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Environmental Audit Committee

Sustainability in BIS

Seventh Report of Session 2013–14

Report, together with formal minutes relating to the report

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Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

All publications of the Committee (including press notices) and further details can be found on the Committee's web pages at www.parliament.uk/eacom

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Summary

Since the abolition of the Sustainable Development Commission at the beginning of this Parliament, we have examined the Government's progress in embedding sustainable development processes mainly by examining the oversight exercised by Defra and the Cabinet Office. In our most recent progress report, in June 2013, we announced that we would also examine more directly how individual departments were engaging with the new systems, starting with the Department for Business, Innovation and Skills (BIS). We were greatly assisted by a detailed audit report from the National Audit Office.

We found that overall the Department was delivering on their sustainable operations targets, although that was in part the result of reductions in staffing and the size of the BIS estate. The Department has established a 'Sustainability Champion' and a Sustainability Committee linked into senior management. Defra and the Cabinet Office should encourage other departments to consider introducing similar arrangements.

On policy-making, however, our analysis of specific case studies indicates that environmental and social aspects of sustainability are not getting the same attention as economic factors. The Regional Growth Fund particularly illustrates this. The process for assessing applications for grants does not seek to establish or quantify whether there are environmental or social harms associated with projects put forward. The assessment process needs to be reformed to do so. Defra and the Cabinet Office should challenge other government departments which have similar grant schemes to do the same. Industrial Strategies—another case study—do not appear to consider environmental consequences across the 11 sectors involved as a whole. They are also disconnected from the BIS Business Plan process, weakening the main vehicle by which Defra and the Cabinet Office challenge the sustainability-proofing of BIS policy-making.

BIS should produce sustainable development strategies, to provide a reference point for sustainability initiatives by senior management and the sustainability champion, and to allow all staff to readily understand the wider sustainable development imperatives, including the need to address natural and social capitals, for the department's policies and operations. These strategies should then be a focal point of the Business Plan review process. BIS should encourage all of its agencies and NDPBs to produce sustainability strategies, and where appropriate make their production a condition for securing funding from their parent departments. Again, these are improvements that other departments might also usefully introduce

1 Introduction

1. At the beginning of this Parliament, the Government abolished the Sustainable Development Commission, with the aim of embedding sustainable development in all departments.[1] In February 2011, the Government published *Mainstreaming Sustainable Development: The Government's vision and what this means in practice*,[2] which described a number of processes to implement that change of approach, and in May 2013 it published a *Progress report*.[3] The Government's approach since the abolition of the SDC has involved a number of new processes:

- Departments would be directly responsible for their sustainable development performance, with key policy-making objectives being set out in new Business Plans which would be regularly reviewed by Defra and the Cabinet Office Minister for Government Policy for their adherence to sustainable development principles.
- The Environment Secretary would sit on the Economic Affairs cabinet committee, to enforce consideration of sustainable development issues across Government.
- Policy appraisal guidance for departments would be further developed to reflect the needs of sustainable development.[4]
- New 'Greening Government Commitment' targets would be introduced (replacing the previous 'Sustainability on the Government Estate' targets), with performance overseen by a new Greening Government Sub-committee.
- Revised Sustainable Development Indicators would be developed to monitor sustainability across Government. Defra published the Government's response to a consultation on the new Indicators in June 2013[5] and the first revised set was published in July 2013.[6]

2. Because of the significance of these changes, in 2010 we made the consequences of the abolition of the Sustainable Development Commission our first inquiry.[7] We concluded that an opportunity existed to reassess and revitalise the architecture for delivering sustainable development.[8] We undertook to monitor the delivery of these changes and their results,[9] and subsequently again took evidence from Defra and Cabinet Office

1 Environmental Audit Committee, First report of Session 2010–12, Embedding sustainable development across Government, HC 504

2 Defra, Mainstreaming Sustainable Development: The Government's vision and what this means in practice(February 2011)

3 Defra, Government progress in Mainstreaming Sustainable Development (May 2013)

4 Environmental Audit Committee, Fourth report of Session 2010–12, Embedding sustainable development: the Government's response, HC 877, para 5

5 Defra, New Sustainable Development Indicators, (June 2013)

6 Defra, Sustainable Development Indicators (July 2013)

7 Embedding sustainable development across Government, HC 504, op cit

8 ibid.

9 Embedding sustainable development: the Government's response, HC 877, op cit

ministers in July 2012 and March 2013.[10] We reported most recently on the progress in embedding sustainable development in June 2013,[11] recommending that the Government:

- apply the results of an audit of policy impact assessments to challenge departments where they are non-compliant with the new guidance (paragraph 14);
- use the Business Plan review process to focus departments' attention on the sustainability of their policies;
- reassess the ambition of new Greening Government Commitment targets; and
- tackle departments with poor compliance with the Treasury's sustainability reporting requirements.[12]

3. We concluded that while it would remain important for us to continue to monitor the performance of Defra and the Cabinet Office in overseeing the structures to embed sustainable development, it was essential also to examine more directly how other departments were responding to and engaging with the new systems. We therefore decided to examine sustainability of operations, policy-making and governance arrangements in a single department—the Department for Business, Innovation and Skills (BIS)— as the first in a series of departmentally focused inquiries.

4. The National Audit Office examined the position in BIS for us, and on the basis of its audit they published a briefing report in July 2013.[13] The NAO examined three BIS policy-making case examples—the Regional Growth Fund, higher education funding reform and student fees changes, and the Government's Industrial Strategies initiative. The NAO's audit provided the basis for a session in July when we took oral evidence from BIS officials at the centre of the Department's sustainable development governance systems, as well as officials in BIS and the Higher Education Funding Council for England involved in the three case examples examined. We are grateful to the NAO for its significant and essential support on this inquiry.

5. In this Report we examine the sustainability of operations, policy-making and governance in BIS, and seek to identify wider lessons that other departments and the Government more generally might apply.

10 Environmental Audit Committee, First report of Session 2013–14, *Embedding Sustainable Development: An Update*, HC 202

11 Ibid.

12 *Embedding Sustainable Development: An Update*, HC 202, op cit, Summary

13 National Audit Office, *Departmental Sustainability Overview: Business, Innovation and Skills* (July 2013). The NAO also previously produced detailed briefs for us on sustainability in policy evaluation, sustainability reporting and on sustainable procurement (HC 202, para 4).

2 Operations

6. Our predecessor Committees and the Sustainable Development Commission have over many years scrutinised Government performance in managing the sustainability of departments' operations. In February 2011 the Government replaced the 'Sustainability on the Government Estate' targets with new 'Greening Government Commitment' targets for emissions, resource use and sustainable procurement.[14]

7. We examined progress[15] in our June 2013 report.[16] We concluded that a year into the operation of new Greening Government Commitments, good progress was being made overall towards meeting the 2015 targets, but called for Defra and the Cabinet Office to review departments' first-year performance in order to extend the ambition of those targets which already appeared to be readily achievable.[17] The Government, in its response to our embedding sustainable development report, told us in August 2013 that it had no plans to review or tighten the Greening Government Commitment targets because it wanted to avoid discouraging those departments which were struggling to meet current targets and because it was not known whether the top performers would be able to maintain their performance.[18]

8. The results for 2012–13 show that BIS had already met three of its six targets and was on course to meet two others. The Department's performance had fallen on the sixth: the number of domestic flights.[19] The NAO noted that where performance had been good, this could be "largely attributed to reductions in staff numbers and the ongoing rationalisation of its estate",[20] although our witnesses also attributed some of the improvement to better working practices and behaviours.[21] In our June 2013 report we noted that the Government had decided not to 'baseline' emissions reductions against the number of staff or floor areas in departments because they thought that that would reduce incentives to make such rationalisations.[22] **Performance in BIS against the Greening Government Commitments has been good so far and the targets are on track to be achieved; many well ahead of schedule. *BIS, and other departments in a similar position, should now consider setting for themselves more ambitious targets to maintain momentum. They should aid transparency by also presenting the results recast against baselines of its reducing staffing and estate.***

14 Greening Government Commitment targets are to reduce greenhouse gas emissions by 25% by 2015, from 2009–10 levels; cut domestic business flights by 20% by 2015, from 2009–10 levels; reduce the amount of waste generated by 25% by 2015 (including water), from 2009–10 levels; cut paper use by 10% in 2011–12; and embed sustainable procurement into government and departmental contracts by 2015 (See HC 202 para 22)

15 *Annual Report on Government Departments' Progress against 2015 Targets in 2011–12* (December 2012), presents progress in 2011–12 compared to 2009–10.

16 *Embedding Sustainable Development: An Update*, HC 202, op cit

17 ibid, para 26

18 Environmental Audit Committee, Fourth Special report of Session 2013–14, HC 633, p4

19 National Audit Office, *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, paras 3–3.7

20 ibid, paras 3.5 and 3.11; Q44

21 Q44

22 *Embedding Sustainable Development: An Update*, HC 202, op cit

9. As in the former Sustainability on the Government Estate regime, one of the themes of the Greening Government Commitments is sustainable procurement. In our June 2013 report we noted a continuing split in responsibilities between Defra and the Cabinet Office, despite the call in 2006 from our predecessor Committee for a single lead on sustainable procurement.[23] Furthermore, governance arrangements for sustainable procurement have repeatedly changed, with the Centre of Expertise on Sustainable Procurement being moved from the Treasury to the Cabinet Office, then being renamed the Green Government Unit, before being abolished in December 2011. Departmental staff told the NAO that this frequent change in governance contributed to uncertainty about sustainable procurement requirements.[24] The Greening Government Sub-committee had not discussed sustainable procurement because of data problems.[25] The NAO, in our earlier inquiry, found a patchy record in terms of departments' compliance with reporting requirements for their performance on sustainable procurement.[26] Similarly, in BIS, the Annual Report and Accounts provided limited information on procurement. BIS was unable to identify the extent to which its contracts complied with Government Buying Standards;[27] a common failing across many departments.[28]

10. **In BIS, as in many departments, performance on sustainable procurement lags behind other aspects of sustainable operations, exacerbated by minimal sustainability reporting (paragraph 39).** ***The Sustainability Champion in BIS,*** whose role we examine below***, should make improved performance and greater transparency on sustainable procurement a priority for action within the Department.***

23 ibid

24 ibid

25 ibid

26 ibid

27 National Audit Office, *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, para 4.7

28 NAO, *Sustainable procurement in Government* (February 2013)

3 Policy making

11. Under the Government's plans for embedding sustainable development in policy-making, it has sought to utilise the new business planning system for setting objectives and monitoring progress. The Government's February 2011 *Vision* document described the use of that system for reviewing departments' adherence to sustainable development principles. Defra would provide analysis of the Plans for the Minister for Government Policy and the Chief Secretary of the Treasury, who would then hold departments to account through quarterly review meetings with the relevant departmental ministers.[29]

12. The first set of business plans was completed in November 2010, and have been 'refreshed' annually to reflect evolving Government priorities. Each is required to cover the vision of the department, planned actions and deadlines, departmental expenditure data and information on the department's actions to increase transparency.[30] An annex to each Plan covers the department's overall goal on sustainable development; its plans to assess and manage environmental, social and economic impacts; how the department will implement its Greening Government Commitment targets and its headline Sustainable Development Indicators.[31]

13. In our June 2013 report we concluded:

> The Business Plan review process has a significant weakness in that it does not seek to address potential policy gaps, where new initiatives could tackle unsustainable development. The reviews examine the policies that are added to the Plans after being negotiated within Government, rather than policies that should be generated as a result of applying sustainable development thinking from the outset. For the policies that the process does review, the system remains opaque to external scrutiny, but presents an important opportunity for the Cabinet Office, with Defra support, to focus departments' attention on the sustainability of their policies.[32]

For policies that do come forward and are examined, we concluded that the key test of the system's effectiveness would be the extent to which policies were adjusted and improved while in development.[33]

14. Making policy-making sustainable also requires effective policy appraisal and officials having the skills and training to apply those disciplines. We noted in June 2013 that guidance for departments on policy appraisal and impact assessments had been improved to reflect the need to address sustainable development, and civil servants' skills requirements were being strengthened in these disciplines. Defra, we concluded, needed to use the results of an audit of impact assessments to develop the guidance further, and Defra and the Cabinet Office must challenge departments' non-compliance as part of the

29 *Embedding Sustainable Development: An Update*, HC 202, op cit

30 ibid

31 ibid

32 ibid

33 ibid

Business Plan reviews.[34] Since our report, the Government has begun to examine the results of the audit and the need for any improvement in the policy appraisal guidance or in "capability building".[35]

15. Against that background of Government-wide developments, the NAO examined the position in BIS. The NAO's briefing included an analysis of the potential impacts of BIS policies and examples of the range of initiatives within the Department which are intended to promote its principal aim of facilitating sustainable economic growth.[36] The NAO concluded that BIS could do more to assess the range of impacts associated with its activities on a systematic basis, identify priority areas for embedding sustainability, and consider the potential for mitigating potential negative impacts.[37] The NAO noted that while it was carrying out its audit, on our behalf, BIS had started to undertake an assessment of its objectives and policies to identify priorities for embedding sustainable development, and areas where potentially unsustainable impacts in might be mitigated.[38] ***All departments should examine the NAO's analysis of policies in BIS, to produce a similar analysis in their own departments in order to identify potentially unsustainable policies and to provide a baseline for reviewing and adjusting those policies.***

16. The lesson for BIS is that increased economic growth (an aim underpinning much of its policies) can have both potentially good (eg. increased employment or social cohesion) and bad (e.g. emissions) sustainability consequences, and that policy-making needs explicitly to recognise and address those tensions. The NAO examined such issues in the policy appraisal of three case examples—the Regional Growth Fund, higher education funding reform (including student fees changes), and the Government's Industrial Strategy—which we discuss below.

Regional Growth Fund

17. In its June 2010 Budget, the Government announced plans for a Regional Growth Fund "to support increases in business employment and growth".[39] It was part of a package of measures which also involved the abolition of the Regional Development Agencies and the creation of Local Enterprise Partnerships.[40] The Regional Growth Fund is open to businesses seeking to create jobs in areas vulnerable to public sector job losses. The Fund's specific objectives are "to encourage private sector enterprise by providing support for projects with significant potential for economic growth and create additional sustainable private sector employment; and to support in particular those areas and communities that are currently dependent on the public sector make the transition to sustainable private sector led growth and prosperity".[41] An NAO report on the Regional Growth Fund in 2011

34 ibid

35 Fourth Special report, HC 633, op cit

36 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, Figure 7

37 ibid

38 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, para 2.3

39 HM Treasury, Budget 2010, HC 61, p3

40 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, para 2.7

41 BIS, *Consultation on the Regional Growth Fund* (July 2010)

found that applications for grants were scored according to the relative vulnerability of the location to public sector job losses by measuring local unemployment, the local share of public sector employment, the extent of private sector jobs growth and the number of active enterprises.[42]

18. There have now been four rounds of bidding for Regional Growth Fund grants (fourth round winners were announced in August 2013), and a fifth round was announced in October 2013.[43] The NAO assessed the first two rounds in May 2012 and calculated that the scheme at that point had secured 41,000 jobs at a cost of £33,000 each—broadly similar, the NAO found, to previous regional development policies.[44] The impact assessment for the scheme identified a quantifiable gross benefit of £5.7 billion,[45] or £4.3 billion net of the costs of the Regional Growth Fund outlays.[46] (The overall package of measures, including the abolition of the Regional Development Agencies and the creation of Local Enterprise Partnerships, had a net cost.[47])

19. The NAO's recent briefing concluded, however, that other than the 'social' benefit derived from greater employment levels, only the economic pillar of sustainable development was considered in the policy impact assessment. No assessment was made of the impact of the scheme in terms of furthering a green economy—a major policy priority in the BIS Business Plan.[48] BIS told us that when the Regional Growth Fund policy was first developed there was "discussion across Government" to set its objectives, and that sustainability was not "specifically one of the criteria" but rather a "specific footnote" that "economic growth should be underpinned by environmentally sound principles".[49]

20. The Regional Growth Fund budget was originally split between Defra, BIS and DCLG.[50] We asked BIS, who now manage the budget, about the extent to which the environmental or social pillars of sustainable development were considered in awarding Regional Growth Fund grants. They told us that they monetised such factors where that was possible from the information provided in the grant application form, and passed that assessment to the advisory panel deciding on the grants.[51] However, the application form for the scheme includes a section which asks about potential "social or economic *benefits*", seeking information specifically on "*benefits* to the environment, improvements to transport networks and journey times [or] scientific advances" (our emphasis), rather than *disbenefits*.[52] Another section asks about equality impacts in terms of sex, race, disability,

42 NAO, *The Regional Growth Fund*, Session 2012-13, HC 17, para 2.11

43 HC Deb 14 October 2013, col 38WS

44 *The Regional Growth Fund*, HC 17, op cit

45 BIS, *Abolition of the Regional Development Agency: Impact assessment* (November 2011)

46 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, Figure 8

47 BIS, *Abolition of the Regional Development Agency: Impact assessment* (November 2011), pp 25-26

48 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, para 2.9 and Figure 8

49 Q49

50 *The Regional Growth Fund*, HC 17, op cit, Figure 3

51 Qq47,

52 Qq51-67

and sexual orientation, but not also for income or wealth inequalities.[53] BIS told us that "the application form is designed to be light touch and is therefore deliberately concise".[54]

21. **While Regional Growth Fund processes seek to measure and assess environmental or social benefits, BIS did little to establish or quantify whether there are disbenefits that might understandably be absent from completed application forms.** ***BIS should revise its Regional Growth Fund assessment process to incorporate potential environmental and social costs and disbenefits, and weigh these fully in considering applications for grants. Defra and the Cabinet Office should challenge other government departments to ensure that on any similar grant allocation policies they collect information on all pillars of sustainable development and fully take it into account.***

Higher education funding reform

22. The NAO also examined higher education funding reform, involving the raising of student tuition fees to partially offset a reduction in BIS grants to universities. We examined the sustainable development aspects of this initiative in terms of its inter-generational equity, including the extent to which such factors were taken into account in developing the policy. The NAO's briefing explained that BIS did assess the question of inter-generational transfer of debt associated with the higher tuition fees:

> Departmental analysts considered this issue but came to the conclusion that individuals should not be adversely affected by the potential liabilities involved. This was based on the fact that repayments are dependent on income, and on the Department's view that such debts will not count towards credit ratings. The latter was based on information from the Association of Mortgage Lenders which indicated that student debt does not affect their ability to get mortgages.[55]

23. However, the obligation to repay student loans did reduce the size of any mortgage available.[56] The impact assessment for the policy took account of the 'graduate premium'—the £100,000 additional lifetime income for graduates[57]—and BIS highlighted that the fees were still less than the cost and that overall the Department would not get back the 'full value' of the loans made.[58] BIS, nevertheless, are planning to reassess the sustainability of the higher education funding reforms next year.[59]

Industrial Strategies

24. The Government has published 'Industrial Strategies' for 11 sectors, including several with particular environmental sensitivity: for offshore wind[60], oil & gas[61], nuclear[62],

53 BIS (BIS 003)

54 ibid

55 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, para 2.13

56 Q74

57 BIS, *Impact assessment: Higher education: Students at the Heart of the system* (June 2011)

58 Q72

59 Q75

60 Government, *Offshore Wind Industrial Strategy* (August 2013)

aerospace[63], automotive[64] and construction.[65] The NAO told us that the Government had not published a business case or impact assessment setting out the potential benefits and costs of the initiative overall, or for the individual sector strategies, "nor is there any overarching commitment to ensure that the industrial strategy promotes green growth".[66] The Secretary of State set out the logic for having such Industrial Strategies, however, in a speech in September 2012 where he said:

> There are two basic propositions. The first is that it necessary to plan for the long term. The second is that the government can and must work together to deal with genuine market failures, where the benefits of education or the costs of environmental damage for example are underestimated by markets.
>
> ... [there will be] strategic deals with business and a cast-iron commitment, right across Whitehall, to identifying and dismantling the barriers to growth.[67]

25. BIS highlighted examples of how environmental or social aspects featured in particular Industrial Strategies, for example the need for more fuel efficient vehicles in the Automotive Strategy, and jobs and affordable housing in the Construction Strategy.[68] We note, nevertheless, that each of the Strategies for nuclear, oil & gas, and offshore wind focus on how those individual sectors might be supported without addressing the optimal mix of energy types for sustainable development. The various strategies envisage maximising the output of UK industry in their particular sector, with for example the Oil & Gas Strategy aiming to maximise output from the North Sea,[69] and the Aerospace Strategy maximising UK aircraft manufacturing. **When they are taken together as a whole, the approach of individual Industrial Strategies, which simply seek to maximise industrial output, has environmental consequences which are inadequately considered.** ***BIS should review its Industrial Strategies to ensure that they represent a sustainable development approach across the 11 sectors as a whole. If necessary, it should redraft and reissue them to demonstrate where and how the Government has made any trade-offs between economic growth and climate change mitigation.***

26. The NAO told us that the BIS Business Plan cited no actions on the transition to a low-carbon economy apart from the Green Investment Bank and the compensation scheme for the energy costs of energy intensive industries.[70] Similarly, BIS's August 2011 *Enabling the Transition to a Green Economy*, which we discussed in our 2012 report on the Green

61 Government, *UK Oil and Gas: Business and Government Action* (March 2013)

62 Government, *The UK's Nuclear Future*

63 Government, *Lifting off: Implementing the Strategic Vision for UK Aerospace*

64 Government, *Driving success: A strategy for growth and sustainability in the UK automotive sector* (July 2013)

65 Government, *Construction 2025* (July 2013)

66 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, para 2.15

67 https://www.gov.uk/government/speeches/industrial-strategy-cable-outlines-vision-for-future-of-british-industry

68 Q77

69 *UK Oil and Gas: Business and Government Action* (March 2013), op cit, p 2

70 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, para 1.8 and Figure 4

Economy,[71] contains only one commitment for BIS, relating again to the establishment of the Green Investment Bank.[72]

27. **The Industrial Strategies appear to be disconnected from the BIS Business Plan process, weakening the main vehicle by which Defra and the Cabinet Office challenge the sustainability-proofing of BIS policy-making.** ***BIS should review its Business Plan, to identify and reflect action commitments contained in the various Industrial Strategies.***

71 Environmental Audit Committee, Twelfth report of Session 2010–12, *A Green Economy*, HC 1025

72 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, para 1.9

4 Governance of BIS sustainability

28. To embed sustainability into departments' operations and policy-making requires effective governance structures, strategies, skills and reporting.

29. BIS's sustainability performance for operations and procurement is monitored through its Operations Committee, which reports to the Executive Board.[73] A "standing item on the agenda" of the Operations Committee, we were told, is the embedding of sustainable development in policy-making.[74] A 'Sustainability Champion', a member of the Operations Committee, chairs a Sustainability Committee.

30. The Department's Operations Committee, reviewing sustainability within BIS, concluded in 2012 that work to progress the sustainability agenda lacked visibility at a high level within the Department and was insufficiently resourced. It agreed that the Committee itself could take forward action to embed sustainability within the operational management of the Department; but that, in relation to policy, a decision was required on the extent to which sustainability was a strategic priority for the Department. The Operations Committee recommended that the Executive Board consider whether further action and resources were needed, in particular to embed sustainable development in policy making (see paragraph 11). The NAO told us that the appointment of the Sustainability Champion in March 2013 came nine months after the previous champion had moved on. The Board has tasked her with "exploring how sustainability is being mainstreamed within the Department and specifically with bringing forward any proposals for how this might be taken forward without introducing excessively bureaucratic formal procedures".

31. Beyond that, the NAO told us in its August 2013 briefing, there were not at that time any formal terms of reference for this role.[75] When we took oral evidence from the Sustainability Champion, Emma Ward, in September, she told us that she now had formal terms of reference.[76] These are extensive, and clearly give her a mandate for ensuring that progress is made across the Department.[77] She explained that:

> ... everybody in the Department, every policy official, every member of staff, needs to recognise [embedding sustainable development] as an issue and needs to understand what guidelines are in place, what commitments the Department has that it needs to meet, and they need to take that on their own accountability. My role as Champion is to give that visibility and to ensure that there is effective leadership in the Department, the governance arrangements are in place and to report to the board on that.[78]

73 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, figure 4

74 Q22

75 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, paras 1.12 - 1.13

76 Q5

77 BIS (BIS 003)

78 Q8

32. The terms of reference of the Sustainability Committee, chaired by the Sustainability Champion,[79] cover action needed in 'partner organisations', not just within BIS itself. [80] Emma Ward saw the future role of the Sustainability Committee as assessing whether there is a sufficiently strategic approach within BIS to sustainable development, including "looking across its policies as a whole".[81]

33. **The establishment of a Sustainability Champion and Sustainability Committee in BIS should provide a good foundation for monitoring and encouraging sustainable operations.** ***Defra and the Cabinet Office should encourage other departments to study the experience of BIS's Sustainability Champion and Sustainability Committee and consider introducing similar arrangements themselves.***

34. The NAO briefing told us that in BIS "there are no formal structures or training modules in place within the Department to raise awareness among staff of the need to embed sustainable development in policy-making". "The Department has not incorporated separate overarching sustainable development objectives within staff objectives. ... There could be scope for taking this further in the case of senior officials, where objectives could be linked to specific sustainable development aims and targets, such as the promotion of a low-carbon economy".[82] BIS highlighted Treasury training available for staff on the policy appraisal 'green book' and DECC training on climate change and energy issues. Defra are working with Civil Service Learning to develop an e-learning module on sustainability.[83] ***The Cabinet Office should ensure that Civil Service Learning's e-learning module on sustainability is made available as soon as possible, and it should then test all departments on their use of it through the Business Plan review process.***

35. In the past, departments had been encouraged to produce 'sustainable development action plans', with details of how they would implement the 2005 Government-wide Sustainable Development Strategy.[84] In our January 2011 report, we called for the Government to produce an updated overarching Sustainable Development Strategy.[85] This could provide an updated and relevant foundation for departments to produce new strategies.

36. Within the BIS Group, the Higher Education Funding Council for England last published a sustainability strategy in 2008. It includes an aim to promote sustainable development within the higher education sector and to make the sector "recognised as a major contributor to society's efforts to achieve sustainability". The strategy contained a commitment to undertake a new strategy review in 2011.[86] That is now belatedly being

79 Qq6, 33

80 BIS (BIS 003)

81 Qq20, 33

82 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, paras 1.15–1.16

83 BIS (BIS 003); Q30

84 *Embedding sustainable development across Government*, HC 504, op cit, para 10

85 *Embedding sustainable development across Government*, HC 504, op cit, part 4

86 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, para 3.14

done, as required in their 2013 grant letter from BIS, and it is consulting on this with universities and colleges.[87]

37. That approach is not followed, however, for other BIS Group organisations. The NAO told us that "the Department has no structured process to ensure that the remits of its partner organisations include sustainable development objectives and targets where appropriate".[88] BIS officials told us that that they had "to make sure we are giving the right brief to the right partner organisation; this is not a one-size-fits-all"[89] and that requiring sustainable development strategies of other organisations "depends on the challenges of that organisation and what priorities it needs to balance at a particular time".[90] Nevertheless, BIS officials told us that exploring the scope for partner organisations to include sustainable development objectives in their remit was "the next stage in our development", and acknowledged that with BIS having "some good partner organisations who are frankly better at this than the centre of the Department, we need to leverage that across the BIS family".[91] We noted that our BIS witnesses had not engaged in the work of the Natural Capital Committee and its work on addressing environmental factors in policy-making.[92] Emma Ward believed that, without "BIS laying down a checklist", the partner organisations could learn from one another and that "having formed the Sustainability Committee, it will give us a forum within which we can now do that".[93]

38. **Sustainable development strategies are essential as a means of providing a reference point in departments for sustainability initiatives by senior management and sustainability champions, and allowing all staff to readily understand the wider sustainable development imperatives, including to address natural and social capitals, that should lie behind all of a department's policies and operations. They could also provide an important means of external accountability, complementing the requirements of sustainability reporting (paragraph 39).** ***BIS should produce a sustainable development strategy, in consultation with Defra and the Cabinet Office to identify good practice. Defra and the Cabinet Office should encourage other departments to do the same. Such strategies should then form a focal point of the Business Plan review process (paragraph 11). In BIS's case, such a strategy document could make clear the extent to which sustainability is a strategic priority for the Department and what resources are needed to embed sustainable development in policy making (paragraph 11). BIS should also encourage all of its agencies and NDPBs to produce sustainability strategies, and where appropriate make their production a condition for securing BIS funding. Again, Defra and the Cabinet Office should encourage other departments to act similarly.***

87 Departmental Sustainability Overview: Business, Innovation and Skills , op cit, para 3.15; Qq37-38; HEFCE were undertaking a range of sustainable development activities (Q40).

88 Departmental Sustainability Overview: Business, Innovation and Skills , op cit, para 1.10

89 Q26 (See also Q42)

90 Q43

91 Q25

92 Qq68-71

93 Q41

39. We concluded in our June report that sustainability reporting in departments' annual reports and accounts was a key driver in embedding sustainable development because of the scrutiny this allows and the focus on sustainability it brings to departments' operations. Though at an early stage in that initiative, the first year results showed that there was scope for more information to be published by departments, but also that there was room for greater compliance with the formal reporting requirements.[94] There was particularly poor compliance on reporting on sustainable procurement, as well as significant slippage in refreshing Government Buying Standards; in part the result of a continuing flux in governance arrangements and leadership in this area (paragraph 9).[95] We concluded that Defra and the Cabinet Office, as well as the Treasury, needed to take ownership of sustainability reporting compliance.[96] The Government's response, however, was that individual departments were responsible for compliance in their reporting.[97]

40. The NAO told us in its briefing on BIS that the Department had "made considerable efforts" to produce its Sustainability Report, but that the Report:

> contains less detail on the extent to which sustainability has been embedded within policy and procurement processes. The 2013 report includes a single example of embedding sustainability within policy making, but the main narrative is very short and provides no information on the key areas where the Department's policies may have significant impacts and how it is planning to address those.[98]

41. **The measures discussed throughout this report, from Business Plan reviews to Greening Government Commitment targets, to sustainability champions and strategies, all have an important role in facilitating and encouraging sustainable policy-making and operations in departments. But that is only part of the picture. Equally important is transparent accountability, and that requires an effective system of sustainability reporting, with all departments fully complying with those requirements.** ***The Government should reconsider its response to our June 2013 recommendations on tightening overall compliance on sustainability reporting, to make that a clear Defra, Cabinet Office and Treasury responsibility.***

94 *Embedding Sustainable Development: An Update*, HC 202, op cit, para 38

95 ibid

96 ibid

97 Fourth Special report of Session 2013-14, HC 633, op cit, pp5-6

98 *Departmental Sustainability Overview: Business, Innovation and Skills* , op cit, para 1.21

Conclusions

1. Performance in BIS against the Greening Government Commitments has been good so far and the targets are on track to be achieved; many well ahead of schedule. (Paragraph 8)

2. In BIS, as in many departments, performance on sustainable procurement lags behind other aspects of sustainable operations, exacerbated by minimal sustainability reporting. (Paragraph 10)

3. While Regional Growth Fund processes seek to measure and assess environmental or social benefits, BIS did little to establish or quantify whether there are disbenefits that might understandably be absent from completed application forms. (Paragraph 21)

4. When they are taken together as a whole, the approach of individual Industrial Strategies, which simply seek to maximise industrial output, has environmental consequences which are inadequately considered. (Paragraph 25)

5. The Industrial Strategies appear to be disconnected from the BIS Business Plan process, weakening the main vehicle by which Defra and the Cabinet Office challenge the sustainability-proofing of BIS policy-making. (Paragraph 27)

6. The establishment of a Sustainability Champion and Sustainability Committee in BIS should provide a good foundation for monitoring and encouraging sustainable operations. (Paragraph 33)

7. Sustainable development strategies are essential as a means of providing a reference point in departments for sustainability initiatives by senior management and sustainability champions, and allowing all staff to readily understand the wider sustainable development imperatives, including to address natural and social capitals, that should lie behind all of a department's policies and operations. They could also provide an important means of external accountability, complementing the requirements of sustainability reporting. (paragraph 38).

8. The measures discussed throughout this report, from Business Plan reviews to Greening Government Commitment targets, to sustainability champions and strategies, all have an important role in facilitating and encouraging sustainable policy-making and operations in departments. But that is only part of the picture. Equally important is transparent accountability, and that requires an effective system of sustainability reporting, with all departments fully complying with those requirements. (Paragraph 41)

Recommendations

9. BIS, and other departments in a similar position [with Greening Government commitments on track], should now consider setting for themselves more ambitious targets to maintain momentum. They should aid transparency by also presenting the results recast against baselines of its reducing staffing and estate. (Paragraph 8)

10. The Sustainability Champion in BIS should make improved performance and greater transparency on sustainable procurement a priority for action within the Department. (Paragraph 10)

11. All departments should examine the NAO's analysis of [sustainability in] policies in BIS, to produce a similar analysis in their own departments in order to identify potentially unsustainable policies and to provide a baseline for reviewing and adjusting those policies. (Paragraph 15)

12. BIS should revise its Regional Growth Fund assessment process to incorporate potential environmental and social costs and disbenefits, and weigh these fully in considering applications for grants. Defra and the Cabinet Office should challenge other government departments to ensure that on any similar grant allocation policies they collect information on all pillars of sustainable development and fully take it into account. (Paragraph 21)

13. BIS should review its Industrial Strategies to ensure that they represent a sustainable development approach across the 11 sectors as a whole. If necessary, it should redraft and reissue them to demonstrate where and how the Government has made any trade-offs between economic growth and climate change mitigation. (Paragraph 25)

14. BIS should review its Business Plan, to identify and reflect action commitments contained in the various Industrial Strategies. (Paragraph 27)

15. Defra and the Cabinet Office should encourage other departments to study the experience of BIS's Sustainability Champion and Sustainability Committee and consider introducing similar arrangements themselves. (Paragraph 33)

16. The Cabinet Office should ensure that Civil Service Learning's e-learning module on sustainability is made available as soon as possible, and it should then test all departments on their use of it through the Business Plan review process. (Paragraph 34)

17. BIS should produce a sustainable development strategy, in consultation with Defra and the Cabinet Office to identify good practice. Defra and the Cabinet Office should encourage other departments to do the same. Such strategies should then form a focal point of the Business Plan review process. In BIS's case, such a strategy document could make clear the extent to which sustainability is a strategic priority for the Department and what resources are needed to embed sustainable development in policy making. BIS should also encourage all of its agencies and NDPBs to produce sustainability strategies, and where appropriate make their production a condition for securing BIS funding. Again, Defra and the Cabinet Office should encourage other departments to act similarly. (Paragraph 38)

18. The Government should reconsider its response to our June 2013 recommendations on tightening overall compliance on sustainability reporting, to make that a clear Defra, Cabinet Office and Treasury responsibility. (Paragraph 41)

Formal Minutes

Wednesday 6 November 2013

Members present:

Joan Walley, in the Chair

Peter Aldous
Martin Caton
Katy Clark
Zac Goldsmith
Mark Lazarowicz
Caroline Nokes
Dr Matthew Offord
Mr Mark Spencer

Draft Report (*Sustainability in BIS*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 41 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Seventh Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

[Adjourned till Monday 11 November 2013 at 4pm

Witnesses

Wednesday 4 September 2013

The following witnesses gave evidence. Transcripts can be viewed on the Committee's web page at www.parliament.uk/eac

Emma Ward, Director, Economic Development, BIS, **Howard Orme**, Director General, Finance and Commercial, BIS, **Janice Munday**, Director, Advanced Manufacturing and Services, BIS, **Alex Wilson**, Deputy Director, Regional Growth Fund, BIS, **Paul Williams**, Deputy Director, Student Finance Policy, BIS, and **Steve Egan**, Deputy Chief Executive, HEFCE. Q1-86

List of published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/eac

1	Chage Agents UK	BIS 001
2	Green Alliance	BIS 002
3	BIS Sustainability Champion	BIS 003