

# Environmental Audit Committee

## Oral evidence: Mapping the path to net zero, HC 497

Wednesday 9 March 2022

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Members present: Philip Dunne (Chair); Sir Christopher Chope; Caroline Lucas; Cherilyn Mackrory; Jerome Mayhew; Dr Matthew Offord; Valerie Vaz.

Paul Howell MP, Business, Energy and Industrial Strategy Committee, was in attendance.

Questions 218 - 268

### Witnesses

I: Helen Whately MP, Exchequer Secretary to the Treasury; and Joe Taylor, Deputy Director for Climate Policy, Climate, Energy and Environment Group, HM Treasury.



## Examination of witnesses

Witnesses: Helen Whately and Joe Taylor.

Q218 **Chair:** Good afternoon and welcome to the Environmental Audit Committee and our final oral hearing into mapping the path to net zero—the outcomes of the Net Zero Review undertaken by the Treasury. We are very pleased to welcome the Exchequer Secretary, Helen Whately, to give evidence to us this afternoon. I think Helen was appointed to this role after we began our inquiry but I hope sufficiently long ago for you to be able to cope with our very gentle questions this afternoon. You have brought with you Joe Taylor, who is a deputy director at the Department. Perhaps you would just like to acknowledge that you are joining us and introduce Joe.

**Helen Whately:** Thank you. It is very good indeed to be here at your Committee. I know Joe wants to briefly introduce himself.

**Joe Taylor:** Hello, good to be here. My name is Joe Taylor, and I am Deputy Director, Climate Policy in the Treasury.

Q219 **Chair:** Thank you. We are joined on the Committee today by Paul Howell, the Member for Sedgefield, who is a member of the Treasury Committee. No, he is not. It is the BEIS Committee—apologies. Welcome to you, Paul. Terrific.

I will kick off with the first set of questions. It would be very helpful if you could set out for us how the Treasury organises itself around the subject of net zero. We had one of your fellow Ministers in front of us not so long ago, Lucy Frazer. I was asking her who had responsibility for what and it would be helpful if you could just confirm who has responsibility for what within the Department.

**Helen Whately:** Thank you, Chair. I would be delighted to do that. I did in fact—and I am sure you have seen this—write in advance to the Committee to clarify the responsibilities of the Treasury Ministers. I thought that would be helpful and I will just set that out briefly now in response to your question. I should say that clearly for something of such fundamental importance to the Government as net zero, there is a net zero aspect to all Treasury Ministers' portfolios.

For me, my ministerial portfolio includes energy infrastructure, energy, environment and climate policy. That includes the Net Zero Review. I also have responsibility for environment taxes, including plastics taxation.

The Financial Secretary to the Treasury has responsibility for carbon taxes, including the UK emissions trading scheme, the climate change levy and carbon price support. As set out in my letter, to avoid any perceived conflicts of interest, and as set out in my declaration of ministerial interests, I am not involved in decision making on those policy areas. I will, Chair, as you will understand, refrain from commenting on those areas of carbon taxes during this evidence session.



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I have to say the Chancellor is of course closely engaged and ultimately responsible for all Treasury work, including on climate, and the BEIS Secretary of State has overall ministerial responsibility for the delivery of the Government's net zero commitments.

Q220 **Chair:** Thank you. We recognise, perhaps as much as any other Committee, that the environment doesn't really fit within natural administrative boundaries, which is why we regularly have more than one Minister from different Departments appearing before us with responsibility for whatever it is that we are considering.

The Treasury has a similar role, in that the Treasury oversees all Government spending and therefore has an interest in all policies that might involve either raising revenue or spending it. Could you give us a sense of how the Treasury works with the overall Government climate change and strategic implementation committees and other aspects that help to deliver the net zero policy ambition?

**Helen Whately:** Yes, I am very happy to do that. What I certainly see from my position in the Treasury is the thread of net zero throughout Government Departments—the Treasury and other Departments—as you would expect, as it is such a high priority, and then mechanisms to co-ordinate that at the centre of Government.

For instance, right at the centre of Government there are two cross-Government committees. First there is a Climate Action Strategy Committee, which is chaired by the Prime Minister, and then there is a Climate Action Implementation Committee, sometimes abbreviated to CAI, which is chaired by the COP President, Alok Sharma. That is right at the heart of Government.

Another thing that brings together net zero policy is through the No. 10 delivery unit, and that uses, I think, the Government Priorities Delivery Committee, which periodically covers particular topics. Coming up imminently is one that I am attending, which is a net zero stocktake, which looks at our progress across a range of net zero priorities and then sometimes deep dives into particular policy areas.

As I mentioned briefly before, the BEIS Secretary of State does have the overall responsibility for delivery of net zero, but that is threaded across many Departments' activities.

**Chair:** The BEIS Secretary has overall responsibility, did you say?

**Helen Whately:** For the Government's emissions targets, yes.

Q221 **Chair:** Just going back to the committee structures that you mentioned, does the Chancellor sit on the Climate Action Strategy Committee or does another Treasury Minister?

**Helen Whately:** I know that Treasury Ministers generally attend these committees. For instance, the one that I have attended, the Climate



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Action Implementation Committee—or CAI—at times the Financial Secretary to the Treasury has attended when there has been a focus on the areas that are within her brief. Clearly the Chancellor is very actively involved in the Treasury's role and important function in our Government's delivery of the net zero commitments.

**Chair:** But doesn't attend many of these committee meetings.

**Helen Whately:** I know the ones I attend.

**Joe Taylor:** I can confirm the Chancellor is a listed member of the Climate Action Strategy Committee. I think all of the membership is set out on gov.uk, but, as the Minister said, exactly which Minister attends the meeting will often depend on the topic being discussed—reflecting portfolios and exactly the issue being discussed—but these are cross-cutting issues where there will be Treasury Ministers present.

Q222 **Chair:** That is why I think we are a bit concerned. The ambition is enormous, the Government have signed up to the ambition and are trying to drive it. We have some concerns, as a Committee, that there isn't the sort of central driving force because it is disparately accountable within government. If the Climate Action Strategy Committee is in a position to manage the progress and does so, that is great, but we have our suspicions that maybe that Committee isn't getting that attention. Perhaps that is for obvious reasons at the moment, but over the last couple of years—given the Covid crisis and other pressures on Government—there is a question of whether this been driven sufficiently by that committee. Therefore where else does it sit within either your rank, Minister, or on the officials, to make Departments feel a responsibility to deliver on the commitments that they are making?

**Helen Whately:** I described those committees—Joe, I may bring you in to back up on the detail in this—and in addition, each Department has its own outcomes that are published, which it is due to deliver against, including where it has a role in delivering net zero. Those were published at the spending review.

The other thing that I can say, and it may be helpful to see how net zero considerations thread through Government—and there is a Treasury role in this—is in the decision making on Government policy following the rules in the Green Book. The Green Book includes requirements about assessing the climate impact of Government policy and the methodology of doing so, and BEIS has set out detailed methodology for doing so. That is a process that happens throughout Government for assessing the climate impact of Government policy.

I would say overall our ambition as a Government is very clear, including the Treasury role in that—set out, if anything, by the fact that we have committed over £30 billion-worth of investment from March 2021 through to the end of the spending review period. That is Government investment into a net zero transition, which will of course crowd in substantial private



sector investment on top of it, but I think simply that scale of investment does show the level of commitment that we have towards this. Could I bring in Joe? You were going to add on the—

**Joe Taylor:** Yes. I would just come back to the Cabinet Committee point. Of these three ministerial committees that the Minister described, two are chaired by the Prime Minister and these meetings meet regularly. The CAI and the GPDC—the Climate Action Implementation Committee and the Government Priorities Delivery Committee—have been meeting more regularly. Since publishing the Net Zero Strategy, we are moving increasingly into a delivery phase, delivering against that strategy that we set out. Those meetings are happening regularly and there is a lot of focus.

I can also come on to how the Treasury is geared around supporting those meetings and that work maybe in more detail shortly, but I would also pick up on settlement conditions. Through the spending review period, money is allocated to Departments to deliver particular outcomes on net zero and the Net Zero Strategy. Departments will be given conditions around reporting on the progress they are making in terms of delivering those spending programmes, but also how those programmes are delivering net zero-related objectives, which I think is also important. Like I said, we can come more on to how the Treasury is geared up around these issues shortly.

Q223 **Chair:** We may get into that in more detail in a moment but it is very encouraging to hear that you are, Minister, attending a meeting to do a stocktake on progress. Do you anticipate publishing any metrics on progress against the ambition in the target?

**Helen Whately:** There are clearly various reporting mechanisms on Government's progress on our carbon commitments and our progress against our carbon budgets involving the Climate Change Committee as well, so there is a reporting mechanism for our progress. We also saw some very positive responses to the Net Zero Strategy about how the ambition in that, coupled with the spending review, keeps us on track to our commitment to achieve net zero in 2050. There is a reporting mechanism around getting to those targets. I think those reporting mechanisms do exist.

Q224 **Chair:** The Climate Change Committee produces its annual report on how the Government are doing and that is based on whatever publicly available statistics there are. Do you anticipate in future financial statements and budgets that we can look forward to statements by the Chancellor either on specific targets or on some general progress metrics against this ambition?

**Helen Whately:** This is an area of work where I think the Treasury is really building up its capability. Again, Joe may be able to talk more about this on his team within the Treasury and the work they are doing in building both the Treasury's capability and Government as a whole on, for



instance, assessing the expected carbon impact of a whole range of Government policies, using methodologies—I referred to the process in the Green Book—to assess the carbon impact of Government policy. That is taken into consideration in policy decisions and things like the spending review. Something that very specifically already is published is for tax policies at fiscal events, where there is a TIIN, a tax information and impact note. If it is a policy that is expected to have a carbon impact, then that will be published. For instance, with the plastic packaging tax, the expected carbon impact of that is a reduction of around 200,000 tonnes per annum of carbon emissions, so that was published in the TIIN for that policy.

**Q225 Jerome Mayhew:** The Government asked the Committee on Climate Change to undertake its Net Zero Review and it came out with a whole raft of recommendations. It is a very important document, I hope you agree. Just to kick off my questioning, to what extent has the Net Zero Review informed the development of net zero policy within the Treasury? Do you see it as a source document or do you see it as one of those reviews that gets put on the shelf? Where does it sit?

**Helen Whately:** It is a very, very important document. The document and the work that went into it was very important, then the influence that it has already had, for instance, as it fed into the Net Zero Strategy. I was not in the Treasury at the beginning of the work on the Net Zero Review. It is clearly a substantial piece of work. I have taken it on in my brief, but I know from my involvement in it what a substantial and significant document it is for the Treasury and how it genuinely has impacted and is impacting policy.

The way that it is set out is an approach to thinking about the transition and thinking about how we want to maximise the opportunities of our transition to net zero. There clearly are substantial economic opportunities, and it is to understand how the costs as well as benefits would most likely fall on businesses and households and how best to make that transition. For instance, how to best establish competitive markets as the best way of having a cost-effective transition. It is having market mechanisms where they work, but recognising that market mechanisms will not always work, so that there will be a time and a place for regulation. For instance, when you have market failures, it is recognising the way that costs and benefits will fall, and then in some areas where it makes sense we will step in and support households that may be particularly affected by some of the costs of the transition.

You see that already in the policies and approaches set out in the Net Zero Strategy. In the Net Zero Strategy and documents associated with that on things like our decarbonisation of buildings and heat and buildings strategy, where you are looking at decarbonisation of homes and domestic heating, on the one hand there is investment up front to bring down the costs of the transition—for instance, support for the roll-out of heat pumps through the boiler upgrade grant to help early adopters,



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which will build the supply chain, which gives confidence to investors. We anticipate, as we have seen in other technologies, when you have scale and confidence in that future market that brings down the costs, helps make it more affordable to households, coupled with the substantial support that we are putting in to help harder-up households with the costs of energy efficiency, whether it is insulating their homes or heat pumps or a combination. That is an example. I am very happy to go into more detail, I realise I have given you quite a long answer, but it is how the thinking in the Net Zero Review is actively feeding into policy at the moment. I can tell you more.

**Jerome Mayhew:** Interesting. I notice you didn't mention the green homes grant, but I am sure someone else will later on in the session.

**Helen Whately:** No doubt.

Q226 **Jerome Mayhew:** Moving on to future fiscal events like the Budget or economic forecasts, do you anticipate that the Treasury will carve out a specific part of these events to deal with net zero or will net zero calculations be implicit throughout every aspect of those fiscal events? Do you see the question?

**Helen Whately:** Yes, I see. I don't want to be drawn into trying to see into the future or set a future policy approach to fiscal events. That feels definitely like it goes beyond my remit, but what I can say is that the process that has been established and is being embedded across Government is about looking at net zero across multiple policies and, at the risk of repeating myself, using the Green Book methodology to look at where there is a significant carbon emissions climate impact of a policy and making sure that is understood as part of the decision-making process. In the round, when we are looking at Government policy, all the actions we take as a Government are aligned with our transition to net zero.

That will not necessarily apply for every single policy. Not every single policy will necessarily be one that reduces carbon emissions. We have a range of things we have to choose but overall, as a Government and therefore as a country, we are on the path we need to achieve to get to net zero for 2050.

Q227 **Jerome Mayhew:** You have already made reference to alterations in the assumptions behind the Green Book. The Net Zero Review also recommended that there be a review of the public sector balance sheet and risk exposures in the context of climate change and the shift to a greener economy. Does the Treasury subscribe to that view? If it does, do you have a timeframe in which you intend to comply with it?

**Helen Whately:** Joe, you might be able to comment there.

**Joe Taylor:** I have annex C here, which is maybe not the most exciting annex for lots of people. There are a number of commitments here. Some of them are slightly more straightforward or ones that we have done,



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such as creating new departmental boards and creating new structures, groups and teams, but there are then some pieces of work that will take time and we will need to work through. Also some of these pieces won't be one-off issues that we look at; we will be looking at them over the longer term. All I can say is that these are things that we are actively working on. We are committed to implementing this annex but I don't think I have any more detail on that particular point.

**Q228 Jerome Mayhew:** So your report back is you have set up the committees—we can see that two or three committees have been completed—but the actual work arising out of those is ongoing; would that be right?

**Joe Taylor:** A lot of the work in this annex C is still ongoing and some of that will be long-term work that we have to continue to look at as the world evolves around us.

**Q229 Jerome Mayhew:** This Committee has previously called for public spending investment decisions to be stress-tested for compliance with net zero objectives. Is that an approach that the Treasury would support?

**Helen Whately:** I would say already—

**Jerome Mayhew:** You have already partially addressed this.

**Helen Whately:** We look at the emissions impact and compatibility with our transition to net zero of policy decisions. I would also say that is a work in progress because this is something that a decade ago I don't believe was being done in Government, so Departments can continue to get better at the analysis around that. It is not always simple to forecast the emissions impact of policy, so Government can continue to get better at doing that. We are doing that.

I would say, though, taking a step back, that what really matters for us to achieve our transition is to make sure that in the big areas of emissions for the country, as set out in the Net Zero Strategy, we are doing the big things that we need to do in order to cut emissions and decarbonise. In big areas like transport, where we know there are substantial emissions, we have a substantial set of policies—for instance, the transition away from fossil fuel cars to electric vehicles, combined with decarbonising the electricity system, to substantially bringing down emissions from transport. In power, already a lot of progress has been made on that, but it is to continue to decarbonise power, heat and buildings. In each substantial sector of emissions we have the policies overall that get us to the place that we need to get to for 2050.

**Q230 Jerome Mayhew:** One final point. I totally agree with that but there is a plethora of policy in Government, isn't there? It is like a huge web. You have the key headline policy areas to reduce emissions a vast number of decisions that Government makes, which aren't primarily on those key areas, also has impacts on climate change, or what can loosely be described climate change—greenhouse gas emissions. Is it your view that



the assessment and consideration of every decision and its resulting impact on greenhouse gas emissions and the climate direction of travel to net zero is hardwired now in the decision-making process or do you think there is further work that needs to happen within the Treasury and other Departments about its impact?

**Helen Whately:** I wouldn't say that is an either/or, I would say it is both. Yes, it is now a formal part of the decision-making process through the Green Book and that methodology, but also that further work can be done to get us better and better at doing that as a country and considering the climate impacts of our decisions. That said, as I said a moment ago, I think the way that we will really get there is not necessarily by making sure every single decision on every single policy is always the one that takes us closer to net zero because some won't have very much impact, but what matters is overall our transition as a whole and really bringing down the emissions in the big ticket items. That is my view.

Q231 **Caroline Lucas:** I want to follow up on Jerome's last question. Is it the Treasury's position that it is simply turning its face against the idea of having a systematic check for all policies to see what impact they will have on climate and then the degree to which it will have that impact? That is exactly what this stress test, which many organisations have been calling for, would seek to achieve. For example, at the last autumn Budget, I think there was £55 billion-worth of investment that would go into high-carbon things rather than low carbon—things like the changes on aviation and fuel duty. What I want to get from you is whether you are still considering the idea of having that much more systematic, systemic stress test, or whether the Treasury has ruled it out. Exactly where are you on that?

**Helen Whately:** I feel like I am at risk of repeating myself, but overall there is a systematic approach through the Green Book methodology.

Q232 **Caroline Lucas:** But that is different. That does not mean to say that every single decision that the Treasury takes is looked at from the perspective of climate and calculates what that climate impact is going to be, otherwise presumably it would not have gone ahead and—

**Helen Whately:** As I said, policies are assessed for compatibility with our transition to net zero but I think we should be clear what matters is overall our transition and achieving the big shifts in the areas we have set out in the Net Zero Strategy—of overall how we are going to get to net zero by 2050. There are some big shifts in our economy to get there and we need to have an orderly and affordable transition.

Q233 **Caroline Lucas:** We need to have an urgent transition, I would say.

**Helen Whately:** I would say it also is urgent, but there are some things that you cannot just turn off. You can't say to everybody, "Nobody can drive anywhere tomorrow". Some things just aren't going to work, so it is about being orderly, economic and cost effective—seizing the



opportunities where we have them. There are real opportunities for us in this transition and it is about overall getting there in the best possible way for this country. Joe, I felt that you were on the edge of your seat.

**Joe Taylor:** I was just going to support your point there. Compatibility with net zero is assessed as part of the Green Book. It will be considered as part of the strategic case—what we are looking to achieve here—but also carbon impacts throughout the economic case as well. As the Minister says, it is helpful to take a longer view in terms of what is the path for that sector to decarbonise and how that fits in with wider policy decisions and the end point.

Q234 **Caroline Lucas:** I suppose I can conclude from that then you think that the Green Book is a sufficient tool to use in order to shift the Treasury on to more of a zero-carbon trajectory and you don't need a stress test. I would simply observe that at the last Budget, if you added up all of the different measures that were in that Budget, it ended up with £55 billion going into high-carbon projects. Something somewhere isn't working.

**Helen Whately:** I haven't seen the exact number that you are using there. What I can say is at the spending review there was £26 billion committed to our transition to net zero, and since March 2021 there was £30 billion committed to our transition to net zero through to the end of this spending review period. We have a substantial commitment to transition. Of course we need to support families and households and public services with all the things that people expect Government to do.

There will be other areas where Government is, rightly, spending money as well. What matters is that overall, as a country, we make the transition. We are being ambitious. I know that it will probably never be as ambitious as the Green party might want, but the fact is we are ambitious as a country on our transition to net zero. We led from the front in making our commitments to 2050.

Q235 **Caroline Lucas:** You are ambitious on targets. You are not ambitious on delivery. The Committee on Climate Change say it very, very clearly. You know that it talks about a delivery gap and that is because you are very ambitious when it comes to the targets, but less ambitious when it comes to the measures required to achieve them.

**Helen Whately:** We have had significant support, including from the Committee on Climate Change, on the Net Zero Strategy and Net Zero Review and being in keeping with our ambition to achieve net zero by 2050. I would say from everything that I see within Government, there is a huge amount of energy, effort, determination, commitment and indeed investment going into achieving those ambitious targets.

Q236 **Chair:** I will bring Paul Howell in in a moment, but just before I do can I pick up a question on the Green Book, maybe to Joe? Where you have capital projects which had an assessment of cost prior to the changes to the Green Book, and then reassessed them taking into account the



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changes for sustainability in the Green Book, have you made a calculation of, broadly speaking, an order of magnitude of what the increased cost is of applying the new Green Book versus the previous Green Book?

**Joe Taylor:** That is a very good question. I don't have a definitive answer, but Departments would be considering those types of costs through the lifetime of a project. It wouldn't just be something that you consider at the outset through an approvals process. You would consider it through the lifetime of the project, particularly if—

Q237 **Chair:** I have a very live example of a hospital build programme, which is not in my constituency but serves my constituents, which came up with a proposition under the old Green Book based on 2016 prices. It has taken a while to get to the point where they are now looking at tens of millions of pounds of increased cost to deliver the same project and they are not getting any joy in terms of an increased budget, so it is running the risk of impacting the proposition. Is that a common story or uncommon?

**Helen Whately:** Well, only having a bit of insight—having taken on oversight of Project Speed, which is about delivering infrastructure faster, which includes the new hospital programme—something I am aware of, having recently taken this on, is that the new hospitals programme is an example where we know there are various inflationary costs. The costs of doing things are going up and a huge amount of work is going on, therefore, to manage our commitments through those and also manage those costs and also on green construction, which is a really important part of the Government's infrastructure ambitions as well. That is probably the most that I can say.

Q238 **Chair:** You are confident that we will be able to resolve these challenges, Minister?

**Helen Whately:** Of course.

Q239 **Paul Howell:** If I could build on that subject before I move slightly onto a different question. You made reference to support of agendas like heat pumps and support on things like electric cars and so on. One of the things that we found in the BEIS Committee was the difference in the actual evolution of supply chains. The things that have happened in the car industry—you now have electric cars being supplied at pace, coming in and filling that market. When it comes to heat pumps there is no such supply chain arising at pace that is going to be able to be used. In that situation, who reviews the policy? Is it something that Treasury says, "Well, hang on, you are not delivering on that" or is it something that BEIS should be picking up and saying, "We need a different intervention to try to encourage the situation?" Do you see the two different things?

**Helen Whately:** Yes, I see that. I would be more optimistic perhaps than you spelt out there. For example, on heat pumps, the approach we are taking is exactly to build the supply chain, so that there is the kind of scale of supply that is needed, and bring down the cost of heat pumps



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because at the moment they are beyond the reach for too many households, so that is—

Q240 **Paul Howell:** Sorry to interrupt, but I think the point I am trying to make is that that supply chain isn't evolving in the same way. In the car industry, you have a small number of big suppliers you have to influence. You have a lot of influence you need to make in terms of suppliers who are going to make and build heat pumps at a scale that is going to deliver enough for the number of houses that are involved. At the same time, I think Joe Public understands that electric cars are coming and that people are going to use them, but I don't think the same message that is out there is in any way the same for heat pumps and the impact of home heating on the whole carbon agenda.

**Helen Whately:** There are three things on that. One is on the growth of the supply chain. I visited a heat pump manufacturer a few months ago. They certainly spoke a great deal about their ambition to increase the scale at which they are producing heat pumps as well as bringing down the cost, and they are not alone in doing that. There are a good number of heat pump manufacturers who are exactly doing that.

We also spoke about building up the skills required and making sure there is a workforce to implement and to install heat pumps. There is investment and lots going on in order to build up that workforce as well, so I would say the supply chain is ramping up there and is given confidence by—

**Paul Howell:** But—

**Helen Whately:** Let me come to the point about public demand. There are various things that are going on to boost public demand. For instance, one is the requirement that I think, as of 2025, new homes that are built need to be net zero ready. We envisage that that means that many new homes built then will be built with heat pumps as of 2025, so that is a substantial market given the amount of new homes being built.

We currently have the boiler upgrade grant helping people with the cost of installing heat pumps, so that is something to help people who are relatively early adopters who are ready and want to do that now, to help them with the cost of installing heat pumps.

As costs come down, and in an environment that is difficult—at the moment we are in an environment with high fossil fuel prices globally and that is another factor where people are thinking about how they can reduce their energy bills, so these factors will come together to increase the demand—we are doing both things at once: demand and then the supply coming up to meet it.

Q241 **Paul Howell:** I think we went down a rabbit hole there. What I was actually trying to get at is if a policy isn't working like that, does that become a Treasury push or a BEIS push in terms of trying to correct it? I am seeing different evidence from what you are seeing, but let's take a



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scenario where heat pumps isn't working. Is that something that the Treasury would push or should it be picked up by BEIS? It is just a curiosity.

**Helen Whately:** I have disagreed with you about whether the heat pump policy isn't working, but you mean in general if a policy wasn't working who would do something about it? I think both BEIS—if it is a policy that it owns like that—would be taking steps to improve the policy and, clearly, the Treasury, which is scrutinising the way that Government money is spent, would also want to say, "Well, if this isn't working, let's look at doing it in a different and better way". I think you would see—

Q242 **Paul Howell:** I think we are seeing different evidence, so we will leave that one there and I will ask the question I am supposed to be asking in the first place, which is: did the Government undertake a cost-benefit analysis as part of the Net Zero Review?

**Helen Whately:** What I would say—and, Joe, you may be able to add to this—is that the Net Zero Review was overall looking at the costs and benefits of the transition to net zero, with a topline point that it is quite clear that the costs and consequences of doing nothing to stop climate change happening far outweigh the cost of the transition, so, definitely on an economic basis, it makes sense to carry out the transition as we are doing. Then the review looks at how we need to have an orderly transition to maximise the opportunities, economic benefits and other benefits as well, and minimise costs, and then look at that across specific businesses and households that may benefit more or be faced by greater costs, because particularly the cost of the transition does not fall evenly across different demographics.

I would say that if it looked into the costs and benefits as well as taking the overall position that I set out, overall, the costs of climate change would far outweigh the costs of the transitions. There are great economic opportunities for us as a country through net zero: the economic growth potential, the jobs potential, and the export potential through leading particularly in some areas where we have the ability to be world leading, such as offshore wind.

Q243 **Paul Howell:** Exactly. I visited an offshore wind company last week, so I am very familiar with the market sector that you are talking about there. In the BEIS Committee this week, we had a discussion about the impact of what is going on in Ukraine and the whole supply chain for gas and so on. Part of that immediately digressed into the whole economics of green energy in terms of where it is now compared to where it was three weeks ago, and it is in a completely different place.

In terms of the assessments that the Treasury has done, are they able to be easily reviewed again to be able to say, "Hang on, we need to do this more aggressively in terms of certain things" or, "Actually, this doesn't work anymore" or, "This is what we had actually ruled out because it wasn't cost effective in being a short enough horizon and has now



changed the horizon”? How fluid is the ability of Treasury to actually get into that information and bring it up to speed, given the dramatic changes that we are unfortunately seeing at the moment?

**Helen Whately:** I think that something you are absolutely right about is that the higher cost of fossil fuels globally—particularly oil and gas—are a very good rationale to look at all the decisions we are making on our transition away from fossil fuels and to more renewable sources of energy and say, “Are we doing everything with the right urgency?”

We are already ambitious. We are already full steam ahead, including on development of nuclear—Hinkley Point C being built at the moment, a Government investment decision on another substantial major nuclear power plant due this Parliament, and looking at smaller nuclear reactors. There is lots going on for nuclear. There is offshore wind, with our commitment to get to 40 GW for 2030. That is a substantial commitment. There are investments in hydrogen and we are looking at generally new technologies for the transition. So, yes, it is absolutely right that in the world we are living in now, it is always worth looking to see if there is anything that we should be doing and can be doing—going faster and further in the light of the implications of Russia invading Ukraine.

One thing that is a good thing for us as a country is that we are not reliant, for instance, on Russia for our natural gas supplies. Fortunately, we have resilient natural gas supplies but it is impacting the global price of gas, which has an influence on us as a country for sure.

Q244 **Paul Howell:** Massively, and it will continue to be so and that, therefore, can change the whole economics of what you should do and the speed with which you should take different decisions. I am just asking whether Treasury are leaning into that space in terms of determining what should happen next? You cannot particularly accelerate a new nuclear power station. You can accelerate certain other initiatives. You could fill the gaps by the different initiatives that you might not have wanted to consider before, and there are going to be different stresses and strains there that come into a full cost-benefit review. I wondered also whether the Treasury is preparing any fuller cost-benefit analysis to inform how this is going forward now in terms of the next steps. If so, when do you think that sort of analysis will be completed?

**Helen Whately:** I can say on the formal part of that that Treasury and BEIS are very much working close together on looking at the implications of the global prices for fossil fuels and things. I do not know, Joe, whether I can bring you in on the second part of the—

**Joe Taylor:** Yes. The point that we have been making throughout is that the Net Zero Review is an analytical framework. It helps you think through the trade-offs and those trade-offs are applicable to lots of different issues. They are very applicable to what we are seeing in terms of wholesale gas prices. We are thinking through the economic, the fiscal,



the distributional-type considerations. That thinking is mobilised through the Net Zero Strategy and other individual sectoral strategies.

It is a case of bringing a lot of that thinking behind the Net Zero Review to life, so I don't think it is the case that we feel the need to revisit the Net Zero Review in its entirety. It is more about what is happening within those individual sectors or in terms of those issues that emerge, particularly on the wholesale gas price side, and making sure that we are applying the thinking and the learning that has come out of the Net Zero Review to those issues. The first time we did that quite clearly it was the Net Zero Strategy and that thinking is being applied on an ongoing basis.

**Paul Howell:** Just to conclude on that, Chair, I think what you are saying is you have the data, you have the structure, and you have the thing to look at. You referred earlier to Project Speed and things like that. I think this is one where we are going to need a very quick investigation and very quick decisions between Departments as to what we should or should not do. It is a fast moving world at the moment. Thank you, Chair.

Q245 **Sir Christopher Chope:** Following on from the last question, can I ask: has the cross-departmental climate board met to discuss the implications flowing from the Russian war on Ukraine?

**Helen Whately:** That is an official level committee and I don't know what meetings it has had. Joe, do you know anything about that?

**Joe Taylor:** It has been meeting regularly. I do not believe it has taken a topic on that particular issue just yet, but that is also because it is a very fast moving topic and senior officials across the Treasury will be talking regularly on whatever is the appropriate configuration. The next time that board meets I would expect it to talk about that issue. The fact that we have this board enables us to provide structure around longer-term thinking. It is not the sole forum for senior officials in the Treasury to discuss these issues.

Q246 **Sir Christopher Chope:** Surely the Russian war on Ukraine has completely transformed this whole policy area and we now have ordinary people—and that is the essence of my question; it is described as “households”, but this means ordinary people—finding that they face the prospect of having to spend a lot more than 10% of their net income on just the costs of fuel and energy. How has the Treasury got to grips with, or is it getting to grips with the enormity of this issue? None of the views that I have seen suggest that there is going to be a dramatic reduction in the global costs of energy, so are we now changing our views in relation to, for example, the North sea—ensuring that we can exploit all our resources in the North sea, that we can exploit our coal reserves, that we can exploit our natural gas through fracking, and that we can actually make ourselves more self-sufficient? What this episode shows is that Europe has allowed itself to become dependent on Russian gas, oil and energy, and, as a result, is at the mercy of an unprincipled dictator.



**Helen Whately:** There is a lot to say on that. Are we changing our views considering what is going on with wholesale oil and gas prices globally? We saw a huge spike in gas prices earlier during the winter, particularly during Covid. There was an expectation that that would head downwards in due course rather than staying at the very high levels. Though what has happened is we have had Russia invade Ukraine and that gives us a different picture on that. That means, of course, that there is a huge amount of work going on regarding the implications of that—the implications on the one hand for our decisions to do with our energy supply and our transition to net zero, and on the other the impact on households and cost of living, which we take very seriously.

Specifically on the implications for North sea oil and gas, I think one thing that the Government have been very clear on—certainly the BEIS Secretary of State has spoken about—is that North sea oil and gas plays an important part in our transition to net zero in any case and, against the views of some people that we should not be extracting oil and gas from the North sea, the fact is we cannot turn off demand for these fuels overnight and we need to have an orderly transition. It is a good thing for us as the UK and our resilience that we are not dependent on Russia, for instance, for gas. We have sources from the North sea and from supplies such as Norway, so we do not have the same kind of energy insecurity as other countries.

We are working with countries across Europe on how the whole of Europe can reduce its dependency on Russia, for instance. I am sure that you will have seen that the BEIS Secretary of State has announced that we are phasing out any use of oil and gas from Russia during the course of this year, in any event. The situation highlights the importance of our transition to net zero, reducing our dependency on fossil fuels and having our own alternative renewable sources of energy. It is a good thing that we have already made a lot of progress in that direction because it puts us in a stronger position, for instance, with the amount of offshore wind that we have.

I will just pick up on your point about fracking and shale. One thing I will say, because there is quite a bit of noise about shale and whether we should be fracking now, is that that would not suddenly solve the challenges that we have with the price of gas because it is a wholesale market, so it would not materially move the gas price for the UK. Nor is it a particular short-term solution and it would not happen overnight. Overall in the Government's strategy, the important thing is to move away from natural gas through our transition and, indeed, to further build our resilience and our own sources of energy through things like wind, where we have many strengths, and also our storage capability. I do not mean gas storage; I mean generally energy storage for times, for instance, when the wind drops.

Q247 **Sir Christopher Chope:** Nobody is saying that fracking is an instant solution, but of course we are talking about being prepared for 2050.



Between now and 2050 I am sure that we could exploit the natural gas that is on our own territory here, through fracking. Is it the policy of the Government and the Treasury that we should now, as a result of this energy crisis, maximise the exploitation of our own oil and gas and coal reserves, or is it not?

**Helen Whately:** Some of these are clearly commercial decisions. For instance, with North sea oil and gas, the wholesale price may influence commercial decisions that are made by investors in those areas. Our view is that we want to make sure that we have secure supplies of sources of energy that we need as a country. We recognise specifically the importance of North sea oil and gas in that. We are also committed to our transition to net zero, which not only is the right thing to do for the sake of the climate, but also because it will further increase our energy resilience and self-sufficiency because of our ability to generate renewable energy on and around the UK, so that will also put us in an even stronger position.

Q248 **Sir Christopher Chope:** You say that a lot of these are commercial decisions, but quite a lot of them are influenced by the Government wearing their planning and regulatory hat. For example, the Government have, as I understand it, basically poured cold water on the idea of opening up any new coalmines in the United Kingdom, even if that would make us more self-sufficient in having the coal to enable us to produce the steel that we need to do all these other things. It seems that the answer to my question is that the Government, despite this crisis, are still not pursuing a policy of maximising the exploitation of our own natural resources and are intent on continuing to increase our dependency on imports from other people.

**Helen Whately:** I would not see it that way. I do not think it is about opening up coalmines again because we do not need to nor is it the right thing to do.

**Sir Christopher Chope:** One particular coalmine, for example.

**Helen Whately:** The fact is that we are in the fortunate position of having good security of supply. For instance, as I just said, a very small amount of our natural gas comes from Russia and that is easily replaced by getting LNG from other sources and we are able to do that, so I do not think that we need to take the path that you are taking.

The fact is, though, that the wholesale prices for fossil fuels will generally continue to be—that is a global question, so for as long as we are dependent on a significant element of fossil fuels for our energy, we remain to some extent subject to that volatility. The fact that we have built up more UK renewables already, for instance through wind, has somewhat reduced our exposure to that volatility, although not totally. The important thing to do is to continue on that pathway, so we are then no longer dependent and caught up in volatile global gas prices, for instance.



**Q249 Sir Christopher Chope:** As you say, Minister, it is an issue not just of security of supply but also an issue of cost. That is where I am a bit perplexed, because my understanding of the Government's policy is that they are planning to address the burden on households of the transition to net zero by effectively allowing the cost to increase but then providing grants to those individual households that are going to be most hard hit by it. That is the policy as I understand it, but that does not seem to be the policy in relation to the current crisis that we have, where the costs are going up not because of trying to get to net zero but because of the global crisis generated as a result of this conflict. There seems to be an inconsistency here in the Government's policy, because you are quite prepared to talk about taxpayer subsidies for households that are going to be adversely affected by the transition to net zero, but you are not prepared to give great subsidies to households that are adversely affected by the current spike in what is happening in fuel prices.

**Helen Whately:** I may be forced to disagree with you on that, only that quite recently the Chancellor announced a whole package of support to help people with increasing energy prices to the tune of £350 per household—a £200 reduction in bills coming in the autumn and £150 through the council tax system this spring to help people with exactly those rising costs, because of the price cap going up. That is an example of how we are taking steps to help people with the immediate impact of volatile higher global energy prices. We are doing that to help people with their bills as well as helping with some of the ways that costs may fall on people during the transition, which I have talked about, for instance, with support with energy efficiency for buildings and the social housing decarbonisation fund, which would be an example of that. Joe, you looked like you were going to come in on that.

**Joe Taylor:** I was going to make that very point. Our wider policy on energy efficiency is absolutely crucial here. Reducing demand is the best way of protecting people against price increases of this kind. You use less energy regardless of how much it costs. That is why these longer-term policies in the Net Zero Strategy, funded through the spending review, are absolutely crucial to that end.

**Q250 Sir Christopher Chope:** Can I ask you about this then? Ordinary people are not signed up to this net zero agenda and you have refused to produce a clear cost-benefit analysis. You asserted earlier on that if we went for this net zero, it would remove the pain that is caused by climate change and global warming, but there is no evidence that by having the hair shirt approach in the United Kingdom that this will make a ha'porth of difference to what happens to the storms, the weather and the climate in the United Kingdom. We cannot alter this unilaterally, so do you think it would be a good idea—this is increasingly being promoted—that we should have a referendum among the people to see whether they buy into this net zero policy? In so doing, it would be very helpful if you could produce a cost-benefit analysis.

**Caroline Lucas:** On a point of order, Chair. This has nothing to do with



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this subject.

**Chair:** I think we will allow the Minister to address that question and then we will move on.

**Helen Whately:** Great. I am delighted to have the opportunity. I would say that we were elected—you and me both—on a manifesto commitment, which included the delivery of net zero for 2050.

**Sir Christopher Chope:** Not at any price, though.

**Helen Whately:** I would say that it was quite clear that the many votes that we received were broadly in support of that direction of travel. I get your point that if only the UK does this and nobody else in the world does anything, that is not going to achieve the outcome that we need. However, that is not what is happening. We should be proud of the fact that we are leading from the front and that we went out there in front in making our commitment to net zero.

More than 90% of the world's GDP is in countries that have also made commitments to get towards net zero, so actually, we are at the forefront of something that is happening across the globe—countries across the world are committed to making this transition. It is not only about doing the right thing and leading from the front; there are also opportunities by doing this. We are at the forefront of technology—offshore wind being an example. We will have an opportunity to benefit from that in our own transition—to have greater resilience and, in due course, to bring people's energy bills down through doing that. Also, there are the export opportunities, where we can take that technology and our expertise to the rest of the world. There are a great number of jobs and GDP potential from doing exactly that. It is really important and there are great opportunities for us being at the forefront—

**Sir Christopher Chope:** Just a final point.

**Chair:** We are going to move on.

Q251 **Sir Christopher Chope:** In that case, why can't all this be set out in a proper cost-benefit analysis?

**Helen Whately:** The Net Zero Review assesses—this does at least bring us to the Net Zero Review, Chair—further costs and benefits, and some of the structural changes that may happen and how those may fall. However, this is a 30-year transition. You cannot simply, here and now, say, "This is exactly what it is going to cost and this is exactly where the benefits are going to fall". A lot of this is going to change. There will be, for sure, further innovation, further technology. There will be technologies, which are currently in their early stages, that will become mainstream—that you and I do not even know about—and which may be an important part of our transition by the time we get to 2050.

Q252 **Chair:** If I can just follow up on that with two quick questions: one is on something you do know about. You referred to the benefits of offshore



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wind. Does the Treasury assess that the cost of delivering onshore wind to energy consumers in the UK is lower or greater than the cost of delivering gas from the North sea to consumers in the UK?

**Helen Whately:** I do not think I am going to be able to give you a specific answer—I may turn to Joe in a moment—on that. Were you talking about offshore or onshore wind there?

**Chair:** Offshore.

**Helen Whately:** One thing I can say is that the costs of offshore wind have already fallen substantially in recent years. In fact, prices have fallen by two thirds since 2015 from around £115 per MWh to about £40 per MWh through the contract for difference process, so the costs of offshore wind have fallen substantially. I do not have a specific comparison versus gas. Do you have it there?

**Joe Taylor:** I do not have a figure but we do know that renewables are cheaper than gas.

Q253 **Chair:** Would you be able to write to us to indicate the calculation because I think it is a very important part of the argument. If the wholesale price is going through the roof and we already are able to produce renewable more cost effectively than prior to the price hike, the public need to know that and that would help to encourage development of further offshore wind rather than just increase our dependence on wholesale markets, which is how exploitation currently would exist.

My final question before I move over to Matthew is: Christopher was talking about grant support, whether that is an attractive way for the Treasury to help those who most need support in paying their energy bills. What lessons have you learnt from the experience of the green homes grant scheme about the attractions or otherwise of stimulating demand through grant?

**Helen Whately:** It is an important point. I know the green homes grant scheme did not fulfil the expectations or the hopes for it. There was a particular challenge with, I think, an IT supplier, which got in the way of that succeeding, and it was in the context of a pandemic and an attempt to bring in a scheme very quickly to achieve environmental benefits for households and jobs, at a time where the economy was needing support. Lessons clearly must be and have been learnt.

The approach that we are taking at the moment—I think I already alluded to it—to supporting households with the transition and increasing the energy efficiency of homes involves a number of schemes. One is a combination of the home upgrade grant and the social housing decarbonisation fund, which together come to £1.8 billion in support, and that is specifically supporting those households that are on low incomes with the adaptation of their homes to be more energy efficient, with better insulation and so on, and also to have low carbon sources of heating. That is supporting households who are least able to afford it.



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Another aspect of what we are doing to support with the household transition is bringing down the affordability of heat pumps for those who are early adopters. I mentioned the boiler upgrade scheme that is very targeted in bringing down costs. What I am trying to say is there are two things. Rather than just a very broad spectrum scheme to help everybody, let's target the support in order to: one, bring down the costs of the technology; and, secondly, support those households who are least able to pay. We are still working on what is the best possible way to support the transition.

**Joe Taylor:** I would add two further points. These are slightly longer-term schemes that we funded through the spending review. The administration of the boiler upgrade scheme has been brought in-house within Ofgem, so that is quite a different delivery model but I think it is worth reflecting on.

**Chair:** We will take a great interest in how that pans out and would very much welcome publication of some statistics on take-up for all of those schemes once they have been running for a period of time. We were pointing out some of the deficiencies in the green homes grant scheme way before they seem to have been acknowledged either by BEIS or the Treasury. We did some research into it. I am going to move on now to Matthew Offord.

Q254 **Dr Matthew Offord:** In the next 20 years the amount of revenue that will be collected by the Treasury is forecast to drop by about £3.5 billion. That is about 1.5% of GDP. What actions are you taking within the Department to identify opportunities to replace that income?

**Helen Whately:** It is a good point and one of the chapters in the Net Zero Review looks at the fiscal implications of the transition and what it means for revenue coming into the Exchequer. Clearly, there are revenues associated with fossil fuels—fuel duty is an obvious example—which are expected to decline as we shift away from those sources of energy, so we need to make sure that we are clearly managing public money responsibly and look at how we replace those revenues. One area of revenue growth is through carbon taxes, carbon pricing.

As I mentioned at the beginning, I do not take part in those areas of policy, although to some extent Joe may be able to come in on that. Also, the Committee spoke to the Financial Secretary to the Treasury recently and he talked a certain amount about those areas as well. There is some income that comes through those sources and very specifically on fuel duty, the Prime Minister himself has said we recognise that motoring taxes will need to keep pace with the transition.

Q255 **Dr Matthew Offord:** You have not actually given me an example of what you are doing. That is what I would like to understand.

**Helen Whately:** Joe, I do not want to put you on the spot on the carbon tax because I know it is not so much on your area.



**Joe Taylor:** Your question is primarily about revenues at risk. I think that is right. The Net Zero Review sets out analysis behind those revenues at risk. If you take fuel duty as an example, as we transition to electric vehicles those revenues are obviously at risk and we have committed to ensure that motoring taxes keep pace with that change. The Chancellor will be considering those on a fiscal event by fiscal event basis, but the Net Zero Review set out where those issues are going to emerge. The Treasury is fully aware of them and equally conscious that action will need to be taken in the future, but we are just not at that point yet.

Q256 **Dr Matthew Offord:** I am going to take away the comments of the two of you that you are actually not doing anything, but I will read the report, as you say.

I think Sir Christopher's intervention is useful because, while most of us believe in a carbon neutral future, we have to take people with us. It is as simple as that. There are no doubt some people who do not agree. What are you particularly doing to look at overhauling the tax system, which a lot of us have been calling for, for many years, particularly so it incentivises the development of a net zero economy and also supports the same?

**Helen Whately:** I am pausing because of the tax point being that carbon tax is specifically not within my portfolio. Let me pick up on the point that we must take people with us, which is absolutely important. There is huge support, very mainstream support, for our transition to net zero but also we have to be realistic—certainly, I am in the Treasury—about the very real cost of living pressures that people face and people need to be able to afford the things that they need for their quality of life.

That is one reason why it is so important we go about the transition in the right way, in an orderly way, in a way that is efficient, for instance, building in competition where it makes sense and is feasible to do it, because that is going to be the most economic way. Using market forces, carbon pricing and things like that are an important part of that because, yes, we absolutely have to make it affordable for people.

**Dr Matthew Offord:** Joe, would you be able to help the Minister with this?

**Joe Taylor:** I would just say it is a very good question. Your first question was around how taxes can be used to fund public services. Equally, taxes can be used to incentivise behaviour change. I think the two key taxes that I would point to would be the carbon price support and the UK emissions trading scheme. On the latter, in the Net Zero Strategy we committed to consult on making the UK emissions trading scheme net zero compatible, so looking at what the total cap of emissions would look like. We also committed to look into expanding the number of sectors in scope with the emissions trading scheme, so those are two policies that have been successful in terms of helping decarbonise the



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economy. The emissions trading scheme is an area that we are looking to consult on in terms of the cap but also expanding its scope, so these are the two active areas.

**Q257 Dr Matthew Offord:** What I took from the Minister a few seconds ago, in response to Sir Christopher, was that this was an objective worth striving for even if it cost constituents of ours. Then you suddenly said that you felt that the cost of living crisis was quite a concern and you had to bear that in mind, so I would ask questions about electric vehicles.

For example, when I was the Cabinet Member in Barnet and Deputy Leader, I introduced the first differential rate, so that people who had electric cars—and this is 15 years ago—paid a lower amount for their controlled parking zone. That has remained, for which I am quite pleased but, currently, for the Treasury some people are paying a lesser tax on their vehicle excise duty, for example, than I do in a car—a Euro 6, which is still a petrol-driven car. How long are we going to allow driving low emission vehicles to be a low tax activity?

**Helen Whately:** Something that you illustrate is an example of the policy in action. I talked about heat pump and it applies for electric vehicles—supporting the early adoption of new technology to increase the supply chain and bring the cost down for when that technology becomes mainstream. That is one reason why there are tax incentives to use electric vehicles. It is an exact example of helping grow the market for that. We are already seeing it bring down the cost of electric vehicles. We are also supporting the roll-out of electric vehicle charge points so that there is the infrastructure in place to help that. I make no secret of it. We recognise that, in due course, we do need to make sure that we address the declining revenues that we will see from fuel duties. It is just that I cannot set that out in this Committee.

I will say on the cost of living point it is worthwhile saying that, thanks to the investments we have made in the growth of renewables over recent years, electricity bills are lower now than they would have been if we had not already made those investments in the transition. I know that people are being hard hit by rising prices. It would have been worse if we had not already made the investment in the transition.

**Q258 Dr Matthew Offord:** I know you are keen to defend your position on the cost of living but I want to take you back to the point of: why can you not set out the timetable—I mentioned the electric vehicle as an example? Why can you not do that?

**Helen Whately:** I cannot sit here and set out fiscal policy and decisions that are made at fiscal events, Budgets and the like. I am not going to make policy here at the Committee. That is just not something that I am able to do.

**Q259 Dr Matthew Offord:** Fine, but I asked you earlier what actions were you taking as a Department and so far no answer has come forward.



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**Helen Whately:** As I say, we have been completely clear in the Net Zero Review. Having done the analysis, we know where revenues are likely to decline for the transition. There is a public Government commitment that has been made that motoring taxes specifically need to take place with the transition. That is no secret to the Government, I can assure you.

**Chair:** We are looking at the Government response to the Transport Committee that specifically called for a timetable for road pricing. I think Caroline Lucas wanted to come in. Have you finished, Matthew?

**Dr Matthew Offord:** Yes, that is fine.

Q260 **Caroline Lucas:** It was only a very quick one. I was disappointed with the answer about the point that we need to bring people with us and then there was a specific question about what are you doing with the tax system in order to build in incentives. You then talked about a carbon tax, which does not really seem to answer that question. I want to put to you: one of the big campaigns from the construction industry right now is that there should be, for example, a reduced rate of VAT for refurbishment, repairing and all that part of the economy. Is that something that the Treasury is looking at? Because if we had a reduced VAT on repair and refurbishment and all of that—retrofits—that could be a very practical thing that people see and they will appreciate it.

**Chair:** It was called for by this Committee, Caroline, do you remember?

**Caroline Lucas:** As called for by this Committee.

**Helen Whately:** I would love to be able to give you the detailed answer to your question that you would like.

**Caroline Lucas:** Just if you are considering it.

**Helen Whately:** Tax policy is not within my brief, including policy on VAT, so I cannot tell you what is or isn't being considered on VAT.

**Caroline Lucas:** If you could send a letter to us—

**Helen Whately:** I can indeed ask the Financial Secretary to the Treasury to respond to that question. A lot is going on in order to green the construction sector, including a shift away from the use of red diesel, which will have positive environmental benefits.

**Chair:** Thank you. A final set of questions from Cherilyn Mackrory.

Q261 **Cherilyn Mackrory:** Minister, I guess we are building on the last set of questions. This is about funding the transition to net zero. It seems to me that it is between either borrowing, which is where the future generations will pay—and that is seen as negative and having negative implications on the public finances—or through the current tax system, which we have been trying to scratch into just now. That also plays into the polluter pays principle. I feel that we are at a very difficult point and I think this is the illustration we are trying to make, in that we have a very high cost of living crisis and we have to, because of the timetable, drive taxes as low



as possible in order to bring people with us on the net zero transition. By that, I don't just mean householders, but industry as well. I suppose there has to be that tipping point where things start to go up again and I am interested if you could start to model that for me. Presumably, the Department must have had conversations about having to reduce it as much as possible and then starting to raise it, because we have to pay for it. I think that is where I am trying to get to. How are we going to pay for this?

**Helen Whately:** Looking at the cost of the transition—I cannot see into the future to see what is going to happen as we get closer to 2050, for instance—you are absolutely right; various principles are set out in the Net Zero Review, one of which is polluter pays. We want intergenerational fairness, so we do not want to borrow and put the costs on future generations, which would be neither fair nor necessarily the best way to have a cost effective transition.

There are things that we are doing. On the one hand we committed £30 billion of investment in March 2021, through the spending review period, to supporting the transition across a wide range of sectors—for instance, transport decarbonisation, decarbonisation of buildings, investments in nuclear, other renewables, future technologies.

The whole transition will not be funded by Government money. Not at all. We envisage that we will be crowding in, say, £90 billion of private sector investment to 2030, on the back of both the public sector and the Government investment in it, but also by providing a clear direction of travel and some really clear signals about where we are going as a country, and through introducing regulation, which both provides confidence—again, in that direction of travel—and can help with the standardisation and bring in energy efficiency.

For instance, the fact that as of 2025 all new build houses will need to be net zero ready is a very clear signal. There is going to be a substantial market for heat pumps among other things. Bringing in regulations, for instance, for consulting on private landlords and the energy efficiency of rented out homes will be really important, particularly because you have a market failure there where the cost of energy usually falls on the tenant but the investment usually needs to be made by the landlord of the property.

By showing the direction of travel we are going, providing that certainty and supporting some of the early adopters, that in its own right helps to bring down the cost of the transition. The funding will be across the public and private sector as we go.

Q262 **Cherilyn Mackrory:** Can I challenge the thinking slightly and ask whether you think that the taxation side of it and charging the current population is equitable to not charging the future generations anything? We might be the polluters but the future generations are going to be the ones that benefit from a net zero environment, so do you think that is an



equitable trade off?

**Helen Whately:** Well, I think something that we want to see is that all the costs are not going to fall on us this year or next year. This is, as I say, a 30-year transition that we are going through, so I am not going to foresee all the ways that that is going to play out going forwards but what I do think is important is that we have a cost effective transition. That is very much me with the Treasury hat looking at something that is an important investment for the country. Let's make sure we do it where the taxpayers' pound goes as far as we can make it.

Q263 **Cherilyn Mackrory:** I have two more questions. You say we are not modelling all the way out to 2050 and I understand that. How far out is Treasury modelling? How many years or even decades are we modelling out?

**Helen Whately:** Exactly what I said—you cannot spell out the exact cost and the exact revenue flows in both directions.

Q264 **Cherilyn Mackrory:** You can do some projections, though. That is what industry has to do. Does the Treasury do similar?

**Helen Whately:** Joe, can you give any further insight into where we are on that modelling?

**Joe Taylor:** The Treasury will be looking at what the fiscal and economic picture looks like over different time periods, but the further you look out the greater the level of uncertainty. I think in this area here, as the Minister said earlier, it is right to be focusing on those individual transition pathways for different sectors, in terms of how they are going to get to the point that they need to get to.

The Net Zero Review is not a true cost-benefit analysis. It talks about some of the problems in terms of creating a single cost that 2050 is very much focused on: how can we reduce the costs involved in the transition by exploring those trade-offs? What the Treasury will be looking at is economic and fiscal projections across the board. That is not particularly helpful for net zero alone because you will just compound assumptions over time across a very broad and complicated transition.

Q265 **Cherilyn Mackrory:** I am not a Treasury expert, so forgive me for being naive. How far out does Treasury look across the board? How many years into the future does it try to model what is coming? You cannot predict something such as what we are going through at the moment—I get that—but there are certain things that are going to be predictable in the economy.

**Joe Taylor:** I would need to look at the economic and fiscal forecast but if you are looking at a cost the OBR put a number out in their economic and fiscal forecast.

Q266 **Cherilyn Mackrory:** One final question if I can. Obviously, we have agreed that it is going to be more through taxation than borrowing. Can I



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ask what the sovereign green bond campaign is going to be spent on?

**Helen Whately:** That is ironic because we are now shifting into the area of the Economic Secretary to the Treasury and green finance—

**Joe Taylor:** I can have a go if you would like.

**Helen Whately:** Can you help me with this, Joe?

**Joe Taylor:** The sovereign green bond will be invested in Government projects that are in scope of our taxonomy. I will not go into all of the detail because it is slightly outside of my patch, but there is a framework for what these bonds can be invested in. The Government will need to be reporting back to investors soon around what that actually means in practice and what the impact of those kinds of things are, but there is a framework that sets out what is eligible from—

Q267 **Cherilyn Mackrory:** What kind of thing? Give me an example.

**Joe Taylor:** Offshore wind, I would imagine, but I am pretty sure there is a published taxonomy that sets it out because investors will want to know what their money is broadly being invested in.

**Cherilyn Mackrory:** We will look forward to seeing it. Thank you very much. Back to you, Chair.

Q268 **Chair:** Can I just pursue that finally? The Net Zero Review from the Treasury made it pretty clear that it is not intending to borrow to achieve net zero ambitions by the Government. If it is not borrowing to fund net zero ambitions, but it is raising enormous amounts—£16 billion to date—of green government gilts, is the Government green washing the gilt investors?

**Helen Whately:** I do not think so. What I said right at the beginning is that different Treasury Ministers have different areas of net zero because it is such a priority for the Government. The whole area of green finance is one for the Economic Secretary to the Treasury and I am sure she would be able to answer in great detail, because she has great expertise, on the questions on green finance.

**Chair:** I think it would be very helpful, Minister, if you could ask somebody to reply to that question because it seems pretty—

**Joe Taylor:** Can I just double-check the premise of the question? Sorry, you were saying that—

**Chair:** Well, I was taking from the Net Zero Review, which states, I believe, that the Government do not intend to borrow to achieve the net zero ambitions within the review. In which case, the green gilt borrowing that they are doing must be funding something else. In which case, what is it funding?

**Joe Taylor:** I think we can clear that up. The Government are obviously funding programmes through the spending review and a number of those



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projects will be funded through green bond issuance. I think this is a broader point that you cannot spend your way entirely to net zero. A problem that we are constantly grappling with across different aspects of the transition is: what is the right balance between public spending, regulation and taxation? It is an issue that the Minister has talked about across heating, buildings decarbonisation and vehicles as well. There is a constant balance between those three things, so I would not see it as green washing. The green bonds will be spent on green projects. I think it is a broader question about: to what degree can you borrow to spend your way entirely to net zero?

**Chair:** I understand. As a Committee, we are very supportive of green finance and the Government issuing green gilts. We called for it. I think what we might do is to write to request some explanation of what the current programme is, what is being invested in and how that squares with the point that you have just been making from the Net Zero Review.

With that, I would like to thank you very much indeed, Helen Whately, Exchequer Secretary; Joe Taylor, Deputy Director for Climate Policy within the Treasury; Martyn Atkins for preparing our brief; members of the Committee for joining us today; and Paul Howell from the BEIS Committee.