



House of Commons
Environmental Audit Committee

Sustainability and HM Treasury: Government's Response to the Committee's Fifth Report

Eighth Report of Session 2016–17

*Report, together with formal minutes relating
to the report*

*Ordered by the House of Commons to be printed
28 February 2017*

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.

Current membership

[Mary Creagh MP](#) (*Labour, Wakefield*) (Chair)

[Peter Aldous MP](#) (*Conservative, Waveney*)

[Caroline Ansell MP](#) (*Conservative, Eastbourne*)

[Dr Thérèse Coffey MP](#) (*Conservative, Suffolk Coastal*)

[Geraint Davies MP](#) (*Labour (Co-op), Swansea West*)

[Glyn Davies MP](#) (*Conservative, Montgomeryshire*)

[Luke Hall MP](#) (*Conservative, Thornbury and Yate*)

[Peter Heaton-Jones MP](#) (*Conservative, North Devon*)

[Peter Lilley MP](#) (*Conservative, Hitchin and Harpenden*)

[Caroline Lucas MP](#) (*Green Party, Brighton Pavilion*)

[John Mc Nally MP](#) (*Scottish National Party, Falkirk*)

[Kerry McCarthy MP](#) (*Labour, Bristol East*)

[Scott Mann MP](#) (*Conservative, North Cornwall*)

[Dr Mathew Offord MP](#) (*Conservative, Hendon*)

[Joan Ryan MP](#) (*Labour, Enfield North*)

[Mr Gavin Shuker MP](#) (*Labour (Co-op), Luton South*)

The following Members were members of the Committee during the inquiry:

Jo Churchill MP (Conservative, Bury St Edmunds); Zac Goldsmith MP (Conservative, Richmond Park); Carolyn Harris MP (Labour, Swansea East); Rebecca Pow MP (Conservative, Taunton Deane); Rory Stewart MP (Conservative, Penrith and The Border) [ex-officio]

Powers

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

Publication

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

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee's website.

Committee staff

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

Contacts

All correspondence should be addressed to the Clerk of the Environmental Audit Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5776; the Committee's email address is eacom@parliament.uk.

Contents

Sustainability and HM Treasury: Government Response	3
Appendix: Government Response	4
The role of the Treasury	4
Understanding and accounting for environmental sustainability	5
Delivering environmental sustainability	6
Ensuring accountability	7
Formal Minutes	8
List of Reports from the Committee during the current Parliament	9

Sustainability and HM Treasury: Government Response

1. The Environmental Audit Committee published its Fifth Report of Session 2016–17, [Sustainability and HM Treasury](#) (HC 181), on 17 November 2016. The Government's response was received on 27 January 2017 and is appended to this report.

2. We are grateful to the Treasury for its response. We are pleased to learn that the Treasury is working with the Department of Environment, Food and Rural Affairs and the Natural Capital Committee to incorporate natural capital into the Green Book.¹ We look forward to seeing a revised version of the Green Book, promised by the Treasury, later this year and expect to see real progress on incorporating Natural Capital. We also welcome the Treasury's commitment to review current energy performance standards for new buildings and to see whether there are opportunities to do so more cost effectively, as long as this does not result in a lowering of standards.

3. Our report recognised the significant change that the Treasury had undergone while we were conducting our inquiry and stated that the aim of our report was to learn lessons from the past and provide proposals that we hope will be useful to Treasury in the future. Despite this positive progress set out above, we are disappointed that the Treasury's response has not responded to our individual recommendations or addressed some of our key overarching points set out below. It is also not clear how it will do anything different in future as a result of our inquiry.

4. The Treasury did not adequately address our conclusion that the appraisal and allocation process the Treasury used to assess individual environmental interventions consistently favoured short-term priorities over long-term sustainability. It also failed to respond to evidence that comparatively expensive low carbon technologies (e.g. nuclear) have received more attention than cheaper alternatives (e.g. energy efficiency) which might represent better value for money (paras 30–32). Furthermore, the Treasury ignored our conclusion that, even though it might be possible for the Treasury to justify specific policy decisions in isolation, the cumulative impact of its decisions were having a negative impact on the private sector – which is increasingly concerned about policy risk (para 61). Both of these overarching points were exemplified by the Treasury's decision to approve Departmental proposals in the 2015 Spending Review, which did nothing to close the gap between the emissions reductions that current policies will achieve and the reductions required to meet the fourth carbon budget, which runs from 2023–2027 (para 40).

5. The issues raised in our report are not just about the environment, they are about jobs, growth and prosperity. We are disappointed that the Treasury has not embraced the report in the spirit in which it was intended. We request that the Treasury respond directly to the overarching points and individual conclusions and recommendations set out in our original report.

1 HM Treasury, *The Green Book: Appraisal and Evaluation in Central Government* (2003)

Appendix: Government Response

The government takes long-term sustainability seriously. It takes account of sustainable development as part of how it develops its policies, how it runs its buildings and how it buys its goods and services.

Reflecting this, the government has a strong record on sustainability. Provisional estimates indicate that, between 2010 and 2015, the UK reduced domestic greenhouse gas emission by 17% - the biggest reduction in a single Parliament. We have trebled renewable electricity capacity since 2010 and are on track to exceed our ambition of delivering 30% of the UK's electricity from renewables in 2020/21. In the environmental sector, we will plant 11 million trees by the end of the Parliament and almost £100m of capital funding will be invested over the next five years in projects to support England's natural environment.

The Treasury is always open to feedback on how it can improve its processes relating to the Spending Review and more broadly on how it can contribute to achieving the government's sustainability objectives. The Treasury welcomes the Environmental Audit Committee's report on 'Sustainability and HM Treasury' as an important contribution to that discussion.

The role of the Treasury

Responsibility for meeting the government's sustainability targets and objectives falls primarily to the department responsible for the policy area in question. The Department for Environment, Food & Rural Affairs (Defra) has a role in overseeing sustainability across central government. The forthcoming 25 Year Environment Plan will set out the government's vision to achieve a cleaner, greener, healthier and more prosperous place to live and work.

The Treasury has an important role to play by controlling public spending, setting tax policy and making sure government spending delivers value for money. As the economics ministry, the Treasury sets the direction of the UK's economic policy and works to achieve strong, sustainable economic growth. The Treasury strongly rejects the claim that it "rode roughshod" over other departments' objectives. The Treasury's central role necessarily requires trade-offs in the allocation of spending across government departments, and the Treasury has strong processes in place to ensure that the full impacts of policies are captured in the appraisal process (see below).

The Treasury works closely with other government departments on an ongoing basis. A wide range of cross departmental platforms exist as part of business as usual policy development and implementation. The Spending Review did not seek to duplicate this cross departmental working - instead, existing platforms were used to ensure bids were reflective of the latest cross-departmental information. This was recognised by the National Audit Office (NAO) in their report on *Sustainability in the spending review*.²

During the Spending Review, the Treasury also encouraged joint and co-ordinated bids. The Spending Review guidance to departments explicitly stated that "*Where a government objective depends on more than one department, departments should work closely to deliver it*

2 Sustainability in the spending review (National Audit Office, 2016), available at <https://www.nao.org.uk/wp-content/uploads/2016/07/Sustainability-in-the-Spending-Review.pdf>

in the most cost effective manner". The Department for International Development (DfID), Defra and the then Department for Energy and Climate Change (DECC) submitted a coordinated bid on the International Climate Fund (ICF), building on the work of the ICF board from the previous five years.

The Treasury will continue to encourage and take part in cross-government discussions on environment and sustainability matters; and recognises the importance of these platforms in the context of developing and implementing environmental policy. We will consider what more could be done to proactively identify opportunities for joint bids, and whether existing processes could be adapted to better support these.

Understanding and accounting for environmental sustainability

The consideration of long-term impacts is ingrained in the policy making and spending allocation process in the Treasury and across government. The Spending Review allocated billions of pounds on policies to further the government's long term environmental and climate objectives. These include doubling government spend on the low carbon innovation programme; making over £1bn of capital funding available to support electric vehicles, heat networks and public sector energy efficiency; and protecting funding for 250,000 ha of public forests and woodland.

The Treasury has a robust framework in place for evaluating the long term impact of policies. The Green Book, the Treasury's manual for the evaluation and appraisal of policy proposals, is regarded as a gold standard internationally for objective and transparent appraisal of public value. The Green Book is clear that all proposals should be considered over their entire life cycle; and that this assessment should include environmental and sustainability impacts.

Alongside this, potentially significant long term and irreversible effects must be considered and carefully assessed beyond the period covered by the initial intervention. Where significant intergenerational effects are involved, the Green Book allows for a sensitivity calculation to indicate the effects of removing the pure time preference component of the discount.

While all proposals that come to the Treasury are required to adhere to the Green Book's methodology, we recognise that some of the new processes put in place for the 2015 Spending Review may need time to fully bed in, and could be further improved. We will keep under review the Spending Review guidance provided to both Departments and internal Treasury teams on accounting for environmental impacts.

The government draws on a range of expert advice when developing policy. On natural capital, it is grateful for the expert advice brought by the Natural Capital Committee. Its recommendations and analysis contributed substantially to decisions taken during the Spending Review. The Treasury is working closely with Defra to ensure that the role of natural capital is incorporated into the Green Book, by providing clearer advice, ensuring consistent application, and placing increased emphasis on the natural capital 'stocks' as well as the ecosystem services 'flows'. Natural capital and the valuation of non-market environmental goods and services are evolving areas of research, and the Treasury and Defra will work together to improve the consideration of natural capital when a revised Green Book is published later this year.

The Treasury is supportive of the valuable work being done by the Office for National Statistics (ONS) and Defra to work to incorporate natural capital into the UK Environmental Accounts by 2020, and the Treasury sits on the Steering Group for this project. The published Road Map shows that we are on track for 2020. The first ecosystem accounts were released in 2013, and there have been new accounts (e.g. freshwater) and updated accounts (e.g. woodlands) since then. The latest revision to initial national estimates was published in November 2016. These are ground-breaking developments and the UK is leading the way internationally in this field. The government's understanding of environmental priorities is improving in light of this information, and the government will update its guidance on environmental topics and natural capital in line with the latest emerging evidence and scientific understanding. The Treasury, alongside the rest of government, looks forward to making best use of the finalised national environmental accounts in 2020.

On stakeholder engagement, the Spending Review guidance is clear that Departments should lead on stakeholder engagement and factor this in to bids they present to the Treasury. It would not have been appropriate for independent bodies to comment on the specific design of the Spending Review process or bids which have not been seen by ministers, and could be commercially sensitive. The Treasury therefore considers that its engagement with stakeholders was appropriate at the Spending Review.

Delivering environmental sustainability

The government is committed to meeting its climate change targets. The level of ambition and clarity of the UK's climate legislation is seen as a model internationally and is being replicated in other countries, such as France. As noted in this report, our domestic carbon budgets can be met through a range of policy mechanisms, including tax and regulation, not just spending. The Spending Review extended policies such as the Energy Company Obligation (ECO) and electric vehicle funding, and provided new funding for policies such as heat networks; all of which will make a positive contribution to meeting carbon budgets. The government's forthcoming Emissions Reduction Plan will be informed by analysis to ensure we stay on track to meeting our 2050 target while keeping costs low for families and businesses.

Carbon capture and storage (CCS) has a potentially important role in the long-term decarbonisation of the UK, but its costs must come down. The decision to cancel the CCS Competition was taken as part of a particularly tight Spending Review which sought to identify the areas of spending which would deliver the most significant benefits to households and businesses. This involved tough decisions, including to no longer proceed with the £1bn capital funding support for the CCS Competition. The costs to consumers from the Competition would also have been high and regressive. The government will set out its future approach on CCS in due course.

The energy performance standards for new buildings in the Building Regulations were improved by over 30% over the course of the last Parliament. In 2015, following an uplift in energy standards in the previous year, the government decided to give the house building industry a breathing space to get used to building to the new standards as well as to enable a better understanding of potential discrepancies between design and actual performance

and the risks of unintended consequences like overheating. This year the government will conduct a review of the current standards and see whether there are opportunities to do more cost effectively.

On waste management, landfill tax has successfully reduced the amount of waste going to landfill and the Treasury has set out rates to 2019. The Treasury continues to work with Defra to consider further options to meet the government's recycling targets. The government is investing £3bn from 1997 to 2042 in grant funding to Private Finance Initiative local authority waste infrastructure projects.

On investor confidence, the UK is fundamentally a strong and open economy with a first class regulatory regime. The Chancellor made clear in the Autumn Statement 2016 that his priority is to ensure that Britain remains the number one destination for business. In the energy sector, the government has provided clarity for investors by committing to build the first nuclear power station in a generation at Hinkley; reaffirmed its commitment to allocate up to £730m of annual support on renewable electricity projects over this parliament; committed to set out the future of the Levy Control Framework at Budget 2017; and maintained the Carbon Price Support rates to 2020–21.

Ensuring accountability

There are robust processes and institutions in place to ensure that both the Treasury and the government more widely are held to account by Parliament and the public on the environment and sustainability. Scrutiny of government is provided through Parliamentary mechanisms including departmental and cross-departmental Select Committees. These include the Environment Select Committee, the Business Energy and Industrial Strategy Committee, and the Environmental Audit Committee. The NAO and Public Accounts Committee play an important role in scrutinising public spending, including its value for money, taking account of the benefits to society of such spending as well as the costs.

Delivery bodies such as Natural England, the Environment Agency and the Forestry Commission provide government with expert advice on the environmental implications of policies and on the state of the natural environment. The Committee on Climate Change provides independent advice to the government on climate change and publishes regular reports on the government's progress against its climate change goals. The government is also grateful for the expert advice brought by the Natural Capital Committee.

Formal Minutes

Tuesday 28 February 2017

Members present.

Mary Creagh, in the Chair:

Peter Aldous	Kerry McCarthy
Caroline Ansell	Joan Ryan
Caroline Lucas	Mr Gavin Shuker

Draft Report (*Sustainability and HM Treasury: Government's Response to the Committee's Fifth Report of Session 2016–17*), proposed by the Chair, brought up and read.

Paragraphs 1 to 5 read and agreed to.

The Government's response to the Fifth Report from the Committee was appended to the Report.

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

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

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

[The Committee adjourned]

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website.

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

Session 2016–17

First Report	Soil health	HC 180 (HC 650)
Second Report	Flooding: Cooperation across Government	HC 183 (HC 645)
Third Report	Environmental impact of microplastics	HC 179 (HC 802)
Fourth Report	Sustainability in the Department for Transport	HC 184 (HC 819)
Fifth Report	Sustainability and the HM Treasury	HC 181
Sixth Report	The Future of the Natural Environment after the EU Referendum	HC 599
Seventh Report	The Airports Commission Report Follow up: Carbon Emissions, Air Quality and Noise	HC 840
First Special Report	EU and UK Environmental Policy: Government Response to the Committee's Third Report of Session 2015–16	HC 644

Session 2015–16

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