HOUSE OF COMMONS

Environmental Audit Committee

Oral evidence: Biodiversity and Ecosystems, HC 636

Thursday 4 March 2021

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Watch the meeting

Members present: Philip Dunne (Chair); Duncan Baker; Barry Gardiner; Mr Robert Goodwill; Helen Hayes; Ian Levy; Caroline Lucas; Cherilyn Mackrory; Dr Matthew Offord; Nadia Whittome.

Questions 238 -285

Witnesses

I: Kemi Badenoch MP, Exchequer Secretary, HM Treasury, and Parliamentary Under Secretary of State (Minister for Equalities), Government Equalities Office; and Steve Field, Director for Climate, Environment and Energy, HM Treasury.

Examination of witnesses

Witnesses: Kemi Badenoch MP and Steve Field.

Q238 **Chair:** Welcome to the Environmental Audit Committee for our final session in our inquiry into biodiversity and ecosystems. We are very pleased to be able to welcome as our witnesses today the Exchequer Secretary, Minister Kemi Badenoch. She is supported by Steve Field.

Kemi, could you introduce yourself and your role in relation to this topic at the Treasury, and introduce Steve?

Kemi Badenoch: Thank you, Chair. I am the Exchequer Secretary to the Treasury. The green energy and net zero climate change impacts fall within my portfolio from a Treasury perspective. The Dasgupta review is one of the many things that we have done in Treasury, which we instigated and requested from Professor Dasgupta. I chaired his panel of advisers, I chaired his meetings. We welcome the work that he has done and we are currently formulating our response to it.

I will let Steve do his introduction. He will do it better than I can; he is one of the officials who supports me in my work.

Steve Field: Good morning. I am Steve Field, the director for climate, energy and the environment at the Treasury. The Treasury team that supported Professor Dasgupta in his work reports to me. It was an independent review and they were supporting him but they report to me.

Q239 **Chair:** Thank you very much. This session is obviously very timely, following the Budget statement yesterday. While there was much to commend about the Budget statement, I have to say I was somewhat disappointed that there was barely a reference to nature within the statement or the Red Book that came out with it.

Did you have an opportunity to discuss the Dasgupta findings with the Chancellor and was it deliberate that there was no reference to nature, Minister?

Kemi Badenoch: Yes, you could say it was deliberate, not because we wanted to not talk about biodiversity but because yesterday's Budget was very specific in terms of its focus. We had three planks that we based the strategy on. The first was protecting jobs and livelihoods, the second was fixing finances, and the third one was an investment-led recovery. There are many things that we are doing in Treasury that do not fall into those buckets so we did not talk about them in yesterday's Budget: you would have heard the comments around health and social care, for example. Biodiversity is one of those areas. However, we did do quite a lot. The spending review and the Prime Minister's 10-point plan also had lots of funding programmes that would fall into this space. We look at it in the round, not just at a specific fiscal event.

Q240 **Chair:** We were pleased to see the Government, perhaps inadvertently, pick up our recommendation that the Bank of England remit should be

extended to include achieving the net zero Britain objective. That was the most positive aspect of the Budget from our perspective.

Could you give us a heads up as to how, in this critical year when we host G7 and COP26, you expect the Treasury to take forward Professor Dasgupta's recommendations, and what can we expect to see over what kind of timetable about incorporating climate and nature goals into economic fiscal and budgetary policy ahead of COP26?

Kemi Badenoch: There is quite a lot in that question. Let me start with COP26. It is very much at the heart of our agenda. The Prime Minister has agreed five policy themes for COP26—finance, energy transitions, clean transport, adaptation resilience, and nature. The nature campaign is focused on capitalising action to protect and restore the natural habitats and ecosystems on which our way of life depends. Supply chain sustainability will form an integral part of COP26. We are running a campaign bringing producer and consumer countries together to discuss a vision and action for things like sustainable forest and land economy.

There is a significant finance component, not just in COP26 but within our G7 presidency as well. The Chancellor will be using those forums to talk to his opposite numbers within those forums. He will be looking at a lot of the advice that has been given by Mark Carney, for instance, who is the private finance adviser to the PM. The Treasury supports a lot of this work on that agenda.

Dasgupta itself was our way of putting biodiversity on the international agenda. It is an example of the sort of thought leadership and action that we are bringing to the table and that we are hoping to share across the board with our partners.

Sorry, that was the beginning of the question. I have forgotten the second part of it.

Chair: How do you expect to bring Dasgupta's recommendations across economic policy?

Kemi Badenoch: We will be providing a response soon. It is quite a chunky report; it is not something we want to rush our response to. It is 600 pages. It took two years for all of that work to come together and it is a significant piece of work. We are beginning to think of how we can incorporate it into government action.

For example, in terms of things like natural capital accounting, we have a green finance strategy that DEFRA committed to work with international partners to explore how best to mainstream and integrate those nature-related financial risks. Our 25-year environment plan also committed the Government to explore the potential for a natural environment impact fund. That should stimulate private sector investment.

A lot of this will be around DEFRA. Its settlement also includes science funding to build on the pilot for natural capital and ecosystems

assessment. That is just within one area. We will be looking at so many different ways in which this is going to have an impact; the way the Green Book, for example, looks at environmental and climate change impacts. I imagine that biodiversity is going to be one of those things that we would like to incorporate into that work.

A lot of the work that we are doing on the net zero review and the path to net zero biodiversity and the actions around natural capital will be one of the key ways that we offset carbon emissions, for example. It is something that we believe will be integral to our strategy.

Q241 **Chair:** We are going to come on to several of those aspects in our more detailed questioning.

One of the things that Professor Dasgupta pointed out to us from his report was the desire to start thinking about progress beyond the simple measure of GDP, or the pure measure of GDP. Is there anything you can tell us about the extent to which you might start to look at economic progress beyond GDP?

Kemi Badenoch: Yes, this is one of the debates that we have been having for several years now. GDP is one of the most important indicators and it does correlate with the metric such as employment, incomes and tax receipts, so it is a useful tool but we recognise that it has its limitations. It cannot be seen as the only measure of welfare. I do not believe that that was what it was ever designed to be.

I know that we had a review in 2016. Sir Charles Bean's independent review acknowledged some of these limitations, which has formed the basis for a lot of our thinking. We supported the recommendations of the Bean review and we gave the ONS an additional £25 million to help improve our economic statistics.

Q242 **Chair:** Are you expecting the Treasury to apply a net zero or a nature test to the 2021 Budget package?

Kemi Badenoch: If you mean from a Green Book perspective, we will look at environmental and climate impact, but we need to work out our full response to Dasgupta before we decide exactly how that will manifest in terms of assessing policy. This is something that we very much believe in. How we will do it, given the comprehensive nature of his report and his investigations, is not something that we have completed, but that is the plan.

Q243 **Chair:** Following last year's decision to defer the spending review, or at least to curtail it to make it essentially a mini Budget and to look forward to the autumn this year for a longer-term spending review, do you expect that you will have had the time for this spending review upcoming to be able to adopt some of the recommendations of Dasgupta and to start to apply such net zero tests to the spending review?

Kemi Badenoch: We would not even be waiting for a response specifically on net zero. This is work that is in train. When we look at, for instance, the work that we are doing in terms of managing our carbon budgets, these are conversations that I am already having across government, policies that each Department needs to put in place in order to make sure that we continue that path to net zero.

Yes, I would say the answer very broadly is yes. Specifically with the context of biodiversity following Dasgupta's review, that remains to be seen exactly how we will do that. But, yes, this is what we want to be doing going forward.

Q244 **Chair:** Thank you. You referred to DEFRA as taking the lead on many of the initiatives, which it does. As a Committee we often are considering issues where it is unclear which Department has lead responsibility. In fact, the environment does not respect administrative boundaries of any Government. We quite regularly have multiple Ministers appearing and unfortunately on occasion they say to us, "This is not my area". That is frustrating for all of us.

The Secretary of State for DEFRA, when he was last before us, did recognise that he is starting to think about consumption-based targets so that we do not just look at the environment from the perspective of the economic impact but that we start to consider how we reduce or effect behavioural change among the public about the way in which we consume goods made all around the world. Is the Treasury starting to do work to move towards consumption-based targets in order to measure and reduce our ecological footprint?

Kemi Badenoch: Our net zero target covers emissions that take place on UK territory. That includes all the emissions that are embedded in the goods and services that we import. That would be a consumption-based target in and of itself. The answer, therefore, is yes from that perspective.

I am not exactly sure in what context the DEFRA Secretary of State meant that, but we do need to look at what we are consuming, not just within this country but also from abroad, and factor that into our net zero calculations. We look very carefully at carbon leakage, for example, to make sure that our policies, which might just be moving things from our country where the regulations are tighter to other places, minimise carbon leakage, basically. That is one way in which we are targeting consumption and making sure that we are measuring and managing it.

Chair: That is something that we will look forward to seeing you reporting on in due course.

Thank you, Minister, I am now going to move on to questions from other members of the Committee.

Q245 **Barry Gardiner:** Minister, can I pick up on what you were saying to the Chair there about the net zero review from last year and whether there

would be stress testing for spending packages? It did not seem to me that you were definitive that there would be stress testing for spending packages. Can we get a bit more clarity about that?

Kemi Badenoch: The net zero review is mainly about where the costs are going to fall and looking at the implications for us, not just on spending but our tax policies and our regulatory policies. It is not definitive in the sense that we can stress test every single thing based purely on this metric. We look at everything in the round and we look at it from the perspective that net zero means emissions being net, not that we will not have any emissions. I think that a lot of people assume that we are not going to be doing anything that produces carbon. What we are doing is looking at it all in the round.

Q246 **Barry Gardiner:** Of course, the stress test will precisely consider it as an input for that holistic view. A stress test in itself does not say it either is or is not, it says, "How is this going to impact upon our target of net zero?" It seems to me that you are reluctant to commit here and I am trying to pin you down a little.

Kemi Badenoch: It is probably an issue of semantics, because what I think you mean by stress test is probably an impact analysis, but you might mean something completely different. We will be carrying out impact analysis. Maybe Steve can say something further on that point, but that is my view.

Steve Field: I am happy to. With respect to the next spending review, this is something that has come up with your sister Committee, the PAC. In the last spending review we did ask Departments to assess the impact of their capital programmes on carbon emissions. As I said to the PAC, we got a mixed response from Departments. Some did that job better than others. We are looking ahead to the next spending review and seeing how we can improve on that.

Within the context of the Green Book, Departments should be considering the impact of their programmes and policies on both carbon emissions and the environment more generally. It is fair to say that that does not always happen on a consistent basis, so we are thinking about the next spending review in preparation for this spending review and how we can make sure that those assessments take place on a much more consistent basis than perhaps they have taken place in the past.

Q247 **Barry Gardiner:** That leads me into another question about the way in which the Treasury regards the Green Book and whether you think it needs an additional annex on the appraisal of biodiversity and whether perhaps the Public Accounts Committee, as you have just mentioned, Steve, could play a role in assessing whether the Green Book guidance is adequate in its content and how it is being applied, so as to shift the basis of decision making towards a nature-positive economy.

Kemi Badenoch: I think the Green Book is fairly comprehensive even before we look at it from the context of Professor Dasgupta's report. The

guidance provides detailed advice for valuing the costs and benefits of interventions in terms of climate change mitigation and other environmental impacts. Biodiversity is something that we are looking at already. What this review is doing is making it more comprehensive and more consistent, not just within our country but globally. It was an international report, it is not just for domestic policy. We need to look at it in that context.

The most recent Green Book update highlights and clarifies tools that should be used to appraise environmental projects or policies with an environmental impact. We will continue to refine and update it in line with the emerging evidence, with best practice, as we have seen from this report. This is our commitment to world-leading best practice, the fact that we have commissioned this in the first place. One of the things that we want to do is the application of the discount rate, which Steve can speak to a bit more.

Q248 **Barry Gardiner:** We will get to that in a moment. My colleague is going to be asking you about that. If I can probe you here, when you were responding to the Chair earlier, you used a phrase that jangled with me. It was that one of the key aspects in application of the Green Book was for "offsetting" emissions. You used the word "offsetting" emissions rather than reducing emissions. Was that a deliberate choice of words or was it—

Kemi Badenoch: They are not mutually exclusive terms. Net zero means that we will have to reduce emissions. That is the plan. We need to get to net zero but it does not mean that we will not be producing any emissions. When we do produce them we need to offset them to get to net zero.

Q249 **Barry Gardiner:** In terms of the natural capital accounting work that you have been looking at—because you said you want to see how this is applied more generally—have you looked at the World Bank's work that has been going on for about 25 years on how to have natural capital accounting incorporated in the system of environmental economic accounting?

Kemi Badenoch: I do not have specific details about what the World Bank has been doing. That is not the level of detail that I would be operating at.

Barry Gardiner: Mr Field, perhaps?

Steve Field: Obviously, we are in touch with the World Bank and all other international organisations and have an ongoing dialogue with them about how we can improve data in this space, both climate and the environment areas where there are significant data gaps. Working with the international organisations to help address those data gaps is an important part of the programme.

Q250 **Barry Gardiner:** Indeed. I would recommend you look at the work of

Glenn-Marie Lange, who has been doing this for more than 25 years. There is data out there that could be very easily assimilated into the work that Treasury is doing in this area.

In terms of the national infrastructure bank, are we going to see an explicit mandate for net zero projects and green projects? One of the things that many of us found disappointing yesterday in the Budget announcement, not just in relation to the 130% super deduction on tax relief, but there was no mention that that investment had to be green investment. You could be giving that 130% deduction to oil and gas majors for infrastructure in fossil fuel industries. That seems absolutely perverse.

You got rid of the Green Investment Bank four years ago and we now have the infrastructure bank. How are you going to focus that to make sure that the investment is going to be explicitly for clean, green, new growth?

Kemi Badenoch: We need to remember what the infrastructure bank is there to do. The national infrastructure strategy says that the bank should play a leadership role in supporting private infrastructure projects to help meet the Government's objective on economic growth and also on levelling up and the transition to net zero. It is not purely a vehicle for net zero. Obviously, the regulatory environment is what is going to determine what sort of projects private companies decide to invest in. What we are not going to be doing is picking winners and losers and saying we are not going to start this project—

Q251 **Barry Gardiner:** Sorry, Minister, in fairness it is not about picking winners and losers, is it? It is about whether you see the economy and the economic recovery as being separate from a sustainable recovery. I do not. I believe that if it is to be an economic recovery, it has to be a sustainable economic recovery and, therefore, it has to be—

Kemi Badenoch: I do not think anyone would dispute that, but stating that a sustainable recovery means that every single project that does not meet a specific set of criteria is excluded is, first of all, not within my remit. I would not be running the infrastructure bank. It is also not how we are going to get to net zero. There are still, for instance, transition fuels like gas that are going to get us to net zero. Using the criteria that you have just described, that would not be included.

Barry Gardiner: I did not describe criteria. Please do not put words in my mouth.

Kemi Badenoch: That is what I heard.

Q252 **Barry Gardiner:** What I asked was whether there is going to be a focus in the infrastructure bank on green, clean infrastructure. I did not say exclusive, I asked whether it was going to be a focus.

Kemi Badenoch: I think that is obvious because the infrastructure bank is being set up with three objectives: economic growth, levelling up and

transition to net zero. We cannot have a transition to net zero without doing that, so it seems pretty self-explanatory to me. I do not understand why that is in contention.

Q253 **Barry Gardiner:** What about the super deduction on tax relief?

Kemi Badenoch: That is no different from any other sort of tax relief that we have in existence at the moment. We need to remember that we have a serious economic crisis. Businesses are in a very delicate position and we are doing everything we can to support them.

Q254 **Barry Gardiner:** Will you undertake, therefore, to have a review of the projects that are being financed by the super deduction or are receiving the super deduction tax relief to assess whether, in fact, that benefit is going to companies for a clean, green growth or whether it is going to Shell and BP to create huge infrastructure projects that are going to be antipathetic to the whole direction of government travel to net zero?

Kemi Badenoch: That, first, would be a decision for the Chancellor. Secondly, those investments are going to businesses from the smallest to the largest. I do not think that the capacity to do the level of detail that you are requiring is something that we would want to be doing at a time when we would want to be focusing on investment and also protecting jobs. The Chancellor would that make sort of decision.

Q255 **Barry Gardiner:** It is £50 billion, Minister, over the next two years, which could be going disproportionately to fund and finance growth that is not clean, that is not green, that is not in the direction of net zero. It is one of the biggest announcements in terms of spending over the next two years that the Government made in yesterday's Budget, yet you are not prepared to green-proof it.

Kemi Badenoch: The way you have presented that completely misunderstands how we would need to look at each and every single investment. We do not have a way of saying an investment is good for net zero or not good for net zero. If somebody is spending that money on a car, for instance, it depends on what they are going to be using it for. What we are focused on right now is protecting jobs and livelihoods. We will do that in the most sustainable way possible, but what we are not going to do is to strangle our economic recovery with regulation that is not necessary, when the Government have already set out a big strategy and emphasised their priority for our transition to net zero, something that is well ahead of pretty much what every other country is doing.

Q256 **Barry Gardiner:** I believe that the majority of the jobs that are going to be created need to be new, clean, green jobs. That is where growth is going to be. If you are creating jobs temporarily in the old fossil fuel industries that people are then going to have to transition away from, if that is where new investment is going, it is running absolutely counter to what the Government state their objectives are.

Kemi Badenoch: We have not been specific about where the money is going. This is money that is available to all companies. These are deductions that we make constantly over various Budgets and we will continue to do what is right to ensure that we have a sustainable, green-led recovery.

Barry Gardiner: No doubt the biggest companies with the biggest purses, the fossil fuel industry, will take full advantage of it. Thank you very much.

Q257 **Caroline Lucas:** I must say that what we have just heard is deeply alarming. Minister, you just said we do not have a way of telling whether or not a particular investment is good for net zero or bad for net zero. That is precisely the problem. That is why we have spent some time already on this hearing pushing you on the issue of a net zero test. There is no point at all in saying we are going to have some jobs and an economic recovery over here and then we have some nice green words in a completely separate direction over there. If this economic recovery is not a green recovery, it is going to set back this country, not only in terms of environment but in jobs and prosperity as well.

There was something, Minister, you said early on when we were talking about nature, in response to the Chair of the Committee. There was not one mention of nature in the Budget speech yesterday and no new money for any nature recovery. Minister, you said that was deliberate. You said that was because this was an individual fiscal event and that you would not expect nature to be mainstreamed—

Kemi Badenoch: That is not what I said. That is not what I said. You are completely misrepresenting my remarks. I utterly reject that. I explained that this specific Budget was one that focused on three specific planks: protecting jobs, leading an economic recovery and fixing the public finances. It does not mean that we are not doing anything else. Just because something is not mentioned in a Budget does not mean it is not happening. It also needs to be looked at in the context of the Prime Minister's 10-point plan, which was just a few months ago, money that we had barely started spending, which was very well received by industry. Pretending that because something is not mentioned it is not happening is very unhelpful and I would say disingenuous. We should focus on what is actually happening rather than what was announced specifically in a half-hour speech.

Q258 **Caroline Lucas:** Maybe I could just remind you of the final words of the Dasgupta review that says: "To detach nature from economic reasoning is to imply that we consider ourselves to be external to nature. The fault is not in economics; it lies in the way we have chosen to practise it." I would put it to you that both in the Budget yesterday and in your reply to me now the way that you are practising economics is precisely part of the problem, because it is not recognising that in, for example, the three priorities that you say were in the Budget yesterday, nature and climate have to be mainstreamed through all of them. That is precisely the point

that Dasgupta is making, that is the point that the Climate Change Committee is making, yet the Treasury still seems to see these things in separate boxes. Do you not recognise that that is a problem?

Kemi Badenoch: No, I do not and I also completely disagree with your assessment.

Caroline Lucas: It is not just my assessment, I was quoting from Professor Dasgupta.

Kemi Badenoch: I have had many chats with Professor Dasgupta. I think you are trying to turn his words into something that specifically suits your point and I disagree. I disagree with the assessment.

Q259 **Caroline Lucas:** We will disagree. The Public Accounts Committee last month concluded that environmental impacts are still not being taken into account in spending decisions. Does the Treasury accept that there is still much to do in order to properly account for the Government's long-term environmental goals in decision making on spending?

Kemi Badenoch: As I said, it is something that we will continue to refine and update in line with best practice. We have gone quite a long way in terms of what we have done with the Green Book. As I discussed earlier, we strengthened the guidelines for policy appraisals in the Green Book to ensure environmental impacts and dependencies are considered. We provided the ONS with an extra £25 million. We are one of the first countries to release these statistics with full UN ecosystem accounts compatibility and we will go further, as long as we are ensuring that what we are doing is best practice. We are not just going to rush into things. We need to make sure that what we are doing is meeting the high standards we have for policy review.

Q260 **Caroline Lucas:** Professor Dasgupta said that urgent and transformative change was needed. What I have just heard from you is a lot more processes and nothing that suggests that there is the urgency there. I want to put it to you again and ask you whether you think there is much more to do to properly account for the Government's long-term environmental goals and spending decisions. That is pretty much a yes or no.

Kemi Badenoch: You will find out more about that when the Government publish their comprehensive response.

Q261 **Caroline Lucas:** I am surprised that we do not have any response from you for this session, which is entirely upon the Dasgupta review.

Kemi Badenoch: That is something that I said to the Chair, that I could speak very broadly, but as I said, the review is something that took two years to come to its 600 pages. We are working on providing a response but we are also doing that in the context of a pandemic and an economic and health crisis.

Q262 **Caroline Lucas:** My colleague touched briefly on the issue of discount

rates, and my last question is about whether the Treasury is planning to look again at the discount rate that is used for nature. Do you agree that, as with climate change, the social discount rate is crucial? Are the Government reviewing the impact of discount rates on nature?

Kemi Badenoch: Steve, I will let you answer that point, because in our discussion you had a lot more knowledge on the discount rates than I do. You will be better placed to respond to Caroline on that.

Steve Field: We are looking at precisely that issue. We are currently engaging with external experts, academics, on the application of the discount rate to environmental impacts. We can see that there could be a theoretically justified case to be made to lower the discount rate on environmental benefits in the same way that we do for health impacts. As I say, we are conducting a review with the input from experts and we will conclude that this year.

Q263 **Mr Robert Goodwill:** Good morning, Minister. I would like to ask you some questions about public funding for biodiversity. Public sector expenditure on biodiversity in the UK has fallen by over 40%, in real terms, since 2008-09. Professor Sir John Lawton, who among other things is president of the Yorkshire Wildlife Trust, has called for £1 billion of extra funding per annum, year on year, to reverse wildlife decline and kick-start nature's recovery. Is it possible the Treasury would be able to respond to these challenges and meet that level of funding?

Kemi Badenoch: Specifically on wildlife, there is quite a lot that we are doing. We are doing a lot to tackle the illegal wildlife trade, for example, and we were investing £36 million between 2014 and 2021 on work to directly counter that illegal trade in animals.

Mr Robert Goodwill: I was specifically talking about work in the UK, the investment going into biodiversity here in the UK.

Kemi Badenoch: There is quite a lot that we are doing. I recognise the points that you have made about funding. We are tackling this in different ways. For instance, we have Leaders' Pledge for Nature, which would help to deliver our objectives of COP15, and we are committed signatories to the Global Biodiversity Framework. It is something that means that we will be spending money in this area. We have put nearly £1 billion extra into DEFRA's budget post-spending review and we recognise that there is quite a lot that needs to be done. It is integrated with our 25-year environment plan. The Environment Bill, as you well know, incorporates quite a lot of this, the Office for Environmental Protection. That includes £92 million for the Nature for Climate Fund. A significant amount has been done in this space. We recognise that money has gone down over the last few decades but we are increasing that.

Q264 **Mr Robert Goodwill:** Thank you. Obviously, when we were members of the European Union a large chunk of money going into the rural economy was via the common agricultural policy, the basic payment scheme that farmers like me got just for being a farmer. George Eustice has made it

very clear that we are going to switch that to deliver public goods through the Environmental Land Management scheme. How closely is the Treasury working with DEFRA to see how these goals will be achieved and what, for example, the net environmental gains of that will be, and in the same way to ensure that we do not just move to a situation where farmers are getting the same level of money but having to do so much work to qualify for that that they do not maintain their incomes?

Kemi Badenoch: The Government are doing more than just looking at spending. We help to protect and enhance the environment in other ways than taxpayer funding: for example, an approach to streamline regulations to increase the flow of private finance into the natural environment, developing nature capital markets for ecosystem services like water quality, biodiversity, carbon capture. All of this is funding that will come in. It cannot all be money that comes directly from Government.

Q265 **Mr Robert Goodwill:** Can we turn specifically to Natural England's level of funding? It has been widely reported that it has received dramatic reductions in funding, as much as 45% since 2014. In the last six years since 2014, 47% of English SSSIs have not been assessed. What steps are the Government taking to ensure proper funding to fulfil the Government's environmental commitments and statutory obligations? I can give you one example of that, where, for example, general licences for the control of wildlife in certain environments were withdrawn because of legal action, and applications by land managers for individual special licences have not been processed at any degree of speed because of the lack of resource within Natural England.

Kemi Badenoch: Yes, I understand that. What I would say on the funding for Natural England is related to the point I made about DEFRA a few moments ago. It received a generous settlement at the SR last year and that does include new investment in national nature reserves that will allow DEFRA to ensure that Natural England gets the funding that it needs.

It is not the only body that we fund that does a lot of work in this space. The Environment Agency as well is being funded. There has been an increasing focus on DEFRA's arm's-length bodies to not just rely on Government funding but also generate their income through cost recovery and through commercial activities. Both Natural England and the Environment Agency have been able to do this.

Q266 **Mr Robert Goodwill:** Do you appreciate that us farmers are struggling hard to make this switch from the old BPS system to delivering these public goods, the environmental benefits, the carbon reductions that we want to see, and that it may be organisations like Natural England that are best placed to advise farmers and to co-ordinate farmers if particular schemes need to cover a whole river catchment area, for example? Do you feel there is a case to be made for improving its funding so it can give that assistance to make sure that money that is going to be given to

farmers for delivering these schemes is spent effectively?

Kemi Badenoch: Yes, but, like I said, it will not just be Natural England. For example, the £640 million that we gave to the Nature for Climate Fund for tree planting and peatland restoration is something that we can look forward to, an agricultural transition that will unlock hundreds of millions for public good to be delivered on farmland, including national parks and areas of outstanding natural beauty. It is all part of environmental land management.

Q267 **Mr Robert Goodwill:** Could we turn to international development and the way that we can influence the way that our contribution ensures greening of development in the developing world? We are one of the biggest donors to the multilateral international development system. How could the UK use its leverage to push the international financial institutions like the World Bank and the IMF to nature and climate-proof their portfolios?

Kemi Badenoch: A lot of this is the work that we are doing right at the top of the global agenda through our presidency of COP26 and our G7 presidency. We are committed to increasing the quality and the amount of finance for nature. We are doing that directly through international climate finance and through encouraging private finance for nature. We committed at least £3 billion for international climate finance over five years for those climate change solutions. They will help to protect and restore nature and biodiversity. We are also contributing £250 million to the Global Environment Facility over four years to 2022. The UK will then be the third largest donor, I think, out of 28 contributing countries.

Q268 **Chair:** Minister, could I pick up on one of the things you said there in response to one of Robert Goodwill's questions? You have highlighted the fact that Natural England has had an increase in funding last autumn, which is correct when you compare one year against the previous, but Natural England's funding had been reduced progressively over the last 10 years, as had the Environment Agency's. As a consequence of the Environment Agency's reductions, its ability to enforce has been compromised.

In light of your response to Dasgupta, I would urge you to consider the funding and, now that the UK has left the EU and we have our own environment regulator coming into force with the Office for Environmental Protection, that you do, as a body within the Treasury, look to the extent to which funding for regulators in the nature space is enhanced, because it is at bare minimum at the moment. I am not expecting you to respond to that unless you wish to.

Kemi Badenoch: The point is noted.

Chair: Thank you very much. We now have some questions from Nadia Whittome.

Cherilyn Mackrory: Sorry, Chair, I think that Nadia's internet has dropped out.

Chair: Thank you very much, Cherilyn, for pointing that out, in which case we will go to Helen Hayes and see if we can get Nadia back.

Q269 **Helen Hayes:** Minister, does the Treasury accept that the signals sent out by policies on taxation and subsidy currently overwhelmingly appear to encourage the exploitation of nature?

Kemi Badenoch: Can you give me a specific example?

Helen Hayes: The conclusions of Professor Dasgupta's report point to a need to substantially change the way that taxation and subsidies operate in order to facilitate and enable the extent of nature restoration that his report is pointing to.

Kemi Badenoch: That is something we need to take into the context of the report being an international report. It was not a comment on the UK, it was a comment on how globally he believes these issues are being looked at. I think that for our country we are world leading in terms of how we look at the environmental and climate impacts, which will include biodiversity.

I talked earlier about the Green Book guidance, for example. We do look at all the impacts of these projects, but just because something has an environmental impact does not mean it should not happen. We need to look at them in the round, what the net benefit is and, where perhaps something is a net contributor to carbon emissions, is it being offset, but also looking at people's livelihoods, people's jobs, and sustaining the economy. Those are all the things that we need to factor in when making a decision. It cannot just be on this single metric.

Q270 **Helen Hayes:** Professor Dasgupta's report was commissioned by the Treasury and it is a report to the Government of the United Kingdom. It comes back to the points that colleagues were making earlier in relation to the Budget. The conclusions of the report point to the need for biodiversity and nature restoration to be a mainstream consideration throughout all government spending decisions and fiscal decisions. What is the Treasury planning to do differently in response to Professor Dasgupta's report?

Kemi Badenoch: I would say that this is mainstream. We talk about it in every single context of policy these days. It is not something that is being sidelined, so I do not accept that it is not mainstream.

What Professor Dasgupta is talking about is an international need for us to tackle the world's loss of biodiversity. That is something that we believe we have a real part to play in, not just because we are a leading economy but also because our overseas territories are significantly impacted and have a significant effect on what is going on globally. The UK's overseas territories are biodiversity hotspots that contain 94% of what we call the UK's endemic species. We need to look at Professor Dasgupta's comments in that context.

It is something that we look at in Treasury and we will continue to improve and update our guidance. What he did not say was that we were doing things wrongly that we need to stop doing and fix. That was not what came out of the review.

Q271 **Helen Hayes:** I understand that in answer to previous questions you have said that just because something is not in the Budget does not mean it is not going on. Would you at least accept that for members of the public looking at the Budget and looking at the decisions that Treasury is taking about its spending and taxation in the short term, it is very hard for members of the public to see where that priority is being given to biodiversity and nature restoration and recovery within the context of the immediate decisions the Government are taking about the economy? If it is not there and people have to look for it, it is hard to understand how this is a priority and something that the Government are regarding as a priority throughout all of their spending and fiscal decisions.

Kemi Badenoch: I think I understand the point you are making. I would say that people do not have to look for it. We have specific announcements that are all about climate change, environment impacts, biodiversity. That is when we talked most comprehensively about it and most recently within the Prime Minister's 10-point plan. In the last Budget, for example, we talked about the Nature for Climate Fund. That is money that is still being spent today. We do not just repeat things, we stay very focused on the issues that were most salient within the context of the strategy that I have described for yesterday's Budget.

All these things are still happening. They will come out in other announcements. People do not have to look for them. The Budget was a 30-minute speech. There were many things that we would have liked to have talked about that we did not talk about because we were being very focused on some specific issues.

Q272 **Helen Hayes:** I am not going to press you further, but I would say that the Budget is widely understood to be the Government's statement of priorities for everything to do with the economy for the coming year. Biodiversity was not mentioned in the speech and I believe members of the public will be drawing their own conclusions on the level of priority the Government are giving to that issue within current immediate spending priorities.

Kemi Badenoch: My response to that is that members of the public are mostly at home in lockdown, living through an unbelievable global pandemic. That is their priority and that is what we talked about in the Budget. It does not mean that climate change is not being discussed.

Chair: That is good to hear and we will be looking to see what you and other members of the Government come up with over the coming months. It is certainly the priority of this Committee, as has been made very clear to you, and that is what our job is.

I am conscious that Nadia Whittome was unable to join us before and is with us. To give her a chance to catch her breath, I am going to ask Cherilyn Mackrory to join us now for her questions.

Q273 **Cherilyn Mackrory:** Thank you. I am going to focus on our global leadership and the upcoming conferences that we have this year: COP15, COP26 and G7 in Cornwall, which I will give another plug to as a Cornish MP. How are the Government working across government and using international channels to drive progress over biodiversity for COP26 in particular? For example, is Treasury working with the Foreign Office to make sure that those international channels are being used to drive progress?

Kemi Badenoch: Yes, that is absolutely right. The environment is at the top of the global agenda and we are pushing that through our presidency of COP26 and G7 in particular. We are speaking closely with colleagues in other Departments. Steve might be able to tell you more about the nature of the sort of work that we do.

We are committed to investing £3 billion of our international climate finance over five years, as I mentioned earlier. The money that we are announcing and setting out is the way that we can see how the support is going on, not just within this country and within comparable countries in the G7, but also more globally to those countries that are less able to carry out this sort of work.

Cherilyn Mackrory: Steve, do you want to build on what the Minister has been saying?

Steve Field: Yes, I am happy to. The first thing we did was to commission Professor Dasgupta to undertake this review. We did that with our forthcoming presidency of the G7 in mind.

The second thing we have done is put nature at the heart of our COP presidency. It is also a key theme for our G7 presidency. We are working very closely with Whitehall colleagues, whether they are in FCDO or BEIS, right across Government. Of course, there is a very live discussion on the finance track of the G7 and the G20 where climate and the environment is certainly a key element of that discussion. We are using Dasgupta and we are using the work we have been doing domestically on climate change to inform those discussions.

We obviously also have very close engagement with the international organisations, with the IMF. The Chancellor is on the board of the IMF and we are working with it very closely. This year climate and the environment are throughout everything we are doing internationally.

Q274 **Cherilyn Mackrory:** More specifically, thinking about COP26, how is Treasury preparing to support our COP26 president in making sure that he meets our aims for a successful COP?

Kemi Badenoch: I mentioned that Mark Carney, for example, is advising us on this. The team that supports him is based in the Treasury. A lot of these discussions are mainstreaming biodiversity and a lot of our climate change policies into economic and financial decision-making. That is something that the Treasury is the only Department that can do. We support them with the policy work that we are doing, with the analysis that we carry out, providing the evidence and going through the rigorous process of making sure that how we make our economic and financial decisions is based on the principles that we are developing and outlining.

Q275 **Cherilyn Mackrory:** Can I ask one more question, which is something I am personally wondering? Given yesterday's Budget, which in the round was a fantastic Budget—we have been over why nature was not included, and I understand that completely—can you reassure the Committee that behind the scenes those discussions were taking place and as a whole the Budget did take into account, behind closed doors, biodiversity and net zero? Can you put a bit of meat on the bones to reassure the Committee with that?

Kemi Badenoch: Absolutely, that is something that I can reassure the Committee on. We need to remember that there are lots of different levers. There are tax levers, there are spend levers, there are regulatory levers. We just had a spending review a few months ago. That is where we talked about where the spending was going to be over the next year. The specific things that come within a Budget are not always, as a previous member described, the entire strategy for the year. Maybe in Treasury we sometimes need to talk about the different fiscal events and we view them and what they are trying to do, but a Budget is not, "This is everything we are going to be doing". It is not a statement on every single thing we are going to be doing.

Cherilyn Mackrory: I will leave it there.

Chair: I am very pleased that Nadia Whittome is back with us.

Q276 **Nadia Whittome:** Thank you very much for your patience with my technical difficulties, Chair. Thank you, Minister. You speak of the need to increase nature conservation efforts. What legal instruments should be used in the planning system to give more space for nature?

Kemi Badenoch: I am not sure that is something that would be within my remit as a Treasury Minister. That is a question that I would ask an MHCLG or a DEFRA Minister. We do not deal with the regulations of other Government Departments.

Q277 **Nadia Whittome:** Let me turn, then, to the biodiversity net-gain principle. What has been the delay in the Government implementing this now, given that the Environment Bill has been pushed back for a third time and we are in the midst of a climate and ecological emergency? Will the Government bring forward those measures?

Kemi Badenoch: The Environment Bill is mandating biodiversity net gain. It is not something that we are slowing down on. We are going to

ensure that the new houses that we build are delivered in a way that protects and enhances nature and will help to deliver those thriving natural spaces. That is the phrase that we used for local communities. Developers will be obligated to offset their residual impacts and provide 10% net gain for biodiversity. That will create demand from them for biodiversity credits.

Q278 **Nadia Whittome:** I have two more questions. Do you agree that excluding nationally significant infrastructure projects from that biodiversity net-gain principle is a wasted opportunity that could never deliver the wildlife gains at the scale that we need and make a real difference to nature's recovery? Secondly, do you believe that cutting Natural England by over 40% undermines the Government's ambition on biodiversity?

Kemi Badenoch: I addressed the point on Natural England earlier while you were away. On the point of the nationally significant infrastructure projects, the national infrastructure strategy does include supporting net gains for biodiversity where possible. What it is there to do is to deliver vital infrastructure while protecting and improving the environment. That is a top Government priority.

Some nationally significant infrastructure projects are already committed to achieving net gain or no net loss. The projects are planned and delivered over a number of years. Many of them are already in the current pipeline, they are already at an advanced stage. It is not something that we would then just rip away. Without careful consideration, introducing—as I think you are asking—a new legal requirement for these projects could lead to delay and increased costs for the projects in the current pipeline and then we would not be able to build the homes, build back better, in the coming number of years.

Q279 **Nadia Whittome:** I heard your response to the cuts to Natural England. You do not think that 45% cuts to Natural England undermines the Government's ambition on biodiversity?

Kemi Badenoch: The response I gave was that Natural England is not the only way that we address this issue. We have provided additional funding in many other ways. We do recognise that spending is not the only way that many of these bodies can work to address the issues that they have. They can also raise their own funding and I talked about the climate fund of £640 million as well.

Q280 **Chair:** Minister, I am going to conclude by asking you some quick-fire questions, which may stray a little bit beyond the remit for today's briefing. You may wish to respond accordingly.

You mentioned that the Government are not the only party that will be looking to help improve nature. We are just at the beginning of an inquiry into the water quality of our rivers. As of now, water companies are making submissions to Ofwat to respond to green recovery measures, which I had hoped might have been announced in the Budget but

perhaps this is something that will follow in coming weeks and months. Is there a Treasury view of the willingness of Ofwat's remit to be extended somewhat to encourage water companies to be investing in improving water quality through providing measures to land users to encourage them to either farm or manage the land in a way that helps to improve water quality rather than the reverse?

Kemi Badenoch: I am not sure exactly how to answer that question because I feel that that is something that Ofwat is already doing. Looking at water quality, it is something that I recall in a discussion with the chair was very much part of its remit, so I am not sure specifically what you mean in terms of broadening the remit.

Q281 **Chair:** The guidance that it is issued with by DEFRA every five years imposes priorities on the supply of water to ensure that we have good clean drinking water across the country, and there are limits on the amount of capital expenditure that can go into water treatment. I believe that the green recovery proposals that they have sought and for which submissions are being made are to improve things like bathing water quality in rivers. At the moment we do not have a single river in this country that is at a good status. The water companies are keen to do work on this but that requires approval by Ofwat if it has an implication for customer bills.

Kemi Badenoch: It is not something that Ofwat has mentioned to me specifically. Perhaps it has with DEFRA Ministers. I am sure we can find out and write to the Committee. I do not know, off the top of my head, the detail of that specific request.

Q282 **Chair:** Thank you. An issue that had a lot of speculation in the run-up to the Budget but was not referenced at all was the issue of the green homes grant. We have been doing an inquiry into energy efficiency in existing homes and there have been some somewhat conflicting signals coming out of Ministers about the future for this scheme, which was announced with some fanfare by the Chancellor in the summer economic package, where he set aside £1.5 billion for homeowners. In response to a ministerial written question the other day, the Minister of State for Energy indicated that the amount may be capped at £320 million. Can you give us any reassurance that the £1.5 billion will remain available for such a scheme beyond March 2022?

Kemi Badenoch: I am not specifically sure about the figure of £320 million. It is not one that I am familiar with. As far as I am concerned, the green homes grant is a policy that has not quite worked in the way that we wanted it to and we are looking at how we can improve it.

Steve, do you have any further information on what the Energy Minister might have said recently? I have not seen this question.

Steve Field: I have not seen the explicit question, but clearly, as the Minister was saying, we have had some delivery issues with the green homes grant. It was one of four programmes. The other three have been

progressing well. Clearly, improving energy efficiency of people's homes is an important part of our overall climate strategy, and the BEIS Department will be coming forward with a heating and building strategy in the coming weeks where we will set out more detail on how we are going to take forward that issue.

Q283 **Chair:** That is a very encouraging response from both of you, if I may say so. We absolutely agree that the scheme was a good initiative when launched and has had some significant teething problems. If you are looking to improve it, we would completely applaud that. It needs to be overhauled administratively and extended in duration to give confidence to the contractors that this is something they can scale up their employees to deliver. At the moment the stop-start nature of the scheme means that in fact, bizarrely, we have had evidence that contractors have been laying people off because work has been suspended, or orders have been suspended, pending receipt of a voucher and the voucher process is so lengthy.

Kemi Badenoch: If I may add, Chair, I think the green homes grant illustrates one of the things that we like to emphasise in Treasury. Many people, as you can see from even the questions I am getting in the Committee, are very focused on the amounts that we are announcing and why we are not doing it faster and doing this immediately and we should have done this yesterday. Operationally, many of these things are very difficult to deliver. Announcing the money is the easy bit. Getting it to work properly is difficult and that is why sometimes things do not happen as quickly as we would like. I would rather have a programme that was slightly slower than expectation but delivered properly than one that was announced with lots of fanfare and we try to get the money out of the door and we cannot even get the money that we have ring-fenced out the door.

Caroline Lucas: Can I suggest, Chair, that if we were not outsourcing the whole administration of the fund to a US company that seems entirely incompetent, we would have a better hope of being able to roll this programme out properly? It is not that we do not know to do home insulation. There are so many examples in other countries and from so many think tanks that have said that it needs to be local authority led, street by street, home insulation. That is how you build up the confidence in the schemes. It seems extraordinary, after the complete fiasco of the Green Deal, that the Government seem to be doing exactly the same thing again.

Chair: Thank you, Caroline. I do not think this is really a place to debate the merits of outsourcing.

Dr Offord: In her opinion.

Q284 **Chair:** What the Minister has just said is absolutely right, that it is better to make the scheme work. Unfortunately, the way that this was announced was the reverse of that, in that the announcement was made and the scheme implementation followed in a less than satisfactory way.

But what you have said is encouraging to us.

Can I raise two other quick points while we have you? At the G7 meeting in June the Prime Minister has put climate change on the agenda. Are you anticipating anything ahead of June that we can look forward to to show the UK taking action and further leadership in advance or in addition to the Prime Minister's 10-point plan?

Kemi Badenoch: I am not sure where the sequencing of some of the announcements that we have made will fall. If you are talking specifically about international, then June is the time when we will hear more. Some of the announcements around the 10-point plan and the funding for carbon capture, storage facilities, a lot of those pilots, all of that is happening. There are items domestically that are being taken forward, but internationally, with lockdown, the pandemic and everyone's focus being on coming out of the crisis, I think June is the earliest you would hear anything significant from that perspective.

Q285 **Chair:** Thank you. Finally from me, ahead of COP26 you have already referenced Mark Carney as the UN's ambassador for financial aspects relating to COP26. The City of London is in a strong position to give international leadership and this Committee has been very interested in green finance and encouraging financial disclosure of climate change risk within pension funds, within banks and within other institutions. It was very welcome to see the Chancellor's announcement of Clara Furse in the Budget yesterday, with the role that she is going to take.

Do you envisage, as part of the COP26 arrangements, the City of London developing global standards for the taxonomy—the classification—of greening finance measures, whether by sovereigns or corporates, to encourage an international standard so that investors can have confidence, if they are investing in green bonds, that they are delivering what they say on the tin? This would seem a good opportunity for the UK to show some leadership.

Kemi Badenoch: I think that is right and that is work that we would feed into from a policy perspective. I know there is a taskforce on nature-related financial disclosure, which is not quite what we are talking about, but it is a sort of template for how we tend to do this. There are working groups where policy officials from Departments across the world look at these things together and we definitely do have input from the City and sometimes it does take the lead.

I do not know the specifics of these sorts of discussions, but I do know from conversations that I have with stakeholders that this is very much a priority for the private sector, not just the City but all of those industries that have a stake in energy and environmental sectors.

Chair: Thank you very much, Minister. Could I ask you to clarify the point that we were discussing about the home improvement funding statement made by the Energy Minister? If somebody from the Treasury could come back to us on that in writing, we would appreciate it, if

possible within the next week or so, because we are due to publish our report and we would like to make sure we get it right. I will make sure our officials follow up, perhaps through Steve, afterwards.

Minister Badenoch and Steve Field, I thank you on behalf of the Committee for joining us today. It has been a lively discussion. You have handled yourself in a forthright and impressive way. Not all members of the Committee will have agreed with everything you have said, but I think you have been very robust in handling the questions and we have enjoyed the session.

I thank the Committee for joining us today and I thank the Committee clerks who helped put together our brief, in particular Medha Bhasin.