



House of Commons  
Environmental Audit  
Committee

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**Government Response  
to the Committee's  
Seventh Report of  
Session 2004-05 on  
Pre-Budget 2004 and  
Budget 2005: Tax,  
Appraisal and  
Environment**

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**Second Special Report of Session  
2005-06**

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## The Environmental Audit Committee

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

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The constitution and powers are set out in House of Commons Standing Orders, principally Standing Order No. 152A. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

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/parliamentary\\_committees/environmental\\_audit\\_committee.cfm](http://www.parliament.uk/parliamentary_committees/environmental_audit_committee.cfm).

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

### Committee staff

The current staff of the Committee are: Mike Hennessy (Clerk); Lynne Spiers (Second Clerk); Eric Lewis (Committee Specialist); Elena Ares (Committee Specialist); Louise Combs (Committee Assistant); Caroline McElwee (Secretary); and Robert Long (Senior Office Clerk).

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### References

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated by page number as in 'Ev12'. number HC \*-II





# Second Special Report

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## Pre-Budget 2004 and Budget 2005: Tax, Appraisal and Environment— Government Response

1. The previous Environmental Audit Committee published its report on *Pre-Budget 2004 and Budget 2005: Tax, Appraisal and Environment* on Wednesday 13 April 2005 as HC 261.
2. The Government's Response to that Committee's Report was received on Thursday 21 July 2005 in the form of a memorandum to the Committee. It is reproduced as an Appendix to this Special Report.

## Appendix

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**Recommendation 1. Pre-Budget 2004 and Budget 2005 contained few new environmental measures and those which were included were relatively minor. We should perhaps not have expected too much at this stage of the electoral cycle. But if that is the reason for the failure to adopt a more radical approach, it represents a dismal reflection on the extent to which politicians of all parties can pursue the environmental policies we need if we are to move towards a truly sustainable society. (Paragraph 10)**

The Treasury does not believe that policy making should be judged by its regularity. Rather, it is important to look at the overall development of policy, including non-tax measures and the range of measures that have been introduced since 1997, for example the climate change levy, enhanced capital allowances for energy saving technology, reduced rates of VAT for environmentally-friendly technology and the aggregates levy. It also needs to be recognised that there are a range of non-tax measures for improving the environment, including spending, regulation and other market based instruments. Major and radical policy developments have been taken in many areas, such as the Energy Efficiency Commitment, the Renewables Obligation and the EU Emissions Trading Scheme (ETS) which will transform the way in which business tackles climate change. A stocktake of fiscal measures has been undertaken in Chapter 7 of Budget 2005, which has demonstrated the success of the key environmental taxes. However, future fiscal developments need to be considered alongside the other approaches. The Government does, recognise that in some areas, particularly climate change, further policy will be required if the UK is to meet its targets, and has launched the Climate Change Programme Review, which will evaluate the impact of the Government's major policies to date and will consider the range of approaches and measures, including consideration of economic instruments, to meet that challenge.

### Environmental Tax Reform

**Recommendation 2. Revenues from environmental taxes have declined in percentage terms since 1999 and now stand at their lowest level since 1994. This demonstrates the**

failure of the Treasury to carry through the visionary objective it adopted in the 1997 Statement of Intent on Environmental Taxation. Indeed, in relation to environmental measures, budgets since 2000 have contained substantially more subsidies and tax giveaways than taxes and charges. (Paragraph 19)

**Recommendation 3.** The Treasury has taken a special approach with regard to environmental taxation which we consider is both inconsistent and intellectually flawed, and for that reason we reject its argument that the percentage of revenues raised from environmental taxes is not a valid indicator. We see no reason why environmental taxes cannot be used, alongside taxes on capital and labour, to raise revenue as indeed they do in the case of fuel duties. Indeed, it seems to us that the central premise of the Statement of Intent the concept of 'shifting the burden' is only intelligible in the context of a shift within the overall tax base. In this context it is worth reminding the Treasury that, while it claims to have an environmental tax strategy, there are no documented strategies underpinning other tax regimes and indeed no overall strategy underpinning the balance between different tax regimes. (Paragraph 25)

**Recommendation 4.** Following the forthcoming election, the Treasury must publicly re-affirm its commitment to the Statement of Intent, and in particular to the strategic aim of shifting the burden of taxation over time from 'goods' to 'bads'. This should form the heart of a new environmental fiscal strategy in which the taxation of our use of natural resources is considered as valid a source of Government revenue as taxes on labour and capital. If the Treasury fails to commit itself anew in this way, its vaunted commitment to the environment will lose all credibility. (Paragraph 27)

The Government has introduced a wide range of measures to support its aims on the environment, consistent with the objective it set itself in 1997. Both the Climate Change Levy and the Aggregates Levy reaffirmed the Government's commitment to shift the burden of tax from 'goods' to 'bads' and were introduced with corresponding reductions in employers' national insurance contributions. Revenues from environmental taxes do not necessarily indicate the relative importance or the success of environmental policy. High environmental tax revenues can result either from high rates of taxes or from high levels of environmental problems leading to a large tax base. The broad measure of revenues can also fail to capture the effect of the differential rates that encourages a shift away from higher impact behaviour (such as the use of leaded petrol). If environmental taxes are effective then we would expect the revenue from these to decline over time. The success of environmental taxes should be judged on how well they deliver the desired environment outcomes.

The Government does not seek to target proportions of its revenues between individual taxes. It has a strategic approach to the development of policy on environmental taxes set out in Tax and the Environment: using economic instruments (November 2002). Economic instruments should be seen as means to pursue policy objectives, not as ends in themselves. It is therefore important that Government has a strategy for environmental objectives, such as climate change, air quality or waste disposal, and assesses the most effective measures for delivering those objectives, including the role of economic instruments. The Government takes a strategic approach to all tax regimes and, in the context of the Budget and Pre Budget Report, takes account of the balance needed between these different regimes to pursue its aims. These aims include maintaining macro

economic stability, improving productivity and fairness, protecting the environment, and promoting a fair, efficient and integrated tax system with incentives to work, save and invest.

**Recommendation 5.** There is considerable scope for the Treasury to pursue an environmental tax policy in the next Parliament. In taking forward this agenda, the guiding principle should be to use environmental taxation to achieve policy ends rather than to perpetuate the illusion that it is possible to calculate precisely the associated cost externalities and levy a tax only to that extent. (Paragraph 30)

**Recommendation 6.** The Treasury has still not put in place any kind of environmental tax strategy to support the strategic aim of ‘shifting the burden’ set out in the Statement of Intent. Moreover, the environmental objective contained in its latest PSA does not contain any reference to that aim, and indeed is far weaker than it. In the context of the overriding importance of tackling the environmental threats we face in particular, climate change and the loss of biodiversity the Treasury’s environmental objective must be strengthened and supported by specific targets. (Paragraph 34)

The Government agrees with the Committee that the guiding principle should be to use environmental taxation to achieve policy ends. It set out its approach in its Statement of Intent on Environmental Taxation in 1997, and in *Tax and the Environment: Using Economic Instruments* in 2002. Government has continued to develop environmental tax policy in line with the principles set out in *Tax and the Environment*. These principles inform the overall approach to environmental tax policy and which have seen the development of incentives to reduce environmental damage.

Cost externalities have a bearing on the level of tax set but are not the sole determining factor, as in some cases environmental taxes may be used to achieve environmental objectives or targets. For example, the Government announced in Budget 2003 that it intended to increase the standard rate of landfill tax to a medium- to long-term rate of £35 per tonne to avoid an over-reliance on landfill. Since this announcement active waste disposed to landfill has fallen by over 4 per cent. On climate change, independent evaluation of the Climate Change Levy concludes that it will deliver annual savings of over 3.5 million tones of carbon in 2010.

As set out in the statement of intent and *Tax and the Environment* other factors will also influence environmental taxes in particular the effects on economic and social objectives including competitiveness and distributional factors.

In developing new environmental taxation the Government will assess any new policy against the same principles and objectives that the Treasury has set, including to protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies.

**Recommendation 7.** The Treasury should take forward the environmental tax agenda by establishing an independent body to build a consensus on the fiscal measures needed to achieve our national environmental objectives. As the controversy over the fuel duty escalator demonstrated, it is vitally important to achieve cross-party agreement so that governments are able to pursue long-term environmental objectives even when this might incur a degree of short-term political unpopularity. We would therefore urge the

**Treasury to examine once again the concept of a Green Tax Commission.** (Paragraph 36)

The Government has regular meetings a range of stakeholders including both environmental groups and business organisations, to discuss environmental taxation issues. Furthermore, when the Government has considered introducing new environmental taxation it has always done so in an open and consultative way. This approach is designed to ensure that all views are taken into account and to establish consensus wherever possible on the need for action. The Government therefore does not believe there is a good case for a establishing a Green Tax Commission.

**Recommendation 8. Effective monitoring is an important aspect of any environmental tax and spending strategy. The information currently available in the Pre-Budget and Budget reports is inadequate even to assess outturn expenditure in specific policy areas, let alone overall environmental impacts. We would urge the Treasury, in the context of developing a more comprehensive environmental strategy, to provide an annual monitoring report. This could include data on financial expenditure in specific environmental policy areas and analysis of performance against key targets, together with details of research commissioned and ex post appraisals conducted.** (Paragraph 39)

The Government agrees that effective monitoring is an important aspect of environmental tax and spending strategy. It is committed to appraise and evaluate the environmental impact of all Budget measures on the basis of the best scientific information available. The Budget and PBR documents have a separate chapter on Protecting the Environment which effectively provides a monitoring report twice yearly. It contains information of performance against key targets (for example Chart 7.1 on climate change). Table 7.2 in the Budget describes the environmental effect of all recent Budget measures which have a significant environmental impact or serve an environmental purpose. Budget 2005 in particular contained an assessment of all the main environmental taxes. It has also just published an independent evaluation of the climate change levy by Cambridge Econometrics and plans to conduct a formal evaluation of enhanced capital allowances for energy saving equipment. Beyond this, the Treasury believes responsibility for monitoring should rightly rest with the lead department, in this case Defra through their annual reports.

## **Appraisal and Regulation**

**Recommendation 9. The shift to Regulatory Impact Assessments (RIAs) as the primary method of evaluating environmental, alongside social and economic, impacts has occurred in the context of a failure by departments to fulfill adequately previous requirements relating to screening and environmental appraisal. This is disappointing. We are also astonished that the Cabinet Office should claim that until the incorporation of environmental impacts within the RIA procedures in April 2004 there was no central requirement for policy makers to look at wider impacts, including environmental impacts. If true, this would constitute an admission that the Government had made no progress in greening policy making procedures from 1997 to 2004.** (Paragraph 46)

Even before the recent strengthening of the RIA guidance required that all relevant impacts (which therefore includes those on the environment) had to be taken into account if they were considered material to a specific decision. In parallel with this, there has been continued development of policies and processes to promote policy making that incorporates sustainable development since 1997. This work led to the development of an "Integrated Policy Appraisal" system and a decision was taken to incorporate this with RIAs 2004. The requirement to undertake RIAs is a central requirement for the whole of Government and the more explicit requirement to consider environmental impacts in RIAs following incorporation of the IPA therefore represents a significant strengthening of emphasis compared with previous practice.

**Recommendation 10. "Placing the environment at the heart of policy making" receives very little emphasis within the current RIA guidance. Indeed, the fundamental structure of the RIA and the associated guidance is ill-suited to the overriding need for policy makers to be able to balance environmental impacts against social and economic impacts, and to assess the extent of any trade-offs which need to be made. In this respect, it betrays its historical origins which are more to do with minimising the impact of regulations than utilising the process to help achieve other policy goals. We do not see that the present RIA structure will do anything to address the failure by departments which the Government has itself acknowledged to improve their performance on environmental appraisal of policy measures. (Paragraph 54)**

The RIA structure is intended to ensure that policy makers are explicit in the treatment of social, environmental and economic factors affecting a decision and any trade-off that is proposed. RIA therefore enables scrutiny of both the basis for a decision and the degree to which particular factors have affected choice of a preferred option. As such, the RIA does not make the decision but provides the decision maker, normally a Minister, with a view of the evidence and of any trade-offs involved.

RIAs accompany consultations and are also provided to Parliament with proposed legislation. This is to enable consultees and Parliament to understand and scrutinize the basis for a proposal, and to provide them with the opportunity to raise issues they do not believe have been reflected adequately in the decision making process.

**Recommendation 11. We recommend that the Government considers restructuring the present RIA procedures by inserting a new higher strategic tier to be named the Strategic Impact Assessment (SIA). This should separately identify economic, social and environmental impacts, and incorporate a summary appraisal table setting out these impacts on a single page for each policy option. Environmental impacts should be broken down and categorised in non-monetary terms on a plus/minus 7 point scale. In view of the huge challenges facing us in reducing carbon emissions, the impact on greenhouse gas emissions should be clearly highlighted and prioritised, as we have previously recommended. The SIA should also set out whether a Strategic Environmental Assessment is required. (Paragraph 55)**

Government does not agree with the Committee's proposals for a new tier of assessment. The RIU, and now BRE, have been working to create a single vehicle capable of accounting for all of the impacts and a good, properly structured RIA will bring out the relevant issues. RIA guidance already encourages the pursuit of clarity and use of summary information.

With regard to treatment of environmental impacts, appraisal methodology used in RIAs must reflect the Treasury Green Book which contains the Government's formal guidance on this topic.

**Recommendation 12. If RIAs are to capture all the costs and benefits associated with policy proposals and new regulation, the Government cannot afford to ignore wider impacts for example, on health and tourism. It must ensure that RIAs do indeed take full account of these wider impacts whether or not they can be meaningfully quantified in monetary terms. And where they cannot, it will be crucially important that adequate weight is given to them. (Paragraph 59)**

The Government agrees that all impacts relevant to a policy decision should be taken into account. Both health impacts and potential benefits to tourism can be taken into account through the current system.

**Recommendation 13. As current methods of evaluating environmental impacts fail to give adequate weight to global threats such as climate change and the loss of biodiversity, appraisal processes must take greater account of strategic objectives and targets which the Government has set in these areas. In so doing, they must adequately recognise the contribution which the creation of thriving environmental industries can make, and the RIA guidance needs to be strengthened in this respect. (Paragraph 64)**

Strategic objectives and targets, together with action required to achieve them, must be subject to transparent and accountable policy development. RIAs have a part to play in both determining goals and action required to achieve them. With regard to specific sectors of the economy, the Government's policy aims reflect the outcomes that it seeks to achieve and RIAs must continue to focus on how best to achieve these rather than the potential benefits for any one specific group within the economy.

**Recommendation 14. There seems considerable evidence that industry and trade organisations regularly exaggerate the likely costs of implementing environmental regulations. Government departments are not in a strong position to assess industry claims in this respect, as has been demonstrated by the difficulties DEFRA experienced in negotiating Climate Change agreements and in managing the allocation process for the UK Emissions Trading System. We are therefore concerned about how reliably departments can assess such costs for inclusion in RIAs. (Paragraph 67)**

**Recommendation 16. We are sceptical about the extent to which environmental regulations damage competitiveness, and we reject the scaremongering approach which the Confederation of British Industry has often adopted in this respect. However, given the amount of industry lobbying and the extent to which it has been successful in weakening proposed environmental regulations, further examination of these issues is needed. We therefore recommend that the Government should commission an independent review of the impact of environmental regulation on competitiveness. (Paragraph 73)**

Government exerts considerable effort in order to gain realistic views of costs arising from regulation. An RIA should be understood as representing the Government's best forecast of the likely effects of a proposal, both in terms of the benefits that are likely to accrue and the costs that may be involved. Every RIA should be subject to a minimum twelve-week

public consultation and the Government's Consultation Code specifies that departments should publish a summary of consultation responses, giving a summary of the responses to each question asked and an explanation of how it is proposed to change the proposal in the light of responses received. Responses, including the names and addresses of respondents, may be made public unless one of the exceptions in the freedom of information legislation applies. In this way, the evidence that is presented to the Government and the use that Government has made of it is publicly available and can be challenged by those who think the evidence may be biased.

Government's policy is to pursue better regulation, which means that it seeks the outcomes that regulation can deliver, such as improved safety or environmental standards, in the least burdensome way. The Government has accepted recommendations contained in both Philip Hampton's report and the Better Regulation Task Force's report "Less is More" that are intended to ensure that action is taken to both meet concerns that have been expressed about the burden of regulation and to continue to enable delivery of high standards of environmental protection. Since the Government has already committed to take action on this point, we do not accept that there is a need for a study at this time.

**Recommendation 15. We recommend that the NAO should carry out on our behalf an analysis of RIAs to assess how effectively departments have responded to the changes in RIA procedures from April 2004. The analysis should assess whether departments are accurately identifying and incorporating environmental impacts within RIAs in the light of the concerns we have expressed above. A supplementary objective might be to check that RIAs are in fact being completed for all significant policy proposals.** (Paragraph 68)

The NAO already undertakes analysis of a sample of RIAs that the Better Regulation Task Force draws to its attention and the Government's sustainable development strategy states that "The National Audit Office (NAO) reports to Parliament annually on RIAs and will from 2006 also look at sustainable development aspects". The Government has acted on recommendations that the NAO has made to improve RIAs. The NAO's scrutiny includes judgement on how well the Government conforms to its own guidance on RIAs and we welcome their assessment.

**Recommendation 17. While we entirely agree with the need for better regulation, we are concerned at the potential conflict between the need to reduce regulatory burdens and the need to ensure that environmental objectives are fully incorporated within the policy appraisal process and given adequate weight. We therefore find it unsatisfactory that these divergent processes and objectives should now have been merged within the function of the Cabinet Office Regulatory Impact Unit. We are particularly concerned at this development as the Cabinet Office has still not set up a Sustainable Development Unit, which might provide expert advice on environmental and sustainable development issues to the rest of the department.** (Paragraph 76)

The Government does not agree that there is a conflict between the pursuit of its sustainable development objectives, which the Sustainable Development Unit, situated within the Department of Environment Food and Rural Affairs will continue to lead on, and the pursuit of better regulation, now taken forward by the Better Regulation Executive.

The SDU led development of the new government-wide UK Sustainable Development Strategy, which was launched in March 2005. The strategy states: "Since April 2004 all departments and their agencies have been required to include environmental and social costs and benefits, as well as economic costs and benefits, in the Regulatory Impact Assessments (RIAs) which they must produce and publish for all new proposals with significant public or private sector impacts. Environmental impacts include the impact on climate change, on which Defra has provided guidance." Aside from guidance regarding Sustainable Development in policy making, a Sustainable Development Unit has existed in Cabinet Office since 2000. Its purpose is to coordinate and promote the implementation of government sustainable development commitments as they apply to Cabinet Office specifically. The Government's expertise and source of advice on issues of environmental policy lies with the relevant policy department, Defra.

**Recommendation 18. Moreover, we are concerned about the role of the RIUs and Board Level Champions for Better Regulation within each department. The Government must clarify how these structures tie into existing initiatives for greening government in particular what role the Green Minister and senior official for sustainable development has in all of this, and whether a duty to promote sustainable development has been incorporated within the remit of departmental RIUs and Board Level Champions. (Paragraph 77)**

Green Ministers and Board Level Champions will continue to pursue the objectives of greening Government on the one hand and promoting better regulation on the other. There are no plans to impose a specific duty to promote sustainable development in the remit of departmental RIUs and Board Level Champions. However, it is the role of the departmental RIUs and Board Level Champions to promote the use of good quality RIAs across Government and Government has already take steps to make RIAs an appraisal tool that can deal with sustainable development issues in a transparent and explicit manner.

**Recommendation 19. The primacy the Cabinet Office memorandum and the RIA guidance place on monetarising environmental impacts is fundamentally mistaken. It is simply not possible, for example, to quantify meaningfully in financial terms the value of the climate to us: in that sense, it is literally priceless. In reverting to a crude aggregation of financial values to decide between competing policy objectives, the Government has failed to face up to the challenge of developing an approach to integrated policy appraisal which places adequate weight on non-financial impacts and environmental limits. (Paragraph 83)**

Government's advice on economic assessment is set out in the Treasury Green Book and the guidance in RIAs ultimately derive from this source. Policy makers using online RIA guidance have been provided with 'hotlinks' to the Green Book for situations where the RIA guidance is not sufficiently detailed. Government recognises that the use of money values may not always be achievable but strongly encourages this to be done where there is a reliable and recognised methodology to do so. Even where it is not possible to use monetised values, policy makers must make efforts to quantify and describe costs and benefits fully so that consultees and decision makers have a full picture of the basis for decisions.

## Spending Review 2004

**Recommendation 20.** We welcome the extension of the DEFRA/DTI carbon reduction target to include the DfT. However, it remains true that environmental objectives and targets still receive far less emphasis in SR 2004 than that placed upon social and economic objectives. Indeed, if DEFRA's targets are excluded, only 4 out of a total of 124 targets in departmental Public Service Agreements can be classified as environmental and three of those are in fact shared with DEFRA. (Paragraph 89)

The Government is firmly committed to placing the environment, social progress and the economy alongside each other at the heart of policy making. DEFRA, as the department with main responsibility for environmental issues, rightly has the major environmental targets incorporated within its PSAs. To achieve its PSA targets, Defra is engaging directly with those responsible for related PSAs and other targets across Government. This work seeks to bring environmental objectives to the forefront in policy making, particularly in those areas affecting headline indicators.

**Recommendation 21.** There is considerable scope for including in departmental PSAs further environmental targets relating, for example, to the marine environment and water resources. Moreover in view of the key role that the Treasury needs to play in combating climate change, we recommend it should take on the shared carbon target and be responsible for coordinating carbon reduction strategies across all departments. In addition, the operational target of reducing departmental carbon emissions by 1% a year should be included in each department's PSA. (Paragraph 90)

The Treasury already has to incorporate environmental concerns by adhering to its tenth objective. The objective is to 'protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies'. Progress against this objective 10 is reviewed through internal delivery planning and reporting processes. It would not be practicable for Treasury to share in each PSA or target that it has an interest in. PSAs are a mechanism for outlining aims, objectives and key outcome-based targets. As such they would not be a suitable tool for ensuring that departments alter their administrative and facilities management functions.

**Recommendation 22.** We are particularly interested in the extent of government R&D and capital grant funding available for renewables and energy efficiency, given the important role these must play in helping to reduce greenhouse gas emissions. In order to fulfill our audit role here, we recommend that the National Audit Office should conduct on our behalf a detailed analysis of financial expenditure and forecasts in these two areas in order to help us assess the effectiveness of departmental programmes. This would form part of the growing work programme we are jointly developing with the NAO. (Paragraph 95)

The Government agrees that capital grants for renewable energy and energy efficiency are necessary for research, development and deployment. The sums allocated for these areas recognises this need and provides the industry with sustained support over a number of years. In its memorandum to the committee, Treasury detailed capital grant expenditure on renewables and energy efficiency. Further information on the spending profile of these grants can be provided if the committee would find it helpful. NAO are considering future

work for EAC and will consider this recommendation as part of this process. Treasury would welcome work NAO undertook in this area.

### **The Climate Change Programme review**

**Recommendation 23. It is distressing that it has taken so long for the Government to acknowledge that its Climate Change strategy is so far off course, and that we are now struggling even to go beyond our Kyoto target. The difficulties the UK is experiencing in reducing its emissions, reflect the need for far greater priority to be accorded by governments to mainstreaming environmental objectives. The various reviews, which the Government is now undertaking provide an opportunity to put matters right, but in our view radical measures will be needed even to meet our existing UK targets.** (Paragraph 102)

The UK has consistently recognised the threat of climate change and has set itself challenging targets for reducing emissions of carbon dioxide by 2010 and 2050 (as set out in the Energy White Paper). We are on track to go beyond our legally-binding Kyoto Protocol commitment to reduce greenhouse gas emissions by 12.5% below 1990 levels by 2008-12 and are one of the few countries set to do so. The Climate Change Programme Review (CCPR) is examining the UK's strategic approach to climate change. It would not be appropriate for this response to prejudice to anticipate the outcome of the review. The CCPR is a major piece of work, which will evaluate existing policies, assess whether we are on course to meet our targets, identify and appraise options to take us forward taking a thorough look at the costs and benefits.

**Recommendation 24. If climate change is indeed such an overriding concern, we would expect this to be reflected in organisational objectives and structures. The forthcoming election provides an opportunity for the Government to restructure departmental responsibilities and objectives in such a way as to align them with the need to address climate change. The Government should establish a Cabinet Committee for Climate Change to drive forward action; in addition, it should draw together responsibility for energy policy including renewables and energy efficiency within one department. It should also ensure that a primary duty to promote renewable energy and energy efficiency is incorporated within the remits of key organisations such as Ofgem.** (Paragraph 107)

The Prime Minister, the Chancellor and their colleagues have repeatedly stressed the importance of tackling the challenge of climate change, and it is one of the two priorities for our presidencies of the G8 and EU. Departments already work closely together to draft and implement climate change policy. Following the election, the Prime Minister constituted the Energy and Environment Committee. He chairs the committee, which will develop the Government's energy and environmental policies, and has a particular focus on climate change. A further cabinet committee was also set up to develop sustainable development policy. Following the publication of the Energy White Paper, the Sustainable Energy Policy Network was created. The network draws together, at an official and ministerial level, all government departments with an interest in climate change. The Treasury play an active role in this network and the Chief Secretary sits on the ministerial board. Additionally the ENV Cabinet Committee also discusses non-energy climate

change issues. Through these committees and informal working, the government ensures that there is a joined up and cohesive response to the problem of climate change.

Ofgem already work closely with Government, industry and wider interest groups to ensure environmental and social concerns are included in their work streams. The Government has recently revised Ofgem's environmental and social guidance to update and embed these concerns in Ofgem's working practices.

**Recommendation 25. With regard to domestic energy efficiency, we are appalled that so little progress has been made despite two Treasury consultations in 2002 and 2003. It is a matter of particular concern, for example, that more than five years after we highlighted the importance of creating an energy services market the Government has made so little progress on this agenda. The Government needs to pursue far more radical policies here, not only in the domestic rented sector but in the privately owned sector as well where there may be even greater scope for carbon reductions. (Paragraph 112)**

The Government recognises the important role that households can play in reducing UK emissions, and the need to encourage energy efficiency in this sector. The Government also believes that economic instruments – as part of a wider portfolio of policies – can be an effective way to encourage improvements in energy efficiency. Following consultations in 2002 and 2003, the Government has introduced a range of measures to support energy efficiency in households. For the domestic rented sector, the Government has introduced – and, in Budget 2005, extended – the Landlords Energy Saving Allowance, and committed to exploring the possibility of a Green Landlord Scheme. For the privately-owned sector, the Government has introduced reduced VAT rates for some micro-generation technologies, which builds on the reduced VAT rate for professionally-installed energy-saving materials introduced in 2000. Budget 2005 also confirmed that the Government would continue to seek support from other member states for extending the categories of permitted reduced VAT rates to include DIY-installed energy-saving materials and energy-efficient products, and announced the Government's intention to hold an energy services summit. The Government continues to look for further ways to improve energy efficiency within the domestic sector, taking account of all relevant economic, social and environmental objectives.

HM Treasury

21 July 2005

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