BW's borrowing limits would put further pressure on Defra's DEL which cannot be considered in the short term. However, at Defra's encouragement BW is currently undertaking a status review to identify whether a different institutional structure could allow it to expand its borrowing powers in order to increase investment in the waterways. There are likely to be many calls on the Planning Gain Supplement (PGS) (if introduced)—but Government recognises the regeneration benefits of waterways and that BW has a case under section 106 or PGS—dependent on the decisions made by local authorities about how to use section 106 or PGS funds. Defra will ask the new Interdepartmental Working Group (see recommendation 10) to keep this matter under review.
RECOMMENDATION 10: DIRECT CONTRIBUTION BY OTHER DEPARTMENTS TO BW	
10. We conclude that there is a strong case for other Government departments—such as Culture, Media and Sport, Transport and Communities and Local Government—to make a direct contribution to BW's funding, to reflect the contribution BW makes to the agendas of those departments. We recommend that Government prepare proposals to ensure this is achieved, as part of the next CSR review. (Paragraph 65)	As the single Government sponsor of BW (in England and Wales), Defra is best placed to lead in taking a holistic view of BW cross-cutting role recognising the whole plethora of benefits associated with waterways. Defra will set up an Interdepartmental Working Group to formalise and strengthen its contact with other Departments and make sure that the potential benefits of waterways are understood. Other Government Departments have the flexibility to fund the inland waterways sector direct where it can help deliver specific policy requirements, for example through grants for regeneration and freight projects where funds are provided to reflect the contribution of inland waterways to Departmental objectives.
RECOMMENDATION 11: BW STATUS REVIEW	
11. We welcome BW's confirmation that privatisation is not a serious option for BW's future structure, and we strongly share this view. The waterways network is a public asset providing wide benefits to society and thus some Government funding will always be necessary. In its response to this Report, Government should rule out privatisation as an option for the waterways network, and make clear its reasons for so doing. However, as part of the Government response, BW should state why privatisation was included in its strategic options brief in the first place. It should also present to this Committee the financial analysis which confirmed privatisation as an option. (Paragraph 69)	Privatisation of BW is not the policy of Government or BW. BW included it as one of the nine broad structural options in the original request for proposals which sought competitive tenders from potential advisors. This was because BW took the view that all options should be considered and any future recommendation to Government would have been evaluated against all possible options including privatisation. No financial analysis was carried out in reaching this decision, because this is what the strategic options review is intended to supply. The final terms of reference for the appointed advisors are being prepared by BW in consultation with Defra and the Scottish Government and will make clear that any option must maintain its waterways in long term public ownership in a manner that ensures their long-term financial security.

RECOMMENDATION 12: BW ENVIRONMENTAL HERITAGE STRATEGY	
12. We recommend that BW develop an environmental heritage strategy for the waterways, in tandem with the Waterways Trust. This should involve all interested parties, and could be orchestrated through the British Waterways Advisory Forum. (Paragraph 74)	BW includes environment and heritage covering the natural and/or historic environment in its corporate planning and these issues will be included in the new strategy to be agreed with Defra. As owner of the largest number of historic assets of any government agency, BW already works closely with English Heritage and the Heritage Lottery Fund. The British Waterways Advisory Forum (BWAF) has already set up a working group to study heritage. BW will examine, in consultation with The Waterways Trust and the BWAF, the need for further work to be undertaken.
RECOMMENDATION 13: BW TRAIL TENDERING SYSTEM FOR MOORINGS	
13. We are disappointed that British Waterways (BW) did not inform us in evidence about the introduction of its trial tendering system for mooring allocation, and note the concerns of the boating community that the new system may further increase the cost of boating. We are concerned that the permanent introduction of such a system could make boating too exclusive. (Paragraph 78)	BW notes the Committee's concern. However the design of the trial tendering scheme was far from complete at the time of the evidence sessions and the pricing of moorings was not the prime focus of the Committee's inquiry. BW will ensure the Committee's input is taken into account as part of the public consultation that will take place on the trial tendering of mooring vacancies. The trial tendering system for mooring allocation process will only apply to long term moorings directly managed by BW that become vacant. This is a pilot exercise starting in late September which will last for a year with interim reviews to assess the effectiveness of the process to determine whether it continues for the full 12 months. Feedback from customers will be gathered throughout and views from boating interest groups will be invited at the six month review leading up to the formal written consultation at a later stage. BW and Defra are liaising on the progress of this pilot. The moorings managed by BW are part of a wider inland moorings market and BW must ensure that any pricing of moorings complies with competition law. Prices held artificially below the market rate are as potentially anticompetitive as are excessive prices. The provision of increased numbers of moorings should, over time, contain any increases in market price.
RECOMMENDATION 14: BW CONSULTATION OF COMPANIES USING THE NETWORK	
14. We are concerned that inadequate maintenance of the waterways network could adversely affect the business of holiday hire-boat companies, cruise companies and others who depend on the network for a living. BW must ensure that the views of those companies are heard when it is prioritising its	BW consider that they have a good working relationship with the British Marine Federation and hold frequent discussions with their major boating trade customers. They value the views of network users and take their concerns very seriously, balancing where they can the needs of the network as a whole against those of individual companies. BW confirm that they will continue to ensure the opportunity for network users to participate in discussions about BW decisions relating to spending on the waterways infrastructure and dredging etc which directly affect them.

maintenance work responsibilities, particularly in the context of the current financial pressures and a possible shortfall in spending on 'major works' on the network during the CSR 07 years. (Paragraph 81)	
RECOMMENDATIONS 15: LICENCE AND MOORING FEES	
15. We also note boaters' concerns that significant increases in licences and mooring fees could have an adverse impact on growth in leisure boating on the network. The boating community is already facing increasing costs because of the recent removal of the EU derogation covering the use of red diesel fuel for leisure boats, despite the Government's opposition to such a move. We recommend licence and mooring fees should be kept at a level that maintains a high level of individual participation on the network. (Paragraph 82)	Boat numbers on BW's network are at a record high. However BW's plans do include provision for boat licence increases significantly above inflation in the next three years. Recognising the role of the hireboat industry in increasing participation in boating, and the industry's need to set brochure prices early for 2008, BW recently announced that notwithstanding the general strategy of increasing licence prices in real terms, it would limit the increase in hireboat licences to 3.3% for 2008. Consultation on the other potential licence increases is set to begin shortly. It will clearly be important to get the balance between increased revenue and individual participation correct. As to mooring prices, BW is a participant in a market and must comply with competition law in the setting of its prices (see also the response to recommendation 13). Government look to BW to achieve value for money in all its activities and to set a market price for its services. All net income from BW activities is reinvested back into waterways maintenance for the benefit of all. Access to the waterways for all is an important public policy objective but this can be achieved in a number of ways without affecting BW's requirement to operate commercially in running its business.
RECOMMENDATION 16: RESIDENTIAL MARINA BERTHS	
16. In its response, BW should state its expectation of how many of the 10,000 new marina berths required by 2015 will be occupied by boat-residents. (Paragraph 83)	These berths are being created by private sector investors who will respond appropriately to demand for residential moorings. The market, rather than BW will determine the figure. In general BW would expect to see an increase in the proportion of berths provided for residential use, and is encouraging local planning authorities to take a more positive outlook than currently being shown. This is a subject which could be usefully put on the agenda of the new Interdepartmental Working Group (see recommendation 10)
RECOMMENDATIONS 17 AND 18: INCREASING FREIGHT TRANSPORT ON THE WATERWAYS	
17. If the Government is serious about transferring more freight onto the waterways, companies themselves require further financial incentives to make this move, in	The promotion of alternatives to road freight rests with the DfT. This promotion is done on the basis of maximising the carbon (and other) benefits to society. The DfT uses mode shift from road to rail and water, as well as road efficiency programs, to minimise the overall impact of moving

addition to the existing Freight Facilities Grant. We recommend that the Government conduct a review to examine the possibility of introducing a carbon credit scheme to encourage more businesses to move onto the waterways. (Paragraph 92) **18. Given the potential carbon savings to be derived from an increase in freight transportation on the waterways, we recommend that Defra form a joint industry/Government body fully to evaluate the opportunities that exist for freight and make recommendations as to where the responsibility for promoting the uptake of these opportunities should rest. (Paragraph 93)**	goods. The current method of assessment of Freight Facilities Grants (FFG) includes a component for carbon savings. So Government captures the benefits of carbon savings now when making investments through the FFG scheme. BW has taken the opportunity to promote freight transport where it can, for example, BW worked closely with a number of stakeholders, including Defra, the Olympic Delivery Authority and DfT, to put in place a scheme to build a new £19m lock at Prescott Channel. This will allow waterborne freight to be carried right into the heart of the Olympic site as well as long-term legacy benefits for the waterways and the area as a whole. Government recognises that the responsibility for promoting and facilitating and delivering the carriage of freight on the whole inland waterways network does not lie with any one body. The Government also recognises that the movement of freight is undertaken by a commercial market. To improve market knowledge, DfT commissioned a study to consider which waterways are best suited to freight uses. The aim of this work is to widely inform the market as to which waterways have the greatest commercial potential for freight use. This will be published later this year and it will be available to all organisations (commercial and trade groups) seeking to promote the use of waterways as an alternative to road transportation. Following the outcome of this study, Defra will ask the new Interdepartmental Working Group (see recommendation 10) whether there is a need to set up an Industry/Government group to consider the wider issue as to how Government and industry might further encourage more businesses to move onto the waterways e.g. though a carbon credit scheme.
RECOMMENDATION 19:. BW'S RELATIONSHIP WITH NETWORK USERS	
19. Whilst we acknowledge that recent moves—such as the creation of the BW Advisory Forum—are in the right direction, BW needs to do more to develop an effective direct relationship with the users of its network, particularly those who are significant 'customers' such as boat residents, operators and licence holders. (Paragraph 97)	BW organises a wide range of consultative forums including the British Waterways Advisory Forum, Boating and Towpath National User Groups, twice yearly local consultation meetings and written consultation on major issues. BW will discuss this issue with the BWAF to see if any changes need to be made.
RECOMMENDATIONS 20 AND 21: BW'S RELATIONSHIP WITH LOCAL AUTHORITIES	
20. BW has room for improvement in the way it works with others on projects. Given the complicated nature of	We agree that BW needs to work closely with councils in whose areas waterways have strategic significance. Individual waterways will sometimes be of considerable importance to individual

partnership arrangements, it is vital that BW devote resources to developing mutual trust with other organisations in the public, private and voluntary sectors. It should also ensure that it employs good management at all levels who can demonstrate effective communication and listening skills. We support a closer formal relationship between BW and the Local Government Association (LGA) so that examples of best practice can be collated and promoted to those areas where the relationship between BW and local authorities can be improved. (Paragraph 101) **21. Issues related to the waterways are of key importance to local authorities in many parts of England and Wales. We were therefore disappointed by the initial lack of evidence from local authorities to our inquiry, and the fact that we had to prompt the LGA for a submission. (Paragraph 102)**	authorities, but not typically for their own sake, e.g. they will be significant for an adjoining regeneration scheme or be of environmental importance. BW considers it has good relationships with scores of local authorities served by its network. Such relationships have been crucial to the successful waterway driven regeneration of recent years. BW has made contact with the Local Government Association (LGA) at senior level and work is in hand to enhance and deepen the relationship between the two bodies. BW is also in dialogue with the Town and Country Planning Association. LGA is prepared to explore with its membership and BW the case for a national BW/LG forum to help shape the background to this individual engagement but its viability would be dependent on sufficient councils seeing value in it.
RECOMMENDATION 22: GOVERNMENT VIEW ON EXPANSION OF THE NETWORK	
22. Government itself often benefits from expansion of the network because of regeneration effects and the income generated through property development. Given these benefits, Government should make clear in its response its current position on the expansion of the network, and how it aims to address the real possibility that many projects will not get off the ground because of the funding pressures on BW. (Paragraph 105)	In seeking to achieve a sustainable long-term strategy (referred to earlier) Defra and BW will be considering the size of network given the need to balance managing maintenance costs, maximising commercial revenue, and achieving regeneration opportunities etc. Government supports restoration where there are overriding public benefits of doing so and the main beneficiaries can pay for long term upkeep.
RECOMMENDATION 23: BW STRATEGY ON FLOOD RISK MANAGEMENT/GOVERNMENT REVIEW	
23. In its response, BW should set out its current strategy for flood risk management and for responding to flood emergencies, and say how it expects this role to develop in the future. We call upon Government to ensure that its independent review of the 2007 floods fully takes into account the role of BW and its waterways network in the	A wide-ranging and thorough review is being established by the Government to identify any lessons to be learned for the way that we manage and respond to flooding events such as those experienced recently. This will be led by an independent Chair, Sir Michael Pitt. All relevant aspects will be included. The Government is aiming to publish initial findings by the end of the year and subsequently a formal report.

future strategy for flood risk management and emergency flood response. (Paragraph 109)	BW's contribution to flood management on a national scale is quite limited as canals are not designed to take flood flows but locally its contribution can be quite significant. BW is currently working on a national flood management plan which will set out the framework for addressing current and future risks to its network (due for completion at end 2008).
RECOMMENDATIONS 24 AND 25: DEFRA/BW RELATIONSHIP	
24. Communication between Defra and BW must be improved. BW relies on Government for much of its funding, and therefore has a responsibility to ensure important business decisions and complex terms, concepts and models are explained clearly to its sponsor Department. The Department must also ensure those officials who deal with BW on a regular basis have a thorough understanding of these concepts, so they can brief ministers accordingly. (Paragraph 122) **25. A new minister is now in charge of BW; we believe this is the perfect opportunity for a fresh start in the relationship between the Department and BW. They must now both work to improve relations in the final negotiating period of the CSR process and beyond. (Paragraph 123)**	Communication between the Minister responsible for BW, officials and BW is good. The new Minister and officials are taking opportunities to visit the waterways and meet key BW staff and stakeholders. The Shareholder Executive is also working closely with Defra to reach agreement on a properly transparent relationship, driven by an agreed strategy, clear objectives and consistent financial information. In addition, the Shareholder Executive will work with Defra to monitor BW performance and ensure there is clarity on all sides regarding both BW's overall financial performance and its delivery of agreed objectives.

CLIMATE CHANGE: THE "CITIZEN'S AGENDA"—8TH REPORT (2006–07), PUBLISHED 13 SEPTEMBER 2007

Conclusion/Recommendation	Government Response
2. Information and awareness raising	
STIMULATING BEHAVIOURAL CHANGE	
1. Raising awareness and citizen involvement at a domestic level is fundamental to tackling climate change. However, we remain unconvinced that all that needs to be done to maximise this is actually being done. We are concerned that the Government is giving out mixed messages and continues to display a fundamental lack of joined-up thinking. It is clear that so far efforts to alert the public to the dangers of climate change, and the need for personal behavioural change to deal with it, have met with mixed results. More needs to be done to achieve greater co-ordination of publicly funded messages and strategies to deal with the problem so that people are not left feeling that they cannot make a difference. We call upon the Government to review its efforts in this area and publish—within six months—details of its proposals for a more effective public communication strategy in this area. (Paragraph 18)	Awareness of climate change is now almost universal (97%) as is concern about its impact (81%) but there is considerable confusion about how individuals can address it (only 26% feel they can influence climate change). This is in part due to the confusing and often contradictory messages on climate change in the media and from the many organisations involved. Our research also suggests that the public now feel that overt Government leadership is both missing and would make a direct difference to their level of personal engagement. Consequently Defra's communication strategy was revised in the second half of last year. This involved working closely with DfT and hence the joint development and then the launch of the Act on CO_2 brand, which is designed to work ***across*** government climate change communications and be suited for "action-oriented" campaign work. DfT have been running an advertising campaign on smarter driving and car purchasing since earlier in the year and Defra has developed the "Footprints" advertising campaign. (Hitherto, Defra had always devolved mainstream public facing campaigns to its funded delivery bodies.) This is a multi media campaign of TV, press, on line and public relations activity that was launched in July. This complemented and linked into other Defra public facing initiatives such as the launch of the web-based Act on CO_2 calculator. The initial results of this have been very encouraging for the advertising campaign, with a comparatively high level of awareness generated (on a relatively modest media spend) and success in driving nearly half a million visitors to the website to assess their personal footprint on the carbon calculator. DfT and Defra Communications teams have recently appointed the same specialist marketing suppliers (advertising, media, research and marketing agents) as another means of getting our publicity more "joined up" and messages to the public on climate change more consistent and hence less confusing. DEFRA and DFID are also working closely to ensure joined up messages to the public on how climate change impacts on poor people and on efforts to reduce global poverty.

	We are continuing to review achievements to date, and accept that there is more to be done, especially: • Building on this initial pilot, a high impact and sustained communications campaign (similar in scale to other successful Government behaviour change campaigns such as drink - drive, anti smoking etc); and • Taking further steps to enhance the coordination of climate change communications beyond this (especially from delivery bodies and other government departments) both in terms of consistency of message and exploiting opportunities to link them together using the unifying brand of Act on CO_2. Defra is developing its proposals as part of a more sophisticated strategy based on social marketing principles, including the identification of key behaviour change goals and a more detailed audience segmentation. Funding for this work will need to be considered later this year alongside other priorities following Defra's CSR settlement. It will publish plans once the future direction is agreed. Defra has meanwhile treated civil servants as an audience segment and liaised with internal communications managers across government to publicise Act on CO_2 messages. Government departments have encouraged staff to calculate their carbon footprint on the Act on CO_2 calculator, promoted the launch of the Act on CO_2 campaign, invited staff to sign up for climate change seminars and film screenings (An Inconvenient Truth). There has also been a co-ordinated approach to Energy Saving Week, with cross-departmental competitions and the opportunity for staff to ask questions about climate change which will be published within every department.
ENERGY SAVING TRUST	
2. Given the urgency the Government purports to place on tackling the threat of climate change, we recommend that the Government ensures that the Energy Saving Trust does not suffer the consequences of any tightening or reprioritising of the Departmental budget, as the cut in funding in 2006–07 suggests it did. (Paragraph 20)	The Government recognises the value the Energy Saving Trust brings to helping the Government meet its climate abatement targets. We have provided the Trust continued and significant sponsorship funds since its inception. The work of the Trust is integral to underpinning our household energy efficiency and carbon abatement policies and the Trust is recognised to be a trusted independent voice at a time when we need consumers to act further. The impact of, for instance, the Trust's Energy Saving Recommended scheme is testament to this. Future support for citizen engagement, including the role of the Energy Saving Trust, will be part of Government's Comprehensive Spending Review (CSR) priorities.

3. In its response the Government and Energy Saving Trust must provide details of the future of the Sustainable Energy Network pilot and if so, whether the intention is to roll this out more widely and over what timescale. Furthermore, the Energy Saving Trust should provide details as to how the 50% figure for overall carbon savings was determined, as we are concerned that tools to calculate domestic emissions are still at a very early stage of development. (Paragraph 22)	The Trust seeks to roll-out the Sustainable Energy Network on a national basis by the end of October 2008. Full roll-out can, though, only progress on the basis that appropriate funding is available beyond 07/08, which hinges on decisions following the CSR for 2008–2011. In the Review, Government will be looking at the best way of providing advice and support to households. The Trust has a two phase proposed roll out in England, the first to commence immediately after a positive decision on funding and the second to follow soon after. However, given the readiness of the North West Region and the active support for consumer transport activity to be provided through the network it has been agreed to further accelerate the roll-out of the Sustainable Energy Network in the North West Region. The Trust has agreed to provide the Committee information on their emissions calculations directly.
4. We recommend that additional Government funding is made available to the Energy Saving Trust specifically to tackle greenhouse gas emissions from personal transport. We recommend that the Department for Transport (DfT) recognise its responsibility to ensure that the EST has appropriate funding to pursue its transport emissions reduction programme. The DfT should now confirm what steps it will take to tackle this problem. (Paragraph 23)	The Department for Transport has provided £225,000 of funding to the Energy Saving Trust in the 2007–08 budget to provide consumers with transport advice and information about the DfT's Act on CO_2 communications campaign through the Energy Saving Trust Advice Centres. EST will report to the DfT on the outcomes of this initial work. This will help inform the EST's business planning process for 2008–09, what funding will be available in the future for personal advice on transport, and how EST contributes to the department's activities aimed at encouraging lower CO_2 emissions from personal transport. EST's work with DfT in this area complements the Government's wider programme to promote changes towards more sustainable patterns of travel behaviour. This includes using a range of measures collectively known as Smarter Choices, such as workplace, school and personalised travel planning.
PLEDGE SCHEMES	
5. Pledge schemes clearly have a role to play in raising awareness about climate change and what individuals can do to address this problem. However, there is a plethora of such schemes with a multiplicity of messages. This degree of multiplicity may result in confusion,	The Government agrees that coordination of climate change communications is vital to provide the public with much greater clarity through consistency (see response to recommendation 1, above). As part of an attempt to develop greater consistency in such engagement activities, we have, for example, developed a standardised set of data and calculations showing the CO_2 emissions from everyday actions. This is used in the Act on CO_2 calculator and is being made freely

particularly as schemes are often couched in different terms—some to save tonnes of carbon dioxide, others to reduce your carbon footprint, and others to 'save your 20%'. We are also concerned by the lack of appropriate monitoring of these pledge schemes. Whilst there is some evidence that information and awareness translates into action, it is difficult to be sure how far this impact goes. We recommend that Defra invite the promoters of pledge schemes to attend a seminar designed to address these problems and improve the quality, effectiveness, objectivity and performance of such schemes. Monitoring of impacts must also be co-ordinated. (Paragraph 31)	available to organisations wishing to encourage behaviour change in this area. A wide range of organisations are already making use of this opportunity. We also recognise that monitoring and evaluation of engagement activities is essential, although challenging: there is, for example, ongoing work being carried out to assess the impact of initiatives such as the Act on CO_2 campaign, the Climate Challenge Fund and the Energy Saving Trust's activities, and to share lessons learnt. Government accepts the recommendation and will seek to host a seminar to encourage the promoters of pledge schemes, specifically with the objective of encouraging "improvements in quality, effectiveness, objectivity and performance".
THE ROLE OF LOCAL GOVERNMENT	
6. Although there is a lot of ad hoc activity, there is no concerted central Government strategy to help local authorities to develop local greenhouse gas reduction programmes. Furthermore, it appears to us that community and local government initiatives are often taking place in spite of, rather than because of, Government activity. The Government must take visible steps to remove barriers to encourage local authorities to be more proactive in this area. It should publish before the end of 2007 its proposals to achieve this objective. (Paragraph 40)	Government policy to support and incentivise increased local authority action on climate change is set out in the 2006 UK Climate Change Programme and the 2006 Local Government White Paper. Since publication a new national indicator set has been developed, as part of the Comprehensive Spending Review 2007, that reflects the Government's national priorities. For the first time, there will be performance indicators on climate change mitigation which will send a clear message to local councils about where we expect them to focus their carbon reduction efforts—in their own operations and buildings, through the delivery of their services, and as leaders of their communities. These indicators are designed to incentivise more authorities to reach the levels of the best. Performance against each of the 198 indicators will be reported for every Local Strategic Partnership in a unitary authority or county council (where it is a two tier area). The Government has also recently published the 'Energy Measures Report: Addressing Climate Change and Fuel Poverty – energy measures information for Local Government'. The report sets out the steps which local authorities can take to improve energy efficiency, increase the levels of microgeneration and other low carbon technologies, cut greenhouse gas emissions and reduce the number of households living in fuel poverty. It does this by focusing on key local authority activities such as community leadership, planning, housing, transport and the powers which local authorities already have at their disposal.

	It also seeks to pull together existing sources of help and advice to local authorities on climate change and fuel poverty, such as EST's practical help service, into one place. The guidance will assist Local Authorities to perform well against the new performance indicators on climate change. Additionally in 'Planning for a Sustainable Future' the Government committed that it would set out clearly in the Planning Bill, the role of local planning authorities on energy efficiency and climate change. Future funding in this area will need to be considered alongside other priorities following Defra's CSR settlement later this year.
7. Funding and activity clearly needs to be coordinated at a regional level between local authorities, Regional Development Agencies, and the Energy Saving Trust's Energy Efficiency Advice Centres and Sustainable Energy Networks, amongst others, to ensure that everyone has regional access to credible and independent advice, whilst avoiding unnecessary duplication of effort. The Government must make clear in its response how it proposes to do this. (Paragraph 40)	See recommendation 6 above
3. Household energy efficiency	
NEW BUILD—THE CODE FOR SUSTAINABLE HOMES	
8. The Government must set out a clear timeline delineating the proportion of all new housing stock which will be built as 'zero carbon' homes on a year by year basis. We further recommend that the 2016 Zero Carbon Homes Taskforce incorporates within its terms of reference the intention to report on steps to be taken to achieve 'zero carbon' homes as soon as possible. (Paragraph 52)	Following a consultation exercise during the first half of the year, the Government published alongside the Housing Green Paper in July, a policy statement 'Building a Greener Future' which set out a clear timetable for zero carbon homes. The timetable involves three steps: moving first, in 2010 to a 25 per cent improvement in the energy/carbon performance standards set in Building Regulations (Code for Sustainable Homes level 3); second to a 44 per cent improvement in 2013 (level 4); and then zero carbon in 2016 (level 6). These steps would be achieved through changes to the Building Regulations. The policy statement also set out the Government's definition of zero carbon.

	The Government believes that a phased approach in this way will be more effective than specifying that a proportion of new homes should be zero carbon on a year by year basis. This is to allow the industry to plan for the change, test approaches, and for the supply chain to be geared up to deliver the new products needed to achieve the new standards. The consultation exercise showed broad support for this timetable. The Government has decided that new homes funded through the Housing Corporation should be built to Code Level 3 from April 2008. English Partnerships are currently running a carbon challenge for developers to bring forward developments meeting Code levels 5 and 6. An announcement on the successful developer for the first site will be made by the end of the year. The terms of reference for the zero carbon homes task force already include looking at the barriers to achieving zero carbon homes and the measures which need to be put in place to deal with them. The task force is considering the implementation plan. The Government also expects that the Callcutt review into housebuilding delivery (to report shortly) will comment on the programme for zero carbon homes. It will be for the task force to consider what material it will want to publish, but the Government expects that it will issue reports on progress towards zero carbon homes as the programme unfolds.
9. The Government must not only require all new houses to be built to a 'zero carbon' standard well before 2016, but must ensure that existing regulations are rigorously enforced. (Paragraph 53)	The Government consulted fully on the proposed timetable confirmed in ‘Building a Greener Future’ and 39% of respondents believed that the 2016 timetable for zero carbon homes is achievable whilst recognising the challenges involved. Only 16% said it was not stringent enough. Based on consultation responses and discussions with the housebuilding industry, we believe that the timetable is already sufficiently ambitious. The Government agrees that there needs to be effective enforcement of Building Regulations. Enforcement of Building Regulations is the responsibility of local authority building control services. When Part L of the building regulations (conservation of fuel and power) were changed in 2006 the Government made a number of changes to reinforce Local Authorities’ ability to enforce the requirements (for example, introducing post-construction testing) and also undertook the most comprehensive communication and training programme ever carried out for a change to the building regulations. A review will be undertaken in 2008 which will look at the success of implementation of Part L and consider whether further action is necessary.

EXISTING HOUSING STOCK	
10. Where energy efficiency measures in existing homes are simply impractical or too expensive, an alternative approach is to include the incorporation of renewable electricity and/or heat technologies. This could either be within individual dwellings (e.g. solar water heating) or to supply groups of properties or a community (e.g. solar photovoltaic and wind generation; combined heat and power). The German programme to refurbish all pre-1978 housing stock such that they attain contemporary energy standards has much to commend it. The Government should evaluate the application of such a programme to UK circumstances, with particular emphasis on instances where older properties are substantially improved or extended. Planning permission should not be granted where the proposed modifications will increase the carbon footprint of the building. (Paragraph 59)	We agree with the Committee that if we are to continue to improve the carbon footprint of UK households as a means of helping us achieve our overarching carbon reduction ambitions, we need to look to support the uptake of all cost effective energy efficiency and microgeneration measures that can help maximise that carbon saving potential. The Government has in place a wide range of mutually reinforcing policies and programmes which are designed to promote the uptake of low carbon measures, including through the Building Regulations, which set energy efficiency standards at component level for the replacement of windows and doors, boilers and hot water systems, and key programmes such as the Energy Efficiency Commitment (EEC), Warm Front and Decent Homes. Whilst we have made some good progress—EEC has, for example, delivered substantial carbon savings and supported improvements in millions of homes—we recognise there is still some way to go. Looking over the whole of the existing housing stock, Standard Assessment Procedure (SAP) data shows us that action to improve the energy efficiency of buildings has over the years had an impact, with average SAP ratings increasing for all property age bands between 1996 and 2005, although more generally the least efficient and older housing stock is improving less than the more efficient stock. In order to make further progress, recent policy announcements have demonstrated a determination to speed up the pace of change and make a much more significant contribution to tackling climate change within a much shorter timescale. We are developing the next stage of the EEC (now called the Carbon Emissions Reduction Target) to run from 2008–2011 and are aiming to put the relevant legislation to Parliament shortly. We have made effective use of the Climate Change and Sustainable Energy Act to allow us to amend the primary legislation so that microgeneration and behavioural measures can be included for the first time. This means that CERT will support householders in understanding and addressing the whole carbon footprint of their home. It will also allow energy suppliers the opportunity of using a broader range of tools in providing help and support to householders and for working in conjunction with local authorities, retailers and other stakeholders. As part of this, we intend to introduce creative and significant support for innovation, offering space for energy suppliers to explore and experiment with totally new routes for carbon abatement in the household sector, helping the UK to prepare for the challenges ahead, including getting carbon saving measures into hard to treat homes such as those with solid walls. We intend to support energy suppliers who wish to focus some of their work with low-income customers on those who are especially vulnerable or at risk of fuel poverty in hard to treat homes and are unlikely to have benefited from previous supplier obligations. We intend to introduce all these new routes while continuing to build on the success of the existing framework in delivering cost-effective carbon abatement and wider social benefits. The three-

	year programme is expected to deliver double the annual carbon savings of EEC2, to generate about twice as much activity by energy suppliers and will mean that about twice as much resource is directed at low-income customers. We are committed to an obligation on suppliers out to 2020, at least as ambitious as the Carbon Emissions Reduction Target and are now working to establish an evidence base on which to set framework decisions. It is clear that as the most cost-effective opportunities to improve energy efficiency of existing homes are taken up, realising savings will become increasingly difficult to achieve. We will need consumers to demand and pay for low carbon measures if we are to continue to deliver carbon savings from households equitably. We intend to issue a clear sense of direction on the Obligation by 2008, looking to learn from international evidence and best practice as we do, including from the German retrofit programme. We are also working to maximise the impact of our policies on the ground and through our £6.3m Community Energy Efficiency trial, have provided 48 projects grant funding to provide local communities a holistic package of energy efficiency support. The aim is to overcome barriers to the take up of energy efficiency such as hassle factor and lack of information through innovative means which facilitate the joined-up delivery of assistance and measures through the Energy Efficiency Commitment (and subsequently Carbon Emmissions Reductions Target) and Warm Front. In total, policies are expected to deliver reductions in emissions from existing homes of around 23MtCO_2 by 2020 and represent a total investment by Government and energy companies of around £1.5 billion a year. We cannot, at this stage, accept the Committee's recommendations on consequential improvement. Having previously considered this issue, the Government decided that it was not in a position to judge whether the potential benefits of introducing this requirement outweighed the possible social consequences and the difficulty of enforcing such measures, and that it could not therefore proceed with such a proposal at this time. Any existing home that is undergoing extension or major refurbishment must already: comply with increasingly stringent statutory minimum energy efficiency requirements set out in the Building Regulations; not result in a worsening of the overall energy efficiency of the building concerned; and, if 25% or more of the surface area of any thermal element (e.g. a wall or the roof) is being renovated, require the entire element usually to be improved (the 25% limit is intended to exclude minor repairs but to ensure that any significant upgrading incorporates energy efficient construction). The proposed review by the European Commission of the Energy Performance of Buildings Directive in 2009,

	including of the application of its existing requirement that, where an existing non-domestic building over 1,000m2 was being extended, certain consequential improvements to existing structure should be made to offset the increased carbon footprint of the building, will present an opportunity to revisit this issue, taking into account the Committee's views.
11. We recommend that the Government provide a stamp duty rebate to home-purchasers who improve the energy performance of their property within one year of purchase. (Paragraph 65)	The Government continues to consider all avenues for improving household energy efficiency and to overcome some of the key barriers to the uptake of energy efficiency measures such as lack of information and access to up-front capital as well as the hassle factor. However, there are significant administrative hurdles to using stamp duty land tax as a lever. If such a broad rebate were introduced wherever a property included energy efficiency measures, this would imply quite considerable additional resources to police the allowance. Equally, a stamp duty land tax (SDLT) rebate to home purchasers who improve the energy performance of their property would not represent value for money, since it would fund activity which may have happened anyway in response to other Government initiatives to promote household energy efficiency, including, as identified by the Committee, Energy Performance Certificates. It would seem sensible first to assess the impact of this measure on the housing market, once fully rolled out. Moreover, proposals for the Carbon Emissions Reduction Target (2008–2011) will see supplier led energy efficiency activity driven at around twice the level of the current Energy Efficiency Commitment (2005–08). The SDLT exemption for new zero carbon homes is a more cost effective way of improving the energy efficiency of homes. This measure will help kick-start the market for new highly efficient technologies in homes, both for the fabric of the building and in the use of microgeneration, and sets a gold standard for green homes. The tax relief is designed to encourage innovation in advance of the 2016 target for mandating a zero carbon standard for all new homes. The exemption applies from 1 October 2007 and is time-limited for five years to 30 September 2012. The exemption applies when the home is first sold; homes costing less than £500,000 will pay no SDLT whilst homes over £500,000 will have their SDLT reduced by £15,000.
TENANTED PROPERTIES	
12. Meaningful information regarding the thermal properties of these buildings, as well as the energy ratings of heating systems and appliances, must be made available to incoming tenants. Energy Performance	The Energy Performance of Buildings (Certificates and Inspections) (England and Wales) 2007 set the timetable for the introduction of Energy Performance Certificates (EPCs) over the next year. EPCs on marketed sales are being introduced in phases from 1 August 2007. During 2008, EPCs on construction, sale and rentals of all buildings (domestic and commercial) will be introduced, in

Certificates for rented properties should be introduced as soon as possible, ideally before 2009. (Paragraph 69)	accordance with the Energy Performance of Buildings Directive. This includes domestic rentals (both social and private). From 1 October 2008, landlords will be required to make an EPC available to prospective tenants, and give the EPC to the final tenant. EPCs are designed to help potential building owners and occupiers understand the current and potential energy performance of the building they are considering occupying, and provide advice on cost effective changes to improve its performance. The Certificate also contains behavioural advice on saving energy in the home, and suggestions for more expensive measures (such as the installation of low and zero carbon technologies) that could be pursued. Energy Saving Trust and CLG research suggests that, in the early stages of rolling out EPCs, home buyers are most likely to act on the recommendations and make changes to their homes. Longer term, however, the market may make energy efficiency a greater factor in the decisions that people make about which buildings they choose to buy or rent, and landlords and sellers should become more likely to make changes to improve the market appeal of their buildings. CLG's Regulatory Impact Assessment sets the net cost of domestic Energy Performance Certificates at £81 million per year, for which a saving of around 0.9 million tonnes of carbon per year is expected to be delivered by 2020. The implementation of EPCs for the domestic sector is being accompanied by a communications campaign to inform all those who will be receiving or providing certificates of the benefits and obligations associated with them. Communications is a key part of the implementation of EPCs because there is no legislative requirement for building owners to act on the advice given in them. Communications work is being carried out in conjunction with the Energy Saving Trust, who will act as the main point of further information for consumers on EPCs and advice on making energy efficiency improvements and adopting more energy efficient behaviour. We are also working closely with private landlords and local authorities/Registered Social Landlords, including a pilot of EPC production for the social sector during summer 2007. Over 100 social landlords took part, and the results will be used to inform guidance for this sector.
PRODUCT STANDARDS	
13. We appreciate that "the end of standby" cannot be achieved unilaterally, but the Government must make	The Government remains fully committed to raising product standards and aiming to limit stand-by power consumption. In the recent Energy Review Report—The Energy Challenge, the

every effort to drive forward improved product standards and eliminate the appalling waste of energy caused by leaving equipment on standby. It must make clear the efforts being made in international negotiations to achieve the "end of standby", and provide an indicative timetable detailing when it anticipates agreement is likely to be reached. As an interim measure the Government should initiate voluntary agreements with manufacturers on improving product standards. As a bare minimum they should include the energy labelling of consumer electronics—as is already in existence for "white goods" such as refrigerators—within the next twelve months. (Paragraph 73)	Government confirmed that it will continue to press at international level for full implementation of the International Energy Agency's 1 Watt initiative to reduce stand-by power consumption which aims to limit stand-by for the majority of appliances to 1 watt by 2010. However, the rapid expansion of ownership of consumer electronic products does mean that the amount of domestic electricity consumed by standby is increasing in real terms. At the same time, some gains in product efficiency, such as external power supplies (e.g. mobile phone chargers now generally consume less that 1 w when in stand-by) means that this growth is less rapid than may otherwise have occurred. Under the framework directive on the Eco-Design of Energy-Using Products (EuP), proposals are currently being developed which will allow standards to be set for a wide range of electrical and electronic products. If agreed, a recent proposal by the Commission under EuP would see stand-by power restricted to 2 watts for the large majority of energy using products within a year of implementation – with many restricted to 1 watt – and within 3 years of implementation all products within the scope of the proposal would be required to achieve the 1 watt standard. The UK intends to support this proposal when it comes forward for negotiation. The Retailers' Initiative, announced in Budget 2006, is also a key element of our products programme. The Government is working with major retailers and the Energy Saving Trust to encourage retailers to take voluntary action to improve the energy efficiency of the goods they procure and sell. Consumer electronics, including the power they consume in stand-by, are the first products being considered. A meeting between Government and the major consumer electronics retailers to consider how this can best be moved forward is scheduled for November. Under EU Single Market rules the UK cannot by itself require any freely traded product to carry an energy efficiency label. Such action would need to be taken at EU level. We are therefore continuing to press the European Commission to expand its current mandatory energy labelling scheme to cover a wider range of products including consumer electronics. However, the UK has already started taking voluntary action in this area via the Energy Saving Trust's Energy Saving Recommended logo which identifies the most energy efficient products available. This already includes energy efficient Integrated Digital Televisions, including their stand-by power consumption and is in the process of being expanded to include ICT equipment.
14. We recommend that the Government give serious consideration to taxing energy inefficient consumer electronics and lighting in order to reflect the wider	Whilst the Government recognises a potential role for the use of fiscal instruments in encouraging consumers to change their behaviour, there are a number of factors which must be taken into consideration to ensure that the most cost-effective and best targeted measure is

environmental impact of choosing and owning poorer performing products. Revenue raised could then be used to offset financial incentives established to encourage environmentally beneficial behaviour. Any tax increase must, however, be combined with the provision of better information on the availability, environmental and cost benefits of energy efficient alternatives. (Paragraph 81)	chosen including the distributional impact of such a measure, as well as the cost to both business and Government of administration and collection. To take account of these considerations, the Government has introduced an innovative range of measures since 1997 to encourage greater energy efficiency in products and, more widely, behaviour of households. For instance, voluntary agreements are effective instruments and the Government announced on 27 September 2007 that major retailers, with the support of manufacturers and energy companies, have agreed on an ambition to phase out inefficient incandescent light bulbs by 2011. Acknowledging the potential role of a fiscal measure in encouraging consumers to purchase more energy efficient alternatives, the Chancellor and the French Finance Minister have written to the relevant European Commissioners to press for the introduction of a reduced rate of VAT for the most energy-efficient goods, building on the letter sent at Budget 2007 by then Chancellor Gordon Brown. At the same time the Chancellor and the Secretaries of State for BERR and Defra also wrote to Member States and the Commission, calling on the EU to take more urgent action to improve energy efficiency of consumer goods. We would agree that information is critical to the proper functioning of the market. We are already working both within the UK and the EU to expand the range of products for which reliable energy efficiency information is provided. For example the Energy Saving Trust has recently expanded its Energy Saving Recommended (ESR) scheme and has uplifted its eligibility criteria to identify and endorse the most efficient consumer electronics and lighting products. The EST also publishes a comprehensive range of consumer advice and information on energy efficient products. We have been actively engaging with the European Commission as they undertake their review of the EU Energy Labelling Scheme which could, if agreed, expand the number of products for which mandatory energy labelling information is required. We expect to see proposals from the Commission early in 2008. More fundamentally, the Government, in the Energy White Paper, announced that it would publish its analysis, targets and indicative standards for energy efficient products, setting out its ambition for improving the energy efficiency of the most important products and informing such things as EU mandatory eco-design requirements and Government procurement standards. We have consulted on product standards for consumer electronics and will be publishing our response to the consultation shortly. We hope to publish consultations on other sectors before Christmas.
SMART METERING, INFORMATION DISPLAYS AND BETTER BILLING	
We are disappointed by the recent provision in the Energy White Paper to provide householders with real-	In the Energy White Paper, the Government set out its expectation that, within the next ten years, all gas and electricity customers would be provided with smart meters. The Government is

time displays on request from 2008. Real-time displays are not smart meters. This is a wasted opportunity and displays a sorry lack of ambition.	using its current consultation on metering and billing, as well as additional work within Government and by the industry, to obtain further information about the costs and benefits of smart metering and the appropriate mechanisms for providing them to customers. It will set out its views on next steps following the consultation. However, initial consultation with industry suggests that it will be approximately six years before the majority of households receive a smart meter and another four before a national roll-out is complete. Research suggests that a visual reminder of energy consumption is an effective way of encouraging people to reduce energy wastage and this is why the Government set out its display device policies in the Energy White Paper. This will ensure that customers are provided, at the earliest possible point in time, with real-time information that will help them to reduce their energy use. It is also consistent with the Government's commitment in the Climate Change Programme to seek a 0.2MtC saving from better billing and metering by 2010, and with the requirement in the Energy Services Directive to provide consumers with actual time of use information from May 2008. Although the proposed requirement is for a display that will provide real-time information about consumption and cost, most displays can, for example, show cumulative data in graph form and compare electricity use between time periods, to highlight if electricity is being saved or wasted—and innovation, supported by expertise in design and behaviour change, continues. Suppliers that provide displays that exceed the minimum requirement may be able to claim CERT (Carbon Emission Reduction Target) credits. More work is now needed on the potential for displays to affect gas consumption. The Government's consultation on metering and billing provides an opportunity for consultees to advise Government on any implications that the display policy may have for the Government's expectation that all customers will be provided with smart meters within ten years. The Government proposes to give gas and electricity suppliers as much flexibility as possible in determining which device they provide. It is, therefore, for suppliers, subject to available technology, to decide what functionality they wish to incorporate in the device.
At the very least, all displays issued must be 'future-proofed' to facilitate upgrading to two-way	Full two-way communications between suppliers and customers, including the provision of services such as time-of-day pricing, require smart technology. The Government understands that real-time display technology is technically capable of being developed to enable the devices to

communication between meter, consumer and supplier, and to provide time-of-day pricing. **As an interim measure, better billing must be in place within the next 12 months. This must incorporate not only energy consumption in kWh, but how this relates to cost, carbon dioxide emissions, and with individual historical usage to help consumers make informed decisions about energy use reduction and efficiency savings. (Paragraph 89)**	communicate with a smart meter and that the use of open protocols for data communication could allow displays to be "future proofed" to do this. Electricity customers are already provided with information about carbon dioxide emissions under the Electricity (Fuel Mix Disclosure) Regulations 2005. The Government shares the view that the provision of additional information on bills can promote energy-saving by customers. It therefore proposes to require suppliers to provide historic information, preferably in graphical form, that compares energy usage in one billing period with the same period in the previous year on domestic customers' energy bills or statements or, for those customers with internet-based contracts, electronically. The Department for Business, Enterprise and Regulatory Reform is currently consulting on this proposal, with a view to its being implemented in 2008. The Government notes the Committee's recommendation that bills should include information on how energy consumption in kWh, cost and carbon dioxide emissions relate to each other. However, following consultation prior to the publication of the Energy White Paper, the Government does not consider that, overall, it would currently be useful or cost-effective to require such information to be provided on bills.
THE ENERGY EFFICIENCY COMMITMENT (EEC)	
16. We are concerned by the apparent poverty of Government ambition for the Energy Efficiency Commitment (EEC; now the Carbon Emissions Reduction Target, or CERT), which compares poorly with the ambition of the emission reduction targets outlined in the draft Climate Change Bill. The existing targets are so undemanding that suppliers had already met 93% of the target for EEC2 (2005–08) by the end of the second year. Given that the Energy Efficiency Commitment is not even funded from the Government's own budget, this demonstrates a woeful lack of ambition. (Paragraph 101)	In its consultation proposals for the Carbon Emissions Reduction Target (CERT) 2008–11, issued in summer 2007, the Government sought to set the overall target at as challenging level as possible. As the Committee noted, the level of activity proposed for CERT will broadly double that which energy suppliers must deliver under EEC2 and is expected to deliver around twice the level of carbon savings. The target was proposed following detailed analysis, set out in an illustrative mix of possible measures that suppliers might utilise to meet their targets. This was constructed to be as ambitious as possible and generally the capacity for the most cost-effective measures was understood to be close to the maximum number that could feasibly be installed, in terms of supply and installation capacity, in the CERT period. While maximising the carbon abatement of CERT, the Government's proposals took account of the need to maintain equity for low-income consumers, including those likely to be in fuel poverty. It was proposed that suppliers should be required to direct at least 40% of the carbon savings of the CERT to a priority group of consumers in receipt of certain income or disability

	benefits or tax/pension credits. It should be noted, however that suppliers' costs of promoting measures in the priority group are higher than in the non-priority group. Recognising that the suppliers' costs of achieving their CERT obligations are passed on to consumers through their bills, the Government sought to ensure that costs to consumers are kept at a reasonable level. The scale of the target proposed by the Government was therefore set at the most challenging level possible, while maintaining the cost-effectiveness of the EEC mechanism and taking account of wider social considerations.
17. We are pleased to see that CERT (EEC3) makes provision for the inclusion of microgeneration technology. However, the proposed size of CERT means that the amount of microgeneration it supports is likely to be small because suppliers expect to focus on cheaper ways of saving carbon dioxide. Therefore, once the existing programme of microgeneration grants has expired, the Government must not rely on this support mechanism alone until the market is sufficiently mature to stand alone without financial support. If the Government does go ahead with CERT as planned, and intends to use it as the sole support mechanism for microgeneration, then the level of CERT must be considerably bigger. (Paragraph 102)	The inclusion of microgeneration technologies will allow a more holistic approach to carbon abatement in the household sector and will provide suppliers with more flexibility in measures they can employ to meet their CERT obligations. The Government is keen to encourage innovation through CERT and has proposed a new route for demonstration activity to support trials of innovative approaches. It also proposes to continue the support given to market transformation under the current EEC. Under the market transformation incentive, as proposed, Ofgem would attribute an additional 50% carbon savings to measures that were not qualifying actions under EEC 2002–05 and which would achieve a significantly greater carbon saving than any similar qualifying action. Since microgeneration technologies have not been included in EEC to date, they would potentially qualify for this incentive. The Government's strategy for developing microgeneration technologies is wider than CERT and is described in response to the Committee's recommendation 21.
18. The Government must match ministerial rhetoric with tangible regulatory reforms that change incentives on suppliers. We commend the move to an energy services model beyond 2011, but the Government must make clear in its response what its intentions are to inspire consumer confidence in this model. Given the volume of evidence we received discussing the 'credibility barrier' associated with the Energy Efficiency Commitment (EEC), it must be made crystal clear to consumers that this is something that they are paying for through their bills. We recommend that householders' contributions to the EEC are listed separately as part of the Government's	Government's commitment in the 2006 Energy Policy Review to some form of obligation on household energy suppliers out to at least 2020, and at a scale equivalent to the Carbon Emission Reduction Target (CERT) 2008–11, has given the household sector unprecedented long term certainty on the ambition and scope of the household policy framework. It is clear that if we are to continue to deliver cost effective carbon savings from households, we need to bring about a change in consumers' approach to energy use. Suppliers and their customers need to have a shared incentive to reduce domestic emissions, and to work in partnership to achieve this. Encouraging suppliers and consumers to make this change will be challenging, and cannot be made in one step. Creating this shared incentive will require an innovative policy, which changes the way suppliers engage with the end consumer. Our vision is to see this carbon reduction

move towards better billing. (Paragraph 111)	obligation as one that works with rather than against the grain of the supply businesses. It will require suppliers to develop alternative business models, earning profits through a combination of low carbon measures, related services and sales of energy. The Carbon Emission Reduction Target is a first step towards creating such a marketplace, with its rewards for innovative approaches and domestic microgeneration. Market transformation will also require changes to other aspects of energy markets. Government's steps to improve billing, and over time, to roll out smart meters to domestic customers will improve the opportunities for suppliers to develop alternative business models. Equally, our commitment to roll out Energy Performance Certificates and Real Time electricity displays should allow consumers a better understanding of their energy use. Energy services relationships are likely to involve longer-term contracts between suppliers and customers. Although not the sole barriers, such contracts have been further facilitated by Ofgem's recent removal of the "28 Day Rule", making it possible for suppliers to offer more innovative contracts to customers, whereby the supplier makes investments in the customer's home in return for a fixed term contract, for example. Defra issued a Call for Evidence earlier this year on the post 2011 supplier obligation, to enable interested parties to offer their views at an early stage in the policy development process. Further detail on the type of business models suppliers could offer consumers to incentivise uptake of energy service approaches were an important part of this. We are now looking to commission work to precisely look at consumer responsiveness to a range of supplier offerings as well as the role of trusted intermediaries such as local authorities or NGOs. The Government intends to reach a clear conclusion on the direction for the post–2011 supplier obligation in 2008. The Government does not consider that making it clear to customers that they are paying for EEC or CERT through their bills would necessarily provide a better environment to promote an energy services model. While the draft Impact Assessment published with the CERT consultation proposals estimates the overall cost to all suppliers of meeting their obligations, the estimated cost at household level is an average: individual suppliers will pass on costs in different ways. It is not clear that a supplier would be able to include anything but a notional cost on bills. Furthermore it may not be helpful to consumers if they interpret the bill information as an opportunity to receive direct assistance from the supplier, since a supplier's costs may have been directed to promoting measures through other routes, for example retail schemes. For the purposes of EEC/CERT, the lack of information on customers' bills does not appear to have been a barrier to suppliers achieving their targets.

	The Government is, however, considering more widely the potential for improving the information on customers bills, including in relation to broader environmental initiatives, as well as the potential to better explain to the public the different instruments being used to tackle climate change and energy efficiency.
GREEN TARIFFS	
19. We are concerned that the provision of 'green tariffs' by energy suppliers may not be as transparent or consistent as it could be. This could cause confusion and, at worst, result in a loss of consumer confidence in these products. The use of green tariffs could be an important step forward in the UK emissions reduction strategy, especially in those households where it is difficult to reduce emissions through energy efficiency measures. It is vital that Ofgem and bodies like energywatch investigate the plethora of tariffs which claim to be green and develop an independent assessment of those proposed in order to boost consumer understanding and confidence in reducing emissions via this approach. We look forward to the results of Ofgem's consultation on Developing Guidelines on Green Supply. (Paragraph 112)	We agree with this recommendation. The Government is committed to working with Energy Saving Trust to ensure consumers have access to impartial information and advice on tackling climate change including options on what individual householders can do; and working with Ofgem and energywatch to ensure all consumers, including business customers, have independent, accessible, transparent and user friendly information on the “green electricity” tariffs. There were Government representatives at the consultation workshops which were organised by Ofgem and the Energy Saving Trust. We look forward to revised guidelines on green supply from Ofgem as the first stage in this process.
4. Microgeneration	
THE LOW CARBON BUILDINGS PROGRAMME	
20. We are concerned that householders will lose interest in the Low Carbon Buildings Programme, despite the additional £6m announced in Budget 2007. We remain to be convinced that the LCBP is the most appropriate support system. The Government should provide details of its intentions regarding the future of the programme once the current phase ends. We further recommend that the Government consider proposals for longer term alternatives to the current system, such as providing targeted grants for people on lower incomes and the use	Government published its Microgeneration Strategy, ‘Power from the People’, in March 2006. Our objective is to create conditions under which microgeneration becomes a realistic alternative or supplementary energy generation source for householders, communities and small businesses. The Low Carbon Buildings Programme (LCBP) is just one of many measures aimed at tackling widespread take-up of microgeneration. The LCBP was designed as a “pump-priming” scheme, following earlier successful Clear Skies and Major (solar) PhotoVoltaic Demonstration grant programmes, to bring about a significant increase in microgeneration installations in households and other buildings. The microgeneration

of tax incentives. (Paragraph 125)	technologies that the LCBP supports are proven technically, but tend to have relatively high upfront costs, as compared with fossil-fuel based alternatives. The LCBP's £86m of support is divided into two phases, with the overarching aim of helping to build a sustainable microgeneration industry that can thrive without grants. Part of a long-term, post-grant, framework will include ensuring that microgenerators can receive a fair price for any surplus electricity exported to the Grid. Government asked the regulator, Ofgem, to look at this in the last Budget and Ofgem is expected to report on its findings later this financial year. All six major electricity suppliers have committed to publishing easily accessible export tariffs; we are aware that some already offer such a tariff, as do some of the smaller companies. We have already taken actions to make it easier for householders to claim the financial benefits available to them under the Renewables Obligation for all of the renewable electricity they generate. The use of agents and aggregation of outputs across several households is now permitted, and Ofgem has streamlined and simplified the procedures for householders who prefer to handle the administration themselves. We also want to make sure that microgenerators realise the full benefit of the additional income. So we have introduced changes which mean households are exempt from tax on any payments received under the Renewables Obligation or for their exported electricity. These changes are in addition to the lower 5% VAT rate which already applies to the purchase of most microgeneration technology. We are also making the process of installing microgeneration simpler. Government recently launched a robust certification scheme to build consumer trust in products and installers, and we are proposing the removal, later this year, of unnecessary controls in the planning consents regime. Government acknowledges that there needs to be better information about the wider measures to support and reward microgeneration. The Energy White Paper commits us to ensuring that this improved information provides a comprehensive picture of all the options, costs and benefits. We are also proposing to allow energy suppliers to use microgeneration to meet their 1.1MtC reduction target under the next phase, 2008–11, of the Energy Efficiency Commitment. In particular, we are proposing changes that would encourage energy suppliers to look at innovative solutions, including microgeneration, and to consider providing such technology to customers, particularly those on lower incomes, at a reduced cost.

	Commitments		Expirations/ Withdrawals	
Month	No.	Values	No.	Value
May-07	301	£320,770	45	£42,009
Jun-07	295	£275,202	36	£23,918
Jul-07	242	£229,979	7	£8,701
Aug-07	203	£166,705	1	£600
Sep-07	214	£183,113	7	£7,000

Note: Figures were prepared on 5 October 2007. These numbers will change subsequently as the expiry date on each application is passed. For example, some applications made in May have not yet been completed so these could expire/be withdrawn in November; in cases where the offer expires, the previously committed funds are returned for awarding to other applicants.

FEED-IN TARIFFS

21. The current system of Renewable Obligation Certificates (ROCs) for individual householders is too unwieldy for microgeneration, and risks losing citizen engagement. We recommend the Government replace ROCs and export payments with a feed-in tariff with a single fixed rate per kWh, varying according to the type of generation. (Paragraph 131)

To set an absolute feed-in tariff would be a significant intervention in the energy market. It would run contrary to the Government's established position of facilitating a highly competitive market with the attendant benefits that brings for consumers. Feed-in tariffs tend to be set a long way ahead and cannot respond to market changes. Moreover, they can also be very costly; any premium would ultimately be passed on to consumers with the associated impact on fuel poverty.

We will continue to review the support needed for microgeneration, but Government remains committed to flexible market-led mechanisms such as the Renewables Obligation, which is our key mechanism for encouraging large scale renewable generation. Along with exemption from the climate change levy, the Renewables Obligation will be worth up to £1b p.a. to the renewables industry by 2010. We have recently consulted on proposals to 'band' the Renewables Obligation, which would provide different levels of support for different renewable electricity generating technologies with the aim of bringing forward an increase in renewable generation from a wider range of sources.

	All six major electricity suppliers have committed to publishing easily accessible export tariffs – we are aware that some already offer such a tariff, as do some of the smaller companies. Ofgem are currently examining the prices paid to green homes when they sell electricity back to the grid. In considering this they will also be looking at how easy it is for green homes to access this information and determine the value of the excess electricity that they sell.
DISTRIBUTED GENERATION—LOCAL ENERGY NETWORKS	
22. There is a distinct lack of national focus on community level microgeneration with an over-emphasis on individual households, and we remain seriously concerned that renewable heat is still the 'poor relation' to renewable electricity, despite recommendations in our Report into The Role of Bioenergy and the work of the Biomass Task Force. The Government should initiate a study on barriers to progress to the widespread development of community-level Combined Heat and Power, and should look at financial instruments—including localised financial instruments—to encourage investment at community level. This should be published within six months. The Government must then work with the Local Government Association and Rural Development Agencies to move this type of agenda forward. As a start, the Government should lift the limit on the size of private wire networks to encourage more distributed energy. (Paragraph 139)	The Energy Review Report, published in July 2006, highlighted the need for more work to investigate the extent to which decentralised or distributed generation could complement the centralised system, as well as the specific incentives and barriers that impact upon it. In light of this, BERR and Ofgem jointly undertook a Review of Distributed Generation to consider these issues. The Review considered technologies on a range of scales from microgeneration to community schemes incorporating the use of combined heat and power. The results of the Review were published in a report alongside the Energy White Paper 2007. The report set out a package of measures aimed at addressing those barriers specific to distributed generation which are not being addressed through Government and Ofgem action elsewhere in the energy market. Notably this included a commitment to consult on options for more flexible market and licensing arrangements for distributed low carbon electricity, to be implemented by the end of 2008. This was in response to concerns raised in the Distributed Generation (DG) Review Call for Evidence which suggested that current arrangements were unduly complex for DG operators, requiring high levels of expertise to understand and often involving disproportionately high costs. An industry working group has been established to advise on the development of options for new arrangements. BERR and Ofgem will consult later this year. The Working Group is chaired by Ofgem, with support from BERR. The Group includes representatives across the range of industry, and is specifically focussing on developing options for more flexible market and licensing arrangements for distributed low carbon electricity. As also announced in the Energy White Paper, the Government is separately conducting further work into policy options to reduce the carbon impact of heat. Government recognises that actions to decarbonise the UK's heat supply will be a key aspect of future UK energy and carbon policy. Heating accounts for almost half of UK final energy use, and for 47% of our carbon emissions. In response to this challenge Government directed the Office of Climate Change (OCC), a cross-departmental strategy unit, to examine how heat could contribute

	to the UK's climate change goals. The scope of this work includes the potential contribution from community Combined Heat and Power schemes. The OCC has been working on the subject since January and will report their findings to Ministers shortly, including recommendations on next steps. We recognise the potential benefits to having a more decentralised energy system with local energy supply, ranging from household to community-scale, which could play an important part in meeting the challenge of climate change.
5. Economic instruments and Personal Carbon Allowances	
PERSONAL CARBON ALLOWANCES	
23. Personal carbon allowances (PCAs) are an interesting 'theoretical exercise', but we remain sceptical about the practicalities of implementation. There are several substantial issues—not least regarding the avoidance of 'double-counting' and considerations of equity associated with such a scheme—which must be resolved before a system of PCAs could be implemented. As an interim measure, we recommend that voluntary personal 'indicative carbon budgets' be considered as a valid alternative to a more formalised system of Personal Carbon Allowances, thereby allowing individuals to exercise self-discipline. To this end, we commend the Government's 'Act on CO2' calculator, although note that this translates into a clear need for a comprehensive review of how people can gain an understanding of their emission profile, for example by providing information at the point of sale and the need for better billing, as discussed earlier. (Paragraph 152)	The Government welcomes the EFRA Committee's views on personal carbon trading (PCT), which coincides with our study of PCT as just one of a number of potential long-term options being explored for making individuals better informed about, and involved in, tackling climate change. It is important to unlock the potential for individuals and the household sector to contribute more to tackling carbon emissions. Citizens need to be empowered, not lectured; and they need the assurance that their actions are worthwhile, and will lead to real and identifiable environmental improvements. Following the Centre for Sustainable Energy's (CSE) initial scoping study "A Rough Guide to Individual Carbon Trading: The ideas, the issues and the next steps", the Government is conducting a pre-feasibility study designed to show whether or not PCT is a realistic and workable policy option. A decision will then be taken on whether or not to devote more time and resources to this potential policy. The study is addressing high-level questions relating to the economic value of PCT, equity and distributional issues, public acceptability, technical feasibility and cost. It aims to complement the work being undertaken by researchers and academics such as The Tyndall Centre for Climate Change, the Environmental Change Institute, and the Royal Society for Arts (through their CarbonLimited project). As the EFRA Committee's report notes there are a number of substantial issues that must be addressed, and resolved, before it is viable to consider the detail of how such a scheme could be implemented. This is why the Government's work programme focuses on the four highest-level issues described above. This work will cover key issues identified by the Committee including

	equity and double-counting (i.e. the potential overlap of policy measures and how different instruments interact). The Government is not currently proposing to develop a voluntary PCT scheme, as the EFRA Committee recommend, although it does not rule it out for the future. Instead, as recommended by the scoping study carried out by CSE in 2006, the Government has decided to address the high-level questions surrounding PCT to inform consideration about any next steps. We will also continue to enhance the engagement of individuals in action to tackle climate change – and "CO_2 literacy" – through tools such as the Act on CO_2 campaign and calculator. Indeed, the data and calculations underlying the calculator are being made available to other organisations, including a number who are developing carbon accounting systems. Once Defra's pre-feasibility analysis has been completed, ministers will take a view on whether to devote more time and resources to this area. In the meantime, we await the results of the pre-feasibility analysis, along with the results of RSA's CarbonLimited project with interest.
GREEN TAXATION	
24. The Government must do much more work to improve the credibility of green taxation as part of its overall set of policies designed to deal with climate change. Green taxes should be developed to stimulate behavioural change but in such a way that revenue derived via this route is seen to be being used to fund further carbon dioxide emission reduction strategies. The Government should consider, for example, increasing taxation on poorly performing electronic goods, the revenue from which could go into a fund from which individuals and community groups could bid for support for emissions reduction projects. The Government should encourage uptake of 'green' ISAs—which invest solely in community-based emissions reduction projects and technologies—by increasing individuals' tax-free entitlement if they invest in them. 'Green' taxes must absolutely not be simply a means of revenue raising in a green wrapper to increase palatability, as this will ultimately devalue the perception of genuine green taxes. (Paragraph 159)	In its 1997 Statement of Intent on environmental taxation, the Government committed itself to use the tax system to support progress towards environmental goals. It stated that: - it will explore the scope to use the tax system to deliver environmental objectives, as one instrument in combination with others; - over time, the Government will aim to reform the tax system to shift the burden of tax from 'goods' (like employment) to 'bads' (like pollution); and - to ensure that action taken to protect the environment is effective and delivers net benefits, environmental taxation must meet the general tests of good taxation. It is important that the most effective instrument for achieving environmental objectives is used in each circumstance. In some cases, fiscal measures can be the most effective instrument (e.g. tackling negative externalities); but in many circumstances, other measures can be more effective (e.g. where a specific standard of environmental behaviour is required). Since 1997 the Government has introduced a number of environmental tax measures including for housing the Landlords Energy Saving Allowance, stamp duty rebates for zero carbon new homes and reduced VAT for a range of professionally-installed household energy-saving materials including insulation, draught stripping, hot water and central heating, as well as microgeneration. But tax is only one instrument and tax measures introduced since 1997 sit within

	a wider package of innovative measures to combat climate change and other environmental priorities including new kinds of policy instruments like trading and tradable regulations. For example, the EU Emissions Trading Scheme (ETS) is now our principle carbon-pricing instrument. Nearly 50% of the UK's emissions are capped and priced through EU ETS. EU ETS sets quantity limits; and it is much easier to do emissions trading internationally than tax. Tax does have a role – particularly in areas not covered by EU ETS eg. fuel duty prices carbon emissions from transport. And it can be key in encouraging energy or fuel efficiency (eg. Climate Change Levy, Vehicle Excise Duty). However, we should not over emphasise its role. It is also important to remember that government action on the environment needs to be the outcome of balanced decision-making, taking into account all of the government's objectives. Environmental benefits should not be achieved at the expense of wider objectives such as fuel poverty or economic stability. These constraints may mean that compromises have to be made in the design of a policy instrument, or that the most effective instrument environmentally cannot be used at all and an alternative is required instead. The Government has achieved this balance – as shown by the progress it has made on all environment priorities whilst maintaining strong economic growth. The key fact is that greenhouse gas emissions are falling and that the UK is projected to reach its Kyoto target nearly twice over. Earmarking environmental tax revenues for investment in energy saving technology would mean that this revenue is taken out of the overall Spending Review process and would not guarantee value for money. Indeed, earmarking environmental tax revenue in any way could create a significant obstacle to shifting the burden of tax from 'goods' to 'bads'. Rather, it is important to look for environmental policy to be supported by an innovative range of measures that can tackle the environmental challenges we face – not just relying on one or two instruments such as spending measures, but also: emissions trading; regulation; voluntary agreements; information services and fiscal measures. This approach has been taken by the Government and has enabled the UK to make significant progress against its environmental targets whilst also supporting strong economic growth and sound public finances.
THE ROLE OF CENTRAL GOVERNMENT AND THE GOVERNMENT ESTATE	
25. There is an important role for public buildings and public investment in leading the way by example, but	The Government agrees there is an important role for the public sector to lead by example in the management of its buildings and investments. It also accepts that reports by the Sustainable

very little evidence of this taking place. We observe that Parliament has an important role to play as an exemplar, and that more needs to be done to improve its environmental performance. However, we remain unimpressed by the Government's poor record regarding its own buildings. It is failing to set a good example, and missing a valuable opportunity to demonstrate the financial and environmental savings that can be made. The Government must be a 'guiding light' which individuals can follow, and if the Government is to be an exemplar for citizens, then Defra should set the example for the rest of Government. Accordingly, the Secretary of State should be set binding targets and if these targets are missed for two consecutive years, the Secretary of State should report to Parliament the reasons why. The Government should reinforce guidance on energy performance standards for public buildings and make it easier for investment to be made in local energy generation/networks. The UK Government must set an example, showing other developed and developing nations that implementation of energy efficiency measures is not detrimental to economic growth. (Paragraph 163)	Development Commission, the National Audit Office and others highlight the need for improved performance. Government has committed to introducing the new Carbon Reduction Commitment (CRC), aimed at large non-energy intensive organisations in public and private sectors, in 2010. This will include government departments, their agencies and Non Departmental Public Bodies that meet the entry threshold of 6000MwH electricity use a year through 100 kw metering systems (also known as mandatory half hour meters). By putting itself at the heart of this innovative scheme, the first in the world for non-energy intensive bodies, Government is leading the way both domestically and internationally and is ensuring that government departments, their agencies and non departmental public bodies, as well as other parts of the public sector including large local authorities, play a full part in meeting the UK's commitments to reducing emissions and tackling climate change. CRC is a mandatory cap and trade scheme aimed at large non-energy intensive organisations in the public and private sectors. The Climate Change Bill will contain the necessary legislative provisions. There will be an introductory phase, in which Government will not set the cap, between 2010 and 2012, but from 2013 Government departments will be included within a sector whose overall energy related emissions are capped. The size of the cap will be set by Government on the advice of the Committee on Climate Change, as provided for in the Climate Change Bill. Meanwhile the Government is also developing a range of other policy measures for central government departments that will help prepare departments for CRC, and, once it is operational, will help them meet their obligations within it. In June 2006 Government published revised targets for sustainable operations on the central government estate, including the achievement of a carbon neutral office estate by 2012. In March 2007, plans for achieving a low carbon resource efficient public sector were set out in the UK Government Sustainable Procurement Action Plan. It commits each department to increase the level of procurement professionalism, raising the status and standard of procurement practice and ensuring rapid progress towards achieving the sustainable operations targets. Ministers and Permanent Secretaries are accountable for the plans, progress and performance of their own departments. The Cabinet Secretary holds ultimate accountability for the delivery of the targets, while the Secretary of State for the Environment, Food and Rural affairs is the lead Minister reporting to the Prime Minister. A cross departmental board, chaired by the 2nd

	Permanent Secretary of the Ministry of Defence, is in place to support the Cabinet Secretary and Departmental efforts to improve performance. Defra is demonstrating its commitment to improving its environmental performance through the implementation of the Defra as Sustainability Leader (DaSL) programme. This programme integrates sustainable development across many areas within the department including operations and building management. Although our last Sustainable Development Action Plan was judged 'leading the pack' by the Sustainable Development Commission, we were only placed in the middle on actual performance on operations targets. Defra wants, and needs, to do better than that and has set up this programme to help it achieve that improvement. For example, Defra has made sustainable development a priority in the construction of all new buildings to ensure they meet the Building Research Establishment Environmental Assessment Methodology (BREEAM) "excellent" standard. The new Alnwick development in Northumberland uses wind turbines, photovoltaic (PV) solar electric, PV solar thermal and biomass heating. Also, use of new technologies such as voltage and boiler optimisation devices as well as retrofitting of fluorescent tube lighting is being rolled out at locations on the Defra estate. A range of measures are in place to support public body efforts in this area, include the Carbon Trust's Carbon Management Programme, a revolving loan scheme enabling bigger investments in energy efficiency ('Salix'), and grants for microgeneration available from BERR's Low Carbon Buildings Programme. In addition, the Carbon Trust's Partnership for Renewables venture is supporting the development of privately-financed renewable energy projects on public sector land. As we take forward the Environmental Transformation Fund, we are reviewing the support available to the public sector. The performance of public bodies will also be driven by other measures set out in the Energy White Paper. On buildings, Government has reinforced guidance on energy performance standards. From January 2009, under Article 7 of the Energy Performance of Buildings Directive an Energy Performance Certificate must be produced when buildings are constructed, sold or rented out. These certificates will provide an energy rating (from A to G) for the building and will set out what steps can be taken to improve its energy efficiency. There is also a requirement for 'Energy Certificates' to be displayed in "buildings with a total useful floor area over 1,000m2 occupied by public authorities and by institutions providing public services. These 'Display Energy Certificates' will be developed from actual in-use energy consumption, will show to employees and visitors how well buildings are being used and managed. In addition, Article 5 of the Energy End-use Efficiency and Energy Services Directive places a duty on the public sector to fulfil an exemplary role in the context of energy efficiency. Government will be launching a public consultation on this article in December.

	The Government already reports publicly on performance via the independent Sustainable Development Commission's annual review of progress against the targets for Sustainable Operations on the Government Estate. Furthermore, the Climate Change Bill will require Government to report annually to Parliament assessing progress in meeting overarching targets set in the legislation. While the exact content and format of the Committee's progress reports are not known at this stage, it is possible that they may include an assessment of performance in the public sector, which would necessarily require a response from Government. In the light of these processes and public reports, we do not consider that additional reports to Parliament are necessary at this stage. The Government is also the principal contributor to an international initiative, REEEP (the Renewable Energy and Energy Efficiency Partnership), which delivers projects on the ground that demonstrate the potential for reform of energy policy and financing frameworks in a sustainable way – providing the basis for scale up and acceleration of investment in the markets for energy efficiency and renewable energy to provide both economic and environmental sustainability. All G7 countries are now REEEP partners along with many key developing countries and international agencies. REEEP has implemented over 80 projects globally. The Government is also setting an example overseas through its Sustainable Development Dialogues. These are in place with five of the largest emerging economies—China, Brazil, India, Mexico and South Africa. They provide a forum to share information and best practice on a range of sustainable development issues, promoting solutions which have economic, social and environmental benefits. One of the themes of the SDD with China, for example, is sustainable urban development, and we will be working with the Chinese Government on sustainability in urban regeneration and low-income housing.

Formal Minutes

Wednesday 16 January 2008

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
Mr James Gray
Patrick Hall
Lynne Jones
Miss Anne McIntosh
Dan Rogerson
Sir Peter Soulsby
Dr Gavin Strang
David Taylor
Paddy Tipping
Mr Roger Williams

Draft Report (*The Work of the Committee in 2007*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 46 read and agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

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[Adjourned till Wednesday 23 January at 2.30 pm.

List of Reports from the Committee during the current Parliament

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