Wildlife and Countryside Link Evidence to the Environmental Audit Committee on HM Treasury and the Economies of Climate and Nature

21 May 2026

Executive Summary

- The UK's economic resilience is fundamentally underpinned by its natural capital, which delivers essential ecosystem services that sustain both human wellbeing and economic stability. In 2022 alone, these services were valued at £1.8 trillion (equivalent to 72% of GDP) highlighting the extent to which the economy depends on nature.[1] Moreover, the Government's own National Security Assessment identifies biodiversity loss as a systemic risk to the UK economy and national resilience. The report warns that ecosystem degradation will intensify resource scarcity, disrupt global markets, increase geopolitical instability, and place pressure on domestic food systems and critical supply chains.[2]
- Despite increasing recognition of the importance of natural capital, current fiscal and policy frameworks have not yet translated this into investment at the scale required, and the UK continues to face a persistent annual nature finance gap of c.£5.6 billion to meet its nature-related outcomes.[3]
- Meeting statutory targets under the Environment Act 2021 is not only important to restore nature but also for safeguarding economic resilience, since healthy ecosystems underpin key sectors, like agriculture, energy and finance, while their degradation creates systemic risks to productivity and supply chains. However, a gap remains between ambition and delivery, with existing frameworks insufficient to mobilise the public and private investment needed. Addressing this gap will require a more integrated approach across government, with HM Treasury playing a central role in embedding nature and climate considerations into economic policy, fiscal rules and spending decisions.
- We have provided responses to the Committee's questions where the expertise of our members can offer relevant evidence. Key policy recommendations include:

[1] ISEP Policy Paper: Natural Capital is Critical Infrastructure
[2] National security assessment - global biodiversity loss ecosystem collapse and national security
[3] The UK nature finance ecosystem: Status and opportunities for scale

- Establishing a statutory Nature Recovery Obligation (NRO) to create long-term, predictable demand for high-integrity nature restoration and environmental markets, while strengthening existing mechanisms such as Biodiversity Net Gain (BNG).
- Providing long-term policy certainty and strong regulatory demand drivers for nature markets, alongside robust monitoring, reporting and verification (MRV), mandatory nature-related disclosures aligned with the TNFD, and stronger standards for transparency and accreditation to avoid greenwashing and mobilise private investment at scale. This should be supported by robust baseline environmental data and a clearer understanding of ecological limits to inform effective regulation and investment decisions.
- Embedding climate, biodiversity and natural capital systematically across HM Treasury decision-making, including through implementation of the Dasgupta Review recommendations by integrating natural capital and inclusive wealth accounting into fiscal rules, Spending Reviews and Green Book appraisal processes.

The Treasury's role in environmental decision making

1. 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?

a. To what extent are climate and nature considerations incorporated into Treasury decision making and how do these considerations influence funding decisions?

1. HM Treasury exerts extensive influence over the UK's response to climate change, nature loss and wider environmental sustainability. It determines not only the scale of available funding but also the framework within which environmental priorities are evaluated. However, in practice, climate and nature considerations are incorporated into Treasury decision-making in a partial and inconsistent manner, and they remain secondary to overarching commitments to fiscal discipline and short-term economic stability.
2. The long-term low priority afforded by the Treasury to environmental investment influences (a) budgetary decisions; (b) fiscal policy; (c) financial rules; and (d) the Treasury's influence over wider Government strategy and decision-making.
3. There have been some recent changes in Treasury processes that improve environmental reckoning in HMT decisions, including the publication of the Environmental Principles Policy Statement and its subsequent incorporation into the

Green Book. Progress has been made on economic policies to help shape the UK's response to climate change including though feed-in tariffs, contract for differences and the carbon floor price which are helping to support the UK's progress towards net zero. Overall, however, the strategic direction set by Treasury remains focused on short-term outcomes at the expense of broader urgent environmental action.

4. Most recently, this tension is particularly evident in the fiscal framework set out in 2024 by Rachel Reeves. Reeves introduced two core fiscal rules: the "stability rule", which commits the Government to borrowing only for investment rather than day-to-day spending, and the "investment rule", which requires public sector net financial liabilities (PSNFL) to fall as a share of GDP.[4] Supporting documents clarify that by 2029-30, the current budget must be balanced or in surplus within a rolling forecast period, and debt must be on a downward trajectory. These rules have been framed as "non-negotiable", reinforcing a strong institutional prioritisation on fiscal restraint.
5. Although such rules are intended to ensure macroeconomic credibility, they also constrain the Government's capacity to undertake the large-scale, long-term investment required for effective climate and environmental action. The Treasury nonetheless retains formal flexibility through provisions in the Charter for Budget Responsibility, allowing temporary suspension of the rules in the event of a "significant negative shock" – as was seen under Rishi Sunak during the COVID-19 pandemic – this flexibility has not been systematically extended to environmental risks. This is despite evidence suggesting that environmental degradation could reduce GDP by up to 12% in the coming years, a shock potentially more severe than both the global financial crisis and the pandemic.[5]
6. Whilst the suspension of the fiscal mandate and supplementary targets would remain an option of last resort, with any macroeconomic impacts carefully managed to ensure the eventual reinstatement of the rules, the scale and systemic nature of environmental risk nonetheless raises important questions about whether existing fiscal frameworks are adequately equipped to respond to long-term ecological shocks or chronic degradation of natural assets.
7. The estimated financial cost of sustainably managing biodiversity and ecosystems, projected to reach $1 trillion by 2030, will pale in comparison to the anticipated economic cost of biodiversity loss, which could leave global GDP $2.7 trillion lower per year than projected levels by the end of the decade.[6] This highlight both the

[4] Financial Times, 'Reeves places a long-term bet on UK "renewal". Will voters notice?' (11 June 2025), Rachel Reeves: My fiscal rules will provide the stability on which growth depends

severe economic impact of environmental degradation and the urgency of taking preventative action now. Overall, even where climate and nature considerations are acknowledged within Treasury processes, their influence on actual funding decisions remains limited. Although the Government is currently on track to meet its fiscal rules, this has come partly at the expense of the long-term environmental investment needed to mitigate far greater economic risks in the future.

8. These limitations are reinforced by the role of the Office for Budget Responsibility (OBR), whose five-year forecast horizon encourages short-term decision-making. Capital investments in climate mitigation, adaptation, and nature restoration typically deliver returns over much longer timescales.[7] This creates a bias toward policies that prioritise near-term fiscal outcomes over long-term environmental sustainability. Given that climate change and biodiversity loss are cumulative and escalating risks, insufficient weight is placed on the future economic costs of environmental degradation, including increased flooding, energy price volatility, and damage to natural systems on which economic activity depends. Delayed investment therefore increases the likelihood of higher future fiscal burdens and greater economic vulnerability.
9. HM Treasury's influence is also evident in public spending decisions. For example, the 2025 Spending Review reduced funding for the Department for Environment, Food and Rural Affairs (DEFRA) from approximately £8 billion to £7.4 billion, with the Chancellor imposing an average real-term cut of 2.7%.[8] These reductions are concentrated in day-to-day spending, including staffing and operational delivery, which is set to fall by an average of 2.7% per year.[9]
10. Historic cuts to resource spending have had systemic implications for the capacity of departments and arm's-length bodies to design, implement and enforce environmental policy. The Environment Agency is a clear example of this. In the decade prior to 2022, funding for the Environment Agency was cut by more than 50% in real terms, with Defra providing just £94.3 million for the Agency's Environmental Protection Services, compared to the equivalent of £213.8 million in 2009/10.[10] These reductions are concentrated in day-to-day spending, including staffing and operational delivery, which is set to fall by an average of 2.7% per year.

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[6] BloombergNEF, '$1 Trillion to Protect Biodiversity Is Cheaper Than the Cost of Inaction' (5 April 2023) $1 Trillion to Protect Biodiversity is Cheaper Than the Cost of Inaction | BloombergNEF

[7] Green Alliance, *Dasgupta fiscal rules briefing* (February 2024), Microsoft Word - Dasgupta Fiscal Rules Briefing.docx

[8] Rachel Reeves cuts Defra spending, but allocates extra funding for flood defences and nature recovery - Water Magazine

[9] Defra hit with major cuts in 2025 Spending Review - Circular Online

[10] Environment Agency funding cut by 50% over past decade, analysis shows | The Independent

11. These sustained funding reductions had a direct impact on the Agency's environmental monitoring and enforcement capacity, as demonstrated by the Agency's enforcement action declining by 84% from 2012-2022. Furthermore, of the 4,074 enforcement actions taken against companies by the Agency during the 2012-2022 period, 60% did not result in a fine.[11] Prolonged pressure on the Agency's budget has therefore constrained the full potential of the Environment Agency to reduce pollution, tackle waste and play a leading role in achieving Environment Act targets.
12. Although the Environment Agency's budget has increased in recent years, with a total budget allocation rising to approximately £2.274 billion for 2025-26,[12] representing a nominal increase of around 38% since 2022-23, this growth should be understood in the context of the substantial long-term reductions that preceded it. Recent injections of funding are welcome, but they do not fully address the cumulative impacts of over a decade of constrained investment, including the loss of staff expertise, institutional capacity, and long-term capability.
13. In recent years, both the previous and current governments have provided targeted short-term, top-up funding for the EA to carry out specific work on water pollution and farming inspections, particularly in response to public concern regarding sewage pollution and river quality. For example, following heightened scrutiny arising from the Environmental Audit Committee's inquiry into water quality in rivers, the government announced in July 2025 an additional £189 million for the Environment Agency to support increased enforcement activity, new equipment, and technological improvements relating to water pollution.[13] While these interventions are positive, they remain reactive and issue-specific rather than representing sustained long-term investment in environmental governance capacity.
14. The consequences of underinvestment are visible in environmental outcomes. Over the same period that regulatory capacity was weakened, sewage discharges in England and Wales more than doubled, increasing from 14.7 incidents per overflow in 2016 to 29.3 in 2021.[14] Although recent funding increases have coincided with some improvement, with average sewage spill incidents per overflow in England falling from 31.8 in 2024 to 20.5 in 2025, pollution levels remain historically high, with nearly 291,500 spill events recorded in a relatively dry year.[15] Overall, this illustrates how prolonged underinvestment weakens monitoring and enforcement

[11] The work of the Environment Agency - Link Briefing note.pdf
[12] Environment Agency business plan 2025 to 2026 - GOV.UK
[13] Largest ever budget for water regulation - GOV.UK
[14] Environment Agency funding cut by 50% over past decade, analysis shows | The Independent
[15] Fewer and shorter storm overflow spills in 2025, new monitoring data shows - GOV.UK

systems and increasing the risk that the government will fail to meet statutory environmental targets, including those established under the Environment Act 2021.

15. These dynamics are reinforced by political short-termism and centralised Treasury control over spending decisions. Investment in environmental programmes, which is often less visible and associated with longer payback periods, is more likely to be delayed or reduced than spending on immediate public services. This contributes to a pattern of chronic underinvestment in nature and environmental protection.
16. As a result, HM Treasury does not simply influence environmental policy through funding decisions; it shapes the broader economic logic within which those decisions are made. While climate and nature considerations are increasingly recognised within policy frameworks, they do not yet consistently drive funding outcomes. Instead, decision-making continues to prioritise short-term fiscal targets over long-term environmental and economic resilience. In turn, this limits the pace and effectiveness of government action on climate change and nature loss, despite growing evidence that environmental degradation poses significant risks to productivity, infrastructure and public finances.
17. Urgent reform of Treasury orthodoxy is necessary to better equip government to respond to the material economic and fiscal risks posed by the climate and nature crises. This should include reforming appraisal and fiscal frameworks to better account for the long-term value of natural capital, extending assessment horizons beyond short-term fiscal cycles, and ensuring that departments and regulators responsible for environmental delivery are adequately resourced to meet statutory commitments.

b. Does HM Treasury have the expertise, data and tools needed to assess environmental risks and opportunities, and what developments in modelling or valuation would better reflect the economic value of nature and environmental sustainability?

No response.

2. How does HM Treasury assess and reflect the role of climate, nature and environmental sustainability in supporting economic growth, productivity and resilience, including through the measures it uses to assess economic performance and national prosperity?

a. What role do environmental sustainability, natural capital and wider measures of inclusive wealth play alongside GDP in Treasury decision making, and how are these reflected in practice?

No response.

b. **How does HM Treasury assess the contribution of climate action, nature recovery and environmental sustainability to economic growth and productivity?**

No response.

3. How do fiscal rules, taxation, and spending constraints affect climate and environmental investment, and how does HM Treasury ensure that decisions do not increase economic vulnerability by delaying or underfunding early action?

a. **How do HM Treasury's tax policies and reliefs support or hinder climate and environmental objectives, and what assessment is made of their impact?**

18. Strict fiscal rules and ongoing spending constraints prioritise short-term fiscal discipline over long-term environmental investment, limiting the government's ability to fund and support a nature-positive transition. As a result, they constrain both public spending and the strategic use of tax policy, increasing the risk of delayed action and generating higher long-term economic costs.
19. The UK tax system is structurally misaligned with climate and environmental objectives. This misalignment is not confined to isolated policies but reflects a broader systemic issue: tax policy is not consistently designed or evaluated as part of a wider framework to support environmental goals. While taxation has significant potential to incentivise behavioural change and support the transition to a nature-positive economy, existing fiscal arrangements frequently undermine these objectives and fail to account for the long-term economic risks associated with environmental degradation and delayed action.
20. Tax policy therefore plays a central role in shaping environmental outcomes, yet many current policies actively hinder progress. Fossil fuel subsidies remain substantial, with recent analysis suggesting that the UK Government provides approximately £17.5 billion in support annually, rising to an estimated £87.5 billion over the course of this Parliament.[16] Additionally, measures such as fuel tax concessions (including red diesel) actively subsidise environmentally damaging activity. In the UK fishing sector alone, these concessions are worth an estimated £150-180 million per year and are disproportionately captured by the most fuel-intensive fishing methods, such as mobile demersal trawling and dredging.[17] These practices are widely associated with significant seabed disturbance and harm to benthic biodiversity, yet many would be economically unviable without subsidy,

[16] Global Justice Now, 'UK government subsidises fossil fuels by £17.5 billion every year, new research reveals' (13 May 2025), https://www.globaljustice.org.uk/news/uk-government-subsidises-fossil-fuels-by-17-5-billion-every-year-new-research-reveals/

[17] Skerritt, D. J. and Sumaila, U. R., *Updated and expanded analysis of fuel tax concessions for the commercial fishing fleet of the United Kingdom*, Marine Policy, 2026. Updated and expanded analysis of fuel tax concessions for the commercial fishing fleet of the United Kingdom

demonstrating that current tax policy is effectively sustaining activities that contribute to ecological degradation rather than incentivising more sustainable options.

21. Similarly, aspects of the VAT system create perverse environmental incentives. The reduced rate applied to household gas and other heating fuels effectively acts as a fossil fuel subsidy,[18] discouraging investment in energy efficiency and low-carbon heating alternatives while disproportionately benefiting higher-income households, who consume the most energy in absolute terms.[19]
22. At the same time, the VAT system often favours environmentally damaging patterns of construction and consumption: new builds are zero-rated for VAT, while most repairs and renovations are taxed at 20%, incentivising demolition over restoration. This contributes to unnecessary construction waste, avoidable embodied carbon emissions, and the continued loss of adaptable existing buildings.[20]
23. VAT rules also make repairing consumer goods comparatively expensive. This is because VAT is normally charged at the standard rate for repairs.[21] This, combined with repairs already being labour intensive, restricts access to affordable repair services. Thus, encouraging throwaway consumption and contributing to rising levels of waste, particularly electronic waste, for which the UK is among the worst performers globally on a per capita basis.[22]
24. There are some examples where tax policy has contributed positively to environmental outcomes, most notably through the Landfill Tax and Aggregates Levy, which were designed to discourage environmentally damaging activities by increasing the cost of landfill disposal and virgin material extraction.[23] The Landfill Tax has played a role in reducing the amount of waste sent to landfill, with landfill use in England falling by around 90% since 2000,[24] encouraging greater waste recovery and alternative waste management practices.
25. The Aggregates Levy has similarly helped reduce the environmental impacts associated with quarrying and extraction, including habitat destruction, landscape degradation and carbon-intensive material use. Since the levy was announced in 2000, the use of primary aggregates per unit of construction output has fallen by

[18] Libby Peake, *Added Value: Improving the Environmental and Social Impact of UK VAT* (London: Green Alliance, 2020), 10 Added_value.pdf
[19] Peake, Added_value.pdf, 9
[20] Peake, Added_value.pdf, 6
[21] Added_value.pdf
[22] Peake, Added_value.pdf, 14
[23] Energy and Climate Intelligence Unit, 'Proposed inheritance tax reforms could unlock green schemes for tenant farmers' (1 August 2023), https://eciu.net/media/press-releases/2023/proposed-inheritance-tax-reforms-could-unlock-green-schemes-for-tenant-farmers
[24] Paul Collins, "The Landfill Tax and Local Authorities," *Local Government Lawyer*, 13 August 2025, The landfill tax and local authorities

around 40%, while use per unit of GDP has declined by around 50%,[25] suggesting a measurable reduction in material intensity within the construction sector.

26. However, these measures remain relatively narrow in scope and largely operate by disincentivising environmentally harmful activities rather than proactively driving investment in environmental restoration, decarbonisation, resource efficiency or nature recovery.[26] In some cases, they can even generate significant environmental and climate impacts. Such is the case with the Landfill Tax, where it may have helped divert waste away from landfill, but much of this waste has instead been redirected towards incineration.[27] Furthermore, England's recycling rates have largely stagnated in recent years at around 44%,[28] suggesting that progress towards a genuinely circular and resource-efficient economy has been limited. This highlights the limitations of relying of fiscal disincentives alone to deliver systemic environmental change without complementary investment in recycling infrastructure, and broader circular economy policies.
27. Another key issue is the absence of robust and systematic assessment of environmental impacts within tax policymaking. The National Audit Office has found that environmental impacts in Tax Information and Impact Notes are typically only briefly described and rarely quantified, with insufficient information provided to enable effective scrutiny.[29] This lack of evaluation is evident in practice. For example, while the Landfill Tax has contributed to a 65% reduction in waste sent to landfill, but which also generated unintended consequences, including a significant rise in illegal waste disposal as some actors sought to avoid the tax. HMRC estimates a 28% gap between Landfill Tax due and receipts collected in 2018-19, with this gap increasing in recent years.[30] This illustrates how, in the absence of comprehensive assessment and ongoing monitoring, environmental tax measures may produce counterproductive outcomes that are not adequately captured or addressed.
28. More broadly, there is no consistent requirement to monitor or report on the environmental outcomes of tax changes,[31] and existing guidance on incorporating natural capital into policy appraisal is not widely applied. Although principles for

[25] Institute for European Environmental Policy (IEEP), *UK Aggregates Levy* (Brussels: IEEP, 2017) UK-Aggregates-Levy-final.pdf

[26] Royal Society for the Protection of Birds (RSPB), *Nature Positive Fiscal Policy: Policy Briefing 3 - Making the tax system nature positive* 10 Nature positive tax reform.pdf

[27] https://www.gov.uk/government/statistics/uk-waste-data/uk-statistics-on-waste

[28] Rubbish and recycling in England: what's changing and why it matters | Waste | The Guardian

[29] National Audit Office, *Environmental Tax Measures* (HC 937, Session 2019–21, 12 February 2021) 8 https://www.nao.org.uk/wp-content/uploads/2021/02/Environmental-Tax-Measures.pdf

[30] Croner-i, 'Environmental taxes: do they work?', https://app.croneri.co.uk/feature-articles/environmental taxes-do-they-work

[31] Green Alliance, *A green tax roadmap for the future* (November 2022) 10 https://green-alliance.org.uk/wp content/uploads/2022/11/A-green-tax-roadmap-for-the-future.pdf

good tax policy, such as those identified in the Mirrlees Review,[32] emphasise coherence and alignment with wider objectives, these are not binding and are not consistently reflected in practice. This results in a system where environmental considerations remain secondary or implicit, rather than embedded within tax design.

29. The overall approach to tax policy is poorly aligned with the achievement of environmental goals. This lack of strategic direction is particularly concerning in the context of the transition to a low-carbon economy. For example, fuel duty currently generates significant revenue but is expected to decline as transport electrifies, yet there is no fully developed replacement mechanism in place.[33] Failure to anticipate and plan for such structural changes increases fiscal risk and may necessitate more abrupt and disruptive adjustments in the future. This, in turn, risks delaying investment in low-carbon and nature-friendly alternatives and prolonging reliance on high-emission, resource-intensive activities – directly contributing to continued environmental degradation and biodiversity loss.
30. Overall, these factors suggest that HM Treasury does not yet have a sufficiently integrated framework to ensure that tax policy supports climate and environmental objectives or that decisions avoid increasing economic vulnerability through delay. A more coherent approach is needed in which environmental objectives are embedded into tax design, supported by robust and transparent assessment of impacts, and aligned with long-term fiscal planning. Without such reforms, the tax system will continue to constrain environmental investment, delay necessary transitions, and increase the long-term economic costs of climate and nature-related risks.

b. What plans does the Treasury have for changes in tax revenues associated with the transition to net zero?

No response.

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

a. How are departments required to demonstrate the contribution of spending and investment proposals to climate and environmental objectives, including adaptation and resilience, and how are these assessments scrutinised and used in

[32] Nuffield Foundation, 'The Mirrlees Review' https://www.nuffieldfoundation.org/project/the-mirrlees review#:~:text=It%20concluded%20Britain's%20tax%20system,of%20proposals%20for%20tax%20reform
[33] Green Alliance, *A green tax roadmap for the future* (November 2022) 6 https://green-alliance.org.uk/wp content/uploads/2022/11/A-green-tax-roadmap-for-the-future.pdf

final funding decisions, and reflected in outcomes for climate and the environment, including any direct and indirect impacts of these decisions?

b. **To what extent do HM Treasury's funding and processes support or constrain coordinated cross-government delivery of climate and environmental objectives, including through the Government's Mission Boards?**

No response.

Economic frameworks and assessment

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

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?**

b. **How consistently are these frameworks and duties applied across departments, and how is the quality of their application assessed?**

31. HM Treasury's appraisal frameworks have made meaningful progress in formally incorporating climate and environmental considerations, but this has not translated into decisive influence over policy and investment decisions.
32. The 2026 update to the Green Book represents a step in the right direction. It explicitly incorporates environmental considerations, including alignment with statutory duties such as those under the Environment Act 2021 and the Environmental Principles Policy Statement (EPPS).[34] It also clarifies that benefit-cost ratios (BCRs) should not be applied mechanistically, and that wider factors – including non-monetised environmental benefits, distributional impacts and strategic objectives – should inform decision-making. These reforms reflect a broader shift towards recognising that environmental degradation poses systemic risks to economic resilience and long-term prosperity.
33. However, a persistent gap remains between formal appraisal guidance and real-world decision-making. Environmental impacts are not consistently or robustly captured, particularly where they are difficult to monetise or arise over long time horizons. While the Green Book now permits a broader interpretation of value, there is limited evidence that this is systematically applied across departments or that it

[34] HM Treasury, 'The Green Book and accompanying guidance and documents' (16 November 2020, last updated 7 April 2026), https://www.gov.uk/government/collections/the-green-book-and-accompanying-guidance-and-documents

consistently influences spending priorities. This disconnect is reinforced by limited transparency: only a handful of environmental principles assessments have been published relative to the large number of policies that would have been subject to the duty since November 2023. Thus, making it difficult to assess whether environmental considerations are being applied rigorously or consistently in practice.[35]

34. Statutory environmental duties, including the EPPS, have therefore had a limited and uneven impact on policy decisions. Although the EPPS introduces important environmental principles, such as prevention, precaution and polluter pays – its practical influence is constrained by its design. The requirement for ministers to have "due regard" is procedural rather than outcome-focused,[36] meaning environmental principles can be considered without materially affecting final decisions. This weakens its ability to drive substantive changes in policy or investment choices.
35. The framework further limits its own effectiveness by setting a relatively high threshold for engagement, requiring policymakers to consider only environmental effects that are "likely to occur" and "likely to have a substantial impact".[37] This excludes many cumulative, indirect and long-term environmental effects, which are often central to climate and biodiversity risks. Moreover, environmental principles are not consistently integrated at the earliest stages of policy development and are often applied retrospectively through appraisal processes. This weakens their ability to shape policy design and investment choices in a substantive way. As a result, environmental considerations are frequently deprioritised or excluded altogether within the decision-making process.
36. Application across government is inconsistent and lacks transparency. Departments adopt varied approaches: some explicitly assess policies against environmental principles, others make only general environmental references, and some omit the duty entirely.[38] This inconsistency is particularly evident in secondary legislation and smaller regulatory measures, where references to the EPPS are frequently absent. The absence of standardised templates, clear guidance and robust quality assurance mechanisms further weakens implementation and makes it difficult to assess effectiveness and the quality of application across departments.

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[35] Office for Environmental Protection, *A review of implementation of the duty to have due regard to the Environmental Principles Policy Statement (EPPS) in England* (27 February 2025) 36 A review of implementation of the duty to have due regard to the Environmental Principles Policy Statement in England

[36] Green Alliance, *Environmental governance in the UK: a post-Brexit assessment* (January 2025) 8 Environmental governance in the UK

[37] ClientEarth, *ClientEarth response to the consultation on the draft Policy Statement on Environmental Principles (2021), https://www.clientearth.org/media/0y4grypf/clientearth-response-to-environmental-principles-policy-statement.pdf*

[38] Office for Environmental Protection, *A review of implementation of the duty to have due regard to the Environmental Principles Policy Statement (EPPS) in England* (27 February 2025) 30 A review of implementation of the duty to have due regard to the Environmental Principles Policy Statement in England

37. More fundamentally, a significant structural limitation is that the EPPS does not apply to taxation, spending or the allocation of resources – core areas of HM Treasury decision-making.[39] This substantially constrains its ability to influence the most consequential fiscal and investment decisions.
38. Overall, while HM Treasury's appraisal frameworks and statutory environmental duties are working to formally incorporate environmental considerations, their practical impact remains constrained. Environmental risks and benefits are increasingly reflected in guidance, but are not yet systematically embedded or consistently applied in shaping policy and investment outcomes. To overcome this, government should strengthen the application of the Green Book to ensure long-term and non-monetised environmental impacts are consistently incorporated into decision-making, improving transparency through mandatory publication of environmental principles assessments, and introducing clearer cross-government guidance and quality assurance mechanisms to support consistent implementation across departments.

6. How transparent are HM Treasury's decision making and funding processes in demonstrating how climate and environmental considerations are assessed and reflected in decisions?

a. To what extent can the outcomes of those decisions be measured and evaluated, including through published reporting, and the availability of an audit trail for Spending Reviews and other funding decisions?

No response.

7. What progress has the Government made in implementing the recommendations of the Dasgupta Review on the Economics of Biodiversity, and what further action may be required to embed its principles in economic policy and decision making?

39. The Government has made very limited progress in implementing the recommendations of the Dasgupta Review on the Economics of Biodiversity. While there has been some progress in developing natural capital accounting and broader measures of economic progress, Dasgupta's core principles have not been systematically embedded across Treasury decision making, fiscal policy or macroeconomic governance.

[39] Green Alliance, *Environmental governance in the UK: a post-Brexit assessment* (January 2025) 9 Environmental governance in the UK

40. The Review's central recommendation was that natural capital should be treated alongside produced and human capital within economic accounting frameworks, allowing governments to assess whether economic growth reflects genuine increases in national wealth or simply the depletion of environmental assets. Although the Office for National Statistics (ONS) now publishes UK Natural Capital Accounts and has developed Inclusive Wealth and Income accounts aligned with Dasgupta's framework, these remain classified as "official statistics in development" and continue to sit largely outside mainstream fiscal and economic decision making.[40] The latest ONS figures show that UK natural capital per person fell by 7.3% between 2005 and 2022,[41] yet no fiscal rules, spending frameworks or Treasury assessments are currently conditioned on inclusive wealth trajectories or long-term natural capital maintenance.
41. Moreover, the Dasgupta Review has remained largely absent from Treasury policy and communications since publication. Parliamentary questions to the Chancellor regarding implementation have received responses referring primarily to existing environmental policy announcements rather than a coherent programme of economic reform based on Dasgupta's findings.
42. HM Treasury should commission a new report assessing progress since the publication of the Dasgupta Review in 2021, combining updated evidence on nature loss in the UK with analysis of the likely economic consequences of continued environmental degradation by 2030 if current trends persist. This should be published alongside a clear Treasury implementation framework setting out how Dasgupta's principles will be embedded across fiscal policy, public accounting, financial regulation and economic decision making.

a. Does the Government have any target date for final implementation of the recommendations, which were made in 2021?

No response.

Financial risk and economic stability

8. How does HM Treasury assess and manage long term fiscal and economic risks associated with the costs of climate change and environmental degradation, and what influence does this have on Treasury decisions?

[40] Inclusive wealth and income accounts, UK - Office for National Statistics
[41] UK inclusive wealth and income accounts - Office for National Statistics

a. **How do climate and nature risks feature in the Treasury's concept of 'securonomics', and to what extent are environmental sustainability and natural capital recognised as foundations of economic and national resilience?**

No response.

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?**

No response.

Economic framework, green growth and investment for climate, nature and fairness objectives

9. How effectively is the UK's economic framework supporting the transition to a low carbon and nature positive economy, including through investment and economic policy, and how does this compare with other major economies?

a. **What account is HM Treasury taking of regional and social fairness, sectoral transition and local delivery capacity in delivering a green and low carbon economy?**

No response.

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?**
c. **How is HM Treasury supporting green growth, in sectors such as financial services, and how does it assess whether this is delivering at the scale required to meet the UK's climate and environmental objectives?**

43. HM Treasury has not consistently aligned the UK's economic framework with the scale of the climate and nature crisis. While the UK has adopted ambitious climate and biodiversity commitments under the Environment Act, the Kunming-Montreal Global Biodiversity Framework, and the Climate Change Act 2008, Treasury policy has too often prioritised short-term deregulation – weakening policy certainty required to mobilise private finance into nature restoration at scale.
44. Nature markets rely heavily on strong regulatory demand drivers, credible standards, robust monitoring and verification systems, and long-term government commitment

before capital can flow into ecosystem services. The Treasury, therefore, plays a central role not only in funding nature recovery directly, but in determining whether the wider economic framework creates investable conditions for private finance.

45. This is particularly evident in the implementation of Biodiversity Net Gain (BNG), currently the world's largest biodiversity compliance market.[42] While BNG has the potential to channel substantial private investment into habitat restoration through mandatory obligations, Treasury backed deregulatory measures risk undermining the market before it matures.
46. In the first year of implementation, 86% of approved planning applications claimed exemptions from BNG, with more than half relying on the self-declaratory de minimis exemption route.[43] Government proposals to expand exemptions for small sites and further "streamline" requirements risk weakening demand for off-site biodiversity units even further. This is already evident in market activity: in the first 16 months of operation, only around 2% of habitat area listed on the gain site register had been sold.[44]
47. The scaling of nature markets depends on strong, predictable regulation. However, Treasury has often framed environmental regulation as a barrier to growth rather than as essential market infrastructure capable of mobilising private finance into nature recovery. This was illustrated by the Chancellor's January 2025 statement that developers should be able to "stop worrying about bats and newts" in order to "get things built".[45] Such framing risks undermining investor confidence in long-term nature markets while overlooking the growing economic and financial risks associated with nature degradation.
48. These trends demonstrate how weakening mandatory obligations directly suppresses demand within nature markets, weakening the ability for investors to secure reliable revenue streams. While voluntary nature markets can play a complementary role, evidence from voluntary environmental markets demonstrates persistent problems around low additionality, inconsistent verification standards, over-crediting, weak transparency and greenwashing.
49. This can be exemplified by the progression of voluntary carbon markets. Established as a mechanism to mitigate climate change through the purchase of carbon credits, voluntary carbon markets have faced significant and ongoing credibility challenges due to weak governance and insufficient regulatory oversight. According to Forest

[42] *Climate Action*, "Insights from Britain's New Compliance Nature Market: Biodiversity Net Gain" (12 May 2026) Insights from Britain's New Compliance Nature Market: Biodiversity Net Gain - Climate Action
[43] Wildlife and Countryside Link, "Government proposals would torpedo vital nature recovery scheme & biodiversity market, but new research shows a better solution for nature and development" (10 July 2025), https://www.wcl.org.uk/better-solution-for-nature-and-development-than-bng-proposals.asp
[44] *Early Outcomes of England's New Biodiversity Offset Market* (bioRxiv, 22 June 2025) 2, 60718402
[45] Chancellor vows to go further and faster to kickstart economic growth - GOV.UK

Trends' 2025 State of the Voluntary Carbon Market report, the total value of global voluntary carbon market transactions fell by approximately 75% between 2021 and 2024, from $2.1 billion to just $535 million, while trading volumes declined by more than 80% over the same period.[46] The report directly links this contraction to ongoing concerns around inaccurate measurements, over-crediting, weak verification standards and broader doubts over market integrity.

50. However, these failings are not necessarily inherent to nature markets themselves. International experience suggests that compliance-based approaches with stronger regulatory foundations are more effective at creating durable investment conditions. The European Union has integrated biodiversity more systemically through the Sustainable Finance Disclosure Regulation, and multiple EU member states and central banks have begun assessing financial sector exposure to biodiversity-related risks. Similarly, Australia has introduced stronger governance and oversight structures for biodiversity markets through the Nature Repair Act. These approaches provide clearer long-term signals to investors than the UK's continued reliance on fragmented voluntary initiatives, contributing to the UK being ranked amongst the most nature-depleted countries globally and the lowest-ranked G7 nation for biodiversity intactness.[47]
51. The UK has taken some positive steps, including a launch of six principles for voluntary carbon (VCM) and nature markets (VNM) integrity at COP 29, and the Natural Capital and Ecosystem Assessment programme. However, progress remains fragmented and insufficiently embedded within Treasury's wider economic strategy. There is a lack of clarification on how VCM and VNM are expected to link with existing compliance activities, such as BNG, despite the same integrity and governance concerns applying across both systems.
52. For this reason, our central policy recommendation is the introduction of a Nature Recovery Obligation (NRO) as seen in our Link 2023 Reforming Environmental Markets Report.[48] This would consist of a statutory framework requiring environmentally damaging sectors to contribute directly to the delivery of national nature recovery targets, in line with the polluter pays principle and the UK's obligations under the Environment Act and Kunming-Montreal Global Biodiversity Framework.
53. Unlike voluntary environmental markets, which depend on fluctuating corporate preferences and reputational incentives, a Nature Recovery Obligation would create a stable, long-term source of demand for high-integrity ecosystem restoration. This

[46] Voluntary Carbon Market Falls Amid Criticism, UN Regulatory Push | CZ app
[47] uk_biodiversity_-_a_credit_to_the_nation.pdf
[48] Link Environmental Markets Report - March 2023

would provide the revenue certainty currently missing across many environmental markets and enable habitat banks, restoration providers, farmers and investors to finance large-scale restoration projects with greater confidence.

54. The obligation should operate on a "beyond offsetting" basis. Businesses should first be required to avoid and reduce environmental harm within their own operations and supply chains in line with the mitigation hierarchy. Only residual impacts should then be addressed through the purchase of accredited environmental credits or direct investment into approved restoration projects. Importantly, obligations should contribute not merely to project-level compensation, but to the achievement of wider national biodiversity and climate targets.
55. A Nature Recovery Obligation would also help address one of the fundamental weaknesses currently affecting UK nature markets: insufficient and unstable demand. The experience of voluntary carbon markets demonstrates that environmental markets without clear regulatory foundations are highly vulnerable to integrity failures, reputational crises and market contraction.
56. To ensure high integrity, any Nature Recovery Obligation should be supported by robust governance arrangements, including mandatory disclosure requirements, and more robust systems for verification, monitoring and accreditation of environmental credits and ecosystem services.
57. In particular, expanding the UK Sustainability Reporting Standards framework beyond climate-only disclosures to include mandatory nature and biodiversity-related reporting, aligned with the TNFD, would help embed environmental risk into corporate governance and capital allocation decisions. Mandatory disclosure frameworks can improve transparency, reduce information asymmetries and increase market confidence. Emerging evidence supports this narrative, suggesting that firms adopting biodiversity disclosure frameworks experience reduced stock price crash risk,[49] indicating stronger governance and improved risk management. By contrast, the UK's current voluntary approach has seen only limited uptake of TNFD-aligned reporting, with no clear indication that nature disclosures will become mandatory in the near term.
58. Overall, HM Treasury's reluctance to maintain strong environmental obligations and weak integration of natural capital into economic policy has constrained the development of private nature finance at the scale required to meet the UK's climate and biodiversity commitments. A Nature Recovery Obligation and governance framework would provide the long-term regulatory certainty and stable market demand necessary to mobilise high-integrity private investment into nature

[49] Biodiversity risk disclosures and stock price crash risk - ScienceDirect

recovery, while avoiding many of the integrity failures associated with poorly regulated voluntary environmental markets.

d. How is HM Treasury balancing international competitiveness considerations, tax revenues and environmental imperatives in relation to its approach to energy generation?

No response.

Wildlife and Countryside Link (Link) is the largest nature coalition in England, bringing together 98 organisations to use their joint voice for the protection of the natural world and animals.

For questions or further information please contact:

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The following organisations support this response:

The Wildlife Trusts
Friends of the Earth
The Royal Society for the Protection of Birds
Amphibian and Reptile Conservation
National Trust
Plantlife
Soil Association
Chartered Institute of Ecology and Environmental Management
Whale and Dolphin Conservation
Zoological Society of London