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Mr Toby Perkins MP  
Chair of the Environmental Audit Committee  
House of Commons,  
London,  
SW1A 0AA

**Sent electronically only**

21 May 2026

Dear Mr Toby Perkins MP,

**Inquiry into HM Treasury and the economics of climate and nature**

We welcome this opportunity to assist the work of the Environmental Audit Committee and provide evidence to your Inquiry.

The OEP considers the role of HM Treasury to be significant in the context of government achieving its ambitions for nature and climate change, and so find your scrutiny of this area of cross-government working to be both pertinent and timely.

You will be familiar with our assessment that government is still largely off-track to meet its environmental commitments and we consider it vital that all of government plays its part in tackling this challenge. Here, there is a key role for those cross-cutting and decision-making departments, such as HM Treasury to drive action and target funding.

Our full response to your Call for Evidence can be found attached as an Annex to this letter. We respond only to those questions where we have evidence that we hope will be of use, the headlines of which are summarised below.

- The role of HM Treasury in government achieving its environmental ambition is vital due to its leadership, coordinating and decision-making responsibilities across government and in respect of its own policy areas.
- Directing public sector funding and mobilising private sector finance is a cross cutting theme that we have identified as being key to effective implementation of government's Environmental Improvement Plan and legally-binding targets. Treasury plays a key role in driving and enabling this.
- Certainty around long-term funding for climate and the environment (in part because of short- term government planning and spending cycles) can be prohibitive to the ambitious action required to meet commitments. A longer term view, which shows how

public and private sector finance will come together to fund action would provide greater confidence.

- There is currently no clear baseline of the investment into key areas such as nature recovery, which makes it difficult to assess whether spend is sufficient, effective or appropriately prioritised.
- HM Treasury has taken demonstrable steps to better embed the EPPS duty into the machinery of government policy-making, which we welcome, but more can and should be done.
- Consideration of the Environment Act 2021 legally-binding targets in the 2025 spending review is welcome and should be continued for future spending reviews. Transparency in relation to this and for EPPS assessments, should be improved to aid effective scrutiny and accountability.

We hope that our evidence is useful to you. Please do get in touch if we can be of any further assistance as you consider these matters.

Yours sincerely,



**Natalie Prosser**  
Chief Executive Officer



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## Evidence submission from the Office for Environmental Protection to the Inquiry of the Environmental Audit Committee into HM Treasury and the economics of climate and nature

### Q1. What role does HM Treasury play in shaping the UK's response to climate change, nature loss and wider environmental sustainability through economic policy and public spending decisions?

1. The OEP considers the role of HM Treasury to be vitally important to the achievement of cross-government commitments in respect of the natural environment and climate change. The challenge is stark, with government still largely off-track to meet its environmental commitments.<sup>1</sup> Addressing this will require all of government to play its part, with the role of cross-cutting and decision-making departments, such as HM Treasury, being key.
2. It was recognised, in establishing the Environmental Principles Policy Statement (EPPS) under the Environment Act 2021 (s17), that environmental considerations should be at the heart of government policy-making. HM Treasury play a key role in that process across government, as well as being central to processes that prioritise government action and direct funding. Effective prioritisation, and funding are essential for increasing the prospects of achieving government's environmental ambition, including the legally-binding targets of the Environment Act, and Environmental Improvement Plan (EIP).
3. We have set out previously the key cross-cutting areas where we consider government can take steps to enable progress and secure effective implementation of its EIP.<sup>2</sup> One of these is around the effective mobilisation of investment at the scale needed. Government's target of private investment for nature recovery (£1billion by 2030)<sup>3</sup> will be challenging to deliver but is a key enabling step, alongside continued and well targeted public investment. Government needs to provide strong incentives, oversight and regulation to create the market confidence to deliver rapid, substantial growth in investment and the capability and capacity of the environmental sector to make the most of that investment. We consider HM Treasury has an important role in driving and enabling this.
4. By way of follow up to our work looking at the early implementation of the EPPS,<sup>4</sup> and to inform the wider work of the OEP, we have been undertaking research into the cross-government mechanisms that support government in achieving its environmental ambitions. We have found that mechanisms associated with HM Treasury, such as spending reviews, business planning and policy appraisals, are considered to have strong cross-government influence. If spending reviews, departmental budgets, and business plans explicitly account for environmental targets, then "*the whole way the machine works changes*" to support those outcomes. For example, participants in our research acknowledged it was a major opportunity when HM Treasury recently told departments to factor legally binding

<sup>1</sup> [Progress in improving the natural environment in England 2024/2025 | Office for Environmental Protection](#)

<sup>2</sup> [OEP submits advice on the Government's review of its Environmental Improvement Plan | Office for Environmental Protection](#)

<sup>3</sup> [Nature markets: A framework for scaling up private investment in nature recovery and sustainable farming](#)

<sup>4</sup> [A review of implementation of the duty to have due regard to the Environmental Principles Policy Statement in England | Office for Environmental Protection](#)

Environment Act targets into spending bids, marking the first time such targets featured in budget guidance.

5. We consider, on the basis of this work, that embedding long-term environmental benefits into Treasury's decision frameworks is important. Traditional economic methodologies (such as cost-benefit analysis and the use of discount rates) often undervalue socio-economic benefits and long-run gains, making green projects seem less attractive. All of which leads us to a view that HM Treasury should broaden its appraisal horizon so that environmental outcomes are recognised as essential to economic stability and growth.
6. We also consider that integrating environmental objectives into HM Treasury's appraisal rules (especially the Green Book guidance) is a promising way to hardwire nature and climate into policy decisions. However, we have also heard of doubts about real-world impact: formal guidance like the Green Book has "*potential to influence proposals at the policy design stage*," yet in practice it is not consistently applied. We have heard that departments often treat it as discretionary advice with no enforcement, so unless HM Treasury ensures compliance, it may not bite. The same holds true for the supplementary materials to both the Green and Magenta Books (Enabling and Natural Capital Approach and the Complexity Evaluation Toolkit respectively), which are both Defra-led initiatives that can drive better integration of environmental considerations across government.
7. Our work in this area points toward funding and planning processes being key to driving action across government, whilst guidance such as the Green Book may have limited effect on achieving environmental outcomes in practice given its discretionary use and lack of supervision / enforcement.
8. This heightens the ongoing need for environmental information to inform processes such as spending reviews, and for HM Treasury to be transparent about how that information is then used as part of the decision-making that drives action. Such reporting would assist us, and others, in determining how government, collectively, is contributing to the achievement of its environmental ambitions.

**Q4. How effectively is HM Treasury working with other departments and public bodies to deliver a fair and coordinated transition across the UK?**

9. With public spending under intense pressure (Defra's 2.7% real-term reduction in the latest spending review was among the largest departmental cuts), it is critical that public expenditure is credible, transparent and strategically targeted to deliver cost-effective outcomes.
10. As part of its monitoring of the EIP, the OEP examined government spending against biodiversity-related goals and targets.<sup>5</sup> Using government data and other public evidence, the study estimated the expenditure Need, Budget, and Actual spend across environmental goals.
11. We found that the current tracking of investment flows for nature outcomes is weak and there is not a published overview of expenditure across the EIP. This extends to both ongoing spending and future commitments. We estimated public expenditure for biodiversity in England was around £7bn in 2024/25, seven times higher than the figure most recently published by Defra. This difference reflects the use of different evidence sources, scope and underlying assumptions.

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<sup>5</sup> [Monitoring Progress in Expenditure Towards Biodiversity Targets: Development Phase](#)

12. This disparity underscores a fundamental problem. Without a reliable baseline it is impossible to judge what level of public funding is being spent and where and whether investment is credible, well-targeted, or sufficient. Spending on one environmental goal often contributes to other goals and outcomes, but we were unable to apportion this expenditure to these goals and outcomes, with expenditure tending to be reported by programme, rather than by environmental outcome or action.
13. Another issue we have encountered in our work, both in scrutinising the EIP, and in looking at implementation associated with local nature recovery, relates to certainty around long-term funding for climate and the environment. Here we have found that the short-term and fragmented nature of government planning and spending cycles can be prohibitive to the sort of ambitious action required to meet environmental commitments. A longer term and joined-up view, which shows how public and private sector finance will come together to fund action would provide greater confidence, both to those driving delivery and those looking to invest.
14. With no clear, consistent baseline of what is currently invested in nature recovery, it remains difficult to assess whether spending is sufficient, effective, or appropriately prioritised or drives multiple outcomes. We have recommended to Government that it should build the evidence base to robustly assess the finance gap for nature recovery, and achieving environmental targets. We consider HM Treasury has a central role to play here in enabling government Departments to develop a coherent picture of how investments contribute to nature recovery, and wider outcomes both in the short and long term.

**Q5. How effectively do HM Treasury’s appraisal frameworks, including the Green Book, incorporate climate and environmental risks and benefits in policy and investment decisions?**

15. In 2025 we reported on our early review of implementation of the EPPS duty in England.<sup>6</sup> In our report we set out findings and recommendations relevant to the embedding of the EPPS duty across government.<sup>7</sup> We noted that both Cabinet Office and HM Treasury have key roles to play in ensuring that the EPPS is incorporated into the cross-government guidance that underpins policymaking, and cited the significance of the HM Treasury Green Book, amongst other key documents and templates used in the policymaking process.
16. We consider that referring to the EPPS in such documents is important to help ensure coherence between the EPPS duty and other matters which need to be taken into account in policymaking (e.g. the Biodiversity Duty and the Public Sector Equality Duty), and for clarifying when the EPPS should be considered, and how it might interact with any other environmental assessments (i.e. those relating to natural capital and decarbonisation).
17. It is our view that the EPPS provides an important framework for considering potential environmental effects (both good and bad) of policymaking and could improve policy coherence through more joined up action contributing to delivery of environmental targets and the Environmental Improvement Plan (EIP).

<sup>6</sup> The Environment Act 2021 introduce the duty for Ministers to have due regard to the Environmental Principles Policy Statement when making policy. This duty came into effect in England on 1 November 2023.

<sup>7</sup> [A review of implementation of the duty to have due regard to the Environmental Principles Policy Statement in England | Office for Environmental Protection](#)

18. We have had constructive engagement with HM Treasury throughout our work looking at early implementation of the EPPS, and also during their revisions to the Green Book in late 2025 / early 2026. In February 2026 a revised Green Book was published, which now includes reference to the EPPS (Ch3, para 3.18), and also reference to the need for practitioners to take account of long-term legally binding Environment Act 2021 targets when developing proposals (Ch8, para 8.76). We very much welcomed the inclusion of both of these elements, which we consider go a long way to supporting improved coherence and leadership around incorporating consideration of the environment and climate in the development of proposals.
19. Prior to the EPPS duty coming into force, there has been a longstanding requirement in the Green Book (and its supplementary guidance) to take account of environmental considerations by applying the Enabling a Natural Capital Approach (ENCA) to proposals. We understand that the supplementary guidance has been updated recently and ENCA will remain an important tool for officials to account for environmental costs and benefits in their policies, working alongside the application of the EPPS duty to demonstrate full consideration of the environment throughout policy development.
20. Given the recent addition of reference to the EPPS and legally-binding targets to the Green Book, we have yet to see any practical impact in respect of the development of proposals coming within the scope of the Green Book. We anticipate that this impact should follow, and will consider this further in our ongoing work to scrutinise implementation of the EPPS duty.
21. HM Treasury is responsible for guidance and templates for Business Cases, which we also recommended be updated to include explicit reference to the EPPS. We anticipate that these too will be reviewed and revised in due course, and look forward to further engagement with Treasury on these matters. We urge a degree of urgency here, so that there is consistency across related documents and they keep pace with one another.

**Q5.a. To what extent are statutory environmental duties such as the Environmental Principles Policy Statement and other environmental duties applied in practice, and what impact do they have on policy decisions?**

22. Further to our work looking at the processes put in place to assist implementation of the EPPS duty, we also sought to determine the extent to which the EPPS duty was impacting upon policy decisions.
23. Through our work we looked at two large-scale HMT decisions. These examples both noted the potential for positive and negative environmental impacts and that these would be determined by the decisions of implementing departments. Whilst these examples showed a degree of coherence and thinking across multiple policy decisions, we also considered that they presented potential for an overreliance on related or future policies to fully apply the principles.
24. It is our view that the focus of an EPPS assessment must be the policy in question, with any weight given to other potential policies reflecting that there is a risk they may not be developed as presumed.
25. However, overall, on the basis of available evidence, it was not possible for us to draw firm conclusions as to whether application of the duty was impacting upon HM Treasury-owned policy decisions. In this regard, our findings and recommendations were common across the departments we looked at. That is to say, the lack of transparency around EPPS assessments informing policy decisions continues to impede the extent to which we, and

others, can meaningfully scrutinise application of the duty and hold government to account. This also speaks somewhat to question 6 of your call for evidence, in which you ask about how transparent HM Treasury's decision-making and funding processes are in demonstrating how climate and environmental considerations are assessed and reflected in decisions. Our observations are that transparency in this regard, is lacking, and should be improved across government.

26. In considering HM Treasury in the context of the EPPS duty, you will be aware that the duty to have due regard to the EPPS applies to a Minister (and those acting on their behalf) when making policy. However, there are certain exemptions, and these are pertinent in the case of HM Treasury, as the duty does not apply to policy relating to: taxation, spending or the allocation of resources within government.
27. However, the EPPS duty is required to be applied throughout the policy making process<sup>8</sup>, and as such, when proposals (from other government departments) are put to HM Treasury in the form of Business Cases, funding bids, or project appraisals etc, we consider there should be evidence of how due regard has been paid to the EPPS by sponsoring departments. There is the potential here that the exemptions and the requirement on departments are in tension, and it is our view that departments making submissions should comply with the EPPS duty, and that this information should be made available.
28. In view of this, we are aware that HM Treasury required departments to provide information on environmental impacts (in relation to the legally binding targets of the Environment Act 2021) as part of their spending bids for spending review 2025.<sup>9</sup> We welcome this, and would endorse continuation of this requirement. However, we have not yet seen evidence as to how this information was used in practice to inform decision making. Again, to aid scrutiny and accountability, improved transparency here would be advantageous.

**Q8.b. What role do financial regulators and public financial institutions, including the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority and the National Wealth Fund, play in identifying and managing climate and nature related financial risks, including through disclosure frameworks and standards for climate and nature related risks?**

29. You will be aware of the legislative changes introduced by the Financial Services and Markets Act 2023. These require the Financial Conduct Authority, Bank of England and Prudential Regulatory Authority to 'have regard to' consideration of contributing towards the SoS's compliance with the long-term legally binding targets of the Environment Act 2021 (s31). These requirements came into force on 1 January 2025. Equivalent duties relating to the UK net zero emissions target under the Climate Change Act 2008 came into force on 1 January 2024.
30. Such requirements have the potential to support government in achieving its environmental ambitions. We are not aware of any comprehensive assessment related to implementation of these provisions to date. Transparency from these bodies, in respect of how they are

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<sup>8</sup> The R (Rights: Community: Action Ltd) v Secretary of State for Housing, Communities and Local Government case concerned application of the EPPS duty. The judgment confirmed that an EPPS assessment undertaken at a later stage cannot rectify a failure at an earlier stage, and that the duty applies throughout the policy-making process. These findings are consistent with our view of good implementation – that the duty should support sound, environmentally aware policy making through the cycle which supports delivery of the government's ambitions for environmental protection and improvement.

<sup>9</sup> [The role of natural capital in the green economy: Government Response](#)

complying with this duty, would greatly assist in shining a light on good practice and identifying further opportunities.

**Q9.b. How effective is HM Treasury's approach to mobilising private finance in support of climate and nature outcomes, particularly for adaptation, and nature finance?**

31. As part of our annual monitoring of EIP progress, we have assessed governments actions intended to fund nature recovery and deliver its commitment to mobilise 'at least £500 million in private finance to support nature's recovery every year by 2027 in England, rising to more than £1bn by 2030'. We also commissioned a rapid evidence assessment of green finance strategies, actions and challenges in the UK context.<sup>10</sup>
32. In our most recent monitoring report we note that the scale of finance needed to support nature's recovery is likely to need to be significantly larger than that which is committed to. In fact, the scale of finance needed (private or public) to deliver on nature-related outcomes for England has been estimated at £27 billion over a 10 year period and for the UK as a whole between £44 billion and £97 billion.<sup>11</sup>
33. Our annual reports have stressed that government must actively shape the market conditions for nature investment to be reliable and scalable (see also above in response to Q4). Compared with climate mitigation finance, nature recovery has weaker/less mature structures—so expecting rapid scaling is unrealistic. Increasing private finance in nature requires stable demand signals and a pipeline of investable projects. This needs to be coupled with continued and well-targeted public spending, utilising blended finance approaches where applicable.

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<sup>10</sup> <https://www.theoep.org.uk/commissioned-research/green-finance-review-rapid-evidence-assessment>

<sup>11</sup> [The-Finance-Gap-for-UK-Nature-13102021](#)