



Environmental Audit Committee

House of Commons, London SW1A 0AA

020 7219 8890 - eacom@parliament.uk - www.parliament.uk/eacom - [@CommonsEAC](https://twitter.com/CommonsEAC)

Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Sent by email only

5 April 2022

Dear Rishi,

Aligning the UK's economic goals with environmental sustainability

The Environmental Audit Committee recently conducted a short inquiry into [Aligning the UK's economic goals with environmental sustainability](#). We received 38 submissions of written evidence, and held two sessions of oral evidence with academics, think-tanks, business groups, and the Office for National Statistics and the Office for Budget Responsibility.

We heard during the inquiry about the clear benefits of using Gross Domestic Product (GDP) as a headline figure in the system of national accounts.¹ We also examined the shortcomings of using GDP as a measure, including its failure to account for the depletion of capital assets and for negative externalities such as the carbon dioxide emissions and nature depletion associated with economic output. Evidence was presented to us indicating that too narrow a focus on GDP growth had distorted economic policy and led to 'pernicious outcomes': it had blinded policymakers to unsustainable levels of debt before the 2008 financial crash and from the twin threats of climate change and biodiversity collapse that the globe now faces.²

The drawbacks of GDP as a measure are well-documented. There have been frequent calls to embed sustainable development metrics within systems of national accounts prepared for the UK and for other high income nations— most recently in the report of the Review of the Economics of Biodiversity, undertaken for the Treasury by Professor Partha Dasgupta.³

¹ Professor Tim Jackson ([GDP0029](#)); Q100 (Andy King)

² Professor Tim Jackson ([GDP0029](#))

³ Professor Dieter Helm, Dieter Helm, Natural Capital: Valuing the planet, 2015, p.80-94; HM Treasury, [The Economics of Biodiversity: The Dasgupta Review—Government response](#), CP 504, July 2021,

The findings of the Dasgupta review

As you will know, the report of Professor Dasgupta's review concluded that because GDP does not currently account for the depreciation of natural assets it encourages the pursuit of 'unsustainable economic growth and development'.⁴ During the Committee's inquiry, it was suggested that that Government's response to the Dasgupta Review to date had been lacking in ambition and in detail. The UK Sustainable Investment and Finance Association (UKSIF) argued that the Government's response to the Dasgupta Review had not been sufficiently ambitious.⁵ The business sustainability body the Aldersgate Group welcomed the commissioning of the review and also welcomed as positive a number of the policies to drive investment in nature that had been introduced in response to the Dasgupta recommendations. It argued that the Government response had failed to set out the ways in which it was intended to integrate the Dasgupta recommendations into the way the UK measures economic prosperity. The Aldersgate Group also pointed out that it was critical that the recommendations of the Review were developed into actionable policies which reflected the role of nature across the economy, and observed that the Government response did not set out an action plan for implementation of and engagement with the Dasgupta recommendations across all Government departments.⁶

Policy decisions on tax, spending, project appraisal and financial regulation are all critical to achieving the UK's net zero and biodiversity targets.⁷ It is therefore crucial that the potential environmental and climate impacts of all economic policy decisions are fully assessed in the same way, and with the same priority, as other potential impacts. This is an economic imperative as well as an ecological one. The Office for Budget Responsibility has warned that 'unmitigated climate change would ultimately have catastrophic economic and fiscal consequences for the UK.'⁸ We note that the Kunming Declaration, adopted by the UK and other parties to the UN Convention on Biological Diversity in October 2021, committed states 'to promote the integration, or "mainstreaming" of the conservation and sustainable use of biodiversity into decision-making including through [...] economic accounting [...]'.⁹

Although the UK can boast some demonstrable success in decoupling carbon dioxide emissions and resource from GDP growth over the last thirty years, questions remain about whether the rate of decoupling is adequate to limit global heating to 1.5 °C in line with the Paris Agreement and the UK's own net zero targets.¹⁰ The ecological economist Kate Raworth told the Committee that 'the evidence to date suggests that 'decoupling' GDP growth from environmental burdens, such as consumption-based carbon dioxide emissions and resource use, is highly unlikely to occur at the scale and speed required.'¹¹ The Climate Change Committee's most recent progress report to Parliament shows that the UK is not currently on track to deliver the carbon reductions required to meet our coming carbon budgets on the path to net zero.¹² Despite the evident need

⁴ Dasgupta, P. (2021), [The Economics of Biodiversity: The Dasgupta Review](#). (London: HM Treasury).

⁵ UKSIF (GDP0009)

⁶ Aldersgate Group ([GDP0034](#))

⁷ Institute for Government, [Net zero: How government can meet its climate change target](#), September 2020

⁸ OBR, [Fiscal Risks Report](#), July 2021

⁹ UN Convention on Biological Diversity, fifteenth meeting (part 1), [Kunming Declaration: "Ecological Civilisation: building a shared future for all life on earth"](#), Kunming, China, 13 October 2021, para 3

¹⁰ ONS, [The decoupling of economic growth from carbon emissions: UK evidence](#), October 2019

¹¹ Doughnut Economics Action Lab ([GDP0040](#))

¹² Climate Change Committee, [Progress in reducing Emissions: 2021 Report to Parliament](#), June 2021

to accelerate policy action to achieve the transition to net zero, decisions announced at the Autumn 2021 Budget appear likely actually to increase emissions in the short term.¹³ The OBR pointed out that while the 2021 Budget included tax measures that could assist on the path to net zero, it also included ‘tax measures that will make the job of getting there more difficult (and more expensive for the Treasury)’.¹⁴

Communication of environmental statistics

The ONS’s Director of Public Policy Analysis, Liz McKeown, told us about the positive steps that the ONS had taken to trial new ways of presenting environmental information: for instance, in advance of COP26 the ONS launched a climate portal that brought together climate statistics across six separate domains.¹⁵ While we acknowledge this good work, we remain concerned that climate statistics and the environmental accounts remain compartmentalised and obscure in their presentation.

We accept that ‘the requirement to measure the economy means a GDP-style metric will always be required.’¹⁶ Many organisations giving evidence to the inquiry emphasised the need to incorporate a broader set of indicators alongside GDP to provide a better means to account for climate, nature and well-being issues in macroeconomic policy decisions.¹⁷ GDP figures are published quarterly and the media releases and accompanying analysis do not currently refer to carbon emissions or the environmental accounts. Satellite natural capital, environmental accounts and greenhouse gas emissions figures are released annually. Professor Henrietta Moore made a strong case for quarterly publication – alongside GDP – of a basket of other indicators including environmental statistics and social capital.¹⁸

The designation of the UK’s environmental accounts as ‘satellite accounts’ tends to relegate the environmental issues identified in such accounts to the periphery of decisions on economic policy, when they must clearly be mainstreamed. Professor Diane Coyle has said that ‘it is hard to identify any direct influence [...] on economic policy debates’ arising from the publication of satellite accounts on the environment, by the UK or other national statistical offices.¹⁹

Economic policy must no longer be viewed in isolation from climate and nature policy. We consider that it is essential to provide policymakers with a broader set of indicators, prominently presented alongside the GDP indicator. To this end I have written to the Office for National Statistics to recommend that it publishes, as part of its GDP release, quarterly estimates of greenhouse gas emissions. By doing this the ONS could help to provide greater focus in public policy debate on the climate impact of particular policies.

¹³ Office for Budget Responsibility, [Climate-related measures in the Budget and Spending Review](#), 28 October 2021; WWF, [Net Zero Test](#), October 2021

¹⁴ Office for Budget Responsibility, [Climate-related measures in the Budget and Spending Review](#), 28 October 2021
¹⁵ [Q118](#)

¹⁶ Office for National Statistics (ONS) (GDP0035)

¹⁷ Dimitri Zenghelis, Bennett Institute of Public Policy, University of Cambridge ([GDP0036](#)); Institute for Global Prosperity (GDP0038); Institute and Faculty of Actuaries ([GDP0020](#)); Carnegie UK (GDP0041); Aldersgate Group([GDP0034](#))

¹⁸ [Q96](#)

¹⁹ Professor Diane Coyle, *GDP: A Brief But Affectionate History*, Princeton University Press, 2014

We nevertheless note the warning from Matthew Lesh, of the Institute of Economic Affairs, that reframing GDP will not change anything in and of itself. He made a powerful case for the taxation of carbon to price in negative externalities so as to harness the power of markets that have delivered growth and prosperity to the task of tackling climate change.²⁰

Forecasting the carbon impact of policies

We were also struck by evidence we heard from Andy King, a member of the Budget Responsibility Committee of the Office for Budget Responsibility (OBR). As you know, the OBR produces detailed five-year economic and fiscal outlook (EFO) forecasts for the economy and public finances twice yearly, to accompany the Budget Statement and the Spring Statement.²¹ Andy King observed that while the Climate Change Committee provides annual progress reports to Parliament, it does not provide an equivalent service to the OBR in forecasting the carbon impact of individual policy measures. He said:

‘I am conscious that my role within the OBR signing off the estimates of individual policy measures impacts on the public finances. There is not an equivalent of that that I am aware of. The public sector net borrowing effect of the 50 policy measures announced in each Budget has an individual line on what is known internally as the scorecard, which is published in the Budget document. There is not an emissions scorecard in the same way. The forecasts that are produced by the Department for Business and the baseline assumptions produced by the CCC are not quite the same as the OBR’s current policy fiscal forecasts.’²²

We welcome the Treasury revisions to the Green Book to require all policies, programmes, and projects to be developed and assessed against how well they deliver on the government’s net zero objective. We are also pleased to note from recent correspondence with the Department for Environment, Food and Rural Affairs that the Government is pursuing options for strengthening the internal assessment of environmental impacts of tax measures.²³

We nevertheless remain concerned at the significant and worrying gap between ambition and implementation on climate and biodiversity policies. In our view, there is at present insufficient focus on the likely environmental and climate impact of fiscal policy decisions. As you will recall, we recommended in a recent report that the Government include a Net Zero test at future fiscal events to assess the climate impacts of taxation, spending and resource decisions.²⁴ In tandem with that recommendation, we consider that the Government should work with the Climate Change Committee and ONS on means to ensure that forecasts for the environmental impacts of economic policy decisions are published at the fiscal events when such decisions are announced.

²⁰ [Q97](#)

²¹ Office for Budget Responsibility, [What we do](#) [Date accessed 25 February 2021]

²² [Q109](#)

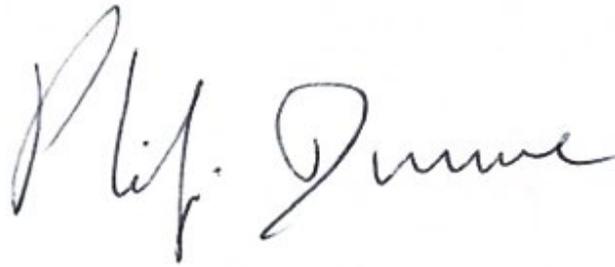
²³ [Letter from the Secretary of State for Environment, Food and Rural Affairs](#), relating to the Biodiversity and Ecosystems inquiry, dated 18 March 2022

²⁴ Environmental Audit Committee, [Biodiversity in the UK: bloom or bust?](#), June 2021

The prevailing focus on GDP growth means that it is often treated as a proxy measure for prosperity and societal well-being. Yet societal well-being rests on a healthy environment with clean air, unpolluted water, fertile soils and a stable climate. We therefore consider that putting measures of GDP growth into the context of environmental impact, as a matter of course, will provide more comprehensive information for policymakers, commentators and the media to judge the performance of the economy. In our view, the introduction of forecasts of the carbon and biodiversity impact of policies at each fiscal event, as part of a Net Zero test, would be one means whereby the Treasury could demonstrate its continuing commitment to integrating the lessons of the Dasgupta Review into policymaking.

I look forward to receiving your response on these issues. The Committee plans to publish this letter, and your response.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Dunne'. The signature is written in a cursive, flowing style with a large initial 'P'.

Rt Hon Philip Dunne MP
Chairman of the Environmental Audit Committee