House of Commons

Public Accounts Committee

Oral evidence: Achieving Net Zero: Follow Up, HC 642

Wednesday 17 November 2021

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Watch the meeting

Members present: Dame Meg Hillier (Chair); Peter Grant; Antony Higginbotham; Craig Mackinlay; Nick Smith.

Gareth Davies, Comptroller and Auditor General, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Questions 87 - 113

Witnesses

I: Sir Tom Scholar, Permanent Secretary, HM Treasury; Cat Little, Director-General Public Spending and Head of Government Finance Function, HM Treasury; Steve Field, Director of Climate, Energy and Environment, HM Treasury.

Report by the Comptroller and Auditor General

Achieving net zero (HC 1035)

Examination of witnesses

Witnesses: Sir Tom Scholar, Cat Little and Steve Field.

Chair: Welcome to the Public Accounts Committee on Wednesday 17 November 2021. We are looking today at two significant issues with witnesses from Her Majesty's Treasury. First of all, we are looking at how the Government are going to achieve and fund net zero. This follows on from the work that was done at COP 26 to help bring the UK to net zero emissions by 2050. That work is already underway, but there are a lot of discussions and issues about how that transition will be funded. We have a longstanding interest in this issue, and we want to talk to the Treasury about it. We felt that it was better to do it after COP 26 and the spending review than beforehand.

That is our first session, and we then really want to move on to the costs of Covid and the National Audit Office's ongoing work on the Covid cost tracker, which measures what money has been allocated to different Covid measures over time. We want to talk to the Treasury about how that is going and how it will account for taxpayers' money spent on Covid-related matters.

I am delighted to welcome our witnesses for the first session. We will have a small changeover partway through. Sir Tom Scholar, of course, is the Permanent Secretary at the Treasury. Welcome back to you, Sir Tom. Cat Little is the director-general for public spending and head of the government finance function at the Treasury, so on both issues a very critical witness. Steve Field is the director for climate, energy and environment at the Treasury. I am going to ask Peter Grant to kick off.

Q87 **Peter Grant:** Good afternoon, everyone. Sir Tom, could I start by asking you to give us your assessment of what impact on public income and expenditure there is likely to be from the COP 26 agreement that was signed recently?

Sir Tom Scholar: Thank you and good afternoon. I am not aware that we have made an estimate of that. I was just thinking it through as you asked the question. It would be quite a difficult calculation to do, because it would depend on the transmission mechanism through a number of things and ultimately into the public finances. We have not done that.

Q88 **Peter Grant:** Are you able to give an indication as to when you would expect even a first iteration estimate to be available?

Sir Tom Scholar: There is no plan to produce that figure. Can I just clarify the question—the impact on the public finances of the agreement in Glasgow at COP 26?

Q89 **Peter Grant:** Yes, because of the way the timings of different things worked, the spending review was done before anyone knew what was going to come out of COP. If the UK Government sign up to something as part of the COP agreement, how can we and Parliament be sure that what has been signed up to is already covered by the spending review? If there are additional financial liabilities coming down the line, for example once we know how much we have to commit to support other countries impacted by climate change, at what point are we likely to see an estimate that tells us, "This is how much additional funding we think is going to be needed for that"?

Sir Tom Scholar: Let me give an initial response, and then I will ask Steve to pick it up. We knew that the COP summit was coming immediately after the spending review. In preparation for the spending review, there was a cross-Government exercise to produce the Government's net-zero strategy. The work that went into that did two things. First of all, it set domestic policy for the spending review period, and the spending review confirmed the funding for that. That work also agreed the commitments that the UK would be taking to the summit in Glasgow. All of that was decided at the same time.

When you go to any international meeting, you cannot predict completely in advance precisely what is going to get agreed. It is quite common for the UK to reach international agreements and then the funding has to be agreed later on. In this case, we had a pretty clear line-up between what we took to the summit and what we announced as the funding in the spending review. Steve, you might want to add to that.

Steve Field: There are two obvious ways that this could impact the UK's public finances. The first is through our chosen pathway to decarbonise. We made our commitment on that quite a long time ago—about a year ago. We made our NDC, which is consistent with carbon budget 6. The pathway runs through the NDC for 2030 to carbon budget 6. That transition will have implications for the public finances, and that is something we looked at in the net-zero review. There are spending requirements associated with meeting those targets, and all of that spending is set out in the spending review for the spending review period.

In addition to that, the second way in which it could have implications for our public finances is through our contribution to international climate finance. We have made commitments on that for the years to come. Again, that was in the spending review.

Q90 **Peter Grant:** If I picked up your initial answer correctly, Sir Tom—I appreciate that you cannot give us information about what the negotiating position was beforehand or about what discussions you had with Ministers—you seem to be telling us that there is nothing in the final declaration that gave you too much of a nasty shock. Would that be a fair comment?

Sir Tom Scholar: That is correct. The agreement reached at COP 26 in many cases was for action over a number of years and the spending review period is for three years ahead. There were no surprises there that we think are going to cause any difficulty in that spending review period.

Q91 **Peter Grant:** Some people might be quite surprised if they were told that the agreement at COP 26 was for things to be done in several years' time, because I thought the whole point of the thing was that there is an urgency about it. Just to clarify that, are you saying that the impact on public spending from the agreement is likely to come further down the line, even if there have to be changes in the way some countries do things quite quickly?

Sir Tom Scholar: The agreement at COP 26 was a mixture of things to happen over several different timeframes. In terms of the UK commitment, the UK Government made various commitments at the summit that had been agreed and funded in advance. As a result of the summit, there will no doubt be further things that happen. To the extent that they have public spending implications, they either are covered or will be funded in future spending reviews.

Q92 **Craig Mackinlay:** Sir Tom, just on the back of COP, this is quite relevant at the moment. As you say—I quite agree with your analysis—we knew what we wanted to do and we had funded or allocated it in the spending review. A lot was deferred in COP, not least the requirements of developing countries to achieve or start on the pathway of net zero. There were discussions that perhaps it will need $1.3 trillion a year from the international community to support China, India and others to go down this route.

I suppose it is too far beyond your timeframe to worry and consider what $1.3 trillion a year would mean to the UK taxpayer from 2030 onwards, if COP 27 in Egypt and COP 28, wherever it is, finally come to those sorts of conclusions. Are you thinking about what a $1.3 trillion a year transfer, if there was one, from the wealthier to the poorer would mean for the UK? Do you have any thoughts on what that might be?

Sir Tom Scholar: We are certainly thinking about it and have been for many years. There have been summits discussing and trying to move the issue forward for quite some time. As you say, the figures for the total financing requirement across the world are enormous. A lot of that finance will come from the private sector, which is why the Government put such a great stress at COP 26 on the private sector and trying to improve the incentives for it to provide the necessary financing.

In terms of official resources, we and other countries have for some years been discussing the $100 billion target. The UK has made various commitments on that, most recently the Prime Minister's commitments at the UN General Assembly at the end of September. All of that is already incorporated into decisions in the spending review on the allocation of the aid budget and other budgets too. Without any doubt at all, future spending reviews will have to look at that. We are confident that for the next three years, the time of the spending review, we have got this covered.

Q93 **Craig Mackinlay:** I have one other point to clear up the COP conference. We went into it with commitments to decarbonise, reduce North Sea exploration and all of that type of stuff. Have you done some sort of forecast as to what that means for the balance of payments for the UK, as we increasingly import fossil fuels over this period between now and net zero? That could be quite significant, if we are importing rather than using domestic supply. Have you considered at all what that might mean for the currency and all manner of things?

Sir Tom Scholar: It would be very hazardous to try to forecast direct impacts on balance of payments or on the exchange rate, because there are so many other things happening. One thing we tried to do in the net-zero review was to set out a framework within which the country can think about the macroeconomic impacts, the distributional impacts and some of the trade-offs and decisions across sectors. That is certainly not a forecast, but it is an attempt to understand those things and make sure they are all taken into account, including the issues that you suggest.

Steve, I do not know if you want to add to that. It is part of the overall analytical framework, as the Government consider and set out precise next steps.

Q94 **Craig Mackinlay:** I will just make an announcement. I was in receipt of a green homes grant, just to put that on the record. I have familiarity with how it actually worked. It is difficult to know, when it was first announced in July 2020 by the Chancellor, what it was there for. Was it a job-creation scheme? That was perhaps in the air. I am sure it was a genuine attempt to insulate our houses. With that declaration, I might not have Insulate Britain sticking their hands to my front wall, which I suppose is quite good.

It was a strange scheme, because it was very short-lived. The rug was pulled on 31 March. We had a very limited number of TrustMark accredited people who could actually do the work for you. If you had a similar proposal, would you have done it this way or would it have been different?

I was quite surprised that it was not extended. You have things like Kickstart, which was not used as much as we thought, and that has been extended. I was quite surprised that, because the green homes thing did not spend anything like the allocation, it was not just rolled forward. What was your experience of how that was rolled out? What would you do differently?

Sir Tom Scholar: You have recently had a hearing specifically on this with the benefit of the NAO report. As the NAO set out in its report, the scheme had a number of objectives, including improving the energy performance of more efficient heating in 600,000 homes. It was also part of the plan for jobs, so there were employment objectives there. Again as the report said, the scheme was timed both to incentivise rapid take-up and to coincide with what at that time was expected to be the end of the furlough scheme.

Chair: We know the history of it.

Sir Tom Scholar: In terms of the decision to wind it up, I will not speak for BEIS on that. It was their scheme, but it was something that we discussed with them at the time. We have tried to incorporate the lessons from that scheme into the subsequent announcement that they made earlier in the autumn, which is for a longer-running scheme. They principally, with us working with them, have tried to take on board the experience of this scheme in designing the subsequent more permanent scheme.

Q95 **Craig Mackinlay:** I am just going through a number of pieces that we have looked at before. We have had a number of documents for the net-zero review over the last month—this is probably to you, Mr Field—but none of them really put a figure on what the net-zero cost will be either to the public purse or to the general public. I have found a couple of documents that have been done by authoritative sources.

Peter will be pleased to know that the Scottish Government have done one about the cost of decarbonising Scottish homes. If you bulked that up across the country, it would be something approaching £1 trillion to decarbonise the stock of the UK. London Councils did a report. London has 14% of the homes across the UK. If you bulk their pricing up and take the inverse of London's 14%, it would come to something north of £700 trillion. That is just for the decarbonisation of homes.

We seem to be lacking the cost of the extra electrical infrastructure and all these other things that have to go with a hugely electricity supply-demanding new economy. Will you be producing those types of documents? Is it just such a difficult moving target that depends on technology, raw material prices—copper, rare metals—and all the rest of it? How are you going to approach that on a regular basis to say, "This is the forecast cost that we can have some confidence in for a few years ahead"?

Steve Field: As you will be aware, the CCC does produce that kind of estimate. That does show significant investment over a period of 30 years. It also shows operating costs associated with those new technologies offsetting the investment costs to some extent. BEIS also produces similar numbers to inform its policymaking.

We have not chosen to duplicate that work. As you will be aware, any estimate of that sort is reliant on a whole range of assumptions about the price of different technologies into the future. As we have seen on things like wind power, those prices often change quite rapidly over quite a short period of time, but it is very difficult to predict that in advance. You can make some assumptions and you can gross these things up. If you get those assumptions wrong, given that it is a 30-year period, that error will compound over time.

The way that we have approached it is to think about how we can reduce the cost of the transition. If you look at our net-zero review, we were thinking, "What is the right policy mix to try to bring down the cost?" rather than trying to come up with a separate estimate that competes with the CCC and BEIS figures. We would go through a similar process in any event, so we did not think it was worth duplicating that work.

Q96 **Craig Mackinlay:** For whole of Government accounts, we get actuaries in to consider what the net present value of the pension liability across the country is, but we do not seem to be doing that type of estimate for the net-zero cost. Actuaries can do it. It is complicated. I am a chartered accountant in normal life. We always used to say, "If you find it too exciting, become an actuary". They can do it. We do not seem to be doing the same sort of thing with a best estimate on the whole of Government accounts for the costs of net zero.

Steve Field: We tend to budget in spending reviews in three-year periods. We have much more certainty about the costs of things in that kind of timescale. What we have not done or sought to do is to duplicate the CCC's work.

Sir Tom Scholar: The best place to look for an official estimate of the future cost of climate adaptation and mitigation is the fiscal risks report produced by the Office for Budget Responsibility. Its most recent one had climate as one of its major fiscal risks. It had an assessment there over a 50-year time horizon.

Craig Mackinlay: Yes, my worry was that it plucked a lot of that out of the CCC reports rather than reproducing the work. That was my worry on that. It would be nice to have another advanced arm of Government doing similar work and coming to a conclusion that we could perhaps have some confidence in.

Q97 **Chair:** That is an interesting point raised by Mr Mackinlay. Does the Treasury have full confidence in the CCC's analysis? Do you accept its figures? Are they what you work from primarily?

Steve Field: In the interim report of the net-zero review we had a chapter that talked about these kinds of cost estimates and their shortcomings. We also critiqued the CCC's estimate, not because we think it is terrible but because there are lots of heroic assumptions in any estimate of this kind, where you are thinking about a period of 30 years and technologies that are going to change dramatically.

Q98 **Chair:** That brings me to the point about whether the spending review approach is going to work for the road to net zero. We are talking about much longer timescales. Let us take a very direct example. The Government are phasing out the sale of new petrol vehicles from 2030 to 2035, depending on which measure you are going by. Let us say 2035 is the long-stop date. That means that fuel duty will be dramatically decreasing, so that is income lost for the Exchequer. Yet when we have talked to you about this before, Sir Tom, there has not been a very clear plan yet from the Treasury about how you are going to raise other taxes to fill that gap. That is all a key part of the transition. Can you give us any more thoughts about how you are going to approach that?

Sir Tom Scholar: In the hearing that you had on environmental taxation, you asked us to write to you by the end of this month with the Government's thinking on that. We have not written yet, but we will write by the end of the month.

Taking fuel duty as a particular example, though, it will always be the case that Governments choose to set tax policy budget by budget, but they do sometimes set tax policy within a longer term overall horizon. To give a couple of recent examples, over the last 10 years at different times the Government have had long-term ambitions on the personal tax allowance or the rate of corporation tax. In this case, the Government have said, including in the net-zero review, that over time, as the revenue from fuel duty reduces and eventually disappears altogether, there will be a need to find other sources of revenue, including from that sector.

There is not currently a roadmap of the kind the Committee has asked for, but we have heard very clearly what you said and are working away on that. We will be writing to you later in the month.

Q99 **Chair:** It is interesting. You highlight the issue about the lifetime allowance on pensions and so on, but that has gone up and down. It is not consistent over a very long period of time. The sort of funds that people are thinking about are very long term. These are long-term decisions that investors and individuals will make. With net zero, these are very long-term decisions, again, that private sector investors and others will be making.

Three-year spending reviews and even slightly longer-stop decisions are still not enough certainty, surely, for others who are investing in their business or for other funds that invest in green initiatives. We have seen stopping and starting on investment, for example the feed-in tariff. That has gone backwards and forwards. Perhaps Cat Little has the overview of all of this on public spending. We have to have a longer-term vision. We await your first thoughts on this. They are not your first thoughts; that is a bit pejorative. We await your thoughts on this when you provide that paper.

Are you really thinking long term enough? Is it possible, in fact, with an electoral cycle like we have, for you to hold that ring and make these long-term decisions? Where are the problems for you in making that policy?

Sir Tom Scholar: Through the net-zero strategy and the net-zero review, the Government have set out a framework to take us to net zero by 2050. Alongside that, and no doubt with more to come, there are particular strategies for particular sectors that are intended precisely to give investors, for example, the kind of clarity that you are correctly pointing to as necessary.

Spending reviews are mostly three-year events, although of course we set longer-term plans in certain cases. Capital spending, large infrastructure spending, is the most obvious example. We retain that flexibility to make longer-term allocations. The spending review or the annual Budgets are not the only activity or action in this area. There are also the broader strategy documents and the sectoral strategies that have been set out.

Q100 **Chair:** Are they enough to give that confidence? Ms Little might want to come in here. The green homes grant is perhaps slightly different, but not entirely. We have seen time after time initiatives, for example on greening homes, that have asked people to invest and come in, and then the rug has been pulled out from under them within months or years. There is a weariness in bits of the economy about belief that these are going to be long-term changes. How are you going to tackle that?

Cat Little: What you describe applies to a number of parts of what we do in Government, including the partners that we work with in the private sector. I would like to think that most parts of the public sector want to take a medium to long-term view of their businesses.

How long we should set a resource allocation period for is one of the things that we think about at every single spending review. There is always a trade-off between certainty and giving overconfidence. We will probably come on to talk about some of the problems with forecasting and estimating in Government. My experience is that, the longer the time horizons, the greater the uncertainty. Therefore, you can end up giving false confidence to a lot of our partners and to some of the industries we work with. It is a debate that we have regularly. Especially for net zero, it is something that we will come back to very specifically in our lessons learned for this SR.

Q101 **Chair:** With net zero, there are also potentially quite big capital investments that parties other than Government will be needing to make.

Cat Little: I absolutely agree with that. Again, there are lots of areas where we believe there needs to be greater understanding of longer-term capital investment. We have regularly talked about things like the nuclear programme. You have to have enough of that balance between long-term estimates and the short-term reality of how you deliver and allocate money in the immediate and near term.

Chair: There is lots more to ask there. I am going to ask Mr Grant to pick it up.

Q102 **Peter Grant:** Sir Tom, I know you have said that for major capital projects we plan much further ahead, but the fact remains that the confirmed committed funding for those capital projects is still done on a short-term basis. Many of them still have to keep to year-on-year financial spending limits. The Committee and the NAO have reported, certainly in relation to major defence contracts, that that has caused significant problems.

Is it not the case that the entire concept of a Finance Bill that lasts for a year and spending limits on Departments that last for a year is an idea that was brought in 300 years ago? It is a way of controlling finances for a world that does not exist anymore. What thought have you given to putting forward a completely different way of doing the public finances so we do not have the nonsense that something that happens at a minute to midnight on 31 March is a completely different world from something that happens at a minute past midnight on 1 April? There is not a business in the world that would survive in that way, so why do we think that Government can operate that way?

Sir Tom Scholar: As you say, the process of annual Budgets voted by Parliament and reported on to Parliament annually has been at the core of public finances in this country for centuries. As you also say, as Government finances are increasingly complicated and engaged in supporting long-term projects, there are lots of things that have to be thought of within that framework. We have given a huge amount of thought over the years—and we continue to do so—to build enough flexibility into the system so that money can be allocated efficiently, in order to avoid the annual cliff edges of the sort you are talking about.

That is partly about better forecasting, partly about better project management, partly about advanced notice, and partly about end-year flexibilities and the ability to release money that is not needed in an area to be spent somewhere else. I am sure Cat could talk at some length about that, including in relation to big capital projects, and in relation to defence, which is one of the obvious examples.

It is absolutely not that we have not thought about it. Nevertheless, it is central to the way in which our parliamentary system works that Parliament expects to have control over public money. We see our job as being able to support Parliament in that while making sure that public money is efficiently and effectively spent.

Q103 **Peter Grant:** Before I came into Parliament, I was a councillor for over 20 years; I was a council leader for five years. We set our budget every year. Every member of council was allowed to vote on the budget, but we were quite used to the fact that part of the budget for next year was already committed, because we had signed a contract to build a new school and that was going over financial years. There was no diminution of the democratic oversight or the democratic decision-making from that way of doing things. There was a recognition that, when we took a decision this year, it was going to limit the choices that we had in future years. What is it about a Parliament that prevents it from taking that kind of longer-term responsibility as local authorities all over the UK and other public bodies are expected to do?

Sir Tom Scholar: That is the case in central Government, too. Most Departments are responsible for providing a service; providing that service incurs expenditure over many years. We do not set budgets every year. We typically set them over a three-year cycle. When we come to look at them, we do not require every Department to start again from scratch. We look at the ongoing costs of their ongoing business, assess cost pressures and new priorities, and make trade-offs.

Particularly for large infrastructure projects, where a three-year cycle could certainly give rise to some of those ultimately inefficient decisions, we try to set a longer planning window, which could be five years or 10 years. I do not know if you want to add anything, Cat.

Cat Little: I suppose I could talk at length so I will try to be brief. There are a couple of things that I would add. This multiyear spending review gives us a real opportunity to maximise the way in which we look at capital portfolio management across Government. In this SR we have tried to integrate the IPA and delivery specialists into the profiling of capital moneys over the next three years. That is really important, because every single major capital programme has been stress-tested to make sure we have the best possible alignment of the money to the schedule and what the market can deliver.

When we come on to our annual processes, I want to make sure I can hold capital programmes and Departments to account for the actual delivery in practice. When I am asked for flexibility or when programmes say, "Actually, we have got slippage", rather than it being primarily a financial concern, it is often more of a delivery concern for us. That is the first time when we have really scrubbed every single major capital programme to be able to do that.

We do have lots of flexibility built into the system. As part of the supplementary estimate process, we expect programmes and Departments to come to us and say, "There is a very good reason for why we cannot deliver all the capital spend that we would like to", which is more often the case than an overspend. We do budget exchange and we try to be very flexible. We want to incentivise Departments to make the most of the capital funding available to them. I recognise a lot of the complaints about the annual cycle, but I would not underestimate the benefits that come with the financial control and discipline of annual budgeting and annual financial management transparency to Parliament.

Q104 **Peter Grant:** Partly because of the way I asked the question, we have maybe moved on from the original point. Coming back to the question that the Chair raised specifically on things such as the decision to phase out the sale of new petrol cars by a particular date, whether we think that is the right decision or the wrong decision, it has significant financial impacts in the future. For a decision like that to be taken before it is even possible to start planning to mitigate or replace the financial impact cannot possibly be a good way to take big decisions, can it? Even if it is the right decision, it is a decision that has not been taken in possession of all the relevant information. Therefore, the decision-making process is flawed. Do you accept that?

Sir Tom Scholar: I do not think the decision-making process is flawed. These are decisions that have to be taken against a great degree of uncertainty, not least an unknown future. In particular, the example you give is about fuel duty and the taxation of fuel for vehicles.

In making decisions there, the Government are trying to make decisions over quite a long period into the future with two quite different objectives. One is to support climate targets by phasing out a particular form of energy that is taxed in a particular way and the other is a set of fiscal and tax objectives, which is to raise revenue in an efficient and fair way. Those decisions have to take account of a lot of other decisions. Each is part of a complicated landscape.

In terms of encouraging the development of electric vehicles, there are lots and lots of things that go into that. Some are in the tax system; some are spending; some are regulation; some are private sector investment; some are consumer choice. It is an extremely complicated thing to try to guide. I fully accept that, but I would not describe the decision-making process as flawed. I do not see what more it would be possible to do other than—this is not Treasury business; this is really Department for Transport business—trying to set a direction, working with the industry on that and then, in the spending review looking three years ahead and in Budgets, making decisions that try to balance off all those objectives.

We do know that, once petrol and diesel cars are completely phased out and the sale of fuel as we know it has stopped, fuel duty will disappear. We do not know what the profile of that will be over time. The Chancellor has to keep flexibility to make those decisions year by year in light of the circumstances.

Q105 **Peter Grant:** Although it is correct that decisions about the regulation of motor vehicles are for the Department for Transport, decisions about how we plug a potentially significant gap in the public finances are for the Treasury and the Chancellor of the Exchequer. Is there a danger that we start to damage public support for and confidence in the entire net-zero agenda? When we make these announcements in 2020 or 2021, they might say, "That is a good idea. Get all these mucky petrol cars off the road". But 10 years later they might say, "Hang on a minute. You never told us that my income tax would have to go up, my national insurance would have to go up or VAT would have to go up to fill this gap because nobody is paying petrol duty anymore".

Is there a danger that the public start to lose confidence in the entire process? We know there will have to be decisions at some point that will hurt people. In order to achieve net zero, we are all going to have to change our lifestyle. Would it not be better for the entire package to be presented to people at the time? We are going to effectively abolish fuel duty, because there will not be any fuel to pay duty on. You will have to say, "In order for us to keep the finances stable, there will have to be an increase of whatever in VAT" or "We will have to bring in a new tax". Would it not be better to give people an indication or an idea at the beginning of how much money is going to have to be raised in other taxes to compensate?

Sir Tom Scholar: Again, I completely agree on the importance of public debate and public understanding here. That would apply to any big structural shift in the economy, the system of taxation or the fiscal position. That debate has started. The Government are one of the actors who started it through statements made in the 10-point plan a year ago and then again in the net-zero review.

As of today, it is simply not possible to say what the fiscal cost each year is going to be and precisely how it is going to be filled. That depends on a huge number of things that it is not possible to know now, not least the development of new technology and the speed of consumer behaviour. Those will have the dominant effect on what the cost ends up being. What is important—we tried to do this in the net-zero review—is to give a sense of the kinds of costs that will fall on households and on businesses, the distributional impacts and the kinds of decision that will have to be taken as we go along.

As you say, the richer and the better informed the debate is—the Government are part of this, but so are many other actors—the better, ultimately, the decisions will be.

Q106 **Craig Mackinlay:** On the issue of fuel and vehicle excise duties, they are between £37 billion and £40 billion a year. That is £1 in £20 over the entire take of normal taxation. It is a big amount of money. Conceptually, if we are all as happy as we are going to be—and we are not very happy as it is—to pay X per mile of our personal motor transport, one would assume that you are going to do something similar in the future. If we have swallowed that as a cost, we are going to swallow it as a cost in the future, if it is under battery or electric power. That is my assumption. Are you telling me that you have no strategy at all for how we replace £40 billion in the new environment?

I know it is not hitting you yet, but after 2030, if Government get their way, there is going to be a downward spiral of fuel and road-type taxes. Have you done any wargaming of how we are going to do that? Is it going to be—

Chair: Let Sir Tom answer, please.

Craig Mackinlay: Yes, but is there going to be a surplus? Have you thought about this?

Chair: What is the question?

Craig Mackinlay: Is it steering towards a surplus charge for electricity that you are putting in your vehicle or a charge per mile? You must have thought of something thus far.

Chair: Sir Tom, are you going to be tempted to give future tax policy to the Committee?

Sir Tom Scholar: We have certainly thought about the fiscal challenge that this will present, but talking about future tax policy is not something that a Treasury official can do. The Chancellor decides very carefully at each Budget what to say both about immediate tax decisions and about the consultation on the future direction of tax policy. Every Budget includes a mixture of both of those things. As I said earlier, we are due to write to the Committee by the end of the month in response to your recommendation on a future tax plan.

Q107 **Craig Mackinlay:** I have an easy question for you, Sir Tom. Do you have a team tucked away in the Treasury saying, "How are we going to replace this? These are the options"?

Sir Tom Scholar: We have a team that is responsible for the taxation of transport and environmental tax. We have a team that is responsible for those things, yes.

Q108 **Craig Mackinlay:** Could you tell me whether they are steering towards one form or the other? I know I am pushing my luck.

Sir Tom Scholar: They provide policy advice to the Chancellor on the tax system.

Q109 **Chair:** Mr Mackinlay, you have a clue there. You need to go and speak to the Chancellor or the Chief Secretary. I have a final question about the very knotty issue about how we measure carbon emissions and achieving net zero internationally. One of the outcomes of COP was that there is going to be more of an international accounting standard for what we bring in from other countries. When we have spoken to colleagues of yours in Whitehall, it is very difficult to measure. When we spoke to BEIS about it, it recognised that there were inadequacies in the data.

Hopefully this new accounting standard will bring it together better and make it clearer, but when might that actually become something that is reflected in Departmental accounts and in whole of Government accounts so we can measure what we are importing as well as what we are producing domestically? I guess that is for Ms Little, is it?

Cat Little: I am happy to take that. As with all new accounting standards, we go through the process of that being ratified. It is normally the International Accounting Standards Board. Working through the FReM and the FRAB, which are the bodies within Government that interpret it for public sector use, we will work out how we then apply that to Government. As you say, it is fraught with lots of challenges. We want to make sure that, when we do adopt it in the public sector, it is as fit for purpose and deliverable as possible. That is one of the jobs that we will be asking the FRAB to consider. I do not think we yet have a timescale. I will double check that, but I am not aware of us having a timescale for when that would come into play.

Q110 **Chair:** Realistically, it is going to take a few years to get an iteration from that body, and then it has to be translated into the public sector. If it was the middle of next Parliament, that would be quite optimistic, would it not? I am just trying to gauge a rough timescale, because it is pretty critical.

Cat Little: Sometimes these things can happen more quickly. If you look at IFRS 16, which is the latest accounting standard that we are adopting, that is taking much longer than we would ideally like. When we know that up-and-coming standards are coming, we work very closely with the IASB and the FRAB to make sure we have considered them. That work will happen sooner rather than later.

Q111 **Chair:** You will be able to make sure the accounting systems and the software systems in Government are up to capturing this. That is a very laden question, is it not, given what we have done on digital?

Cat Little: Of course, we are in the process of updating all our general ledgers across Government and moving them on to the cloud as part of our shared services programme. We want to make sure that we build in that flexibility, regardless of the platforms that we are using.

Q112 **Chair:** It is easily said today, but perhaps quite harder to deliver.

Cat Little: We all know how technology and accounting can turn out.

Chair: How critical is that from your point of view of measuring this? You are the Department that is going to be holding the ring on measuring our carbon emissions and achieving net zero, although BEIS has that responsibility at one level. As the Treasury, it is pretty critical.

Cat Little: From a financial reporting, transparency and accuracy perspective, particularly as the accounting officer for the whole of Government accounts, we take it very, very seriously. As I said, we want to make sure we have tested and thoroughly thought through how we apply it to make sure it is deliverable and that it actually follows through with what is intended.

Q113 **Chair:** We all talk a lot about the whole of Government accounts and making them more accessible. Are you aiming to make this something that the average member of the public, or perhaps a slightly informed member of the public, can easily or reasonably understand? Your average member of the public may not be crawling through the whole of Government accounts like we do.

Cat Little: As the Committee knows, it is our main objective to make it as understandable, timely and usable as possible for members of the public. We all recognise that, even as accountants, some of our annual reports are quite hard to interpret and there are lots of technicalities that you come across in public sector accounts that you do not get in other parts of the private sector. It is a constant mission, and we care deeply about it.

Chair: I am heartened from my work in the Commonwealth that other countries are copying the whole of Government accounts. There is a little giveaway from me as Chair of the Committee. Thank you to the Treasury for setting the standard on that, but we will be watching you like a hawk on the net-zero stuff. We are going to leave that there for now, because we know it is a work in progress. It feels very frustrating that we do not have anything ready to grapple with for a lot of this at the moment. Clearly, you are grappling with it internally. We will be keeping a very close eye on this. It is a very big theme of ours as a Committee, because we feel that watching the effectiveness of this is a critical part of our role.

We are going to have a brief pause so that we can say goodbye to Mr Field. Thank you, Mr Field. Then we will move on to our next session.