House of Commons

Environmental Audit Committee

Budget 2011 and Environmental Taxes: Government Response to the Committee's Sixth Report of Session 2010–12.

Sixth Special Report of Session 2010–12

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Environmental Audit Committee

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

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The 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/eacom. A list of Reports of the Committee in the present Parliament is at the back of this volume.

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume.

Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are Simon Fiander (Clerk), Edward White (Second Clerk), Lee Nicholson (Committee Specialist), Andrew Wallace (Senior Committee Assistant), Anna Browning (Committee Assistant), Ed Bolton (Committee Support Assistant) and Nicholas Davies (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Environmental Audit Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 6150; the Committee's email address is eacom@parliament.uk

Sixth Special Report

1. The Environmental Audit Committee reported to the House on *Budget 2011 and Environmental Taxes* in its Sixth Report of Session 2010–12, published on 7 July 2011 (HC 878). Subsequently, the Government has published the *Autumn Statement* and *Enabling the Transition to a Green Economy*, both of which deal with issues covered in our Report. In addition, on 14 October Miss Chloe Smith MP took over as Economic Secretary to the Treasury, in place of Rt Hon Justine Greening MP from whom we had taken evidence. The Government response to the Committee's Report was received on 27 January 2012, and is appended below.

2. The Response does not address our recommendations on the need for and content of an environmental taxation strategy (paragraph 80 of our Report), nor the definition of environmental taxes (paragraphs 10, 11 and 12). We will return to these matters in our follow on report on Budget 2012.

Appendix—Government response

The Government Response to the Environmental Audit Committee's Report on Budget 2011 and environmental taxes

Setting the tax rate—raising revenue or promoting environmental change

Recommendation 5: Feeding into the choice of whether an environmental tax is preferable to affect the required behavioural change, with or without complementary regulations and incentives to support it, should be a thorough assessment of the environmental impacts of the various possible interventions so that the most effective is selected. ... In justifying tax changes in each Budget, the Treasury should explain how it has assessed the environmental impacts of the various possible interventions to arrive at their optimal mix. (Committee report, paragraph 18)

1. In designing environmental taxes the Government considers the efficiency of those taxes and the extent to which they minimise distortions, the sustainability of the tax base and the fit with other environmental policy levers. Taxes or fiscal instruments can be one way of incentivising or driving behaviour change. The Government must also consider whether regulation, public spending or voluntary agreements would be more efficient and affordable ways of achieving the same aim.

2. As part of the policy making process the Government assesses the environmental impacts of policies. The most recent example is the introduction of the carbon price floor. A full and comprehensive impact assessment was published alongside the public consultation and a Tax Information and Impact Note (TIIN) at Budget 2011. This included impacts on the carbon price, investment in low-carbon and impact on air quality.

Recommendation 6: We recommend that the Government consider providing tax incentives, such as a council tax rebate or stamp duty discount, in next year's Budget to support the take up of the Green Deal. (Paragraph 19)

3. The Government committed at Budget 2011 to act to encourage and incentivise take up of the Green Deal. Having considered possible options for doing so, it set out in the Autumn Statement that it will encourage uptake of the Green Deal in its initial phase through allocating £200m of additional capital spending resource. The Government will assess the effectiveness of different options for this spending and set out further details later this year.

4. The Treasury keeps all taxes under review. Separately, the Committee will be aware that some energy suppliers already choose to deliver a portion of their Carbon Emissions Reduction Target (CERT) obligations in the form of Council Tax discounts through working with local authorities. This route has the advantage of allowing suppliers to choose to offer rebates where they offer a cost-effective way to achieve their targets, without introducing duplication and overlap through multiple instruments.

Complexity and fairness

Recommendation 7: The present complex mix of environmental taxes and price signals undermines the effectiveness of both in securing beneficial behavioural changes. Businesses cannot be expected to change their behaviours and investment decisions if they are unaware of the cumulative impact of the environmental taxes affecting them. The Budget amended existing environmental taxes (and introduced a new one—the Carbon Floor Price), but did not address this growing issue of complexity. (Paragraph 22)

Recommendation 8: To tackle the growing complexity of environmental taxes and to build greater trust in their purpose, a coherent and clearly articulated approach is needed towards environmental taxes and broader environmental policy. A clear environmental tax strategy, should be a key component of this. (Paragraph 24)

5. The Government is committed to a tax system that is more predictable, stable and simple. It has made substantive changes to the way tax policy is developed, communicated and legislated. Improving the way we make tax policy is a necessary precondition for growth. Fostering greater competitiveness is not only about the rates and incidence of taxation but also the way in which tax law is made.

6. In December 2010 the Government committed to the following steps, in order to embed greater predictability and stability in the way tax policy is made: To outline the policy objectives and rationale for reform, when introducing major changes; To abide by a longer policy cycle, providing a greater opportunity for consultation and scrutiny; To use the period between the Budget and the following Finance Bill to consult on proposed policy changes and draft Finance Bill legislation; To take a more strategic approach to tackling avoidance and wherever possible, to apply the principles of predictability and stability to anti-avoidance measures and to outline what impact it expects the change to have, through the publication of Tax Information and Impact Notes (TIINs).

7. The Government has also taken separate steps to promote greater simplicity in the tax system, for the benefit of both businesses and individual taxpayers. For example, the independent Office for Tax Simplification was set up in July 2010.

8. As noted above, in designing environmental taxes the Government considers the efficiency of the taxes and the extent to which they minimise distortions, the sustainability of the tax base and the fit with other environmental policy levers. Any options considered are done so within the context of the fundamental priority of deficit reduction and strategic aim of simplification.

9. Taxes or fiscal measures can be one way of incentivising or driving behaviour change. The Government also considers whether regulation, public spending or influence would be more efficient and affordable ways of achieving the same aim.

10. The Government also continues to look proactively at ways to simplify the range of taxes with environmental impacts. At Budget 2011 the Government announced that the CCS levy and the RHI levy will not be introduced and instead will be funded through general taxation. Budget 2011 also announced consultations to simplify Climate Change Agreements and the CRC energy efficiency scheme. The Government also announced measures at the Autumn Statement to allow energy intensive industries to remain internationally competitive.

Recommendation 9: Hypothecating revenues for environmental ends can restrict spending flexibility. It can also help, however, to build trust and acceptance of environmental taxes. The Treasury should therefore consider greater use of at least partial hypothecation of revenues from environmental taxes, as applied for example to the Aggregates Levy. (Paragraph 26)

11. The Government's spending priorities are not, in general, determined by the way in which the money is raised. As the Committee notes, hypothecating revenues to particular spending programmes imparts inflexibility in spending decisions and can lead to a misallocation of resources, with reduced value for money for taxpayers.

12. Direct spending makes an important contribution to meeting its carbon targets in a cost-effective way, and the Spending Review committed revenues to key programmes such as reducing emissions from heating through the Renewable Heat Incentive, incentivising consumers to switch to electric vehicles, and establishing the Green Investment Bank.

Evaluation

Recommendation 10: The Government's workshops on particular tax areas are welcome, but detailed research is needed on the impact of environmental taxes on behaviours to establish what works, and that analysis should be made public to help engender public trust in the purpose and application of environmental taxes. (Paragraph 27)

13. The Government will continue to engage and listen to stakeholder views on environmental taxation as part of our policy making process. The impact of environmental taxes and behaviour change continues to be an important part of our assessment when

designing or reforming green taxes, alongside the greater transparency of the Tax Information and Impact Notes (TIINs).

Recommendation 11: We are disappointed that the Treasury did not provide the information we require for this inquiry. The material we sought is important for demonstrating the full impact that environmental taxes are having, and for building greater trust and acceptance of environmental taxes. In its response to this Report, we wish to see the Treasury's assessment of the environmental costs of motoring, beyond a simple quantification of the emissions involved. (Paragraph 28)

14. The Government provided comprehensive written evidence ahead of the EAC hearing in May. Additionally, the Economic Secretary attended the hearing in person and gave evidence to the questions asked by the committee.

Recommendation 12: To tackle the uncertainty over whether environmental tax rates adequately reflect externalities (or indeed over-tax them), the Treasury should seek to build consensus on a methodology for calculating environmental externalities. That would allow evaluation criteria to be formulated for assessing whether environmental taxes are having the desired effect on changing behaviours. Such a methodology and evaluation criteria should then be included in a published environmental tax strategy. (Paragraph 29)

15. A number of factors are considered when the Government sets tax rates, including pricing externalities. As part of the policy making process the Government assesses the environmental impacts of policies. Tax information and impacts notes (TIIN) are published alongside Budget measures. In designing environmental taxes the Government considers the efficiency of the taxes and the extent to which they minimise distortions, the sustainability of the tax base and the fit with other environmental policy levers. Any options considered are done so within the context of the fundamental priority of deficit reduction and strategic aim of simplification.

Recommendation 13: The Treasury should also publish an 'environmental impact assessment' alongside future Budgets, in a similar manner to the 'Household assessment' in Annex A of the Budget Report. This should cover the fullest possible assessment of the environmental impacts of proposed tax changes, including a monetised assessment of the environmental cost compared with the change in tax revenue. (Paragraph 30)

16. The Government notes the suggestions.

Natural capital

Recommendation 14: The Treasury should take greater ownership of the Government's efforts on valuing and managing the country's natural capital, to ensure that policy-making in all departments reflects such valuations. (Paragraph 32)

17. The Treasury already works with many bodies across the public sector and the Government Economic Service to ensure high standards of economic appraisal consistent with the Green Book. This includes strengthened arrangements for the approval and assurance of major projects through the business case process, Green Book training

sessions for policy makers, and improvements to the range of guidance which deals with the assessment of environmental impacts. Work is also being progressed on guidance emphasising the importance of natural capital and the benefits which whole ecosystems provide us with, as well as more detailed guidance on the assessment of specific types of environmental impacts such as air quality and climate resilience.

Recommendation 15: We welcome the Government's plans to incorporate natural capital into the Environmental Accounts. In the light of that work, the Treasury should keep under review the possible scope for broadening the tax base in due course to include natural assets, to help protect or increase our stocks of natural capital. While taxes based on natural capital valuation might be open to challenge at this stage, the Government might explore using the scope for financial incentives outside the tax system to reward positive environmental behaviours, calibrated according to the value of the natural capital involved. (Paragraph 34)

18. Tax policy is kept under review and any public announcements about policy changes are made at Budget. Beyond tax levers a number of programmes already exist to support protection of the natural environment and the creation and protection of natural capital, for instance agri-environment schemes under the Rural Development Programme for England, and the funding announced in the Natural Environment White Paper to support Nature Improvement Areas.

19. In particular the introduction of uplands entry level stewardship schemes reflected evidence on the social value of upland landscapes. In addition, protection and creation of natural capital (specifically, creation or improvement of water-dependent habitats, protection of inter-tidal habitats and protection of river beds) are among the outcomes being incentivised through public funding in the recently announced partnership funding approach for coastal and flood resilience.

20. In addition the Government is looking more widely at how incentives to protect and enhance natural capital can be created. The Natural Environment White Paper committed to action to support the creation of new markets for green goods and services, for instance through enabling actions such as awareness raising, provision of information and removal of barriers. It also included commitments to support payments for ecosystem services schemes and to set up a business-led Ecosystem Markets Task Force to look at opportunities in these emerging markets for UK businesses.

Motoring taxes

Recommendation 16: Fuel Duty is an environmental tax by any other name. We are concerned that by not classifying it as an environmental tax the Treasury is loosening the link between the rate of the tax and the cost of environmental externalities associated with motoring, and thereby reducing further the likelihood of using the Duty as a lever of behavioural change. (Paragraph 41)

21. The Government does not regard fuel duty as primarily an environmental tax, although it has an environmental impact. The primary role of transport taxation is to contribute to the sustainability of the public finances over the medium term. In addition, it is important that motoring taxes support the economy and respond to economic conditions such as

high pump prices. However, taxes such as fuel duty also play a role in incentivising the development and purchase of electric and ultra low carbon vehicles and supporting sustainable biofuels.

Recommendation 17: In the short-term, dropping Fuel Duty by one penny might be justifiable in terms of reducing the impact on economic growth of high fuel prices, but the Budget change was insignificant compared with the large petrol market price changes. And in the medium to long-term, the Government should not use taxpayers' money to keep fuel prices artificially low, but instead focus its efforts on helping motorists move away from oil. (Paragraph 44)

22. Given the current high cost of fuel, to support motorists and businesses, the Autumn Statement announced that:

- the 3.02ppl fuel duty increase that was due to take effect on 1 January 2012 will be deferred to 1 August 2012, and the inflation increase that was planned for 1 August 2012, currently expected to be worth 1.92ppl, will be cancelled. This will ensure that there will only be one RPI increase next year.
- This is on top of the support that was announced at the Budget 2011 that included:
- Cutting fuel duty by 1ppl; and
- Abolishing the fuel duty escalator and replacing it with a fair fuel stabiliser.

23. The Government agrees that fuel consumption is influenced by total price at the pumps. Whilst we have removed additional burden from the motorist due to taxation, the high pump prices due to rising price of oil continue to act as an incentive to use fuel more efficiently.

Recommendation 18: The Treasury should consider providing greater incentives to encourage motorists to switch from polluting cars to lower carbon alternatives, including a 'feebate' scheme on the purchase of new cars. (Paragraph 46)

24. There are already a number of such incentives in place which the committee may not be aware of. For example, electric vehicles are not subject to fuel duty and are exempt from VED and Company car tax (CCT). The capital allowances regime provides 100% first-year allowance for business expenditure on electric vehicles. The 2010 Spending Review announced provision of over £400m for the lifetime of this Parliament to promote the uptake of ultra-low carbon vehicle technologies. The Government has also committed to mandating a national network of recharging points for electric and plug-in hybrid vehicles. The £30m Plugged in Places Programme supports the strategic development of vehicle recharging infrastructure in key locations. More generally, fuel duty, company car tax and VED can also play a part in supporting the take up of more fuel efficient vehicles.

Recommendation 19: The removal of fiscal incentives to use biodiesel was a strategically retrograde act. (Paragraph 47)

25. As the Committee will be aware, the extension of the duty differential for used cooking oil biofuel was legislated as a temporary extension by the previous Government who had planned to end it on 31 March 2012. At Budget 2011, the Government confirmed that the

duty differential for used cooking oil biofuel will end as intended on 31 March 2012. Similarly, under plans inherited from the previous Government, support for biofuels including used cooking oil will be provided by the Renewable Transport Fuel Obligation (RTFO), which has a much sharper environmental focus.

26. The aim of the Government's biofuel policy is to reduce greenhouse gas emissions. It is therefore important that we differentiate between different biofuels according to their overall environmental impacts. By requiring biofuels to meet sustainability criteria, the RTFO can differentiate between more and less sustainable biofuels, something a duty differential is unable to do.

27. The Department for Transport has consulted on implementing the EU Renewable Energy Directive and the Fuel Quality Directives that are aimed at increasing the use of renewable sources of energy and reducing greenhouse gas emissions in the transport sector. This will enhance the Renewable Transport Fuel Obligation (RTFO), by expanding its scope to cover new modes of transport and tightening eligibility criteria to ensure only highly sustainable sources of biofuel are supported.

28. The proposals also include double rewards for biofuels produced from wastes such as used cooking oil. Double certification for waste-derived biofuel under the RTFO will provide a level of support broadly equivalent to the duty differential. Crop-based biofuels will continue to get one certificate per litre, as long as they meet the mandatory sustainability standard. So the proposed change will give twice the financial support to advanced biofuels as to conventional biofuels, and no support to biofuels that do not meet required sustainability standards.

Recommendation 20: We are disappointed that the Budget provided few tax incentives to help motorists switch to lower carbon transport alternatives. The Government should consider partially hypothecating revenues from Fuel Duty to invest in low-carbon alternatives. But perhaps most importantly, the Treasury needs to set out a clear vision and strategy for motoring taxation, to demonstrate what transport policy objectives it is seeking to support. Until it does so, it will be open to accusations of sending mixed messages to motorists and undermining taxpayers' support for such environmental taxation. (Paragraph 48)

29. The primary role of transport taxation is to contribute to the sustainability of the public finances over the medium term. However, as noted above, the Government agrees that high pump prices and tax incentives within VED and CCT can also promote the take up of fuel efficient and electric vehicles. As set out at paragraph 24, there are a number of incentives in place to encourage the development and take-up of cleaner vehicles. Taxes or fiscal measures are one way of doing this, along with a variety of other levers.

Aviation taxes

Recommendation 21: We are disappointed that little progress has been made on revising the Chicago Convention since we last examined this area, and we are left wondering whether, given earlier Government examination of the scope for reform within the terms of the Convention, there was ever any realistic prospect for bringing forward the work envisaged in the Coalition Agreement. In responding to this Report,

the Treasury should detail what work it has undertaken on investigating per-plane tax options, and explain what the basis was for holding out the prospect for a per-plane tax in the Coalition Agreement. (Paragraph 52)

30. Budget 2011 announced that the Government would not introduce a per-plane duty at the present time, given concerns over the legality and feasibility of this approach. The UK is a signatory to the 1944 ICAO Chicago Convention and has Air Service Agreements with over 150 countries. However, the Budget also announced that the Government would continue to work with international partners to build consensus for a per-plane duty in the future. To this end, we shall raise the matter with the ICAO at the next available opportunity. However, we must also be realistic about how quickly the required consensus for change will be secured.

Recommendation 22: The Treasury must clear up the confusion as to whether Air Passenger Duty is an environmental tax. (Paragraph 53)

31. The Budget consultation and the subsequent Government Response made clear that the Government regards the core objective of Air Passenger Duty (APD) to be raising revenues for the Exchequer in a simple, fair and efficient manner.

32. Moreover, evidence shows that changes in the structure of APD have only a negligible effect on CO_2.[1] Reductions in emissions from aviation can best be delivered through market-based mechanisms, agreed with our international partners.

Recommendation 23: Relying on the EU Emissions Trading System to reduce emissions from aviation is a high risk and low impact strategy. Its success in reducing aviation emissions turns on the effectiveness of the EU Emissions Trading System in curbing emissions more generally. (Paragraph 54)

33. The Government believes that the EU ETS will be effective in curbing emissions. From January 2012 the EU Emission Trading System (ETS) has been extended to most aviation flights across Europe and beyond. This offers a cost-effective, long-term approach to tackling CO_2 emissions from aviation. The EU ETS sets a cap on overall CO_2 emissions across all covered sectors, and the inclusion of aviation in the scheme is expected to save the UK around 12.5 million tonnes of CO_2 per annum by 2020.

Recommendation 24: The Government's up-coming 'sustainable aviation framework' must set out clearly how the Government expects to balance its competing objectives for aviation, along with how Air Passenger Duty and EU Emissions Trading System revenues will contribute to environmental objectives, to give a foundation for planning aviation tax strategy. (Paragraph 55)

34. The Government has made clear in this response and more generally that the core objective of APD is to raise revenues for the Exchequer in a simple, fair and efficient manner. In March 2011 the Department for Transport published a detailed scoping

[1] The APD reforms that took effect from April 2009 were estimated to save only around 0.6m tonnes of CO_2 per annum, and only a small minority of this was attributed to the new banding structure (as opposed to the net increase in duty). In contrast, the UK's attributed CO_2 savings from the inclusion of aviation emissions in the EU ETS from January 2012 are estimated to rise to 12.5m tonnes per annum by 2020. The Government has now published its response to the consultation.

document for developing a sustainable framework for UK aviation. The DfT consultation provides an opportunity for detailed consideration of the competing objectives for aviation, including the environmental impact of aviation.

Carbon Floor Price

Recommendation 25: The Treasury is missing an opportunity to support low-carbon investment by not ring-fencing receipts from the EU Emissions Trading System or the Carbon Floor Price. The Treasury should consider investing a proportion of these proceeds, perhaps through the Green Investment Bank, to support energy-intensive industries to take steps to reduce their carbon footprint, enabling them to remain in the UK, to be greener, and to be competitive. (Paragraph 60)

35. Budget 2011 announced that the Government will provide the Green Investment Bank (GIB) with an initial capitalisation of £3billion, including £1 billion from departmental budgets and the remainder from asset sales. Of this, £775 million has already been received from the sale of High Speed One. The Budget also announced that the GIB will be given borrowing powers from 2015–16 and once the target for Public Sector Net Debt to be falling as a percentage of GDP has been met. Decisions on any further capitalisation of the Bank, and limits on the amount of borrowing required, will need to be taken in the context of the wider fiscal position and spending plans for the next Spending Review period.

36. The Autumn Statement 2011 announced a package of measures to reduce the transitional impacts of energy and climate change policies on the costs of electricity for the most energy-intensive industries. This package is worth £250 million over the spending review, excluding the support available for energy efficiency through the Green Investment Bank. For a business covered by the measures, this could reduce their electricity costs by around 5–10 per cent.

Recommendation 26: In its response to this Report the Government should provide its comprehensive assessment of the possible financial consequences of the Carbon Floor Price for existing and new nuclear power. (Paragraph 62)

37. The Tax Impact and Information Note published at the time of Budget 2011 set out the impacts of the policy. The modelling showed that it will provide £30–40 billion of new low-carbon investment and as the carbon price floor does not promote any specific technology, it allows the market to decide on the most cost-effective mix of generation.

38. Any benefit arising to existing low-carbon infrastructure is a result of marginally higher costs for high-carbon generation feeding through to the wholesale electricity price.

Recommendation 27: The Government's definition of a 'subsidy' in relation to nuclear is not robust and does not hold up to scrutiny. The Carbon Floor Price will subsidise nuclear in the same way as renewable energy sources, which have no adverse environmental impacts, and nuclear will benefit the most from the Carbon Floor Price mechanism. As the Energy and Climate Change Committee recommends, the Government should recognise the issues related to new nuclear head-on and honestly. (Paragraph 65)

39. This policy is neither a subsidy to nuclear nor a State aid. The definition of subsidy in relation to new nuclear was set out by the Secretary of State for DECC to Parliament on 18 October 2010:

> "To be clear, this means that there will be no levy, direct payment or market support for electricity supplied or capacity provided by a private sector new nuclear operator, unless similar support is also made available more widely to other types of generation.
>
> New nuclear power will, for example, benefit from any general measures that are in place or may be introduced as part of wider reform of the electricity market to encourage investment in low-carbon generation..."

40. The price floor helps to rebalance economic incentives in the power sector away from high-carbon generation. All types of low-carbon technologies—nuclear and renewable—as well as efficient gas-fired electricity generation will be incentivised by the price floor. The Government's policy is clear there will be no public subsidy for new nuclear power.

Recommendation 28: In its response to this Report, the Government should explain clearly whether, and on what legal basis, it would be possible to levy a clawback tax on existing nuclear generators so that they pay the same tax as oil and gas powered generation. If in fact legally permissible, the Government should require nuclear power generators to pay such a clawback tax to fulfil its promise to provide no nuclear subsidy. (Paragraph 66)

41. The carbon price floor will provide a strong incentive for billions of pounds of new, low-carbon investment in our dilapidated electricity infrastructure. We need to ensure a secure energy supply, while meeting our legally binding commitments to reduce emissions. As part of Electricity Market Reform these challenges come with costs over the short to medium term, but will ensure lower electricity prices over the long term.

42. The Government understands the reasoning behind the arguments that have been made but nuclear power is not given special tax treatment or relief by this policy. The price floor does not promote any specific technology. It taxes the carbon content of fuels and allows the market to decide on the most cost-effective mix of electricity generation, rather than the Government. The Government therefore does not agree on the need for a 'clawback' tax of the type the Committee suggest, not least as it would also run the risk of adding to the "growing complexity of environmental taxes".

Green economy and Green Investment Bank

Recommendation 29: We are disappointed that there was very little in the Budget and Plan for Growth to help drive the low-carbon economy. The Government must focus on delivering growth that is genuinely sustainable, and that does not degrade the environment or entail increased consumption of resources. The forthcoming Roadmap to a Green Economy must demonstrate a greater commitment to the green economy, and in doing so dispel any suggestion that, with its separate publication, it is an 'add-on' rather than an integral part of the Government's sustainable development plans. We recommend that in the Government's forthcoming review of the Plan for Growth it is consolidated with the Roadmap. This is vital for ensuring that a green economy is at

the heart of Government's plans, and to provide a stronger and more coherent strategy for sustainable development. (Paragraph 72)

43. It is the Government's ambition to achieve strong, sustainable and balanced growth. Making the transition to a green economy is a vital part of this if the UK is to continue to prosper in the long-term in the face of challenges such as climate change and biodiversity loss and to make the most of the key services and benefits our natural resources provide. Enabling the transition to a green economy: Government and businesses working together was published on 5 August 2011[2] and sets out the Government's approach on what is meant by a "green economy", the policies being put in place to achieve this and how they come together. The document sets out the case for moving to a green economy and the opportunities and challenges it represents.

44. The green economy remains at the heart of the Government's growth strategy. Work is taking place across Government to maximise the opportunities presented by a move to a green economy through each of the key areas of focus of the second phase of the Growth Review set out at Autumn Statement (infrastructure, logistics, education and skills, mid-sized businesses, the rural economy and opening up data held by the public sector).

Recommendation 30: As we said in our report on the Green Investment Bank, the Government expects green growth to be a major future driver of the economy, able to create new jobs and help transform the UK to a low-carbon economy. The 'step change' that this requires means that this is an urgent agenda. The Government should reconsider its decision on when and under what fiscal circumstances the bar on the Bank's lending powers might be eased. (Paragraph 76)

45. The Committee will be aware that the GIB will be given borrowing powers from 2015-16, and once the target for debt to be falling as a proportion of GDP has been met, GIB borrowing would score against the national debt. The Government therefore needs to ensure that the necessary controls are in place so that any borrowing is transparent and liabilities can be managed effectively.

46. The decision on the level of any borrowing cannot be taken now and, when considering it in the future, will be dependent on both investment requirements and wider fiscal affordability. The GIB has been provided with £3billion during the Spending Review period and will, through the Department for Business, Innovation and Skills, be able to start making investments from April 2012. The borrowing mechanisms for the GIB will therefore be decided in due course. As an independent body, the GIB will have the ability to determine its borrowing mechanism within the parameters set by Government.

Recommendation 31: We are disappointed that unnecessary delays in securing State aid approval seem likely to result in the status of the Green Investment Bank being fudged. We are disappointed that the Government did not heed our earlier advice to make preliminary contact with the European Commission to start the process for securing State Aid approval. (Paragraph 73)

47. The Government has been clear that it will pass appropriate legislation for the GIB once State aid approval has been secured. While the Government obtains State aid

[2] (www.businesslink.gov.uk/greeneconomy)

approval and establishes the GIB, from 2012, BIS plans to promote green economy objectives by making certain appropriate investments compatible with existing state aid approvals and exemptions.

48. While recognising the Committee's appetite for progress, there was little to be gained from approaching the European Commission prior to confirmation of the status and scope of the GIB at Budget 2011. Officials have therefore been engaging extensively with the European Commission for a number of months since Budget 2011, with a view to securing state aid approval as soon as possible for the operation of the GIB.