



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Rt Hon Philip Dunne MP
Chairman of the Environmental Audit Committee
House of Commons
London
SW1A 0AA

16 June 2022

Dear Philip,

ALIGNING THE UK'S ECONOMIC GOALS WITH ENVIRONMENTAL SUSTAINABILITY

Thank you for your letter of 5 April to the Chancellor of the Exchequer regarding the Environmental Audit Committee's recent inquiry into aligning the UK's economic goals with environmental sustainability. I am writing as the Minister responsible for this policy area. I am sorry for the delay in responding.

Meeting the UK's climate and environmental objectives

The government has made significant progress in advancing its climate and environmental objectives domestically and internationally. We have an ambitious net zero target enshrined in law under the Climate Change Act (2008). Real progress is being made against this, including achieving every Carbon Budget to date. Last year was especially important due to the publication of the Net Zero Strategy and Net Zero Review, and the UK's international leadership at the G7 and COP26. There is strong cross-Whitehall governance to drive government action on climate, including via the Climate Action Implementation Committee and Climate Action Strategy Committee, the latter of which is chaired by the Prime Minister.

Achieving these objectives is not only a social imperative but also an economic opportunity. The UK has already shown that economic growth and cutting emissions can go hand in hand: between 1990 and 2019 we cut emissions by 44% and grew our economy by 78%. Our net zero ambitions offer a significant

growth opportunity for UK companies here and overseas and high-skill, high wage jobs for UK workers.

Embedding climate and environmental considerations into economic and financial decision-making

I note the Committee's recent recommendation for the government to include a Net Zero test at future fiscal events to assess the impacts of taxation and spending decisions. As set out in the 2021 Government Response to the Climate Change Committee (CCC), the government has gone further than ever before to put the climate at the heart of decision-making. This includes fiscal decision-making, as evidenced by the existing processes in place for appraising options for government projects and programmes and at the recent Spending Review (SR21).

The [Green Book](#), which HM Treasury continuously improves in line with emerging evidence and best practice, requires departments to assess the greenhouse gas (GHG) emissions impacts of potential programmes during cost benefit analysis. At SR21, departments were asked to include an assessment of spending bids impacts on GHG emissions, drawing on the relevant [supplementary Green Book guidance](#). Major spending bids and proposals were considered and assessed within the context of the broader suite of policies set out in the Net Zero Strategy. The SR confirmed that since March 2021 the government will have committed a total of £30 billion for the green industrial revolution.

On tax, the Treasury and HM Revenue and Customs (HMRC) already consider climate change and environmental implications of relevant tax measures with an environmental impact, publishing assessments in the relevant Tax Information and Impact Notes (TIINs). HMRC published an [Evaluation Framework](#) which sets out the department's vision of evaluation, including of tax measures, and how it will be achieved. HMRC are continuing to improve their modelling to estimate the impact of tax measures on atmospheric emissions to inform policy appraisal, monitoring and evaluation.

We are not complacent and continue to explore ways to further embed climate considerations into economic and fiscal decision making, including by engaging

with international peers on best practice. Rather than focusing on a single test, we are working to strengthen processes throughout fiscal decision making and with BEIS to ensure this is supported by strong data from departments. The Treasury fully supports the important role of the CCC, as set out in the Climate Change Act (2008), in advising government on the setting of carbon budgets, and in reporting to Parliament on progress made against them. We likewise welcome the Office for National Statistics' (ONS) work in this area, including their Climate Change Statistics Portal. Decisions regarding fiscal events are ultimately for HM Treasury, and I am sceptical that additional work with the CCC or ONS on reporting at fiscal events would add value to existing work or make best use of their expertise.

As set out in the [government's response to the Dasgupta Review](#), we are committed to integrating nature into economic and fiscal decision-making. At SR21 departments were required to provide qualitative commentary against delivery of the 25 Year Environment Plan and we confirmed more than £250m of public investment over three years for nature's recovery through the budget of the Department for Environment, Food and Rural Affairs (Defra) alone.

The recently enacted Environment Act 2021 provides the framework to go further in embedding our wider environmental aims, including through a statutory environmental improvement plan, a suite of legally binding environmental targets and a new duty on crown ministers, along with oversight from the new Office for Environmental Protection. The Treasury is already playing its part providing tools and expertise and we are currently developing new supplementary guidance on Biodiversity Valuation for use in the appraisal process, building upon already extensive [guidance for evaluating and monetising natural capital impacts](#). This is inherently more complex and multi-faceted than analysing carbon impacts and it will take time to build the requisite capability across government to do this appropriately and proportionately, but we are committed to making progress nonetheless.

Integrating the environment into UK measures of economic success

I note the concerns that have been raised relating to the use of Gross Domestic Product (GDP) as a headline figure in the system of national accounts and your request for the ONS to publish, as part of its GDP release, quarterly estimates of GHG emissions.

The government recognises that as a metric GDP has limitations and should not be seen as an all-encompassing measure of welfare. We fully supported the recommendations of Sir Charles Bean's 2016 Review of Economic Statistics and provided the ONS with an additional £25 million to help implement those recommendations. In recent correspondence with you, the National Statistician has outlined some of ONS' work in this area, including through the 'Beyond GDP' initiative that aims to develop broader measures of welfare and activity. In response to Professor Dasgupta's recommendations, we provided further ONS funding to improve natural capital estimates and their relevance for policy making.

Nonetheless, GDP remains one of our most important economic indicators as it tends to be closely correlated with employment, incomes and tax receipts, making it useful for the government and Bank of England when setting economic policy and managing the public finances.

I am copying this letter to the Chancellor of the Exchequer, the Secretary of State for the Department for Business, Energy and Industrial Strategy, the Secretary of State for the Department for the Environment, Food and Rural Affairs, and the President for COP26.



Helen Whately
Exchequer Secretary to the Treasury