

# **Briefing Paper: Environmental Audit Committee – Green fiscal policy in a recession**

## **March 2009**

### **Background**

The House of Commons Environmental Audit Committee has published a report in response to the 2008 Pre-Budget Report and the green fiscal policy measures put forward by the chancellor. The focus of the Committee's inquiry was to look at how effective the announced green fiscal stimulus would be in meeting environmental challenges; how green the overall package of fiscal stimulus measures were; if more should be done in terms of green fiscal stimulus; and how coherent the Treasury's policies on green taxes are, and whether they should be changed in light of the recession.

### **Summary**

The Committee analysed the £535 million package of green fiscal stimulus measures in the Pre-Budget Report and examined action that could be taken in the 2009 Budget to transform the UK into a low carbon economy.

The Committee:

- Welcomes the investment commitment in the Pre-Budget Report but says it does not go far enough, as most of the funding was already committed and will be off-set by reduced spending in 2010-11.
- Calls on the Treasury to publish an assessment of the net impacts of its wider fiscal stimulus on the environment.
- Calls on the government to include a "much bigger and more coherent" package of green fiscal measures in the 2009 Budget.
- Recommends the Treasury should adopt a target on the proportion of UK GDP to be spent on green stimulus measures.

On automotive issues:

- Recommends the government clarifies what the announced £250 million for low carbon cars will be spent on and to give a timeline.
- Recommends the Treasury provides details of the environmental conditions of the criteria attached to the £2.3 billion Automotive Assistance Programme.
- Calls on the Treasury to re-examine the merits and practicalities of a scrappage incentive scheme.
- Describes government policy on how to reduce emissions from the second hand car market as "completely inconsistent" in light of the Treasury's decision to cut the increases in VED for higher-emitting cars already purchased between March 2001 and 2006.

On wider issues:

- Urges the Treasury to examine environmental investment criteria for strategies within banks that the government has controlling interests in.

- Urges the Treasury to examine risks of failing to meet climate change and renewables targets following the lack of credit in the economy on investment in low carbon infrastructure.
- Accuses the Treasury of “continuing to fail” in its aim to shift the overall tax burden from ‘goods’ to ‘bads’.
- Recommends the Treasury to clarify whether its definition of an environmental tax is one in which the revenues are explicitly hypothecated to environmental ends.
- States that revenue from green taxes has gone down slightly since 1998, while general tax revenue has increased by 30%.
- Recognises the impact of producing the UK’s first carbon budget alongside the main Budget on environmental content of the Budget Report.
- States that the 2009 Budget is a test of government’s commitment, in light of economic difficulties, to its climate change policies, and states the 2009 Budget should have “boldness of purpose”.

### **Next steps**

Chancellor Alistair Darling will deliver his Budget speech to the House of Commons on Wednesday 22 April 2009 at 12.30pm. Alongside the Budget Report, the first carbon budget will be delivered, which will set legally binding ceilings on the level of allowed UK emissions over a five year period. Relating policies will be published before the summer parliamentary recess. The Committee on Climate Change (CCC) has recommended that government set an interim budget of a reduction of 34% of emissions by 2020 relative to 1990 levels (21% relative to 2005). In view of an international agreement on global emissions targets, which will be sought at the UN’s Copenhagen conference on climate change in December 2009, CCC’s recommendations state that the intended budgets require an emissions reduction of 42% in 2020 relative to 1990 (31% relative to 2005).

***The full report can be viewed at:***

***<http://www.publications.parliament.uk/pa/cm200809/cmselect/cmenvaud/202/20202.htm>***

***Or contact***

***Jonathan Hawkings [jhawkings@smtt.co.uk](mailto:jhawkings@smtt.co.uk) on 0207 344 9217***