National Audit Office

BRIEFING FOR THE
HOUSE OF COMMONS
ENVIRONMENTAL
AUDIT COMMITTEE

JULY 2013

Department for Business, Innovation & Skills

Departmental Sustainability Overview: Business, Innovation & Skills

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Contents

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This report can be found on the National Audit Office website at www.nao.org.uk

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Summary

Background

1 Sustainable development balances economic, environmental and social needs of current and future generations. It can be thought of as a long-term, integrated approach to achieving improvements in quality of life while respecting the need to live within environmental limits.

2 Government departments can play a key role in helping to make development more sustainable through the regulatory and policy frameworks they put in place, the programmes they fund, and the way they manage their own operations. Following its commitment to be the greenest government ever, in February 2011 the Coalition Government announced its intention to move sustainable development beyond being considered as a separate, 'green' issue which is a priority for only a few government departments, and to embed it within governance, policy making, and operations.

3 The Environmental Audit Committee has published two reports on the Coalition Government's progress in embedding sustainable development.[1] In its most recent report, published in June 2013, the Committee highlighted a number of initiatives that it considers to be key building blocks for the process, such as the new arrangements for the Cabinet Office to review sustainable development in business plans, and developments in guidance on policy appraisal. It made recommendations for improvements to these processes and committed to continue to monitor progress. The Department for Environment Food and Rural Affairs also published in May 2013 a review of progress in 'mainstreaming' sustainable development.[2] This concluded that good progress had been made but that government departments would need to continue to work together to share best practice.

4 This briefing responds to a request from the Environmental Audit Committee to review sustainability within the Department of Business, Innovation and Skills (BIS). It aims to assess whether the Department has successfully embedded sustainable development within its:

- governance structures;
- policy and policy making;

[1] Environmental Audit Committee, *Embedding Sustainable Development across Government, after the Secretary of State's announcement on the future of the Sustainable Development Commission*, First report of session 2010-11, HC 504, Jan 2011. Environmental Audit Committee, *Embedding Sustainable Development: An update*, First report of session 2013-14, HC 202, June 2013

[2] Defra, *Government Progress in Mainstreaming Sustainable Development*, May 2013

- operations; and
- procurement.

5 Our work involved interviews with staff in the Department and reviews of published and internal documentation. We also drew on other National Audit Office publications, including our *Departmental Overview of BIS* (October 2012) and previous briefings for the Environmental Audit Committee on sustainability reporting and on sustainable procurement. To provide a basis for our work, we developed a framework of good practice criteria for embedding sustainability within an organisation (see annex).

Key findings

Governance

6 The Department's vision of promoting 'strong sustainable and balanced growth, evenly shared across the country' recognises some aspects of its potential role in sustainable development. In an annex of its business plan the Department sets out in more detail how its activities contribute to sustainable development by supporting the transition to a low carbon economy, developing knowledge and skills, improving social mobility, and by managing its estate in a sustainable way.

7 The Department has translated this vision into objectives and outcomes which promote economic growth and aspects of social welfare but without explicitly addressing environmental impacts and whether together they will achieve a balanced sustainable development. Its intended outcomes, targets and milestones focus on economic and some social issues, with minimal recognition of its wider role in supporting the transition to a low carbon economy and promoting social mobility.

8 In 2012 the Department's Operations Committee reviewed the profile of sustainable development within the organisation and concluded that the issue lacked visibility and sufficient resources to effect change, especially following the departure of the Department’s sustainable development champion earlier that year. In March 2013 the Department appointed a new departmental champion for sustainable development. Although the responsibilities of this role are still being developed, the relationship to Departmental governance structures is clear. The champion is a member of the Operations Committee, a sub-committee of the Executive Board, which has oversight of the Department's operations.

9 Departmental expenditure in 2012-13 amounted to £25 billion. The Department delivers its policies through a wide and diverse range of partner organisations. It is not clear how the Department gains systematic assurance that all of its partner organisations are embedding sustainable development objectives appropriate to their remit. Some of these partner organisations have explicit sustainability objectives. The Green Investment Bank aims to mobilise private sector investment into green projects in the UK; the Meteorological Office has a significant role in climate change research and information; and research councils support research on a range of social and environmental topics such as renewable energy technologies.

10 The Department complies with central guidance on monitoring and reporting on sustainable development, with detailed reporting against its greening government commitments, though the sustainability report in its annual report and accounts contains little information on how sustainability is embedded within policy making.

Policy and policy making

11 Before our review the Department had not developed a strategic assessment of the potential sustainable development impacts of all of its policy responsibilities. As part of this review, the Department worked with us to develop an initial analysis, on which they are now seeking to build. This analysis demonstrates that there are a range of initiatives within the Department which are intended to promote sustainable development, but that it could do more to assess the range of impacts associated with its activities on a systematic basis, identify priority areas, and consider the potential for mitigating potential negative impacts.

12 We selected three case examples to examine and illustrate the way in which the Department addresses sustainability within policy development and appraisal. In these appraisals, the Department identified a range of economic and social impacts and evaluated some of these on a whole-life basis. It also recognised that these initiatives could potentially result in long-term indirect positive benefits, such as economic growth and improved social cohesion, though these were difficult to quantify in monetary terms. However, there was little consideration of potential long-term indirect costs, such as the impact of inter-generational transfers of debt associated with student loans, or the impact of economic growth on energy consumption and greenhouse gas emissions. In view of the extent of uncertainty involved, regular post-implementation evaluations can help to assess the nature of such impacts and take additional action to mitigate them if necessary.

Operations

13 The Department has already met three of its six targets for 2015 on the environmental impact of its operations. It is making good progress against its waste and carbon targets. There has been no progress in reducing domestic flights.

14 The Department has reduced its staffing considerably and embarked on a radical restructuring and rationalisation of its estate, which has driven the Department's improvement against targets and also resulted in substantial financial savings. Responsibilities for operational management of the departmental estate and for further rationalisation are currently being transferred to UK Shared Business Services (UK SBS). The UK SBS Property Asset Management Service will become fully operational by December 2013, and expects to incorporate sustainable development within its operational objectives.

15 The Department can also influence sustainability within universities and other educational institutions through the funding for higher and further education which it provides to the Higher Education Funding Council (HEFCE) for England and the Skills Funding Agency. HEFCE has developed a sustainability strategy for the higher education sector and put in place a range of initiatives to promote energy efficiency, more sustainable operational management, and greater awareness.

Procurement

16 The Department's expenditure on procurement of goods and services amounted to nearly £1.5 billion in 2012-13, of which around £530 million was accounted for by the research councils. The largest single area of procurement spend is on information and communications technology such as computer equipment and software.

17 Some 59 per cent of the Department's procurement spend is through central government framework contracts but it is unable to identify how many contracts comply with Government Buying Standards.[3] The Department expects the quality of management information and reporting on procurement to improve as a result of its use of UK SBS for the provision of procurement services.

Areas of interest to the Committee

18 Issues the Committee might wish to explore with the Department include the following:

Governance

a. The absence of any strategic sustainable development and environmental objectives or targets relating, for example, to the transition to a low carbon economy.

b. The role of the departmental champion and how the champion might help embed sustainability more effectively within the Department.

c. How the Department satisfies itself that its many partner organisations are embedding sustainable development appropriately into their policies and operations.

d. The lack of progress in reporting more fully on sustainability in policy making in the Department's annual report.

Policy and policy making

e. How the Department's strategic analysis of the potential impacts of its policies might affect its approach in the future and its priorities for embedding sustainability.

f. The Department's wider role in promoting sustainable economic growth and the transition to a low carbon economy.

[3] The Government's Buying Standards, developed by Defra, seek to make it easy for procurers to buy products of a high standard by laying down simple technical specifications and award criteria for products to be used in tenders.

g. The difficulties and uncertainty involved in assessing longer-term impacts of policy initiatives, and how this can best be represented within current impact assessments and business cases.

Operations

h. Whether the Greening Government targets for the operation of the central government estate are sufficiently challenging, given the significant progress that the Department has already made.

i. The progress the Higher Education Funding Council for England is making in developing a new sustainability framework; and how the Department is aiming to promote sustainable development in the further education sector.

j. How the Department is ensuring that UK Shared Business Services embeds sustainable development within its objectives and operations.

Procurement

k. The scope for improving management information systems for collecting data and monitoring performance on the extent to which sustainability is embedded within procurement activities.

Part One

Sustainability responsibilities and governance

Introduction

1.1 This part of the report sets out background information on the Department for Business, Innovation and Skills (the Department), and considers the extent to which sustainable development considerations are incorporated within the Department's formal governance structures, covering:

- strategic objectives and aims;
- accountability and decision making processes;
- monitoring and reporting processes; and
- staff engagement.

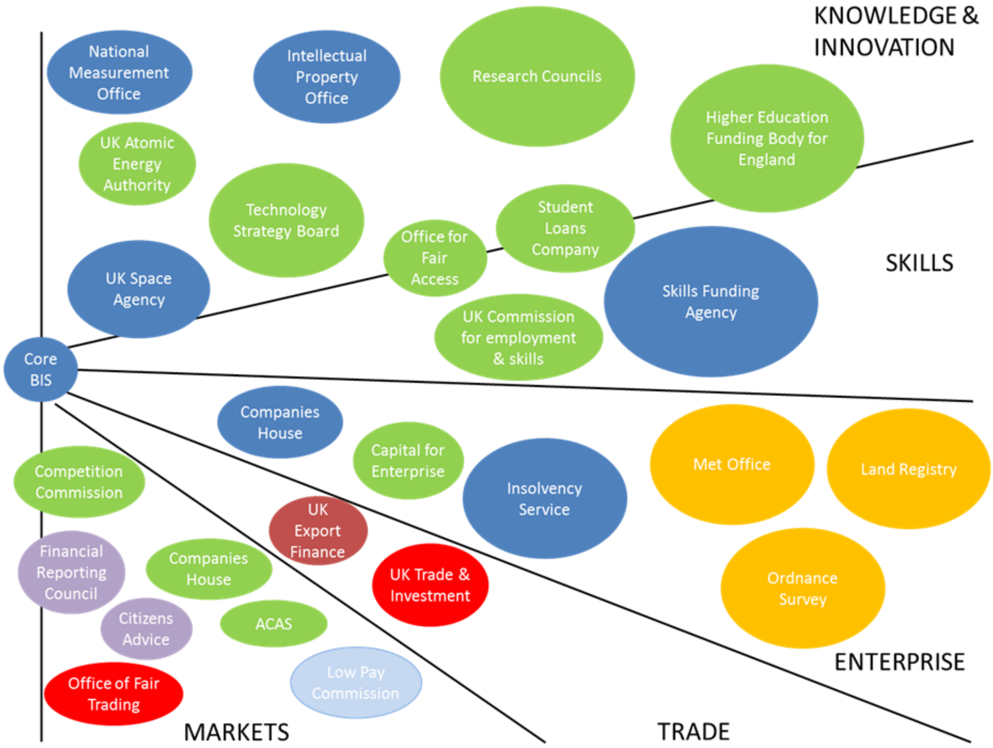
The nature of the Department's business

1.2 The Department is focused on delivering the Government's goal of sustained and balanced economic growth. It is responsible for government policy on: research and innovation; higher education, enterprise and business; skills, markets and better regulation; trade, local economic development and the government's performance as a shareholder. The Department also, in conjunction with the Foreign and Commonwealth Office, sponsors UK Trade and Investment, a non-ministerial department focused on supporting UK business overseas and attracting foreign investment into the UK.

1.3 The Department delivers its policies through a wide and diverse range of over 40 partner organisations, some of which are trading funds and receive no direct government funding (Figure 1).

Figure 1

Partner Organisations



NOTES

1. Not all partner organisations are shown, including new partner organisations such as the Green Investment Bank and the Business Bank.
2. The relative amount of funding for partner organisations, as represented by the size of bubble, is not to scale.
3. Colour coding is as follows:

Green:	Executive non-departmental public body
Light blue:	Advisory non-departmental public body
Dark blue:	Executive agency (including some trading funds)
Yellow:	Trading funds
Brown:	Ministerial government department
Red:	Non-ministerial government department
Purple:	Other

Source: Business, Innovation and Skills, *Guide to BIS*, October 2012

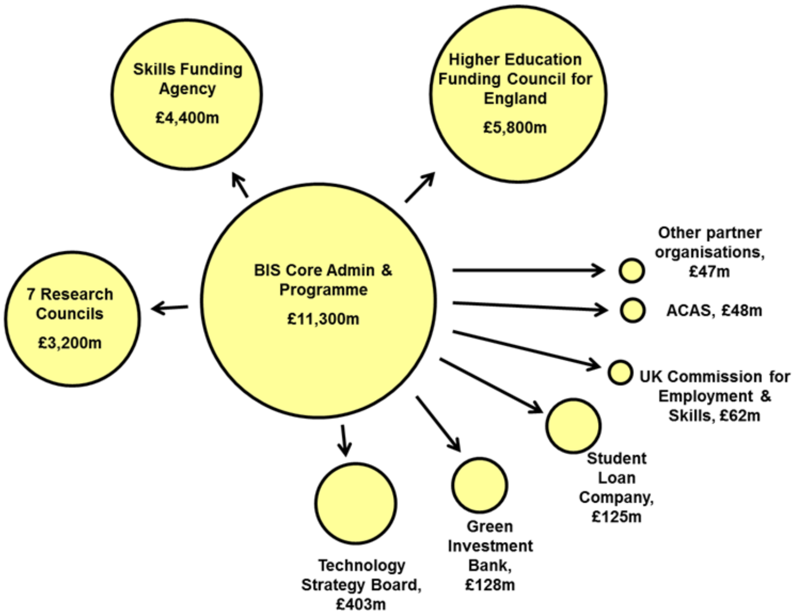
1.4 The Department's expenditure in 2012-13 was over £25 billion.[4] Most of this relates to the education sector (Figure 2). The Higher Education Funding Council for England and the Skills Funding Agency together account for £10.2 billion. In addition,

[4] This includes both operating and capital expenditure.

£10.7 billion of the Department's core expenditure relates to payments of student loans and grants, and to non-cash charges associated with those loans.

Figure 2

Departmental expenditure in 2012-13



NOTES

1. Figures show total expenditure including capital.
2. Of the £11,300 million BIS core expenditure, £7,300 million relates to payments of student loans and grants, and £3,400 million relates to non-cash charges associated with those loans.
3. The £5,800 million for HEFCE comprises £4,000 million block grant for teaching and £1,800 million for research.
4. The figure does not include expenditure relating to EU Structural Funds.

Source: National Audit Office.

1.5 In addition to UK government funding, the Department also leads UK policy for EU structural funds. The EU allocated around £9 billion from structural funds to the UK in the current funding period from 2007 to 2013. These funds have to be matched by UK funding (public or private), usually on an equal basis in more developed member states such as the UK. The UK is eligible for two structural funds: the European Regional Development Fund, which focuses on jobs and growth, and the European Social Fund, which focuses on increasing the adaptability of workers and addressing barriers to employment.

Sustainable development objectives

1.6 The Department's vision is *'to achieve, strong, sustainable and balanced growth, evenly shared across the country'*.[5] The Department has translated this vision into objectives and outcomes which promote economic growth and aspects of social welfare but without explicitly addressing environmental impacts and whether together they will achieve a balanced sustainable development (Figure 3).[6]

Figure 3

Departmental objectives and outcomes

Policy Objectives

Knowledge and innovation: Promoting excellent universities and research, and increased business innovation

Skills: Building an internationally competitive skills base

Enterprise: Working to boost enterprise and rebalance the economy across sectors and across regions (page 10)

Trade and investment: Stimulating exports and inward investment

Markets: Creating a positive business environment, and protecting and empowering customers

Effective BIS: Ensure BIS is a high-performing department

Outcomes

1 A research base that delivers maximum benefit for the UK
2 World-class translation of knowledge and ideas into successful commercial and public service outcomes, increasing productivity, growth and quality of life
3 A sustainable, autonomous English higher education system with world class teaching that is open to people from all backgrounds
4 An internationally competitive skills base, helping business to grow and individuals to succeed
5 A stronger entrepreneurial culture and business environment in which SMEs can access finance, information and advice they need to start up and grow
6 Increased private sector growth across the country
7 The UK to be world-class in high-value manufacturing and services
8 Maximise business opportunities and maintain competitiveness in the transition to a green economy
9 Improved efficiency of the management and service delivery of public data
10 Safeguarding the future of Royal Mail and the Post Office
11 Increased UK exports to high-growth and emerging markets
12 The UK remains a top destination for high-quality, foreign direct investment projects
13 Encourage free, fair, and open markets
14 A competitive, efficient and effective labour market that supports economic growth and employment
15 A world-class competition framework
16 An effective consumer framework delivering growth and consumer welfare, with minimum regulatory burdens on business
17 An effective corporate law, governance and insolvency framework
18 A wider business environment that supports growth
19 Evidence-based Government strategy that helps facilitate sustainable, balanced economic growth
20 A positive regulatory environment for business resulting from the improved design and delivery of regulation
21 An efficient and effective BIS, enabling delivery of evidence-based policy objectives

NOTES

1. The five main policy objectives are highlighted in green.

Source: Business, Innovation and Skills, *'Guide to BIS'*, October 2012

[5] Annual Report and Accounts 2011-12

[6] Business, Innovation and Skills, *'Guide to BIS'*, November 2012; Business Plan 2012-2015, May 2012. The Guide to BIS contains a published version of the Department's operational plan.

1.7 Separately, the Department is required to set out as an annex to its business plan how its activities contribute to government cross-departmental priorities. This includes a section on sustainable development which focuses on the Department's role in supporting the transition to a low-carbon economy, developing knowledge and skills, and the establishment of the Green Investment Bank (Figure 4). The areas covered do not address all the Department's business areas and their potential impacts, or how government funding might be coordinated with resources from EU structural funds. Another section of the annex covers social mobility, for which the current objectives refer to:

- expanding and improving the quality of the apprenticeships programme;
- the development of a national strategy for access to higher education;
- the Department's involvement in the recently created Social Mobility Transparency Board; and
- the Department's support for the Gateways to the Professions Collaborative Forum, which aims to identify and help remove barriers to fair access to the professions.

1.8 The Department's current Business Plan for the Spending Review period contains in total 35 higher level actions, and 83 lower level milestone targets.[7] Of these, one action and one associated target relate to the establishment of the Green Investment Bank.[8] A second action relates to maximising economic growth, *'including the low carbon economy'*, while the associated target relates to the publication under the industrial strategy of individual sector strategies.[9] A third action and two associated targets relate to the establishment of a compensation scheme under the EU Emissions Trading Scheme for energy intensive industries.[10] Two targets relate to health research.[11] The Plan does not contain any other actions and targets relating to wider sustainability objectives such as greenhouse gas reductions or the transition to a low carbon economy.

[7] Business, Innovation and Skills, Business Plan 2013-15, June 2013

[8] Action 3.13 and target 3.13 (i)

[9] Action 3.1 and target 3.1 (i)

[10] Action 3.2 and targets 3.2 (i) and (ii)

[11] Targets 1.2 (i) and (ii)

Figure 4

Extract from Business Plan: Sustainable Development

"The Department for Business, Innovation and Skills (BIS) is committed to sustainable economic growth. For growth to be sustainable in the long-term, it must support wellbeing and opportunity for all, and be achieved alongside protecting the environment, including the transition to a green, low-carbon economy. Main policies include:

- *The establishment of the Green Investment Bank to invest in sustainable projects is a key component to making the transition to a green economy.*
- *BIS is committed to reducing greenhouse gas emissions from energy use on our estate and through business transport.*
- *BIS is also committed to reducing waste and water usage on our estate.*
- *BIS supports sustainable food procurement by ensuring that Government Buying Standards are used by our caterers.*

The following Sustainable Development actions are included in the BIS Business Plan:

- *Establish a Green Investment Bank to support private investment in green infrastructure and late stage technologies (Action 3.13); and release second annual data on the funds in and size of investments made by the Green Investment Bank (Action 3.13.i).*
- *Establish a compensation scheme for key electricity-intensive businesses to help offset the indirect cost of the carbon price floor and the EU Emissions Trading System (Action 3.2); publish package and guidance for the scheme by October 2013 (Action 3.2.ii); and issue formal state aid notification to the Commission by October 2013.*

BIS is also committed to assess and manage environmental social and economic impacts and opportunities in its policy development and decision making:

- *Responsibility for sustainable development has been embedded into policy making within the department. This means that BIS policy teams consider the long term social, environmental and financial impacts of their work. BIS policy teams are also expected to consider properly the needs and interests of rural people, communities and businesses, as policies are developed and implemented*
- *This culture of collective concern for sustainability has been supported by a Director level BIS Sustainable Development Champion, and an informal departmental network of Green Guardians. The department's sustainability performance for operations and procurement is monitored through the Operations Committee, which reports to the Executive Board. Development and delivery of policy, including policies which support sustainability, are reported to the Board*
- *For regulatory proposals, impact assessments are developed, which take sustainability impacts into account where appropriate. The Analytical Decision Support team provides quality assurance for impact assessments, which must be signed off by the department's Chief Economist before any regulatory changes are made."*

NOTES

1. The bracketed references (3.13i and 3.13ii) refer to milestone targets in the main Business Plan.

Source: Business Plan, June 2013, Annex

1.9 In relation to the coalition government's wider strategy, there are a number of documents which contain objectives relevant to the Department's contribution to sustainable development:

- the *Carbon Plan* (December 2011) contained a total of 124 commitments for UK government departments and devolved administrations, of which six related to the Department. Four concerned the establishment of the Green Investment Bank. The fifth commitment was to publish a report on how key energy intensive sectors can reduce their carbon emissions. The sixth commitment applied to UK Trade and Investment (a partner organisation) and was to complete a low carbon campaign in priority markets of India, China, Brazil and US West Coast by May 2015.[12]

- The *Plan for Growth*, March 2011, jointly published by the Department and the Treasury, contains several references to the planning presumption in favour of sustainable development. It sets out general objectives relating to education and skills which have direct relevance for the Department; and contains some discussion of the need for investment in low carbon technologies, though the Department of Energy and Climate Change is responsible for most of the actions specified in this area.[13]

- *Enabling the Transition to a Green Economy*, August 2011, sets out the Coalition Government's vision and roadmap for the transition to a green economy. It noted that *'a green economy is not a sub-set of the economy at large – our whole economy needs to be green'*. It contains only one commitment for the Department relating to the establishment of the Green Investment Bank.[14]

1.10 The Department has no structured process to ensure that the remits of its partner organisations include sustainable development objectives and targets where appropriate. Nevertheless a number of partner organisations have such objectives:

- The Green Investment Bank and the Energy Technologies Institute are explicitly focused on environmental goals, and this is reflected in their vision and objectives.

- The Technology Strategy Board is focused on accelerating economic growth by stimulating and supporting business-led innovation. It has published a sustainability statement and policy, and in 2011-12 a sustainability framework to help evaluate candidate areas for its 'Catapult centres',[15] refresh its technology strategies, and evaluate potential areas of investment under development.[16]

- The Met Office and research councils also have important objectives relating to sustainability and climate change. The Met Office Hadley Centre is

[12] See 'The Carbon Plan', 2011, Annex C: https://www.gov.uk/government/publications/the-carbon-plan-reducing-greenhouse-gas-emissions--2

[13] See especially pages 81-83: https://www.gov.uk/government/publications/plan-for-growth--5

[14] See: https://www.gov.uk/government/publications/enabling-the-transition-to-a-green-economy .

[15] Catapult centres are groups of technology and innovation organisations designed to bridge the gap between academic research and business. See https://www.catapult.org.uk/

[16] Technology Strategy Board, *Annual Report and Accounts*, July 2012

internationally renowned for its work on climate change research, and provides in-depth information and advice to the Government on climate science issues as well as a wider global role; while research councils provide significant funding for research in areas such as biodiversity and renewable energy technologies.

Accountability and decision making

1.11 The Department has adopted the government's recommended board structure (Figure 5).[17] The Executive Board has considered sustainable development issues on a number of occasions over the last two years, and the Operations Committee recommended the appointment of one of its members as a departmental champion for sustainable development.

Figure 5

Departmental governance structure

NOTES

1. The Department's secretariat coordinates liaison between committees.

Source: BIS, *Guide to BIS*, October 2012

[17] HMT/Cabinet Office, *Corporate Governance in Central Departments: Guidance Note*, July 2011; and HMT/Cabinet Office, *Corporate Governance in Central Departments: Code of good practice 2011*, July 2011

1.12 The Department's Operations Committee reviewed sustainability within the Department on two occasions in 2012. It concluded that work to progress the sustainability agenda lacked visibility at a high level within the Department and was insufficiently resourced. It agreed that the Operations 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.

1.13 The appointment of the Department's sustainability champion in March 2013 was some nine months after the previous champion moved on. The current champion is a Director who sits on the Operations Committee and is also responsible for local growth policy. The Board has tasked the champion 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. Beyond this, there are not yet any formal terms of reference for this role.

1.14 The Department abolished its dedicated sustainable development team in 2011 as part of the Government’s initiative to mainstream sustainable development and as part of a wider restructuring of the Department to achieve efficiency savings.

Staff engagement

1.15 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. In practice, some divisions or teams within the Department, such as the green growth team, naturally have a greater focus on sustainability objectives than others. Within the Department itself, an informal network of 'Green Guardians' aims to raise awareness among staff on operational issues such as saving energy and reducing waste, as well as on wider policy issues such as climate change.

1.16 The Department has not incorporated separate overarching sustainable development objectives within staff objectives. But where sustainability constitutes a core aspect of the work, such as in the green economy team, then it is reflected in 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.

External liaison

1.17 In January 2011, the Department was instrumental in setting up the Green Economy Council to support the Government on the transition to a green, low carbon economy. This was a joint initiative between the Department, the Department of Energy and Climate Change, and the Department of the Environment, Food and Rural Affairs. The Council works with these three departments to identify the business opportunities and challenges of the green economy. The publication in 2011 of

Enabling the Transition to a Green Economy indicated what those challenges and opportunities were for some sectors. The Council has focussed mainly on the challenges facing energy intensive industries. Little information on this initiative is publicly available.

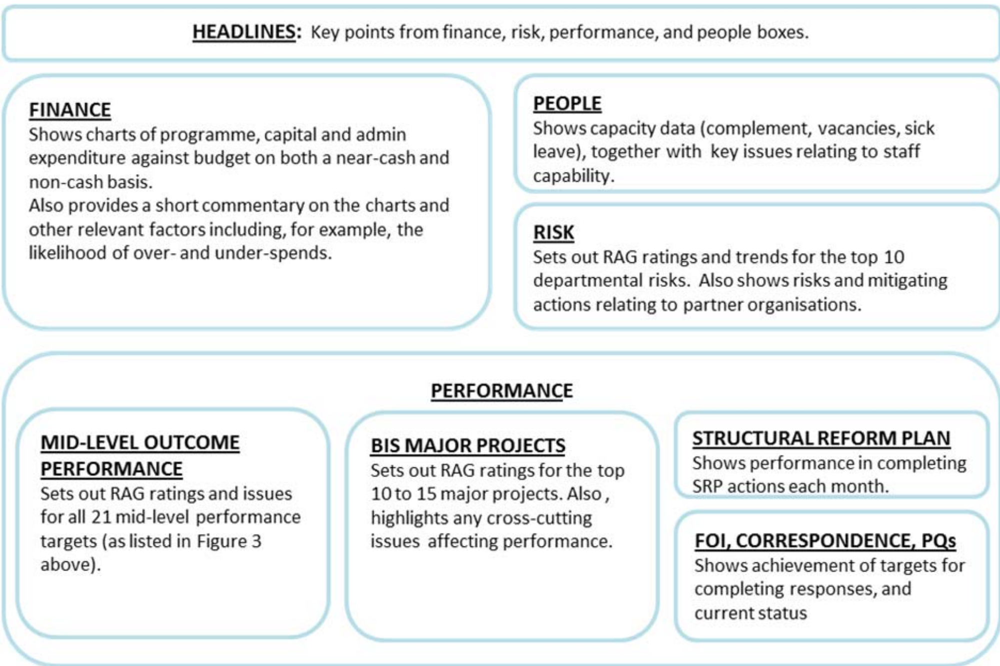
1.18 The Department is represented on the National Emissions Targets Board and the departmental champion also sits on the cross-Whitehall sustainability group which is focused on improving the operational performance of the government estate.

Sustainability monitoring and reporting

1.19 The Department's internal processes for monitoring progress and reporting performance are governed by the internal board structures set out above (Figure 5). At the highest level, the departmental 'dashboard' addresses economic and some social aspects of the Department's sustainable development ambitions but contains limited coverage of environmental impacts (Figure 6).

Figure 6

Departmental headline management information ('dashboard')



NOTES

1. This figure is a schematic representation of the layout of the BIS 'dashboard'. The latter presents detailed information on these topic areas on a single A3 landscape sheet.

Source: National Audit Office / Business, Innovation and Skills, Departmental 'dashboard'

1.20 In 2011-12 the Treasury introduced two new requirements for public reporting:

- The Public Expenditure System (PES) annual reporting guidance required departments to report on how sustainability is taken into account in operations, procurement and policy development.
- the Financial Reporting Manual (FReM) required all central government organisations to include a sustainability report in their Annual Report and Accounts. Detailed guidelines specify that sustainability reports must include commentary on performance and financial and non-financial data on waste, resource use and greenhouse gas emissions.

In addition, departments must comply with the coalition government's Greening Government Commitments, which oblige departments to report on their operational performance, albeit on a slightly different basis to the FReM requirements.

1.21 The Department has made considerable efforts to consolidate its environmental reporting across its partner bodies for its Sustainability Report, and to provide data to the Department for the Environment, Food and Rural Affairs in respect of its Greening Government Commitments (see Part 3 below). The Department's latest Sustainability Report, published in July 2013, 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.[18]

1.22 The Sustainable Development Unit (SDU) in the Department for Environment, Food and Rural Affairs (Defra) monitors the progress of all departments against sustainable development targets, and reports annually to the Cabinet Office. In practice, the main focus of the Defra SDU is on the cross-cutting commitments contained in Annex A of the business plan, which are agreed with the Defra SDU before publication. To date, the Cabinet Office has not raised any issues from this process with the Department.

[18] See the Department's Annual Report and Accounts, 2012-13.

Part Two

Sustainable policy making and evaluation

Introduction

2.1 This part of the briefing considers how the Department embeds sustainable development considerations within policy making. It sets out:

- background information on recent policy developments and current challenges the Department is facing;
- the nature of the potential sustainability impacts arising from the Department's main policy areas, and the extent to which the Department has highlighted priority areas within which to embed sustainable development;
- how the Department seeks to fulfil central guidance which requires departments to take account in policy making of wider sustainable development and environmental impacts; and
- some case examples which illustrate issues and difficulties involved in appraising policy initiatives.

Recent developments and current challenges

2.2 Significant policy developments within the Department include:

- **Reform of Higher Education**: Reform of higher education will transfer the burden of funding from the taxpayer to the student. The Department estimates that, over the period from 2010-11 to 2014-15, teaching grants will fall from £7.1 billion to £4.2 billion per annum, while student loans will increase by £5.3 billion. The Department anticipates that most of the student loans paid out in this Spending Review period will be repaid in the future (see also paragraphs 2.11 to 2.13).
- **Reform of Further Education:** As with higher education, the government is reducing grant funding for further education and skills from £4 billion to £3 billion over the period from 2011-12 to 2014-15. It is compensating for reductions in further education grants by introducing '24+ Advanced Learning Loans'. These loans will be phased in from the 2013-14 academic year and from 2014-15 will represent between 10 to 15 per cent of the total Further Education budget.
- **The Green Investment Bank (GIB):** The Bank was formally launched in November 2012. It operates at arm’s length from Government as a public company, with £3 billion of Government funding to 2015. To date, it has contractually committed £635 million in loan and equity investments for green

projects in each of its four priority sectors (waste, offshore wind, non-domestic energy efficiency, and the Green Deal) which it estimates have attracted £1.8 billion of private sector funding that would not have been invested at all, or as quickly, without the GIB's involvement.

- **The Business Bank:** In 2012, the Department committed £1 billion to a government-funded business bank to work at arm's-length from government, with the aim of helping UK small and medium-sized enterprises to invest and expand. The Government launched the first phase of the Business Bank in April 2013, with the first tranche of transactions expected to take place in Autumn 2013. It will become fully operational in 2014.

- **The creation of Local Enterprise Partnerships:** The Regional Development Agencies were closed in March 2012. The Department, working with the Department for Communities and Local Government and other departments, has promoted the development of Local Enterprise Partnerships which bring together business and civic leaders to develop and drive forward local strategies for jobs and growth. Following the Heseltine review of local growth,[19] the Government announced in March 2013 that it will create a Single Local Growth Fund from existing cross-government funding streams in order to strengthen incentives for Local Enterprise Partnerships to generate growth.

- **The New Postal Services Act 2011:** The government wants to secure a sustainable future for the universal postal service given its economic and social importance. The Act enables the Department to achieve these objectives by reforming postal regulation, relieving the Royal Mail of its historic pension deficit, and seeking a sale of Royal Mail shares to allow the company future access to private capital. The Government has already established a new regulator and transferred to itself the bulk of the assets and liabilities of the Royal Mail Pension Plan. It has now announced its intention to seek a sale of shares in Royal Mail in this financial year.

- **The Regional Growth Fund** is a £2.6 billion fund operating across England from 2011 to 2016. The Fund aims to support projects and programmes with significant potential for creating additional, sustainable private sector employment (see also paragraphs 2.7 to 2.10).

[19] The Rt Hon the Lord Heseltine of Thenford CH, *No Stone Unturned in Pursuit of Growth*, October 2012

Departmental policy impacts and sustainability

2.3 Part 1 of this briefing addressed the extent to which sustainability is embedded within formal policy objectives. Policies to deliver these objectives can have a range of impacts, including shorter-term and longer-term social and environmental impacts. Before our review the Department had not carried out a strategic assessment of these to identify its priorities for embedding sustainable development in them. We worked with the Department to carry out an initial analysis of these potential impacts and identify how it seeks to promote positive impacts and mitigate negative ones (Figure 7). The figure demonstrates that there are a range of initiatives within the Department which are intended to promote sustainable development. It remains unclear how significant these are in relation to the Department's activities across the policy landscape. There is scope for the Department to develop this work further. It could do more to assess the range of impacts associated with its activities on a systematic basis, identify priority areas, and consider the potential for mitigating potential negative impacts.

Figure 7

Departmental sustainability impacts

Area	Delivery Bodies	Potential sustainable development impacts	Examples of how the Department has sought to promote positive impacts or mitigate negative impacts through its policies
Knowledge and innovation	Higher Education Funding Council for England Research Councils Student Loans Company Office for Fair Access UK Space Agency Technology Strategy Board UK Atomic Energy Authority Intellectual Property Office National Measurement Office	Potential direct shorter-term impacts: • Operational impacts from the estate of higher and further education institutions, research councils, and other partner organisations, in particular use of energy and resulting greenhouse gas emissions, water and other natural resources. • Funding for research or skills development can support the development and deployment of technologies with positive sustainability impacts (such as renewable energy) or support technologies which result in unsustainable development. • A better educated and skilled workforce is likely to lead to increased economic prosperity. Potential indirect or longer-term impacts: • Increased economic growth might have both positive and negative indirect impacts (eg improved social cohesion and less crime; increased energy consumption, congestion, air pollution). • Students' awareness of sustainability issues, which could result in positive behaviour change and consequent social and environmental benefits. • Unforeseen technological developments or uses of technology could result in both positive and negative impacts. • Access to student loans might affect access to education for disadvantaged groups and hence social mobility. Levels of personal debt may impact on the economic prosperity of those affected.	Departmental grant letter to the Higher Education Funding Council for England (HEFCE) highlights need to support sustainable development aims, and higher education institutions are required to have carbon reduction strategies. HEFCE Revolving Green Fund to help higher education institutions reduce carbon emissions and achieve BREEAM excellent ratings. The new Francis Crick Institute was designed to minimise environmental and social impacts during construction and operation. The Research Councils £625 million UK Energy Programme aims to help the UK meet its energy and environmental targets. Other research council projects on topics such as bio ethanol production from household waste, the valuation of ecosystem services and natural capital, and the benefits of the continuous descent approach of aircraft. Recent copyright reforms are helping reduce emissions by making books and other creative works available under a wider range of circumstances - for example, by being able transfer purchased material onto different media.
Skills	Skills Funding Agency UK Commission for Employment and Skills Student Loans Company Office for Fair Access		

Figure 7 *continued*

Departmental sustainability impacts

Area	Delivery Bodies	Potential sustainable development impacts	Examples of how the Department has sought to promote positive impacts or mitigate negative impacts through its policies
Enterprise Trade	Companies House Insolvency Service Capital for Enterprise Meteorological Office Ordnance Survey Land Registry Green Investment Bank UK Export Finance (formerly ECGD) UK Trade and Investment	Potential direct shorter-term impacts: • Operational impacts from the estate of partner organisations, in particular use of energy and resulting greenhouse gas emissions, water and other natural resources. • Investment in UK contributing to increased economic growth and a flourishing business sector might have social and environmental impacts, some of which could be negative (eg additional energy consumption and associated carbon emissions), and some positive (eg reductions in unemployment and improved social cohesion). • Supporting international trade and UK exports might result in positive impacts such as increased inward and outward investment in low carbon technologies, and negative impacts such as continued investment in fossil fuel technologies, increased air transport and associated emissions. Potential indirect or longer-term impacts: • Foreign trade may bring social and economic benefits, but can also involve negative environmental and social impacts particularly for developing and less developed countries. • Carbon leakage from the transfer of industrial plant to other countries can result in understating UK emissions if the impact of embedded carbon in imports is not taken into account.	Enterprise capital funds support sustainable economic growth and low carbon industries. Manufacturing Advisory Services helps streamline processes, reduce waste, and become more energy efficient. Departmental support for Local Economic Partnerships in embedding sustainable development objectives within plans and delivering the European Structural and Investment Funds for 2014-2020, the objectives of which include low carbon economy, sustainable urban transport, climate change adaptation, protecting the environment, and promoting resource efficiency. The creation of five Centres for Offshore and Renewable Energy. These are partnerships between central and local Government and Local Enterprise Partnerships that ensure businesses looking to invest in manufacturing for the offshore renewables industry receive the most comprehensive support possible. The Green Investment Bank was launched in 2012 to mobilise private sector capital for green investments, for example in waste, renewable energy, offshore wind, and energy efficiency. UKTI aims to attract 'green' high quality foreign investment into the UK. Its Low Carbon Action Team works with FCO and the Technology Strategy Board to identify and facilitate international opportunities for UK companies in both climate change mitigation and adaptation. It circulates a newsletter to over 400 UKTI and FCO staff to improve awareness of UK capability and topical 'low carbon' issues.

Figure 7 *continued*

Departmental sustainability impacts

Area	**Delivery Bodies**	**Potential sustainable development impacts**	**Examples of how the Department has sought to promote positive impacts or mitigate negative impacts through its policies**
Markets	Competition Commission Office of Fair Trading ACAS Financial Reporting Council Low Pay Commission Citizens Advice Consumer Focus	Potential direct shorter-term impacts • Competition policy and regulation and its enforcement can directly impact on company behaviours in ways which have positive or negative economic, environmental and social impacts. The abolition of regulations may impact likewise. • Company narrative reporting can influence the extent to which companies consider, and are transparent about, sustainability issues. • Better informed customers can make more efficient and sustainable decisions on the use of key items such as energy. Potential indirect or long-term impacts: • Competitive markets and consumer pressure can result in a short-term focus which takes insufficient account of longer term social and environmental objectives.	BIS reforms to the structure and content for company narrative reporting support sustainability by encouraging companies to consider and report on their long-term strategy, including environmental and social issues. These will come into force in October 2013.

Source: Business, Innovation and Skills/National Audit Office

Policy development and appraisal

2.4 Key requirements on departments relating to policy development and appraisal are set out in previous National Audit Office briefings for the Committee.[20] They include guidance on:

- **Appraisal**: The Treasury's Green Book sets out how departments should carry out appraisals of policy and take account of wider sustainable development impacts, and is supported by a wide range of supplementary guidance.

[20] National Audit Office, *Appraisal and Sustainable Development* (July 2012); National Audit Office, *Sustainability Reporting* (December 2012)

- **Evaluation**: The Treasury guidance also specifies how departments should conduct retrospective evaluations of the impact of their policies.
- **Reporting**: Government guidance requires departments to report progress in addressing sustainable development in their policy appraisals (paragraph 1.20).

2.5 The Department aims to follow Treasury and other guidance when assessing and presenting economic, social, and environmental impacts in impact assessments and business cases. It publishes a range of additional internal guidance for staff on topics such as handling non-monetised factors, financial and value for money decision making, and better regulation. It also makes available to staff other guidance from the cross-government economists' Evaluation Methodology Group. Non-monetary impacts may be discussed in appraisals, but the Department does not use novel approaches, such as spider web diagrams, to attempt to assess holistically the overall impact of a proposal.[21]

2.6 In order to explore in more detail how the Department addresses sustainable development impacts within the policy making process, we explored three policy areas - the Regional Growth Fund, Higher Education funding reform, and the developing Industrial Strategy.

Case example 1 - the Regional Growth Fund

2.7 The Regional Growth Fund is part of the Government's wider strategy for local economic growth. The Government announced plans for the Fund in June 2010 alongside proposals to abolish Regional Development Agencies and promote the creation of Local Enterprise Partnerships. The £2.7 billion Fund operates across England from 2011 to 2016. It supports projects and programmes that are using private sector investment to create economic growth and sustainable employment.

2.8 The Fund's objectives are to stimulate private sector investment, promote long-term economic growth and create additional sustainable private sector jobs, particularly in areas dependent on public sector employment. The decision to launch the Fund formed part of the 2010 Emergency Budget and was not accompanied by a formal published business case or impact assessment. An impact assessment was published in November 2011 on the abolition of the Regional Development Agencies. This impact assessment also included an evaluation of the costs and benefits of new compensatory initiatives such as the creation of Local Enterprise Partnerships and the Regional Growth Fund. Figure 8 summarises the impacts considered and omitted from this impact assessment. It demonstrates the difficulty of quantifying the potential long-term economic and social impacts of the policy and the potentially negative impacts of economic growth on the environment.

[21] Such approaches include 'Stretching the Web' diagrams or summary impact tables. See NAO, *Appraisal and Sustainable Development* (July 2012).

Figure 8

Case example 1: the abolition of the Regional Development Agencies and related initiatives

What impacts did the Department consider as part of the formal appraisal process?

Impacts quantified in monetary terms:

- projected cost savings from ending funding of regional development agencies (RDAs)
- foregone economic benefits from RDA spending and activities
- transition costs of abolishing RDAs
- costs of restructuring economic development activities (such as the costs of setting up Local Enterprise Partnerships and the Regional Growth Fund)
- economic benefits generated by the new arrangements
- disruption to regional businesses and gaps in service delivery caused by the absence of RDAs

Impacts identified but not quantified due to data limitations and the extent of uncertainty involved :

- Longer term positive economic impacts from effects on economic growth, rebalancing the economy and private sector employment.
- Intangible impacts such as the potential loss of knowledge and networks accumulated by RDAs .

Any relevant SD impacts not considered

The potential negative impacts of economic growth, such as increased energy consumption and associated carbon emissions).

What are the key assumptions underpinning the analysis?

Most costs and benefits assessed over a five year timeframe (to 2015) and some lifetime benefits (such as the economic benefits of providing support to private sector investment).

While the analysis provides reasonable detail on the way economic impacts have been estimated, there is insufficient detailed information to re-perform some of the calculations; and the strength of the evidence base for some of the estimates, such as the economic benefit estimates, is unclear.

The chosen option would result in reduced government expenditure, though it was judged to result in a cost to society of £3.5 billion (net present value) compared to doing nothing. Within this overall cost, the Regional Growth Fund was evaluated as contributing £5.7 billion benefits on the basis of successful bids to Rounds 1 and 2. The do nothing option (retaining the Regional Development Agencies) was not considered viable given the Spending Review decision to take measures to reduce the deficit and the Coalition Government's commitment to localism.

Did the department set out plans to realise positive SD impacts or mitigate potential negative SD impacts?

The impact assessment considered that the option chosen would not have a negative social or environmental impact, and that it would be for Local Enterprise Partnerships to consider what local green infrastructure issues they can address to enable growth in their area.

With respect to the Regional Growth Fund, the core criteria the Department set out for selecting projects address social impacts in their focus on job creation, but do not include any relating to environmental objectives or the transition to a green economy. However, applicants to the fund are encouraged to set out the wider environmental benefits in their applications, and where possible these are monetised and included in the benefit-cost-ratio assessment. In addition, most costs and benefits are assessed over a 10 year timeframe or longer and the department aims to ensure that the strength of the evidence base for the individual parameter assumptions is clear and transparent.

NOTE

1. This figure is based on a review of the November 2011 impact assessment, *The abolition of the Regional Development Agencies.*

Source: National Audit Office

2.9 Since it was set up, the majority of the money, around £2.4 billion, has been allocated. Allocation decisions are made by Ministers on the basis of recommendations by an Independent Advisory Panel which takes account of the application criteria set out in the 2010 Local Growth White Paper. These criteria address social impacts in the focus on job creation, but do not include any reference to environmental objectives or the transition to a green economy.

2.10 However, the White Paper also stated that, in addition to these core criteria, bidders were encouraged to demonstrate, where possible, how their proposal would contribute to green economic growth. In accordance with this, the application forms provide an opportunity for project sponsors to describe any wider impacts, such as carbon savings, which might result. The Department takes these wider impacts into account in the individual impact assessments it carries out on each application.

Case example 2 - Higher Education funding reform

2.11 The second case study focuses on the higher education funding reforms which the coalition government introduced in 2010 (Figure 9). Key stages in the development of the policy are set out below:

- The Browne report (October 2010) recommended that students in England should pay more for their tuition to reflect the lifetime benefits they receive, and that the higher education market should be opened up by removing the cap on student numbers.

- The October 2010 Spending Review announced a shift away from public spending towards greater contributions from those that benefit most and can afford to pay. This amounted to an increase in tuition fees and a corresponding cut in the overall resource grant budget for higher education from £7.1 billion to £4.2 billion per annum by 2014-15.

- In November 2010, the government introduced statutory measures to increase tuition fees to £9,000 a year from 2012-13 and reduce government grants to higher education institutions. This was accompanied by an interim impact assessment.

- In June 2011 the government published a White Paper on Higher Education Reform which set out further proposed reforms. This was accompanied by a full impact assessment. The introduction of the Higher Education Reform Bill to implement further reforms was subsequently postponed.

Figure 9

Case example 2: Higher Education funding reform

What impacts did the Department consider as part of the formal appraisal process?

Impacts (costs and benefits) quantified in monetary terms:

- block grant to fund university teaching
- loans and payments
- foregone taxation and earnings
- administrative changes
- Additional lifetime income a graduate might expect to earn (graduate premium)

Impacts identified but not quantified due to data limitations and extent of uncertainty involved:

- Longer term positive economic impacts on innovation, economic growth and skills
- Positive social impacts from better health, reduced crime and social cohesion
- Potential for some small energy efficiency savings if changes promote a long term stable environment which might support investment in infrastructure.

Any relevant SD impacts not considered

The potential impact of increased levels of personal debt on students was not included in the published impact assessment, as the Department considered that students would not be adversely affected by it.

Potential negative impacts of economic growth, for example on carbon emissions, are not covered.

What are the key assumptions underpinning the analysis?

Most costs and benefits assessed over a maximum 10 year time frame, together with the lifetime costs and benefits for those students in that 10 year period. The latter include the graduate premium, the charge for loans unpaid, and the opportunity cost of lost tax and NI revenue.

Graduate premium is taken as £100,000 (discounted). This was referenced in a supporting paper to a London Economics 2011 study.

Chosen option assumed not to affect student numbers.

The net present value of the option chosen, based on quantified impacts only, was judged to result in a net cost to society of £8 billion in comparison with doing nothing. However, doing nothing was not considered viable given the Spending Review decision to cut the resource grant.

Did the department set out plans to realise positive SD impacts or mitigate potential negative SD impacts?

The option chosen was constructed to limit certain impacts (for example, by restricting fees to a maximum of £9,000; and by introducing a system of progressive repayments of student loans dependent on salary).

NOTES

1. This figure is based on a review of the Higher Education White Paper impact assessment (June 2011)

Source: National Audit Office

2.12 The case example demonstrates the difficulty which departments face in quantifying long-term indirect positive impacts (economic growth and social benefits), as well as potentially long-term indirect costs (such as the extent to which economic growth might lead to increased energy consumption and associated greenhouse gas emissions). It also shows that there is considerable uncertainty associated with future estimates, even where these are quantified (such as, for example, the assumptions made by the Department in higher education reform relating to student numbers and the graduate premium).

2.13 It is particularly difficult to predict the longer term impact of inter-generational transfers of debt associated with student loans. 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. In such circumstances, early in-depth post-implementation reviews can help departments to assess the nature of such impacts and take additional action to mitigate them, if necessary. The Department is planning to review the policy in 2015.

Case example 3 - the Industrial Strategy

2.14 The third case example looks at the Government’s industrial strategy to help the UK economy and businesses compete and grow. The background to the strategy is set out below.

- The Government announced its industrial strategy, which builds on its Plan for Growth and the Growth Review, in September 2012. The Government committed over £1.6 billion to this in Budget 2013. This includes more than £1 billion of new money from HM Treasury and more than £500 million from the budget of the Department for Business, Innovation and Skills.

- The strategy is a cross-government initiative, focused on developing a long-term approach to growth working in partnership with industry and across government departments. Work has so far focused on five themes: sectors, technologies, access to finance, skills and procurement.

- In September 2012, the government set out that it would develop strategic partnerships with eleven sectors and published an analysis behind the decision to focus on these sectors. A number of strategies for these sectors (life science, nuclear, aerospace, oil and gas, information economy, automotive, and professional business services) have now been published. Strategies in the remaining four sectors (education, construction, offshore wind, and agri-tech) will be published by the summer.

2.15 The Government's industrial strategy has not been set out in a single document; and there is no published business case or impact assessment setting out the potential benefits and costs of the strategy, or the individual sector strategies, and their indirect effects on wider sustainable development and the environment. Nor is there any overarching commitment to ensure that the industrial strategy promotes green growth. However, elements of the strategy are designed to secure improvements in environmental performance through, for example, the use of low carbon technologies. For example, the nuclear industrial strategy will play a potential role in contributing to the UK's future energy mix; and the aerospace strategy will help contribute to the development of technology for the next generation of quieter, more energy efficient aircraft.

Part Three

Sustainable operations

Introduction

3.1 Central government guidance requires departments to include within their Annual Report and Accounts a sustainability report which provides detailed information on their operational performance as well as that of their partner organisations. Departments are also required to report against targets set within the Greening Government Commitments initiative, on the basis of which the Department of the Environment, Food and Rural affairs produce an annual report on departmental performance.[22] This part of the report:

- examines the operational performance of the Departmental group in 2012-13 against Greening Government Commitments;
- compares the performance of the Departmental group with that of central government departments more generally, on the basis of prior year data (2011-12);
- explains the major changes in responsibilities for managing the Departmental group estate; and
- explores the position with regard to the higher and further education institutions which the Department funds.

3.2 The core Department and wider estate portfolio is comprised largely of leasehold offices. However, three organisations - the UK Atomic Energy Authority, the Science and Technology Facilities Council, and the Medical Research Council - have specialist laboratory estates. In the 2011-12 Greening Government Commitments annual report the inclusion of these organisations skewed the Department's figures and the performance of the Government as a whole.[23] In April 2013, the Department of the Environment, Food and Rural Affairs agreed that operational performance data for these organisations would be included as an Annex in future annual reports, but would not count towards reduction targets.

[22] For further information on central government reporting requirements, see National Audit Office, *Sustainability Reporting*, December 2012

[23] This was due mainly to fluctuations in the UK Atomic Energy Agency's energy use and the fact that, during the 2009-10 baseline for greenhouse gas emissions, two of the authority's most energy-intensive programmes were non-operational. See the Greening Government Commitments annual report, page 5 at: https://www.gov.uk/government/publications/greening-government-commitments

3.3 The analysis contained in this Part is based entirely on the data the Department compiles for monitoring performance against Greening Government Commitments. This allows for performance against targets and comparative performance against other departments to be assessed. Data contained in the annual report and accounts is compiled on a different basis and figures will therefore differ from those quoted below. In particular, several large partner organisations including Ordnance Survey, the Land Registry, and Companies House are included in Greening Government data but not in the annual report and accounts.[24]

Operational performance in 2012-13

3.4 In 2012-13, the Department and eleven partner organisations met three of the six targets set for 2015 in the Greening Government Commitments and was making good progress against its waste and carbon targets (Figure 10). The only area where performance had deteriorated was in its use of domestic flights. The Department has a travel policy to assist in meeting the target, which includes a requirement for all internal flights of less than 250 miles to be authorised at Director General level. It is also actively promoting the use of video and teleconferencing.[25] However, 91 per cent of the core Department's flights are between London and Northern Ireland or Scotland, and so the scope for reducing these further may be limited.

Figure 10

Group performance against greening government targets

	Baseline (2009-10)	Performance (2012-13)	Target reduction (2014-15) %	Actual reduction (2012-13) %	Already met target?
Carbon emissions (tCO2e)	64,435	48,458	25	23%	no
Office water use (m3)	274,957	154,035	(Note 2)	44%	yes
Whole water use (m3)	283,495	158,759	(Note 2)	44%	yes
Waste (tonnes)	7,573	6,348	25	17%	no
Paper (A4 reams)	433,941	267,864	10	38%	yes
Flights (numbers)	3,709	4,057	20	-9%	no

NOTES

1. The table presents consolidated performance for the core Department and partner organisations.
2. For water use, there is no specific percentage target: departments are simply required to achieve a reduction in use and to report against best practice standards.

Source: Business, Innovation and Skills

[24] Data reported in the annual report and accounts is consolidated on the same basis as the financial accounts and does not include some large trading funds and non-governmental departments.

[25] Defra, *Greening Government Commitments Annual Report 2012*, December 2012, page 12.

3.5 The good performance of the Department can be largely attributed to reductions in staff numbers and the on-going rationalisation of its estate and those of partner organisations (paragraphs 3.9 to 3.12 below). It is also due to a range of smaller initiatives which the Department and partner organisations have undertaken (Figure 11).

Figure 11

Examples of sustainable development initiatives in operations

Using biomass to drive down emissions and costs

When boilers at Companies House reached the end of their life, the organisation recognised an opportunity to go beyond mandatory standards and maximise financial and carbon savings. A biomass boiler with a thermal store system was installed at the same time as two new 1.3Mw gas boilers, which were much smaller than the building's original gas boilers, and which are only used if the biomass boiler fails or on extremely cold days. The 500kw wood pellet boiler heats two 11,000 litre thermal stores, delivering 84% of total heating requirements for the building in 2011-12. The new boiler currently saves £30,000 a year on central heating bills, and the cost of the wood pellets is expected to remain lower than the cost of gas. Installation costs of the biomass part of the system are expected to be paid back in less than five years. The new system delivers a carbon saving of 227 tonnes per year, and the only by-product – ash – is used by staff as fertiliser.

Partial shutdown of 1 Victoria Street over Christmas

In view of the reduced number of staff working in 1 Victoria Street in the three days between Christmas and New Year, the Department group all staff in the 'spur' of the building and only provide heating and ventilation to this area. This was first trialled in December 2010 as part of the Department's initiatives to meet the 10% carbon reduction target. Through an extensive communications campaign and engaging with all building users and stakeholders at an early stage, it was able to address any concerns raised. Over the last three Christmas periods, the partial closure of 1 Victoria Street has reduced energy usage by 300,000 kWh, resulting in 87 tonnes of savings in carbon dioxide emissions, cost savings of £12,000, and reduced allowance spend under the Carbon Reduction Commitment.

Preserving biodiversity: bee-keeping

The Greening Government Commitments cite biodiversity as a specific example of an area where departments may wish to go beyond headline commitments and targets. During 2013, after nearly a year's planning and with advice from urban bee experts, a group of staff successfully introduced a colony of bees onto the top of the Department's headquarters at 1 Victoria Street. The staff carry out weekly inspections in their lunchhour, and are hoping ultimately to produce honey for use in the canteen. Their aim in the first year is to build up the colony so that it is strong enough, and has enough honey, to survive the winter. This initiative contributes to the Department's sustainability strategy and also helps illustrate the importance of pollinators to British business.

Source: Business, Innovation and Skills / National Audit Office / Defra, *Greening Government Commitments Annual Report 2012*

Comparative performance in 2011-12

3.6 Comparing its performance against that of others, the Department exceeded the average improvement across government for water, waste and paper in 2011-12 (Figure 12). However, the Department was the only organisation in central government to record an increase in greenhouse gas emissions. This was mainly because during the 2009-10 baseline, two of the UK Atomic Energy Authority most energy-intensive research programmes were non-operational, whereas both were operating during 2011-12.

Figure 12

Comparative performance against other departments (2011-12 data)

	Department's share of total central government activity (note 1)	Department's improvement against baseline (note 2)	Central government's improvement against baseline (note 2)
Carbon emissions (note 3)	8%	-23%	12%
Water use	1%	19%	5%
Waste	2%	13%	3%
Paper consumption	5%	28%	24%
Domestic flights	6%	-29%	36%

NOTES

1. This represents the Department's level of activity (eg the volume of its carbon emissions) as a percentage of total government activity (eg the volume of carbon emissions across government as a whole).
2. Negative figures for reductions against baselines represent a deterioration in performance.
3. See paragraph 3.7 below.

Source: National Audit Office and Defra, *Greening Government Commitments Annual Report 2012*, December 2012

3.7 In future years, the UK Atomic Energy Authority and the two other laboratory based partner organisations will not count towards targets (see paragraph 3.2 above). In 2011-12, these three organisations accounted for nearly 80 per cent (184,285 tonnes) of the Department's total emissions of 232,685 tonnes of carbon dioxide. If they had been excluded from the 2011-12 performance data, the Department would have achieved a reduction in emissions of 20 per cent against its 2009-10 baseline.

3.8 More recent data on central government performance will be published by the Department of the Environment, Food and Rural Affairs later in the year.

Changes in responsibilities for managing the group estate

3.9 The Departmental group is currently engaged in a radical restructuring of estate management, service provision, and procurement functions. This builds on a previous initiative dating from 2006, when the Department agreed with the seven UK Research Councils that the latter should work in partnership to harmonise back-office activities across their organisations in full by 2009. This resulted in the creation of Research Councils UK Shared Services Centre (RCUK SSC). The National Audit Office reported on this initiative in October 2011.[26]

[26] National Audit Office, *Business, Innovation and Skills: Shared Services in the Research Councils,* October 2011

3.10 The Department is now extending this initiative as part of a wider radical restructuring of estate management, service provision, and procurement functions. This has involved extending the remit of RCUK SSC by transferring to it estate management and procurement responsibilities for the core department and other partner organisations. In March 2013, it re-launched RCUK SSC as UK Shared Business Services (UK SBS), a company wholly owned by the Department, to manage estate and service provision across the partner organisations. The UK SBS Property Asset Management Service will be recruiting staff and expects to become fully operational before the end of 2013.

3.11 The initiative is expected to reduce administration budgets by at least 33 per cent over the Spending Review period. Specifically, the programme aims to:

- reduce the size of the departmental group estate from 192 leasehold properties as of 2011 to 70, generating £85 million savings to the end of March 2015; and
- rationalise current facilities management arrangements, which involve over 400 separate suppliers across partner organisations, by introducing a single Total Facilities Management contract, generating savings of £16 million.

3.12 The Department has made substantial progress with this initiative. By March 2013, it had already reduced the number of leaseholds from 192 to 131. In March 2012, it put in place a new Total Facilities Management contract, which will run for five years and be phased in as organisations reach the end of current service agreements.[27] The department expects the remit of UK SBS to expand from 2013 onwards as other partner organisations transfer estate management and procurement functions to it. As UK SBS develops, its property asset management team will be responsible for the department's asset strategy, including management and disposal of assets, while the procurement team undertakes any resultant procurement.

The higher and further education sectors

3.13 The Department is not directly responsible for, and does not report on, the environmental performance of the higher and further education institutions which it funds.

3.14 The Higher Education Funding Council for England (HEFCE) first published a sustainability strategy in 2005, and updated it in 2008. It also publishes annually a Corporate Social Responsibility Report. As part of the strategy, HEFCE aims to promote sustainable development within the higher education sector. Its vision is that 'within the next 10 years, the higher education sector in this country will be recognised as a major contributor to society's efforts to achieve sustainability'. The strategy also contained a commitment to undertake another strategic review in 2011.

[27] The framework contract is valued at £57 million and is with EC Harris Solutions Limited..

3.15 In accordance with a commitment in the strategy, HEFCE published in early 2010 a carbon reduction strategy for the sector which included a sector level target of a 34 per cent reduction by 2020 against a 1990 baseline, and a requirement for higher education institutions to set and monitor their own carbon reduction targets. Since then, HEFCE has not conducted a strategic review of its sustainability strategy, including an assessment of performance against these targets. However, HEFCE are developing a framework for sustainable development, as required in their 2013 grant letter from the Department, and will be formally consulting on this with universities and colleges.

3.16 Since 2004, HEFCE have created a number of funds to help embed sustainability within higher education institutions and in particular to improve their energy efficiency and reduce carbon emissions. Over the last three years HEFCE has:

- made higher education institutions' receipt of capital funding conditional upon satisfactory carbon management plans and improved environmental performance;
- awarded £32 million for carbon reduction projects funded under the second and third rounds of its Revolving Green Fund which are predicted to save 39,000 tonnes of carbon dioxide per annum;
- led a project to measure Scope 3 carbon emissions[28] in order to enhance the capacity of universities and colleges to manage these emissions; and
- awarded the National Union of Students £5 million for a Students' Green Fund, to help students engage with their universities and colleges on sustainable development, and to ensure that sustainability remains a priority within institutions.[29]

[28] Scope 3 emissions are indirect emissions that organisations produce through their activities, but occur from sources not owned or controlled by the organisation. Examples include business travel, supply chain (procurement), waste and water.

[29] HEFCE, *Annual Report and Accounts 2011-12*

3.17 With regard to the further education sector, the Skills Funding Agency has developed a carbon management plan for its own operations. It encourages all further education colleges to use the benchmarking tool, eMandate, which enables colleges to compare estates data, including energy usage, against similar colleges - thereby facilitating best practice with regard to energy management and carbon reduction. Since April 2012 the Agency no longer has a direct role in promoting sustainability within the sector as this remit now lies with colleges themselves, with the Association of Colleges playing a lead role. However, the Agency does seek to ensure that sustainability is taken into consideration in the allocation of grant support for capital investment and has developed an extensive set of criteria for grant support which include two relating to sustainable development issues:

- strategic engagement with the Government's sustainability and carbon reduction agenda. Linking capital projects to formally recognised initiatives such as ISO14001 and other environment management, energy cost reduction and carbon reduction programmes leading to reduced carbon emissions; and
- targeting relevant Building Research Establishment Environmental Assessment Model ratings to ensure appropriate environmental and sustainability issues are incorporated into projects.[30]

[30] Skills Funding Agency, *Further Education Capital Investment Strategy*, December 2012

Part Four

Sustainable procurement

Introduction

4.1 Central government procurement in 2011-12 amounted to £44 billion, giving it unparalleled buying power and influence. The current Government approach to sustainable procurement stems from the fourth commitment in its '*Mainstreaming Sustainable Development*' document (February 2011). This states that Government will buy more sustainable and efficient products and engage with its suppliers to understand and reduce the impacts of its supply chain; and specifically that it will:

- embed the Government Buying Standards[31] in departmental and centralised procurement contracts, within the context of Government's overarching priorities of value for money and streamlining procurement processes; and
- improve and publish data on supply chain impacts, initially focussing on carbon, but also water and waste; and setting detailed baselines for reducing these impacts.

4.2 The Greening Government Commitments have sought to improve reporting on supply chain impacts, and to introduce a phased approach to reporting on compliance with the Government Buying Standards. In 2011-12, departments were asked to report on contracts entered into for six key product groups: construction, timber, furniture, paper, ICT and vehicles. From 2011-12, departments have also been required to report on sustainable procurement in their annual reports and accounts. More information about progress across government on sustainable procurement is contained in a briefing on this topic by the National Audit Office,[32] and in the Greening Government Commitments annual report.[33]

4.3 The Department is engaged on a radical restructuring of estate management, service provision, and procurement functions (see paragraphs 3.9 to 3.12 above). It is centralising procurement activity in accordance with the Government's procurement reform agenda by transferring it to UK Shared Business Services (UK SBS). During

[31] The Government's Buying Standards (GBS), developed by Defra, seek to make it easy for procurers to buy products of a high standard by laying down simple technical specifications and award criteria for products to be used in tenders.

[32] National Audit Office, *Sustainable Procurement*, February 2013.

[33] Department of the Environment, Food and Rural Affairs, *Greening Government Commitments Annual Report*, December 2012

2013 other partner organisations will also transfer either all or part of their procurement function to UK SBS.

4.4 This part of the report addresses:

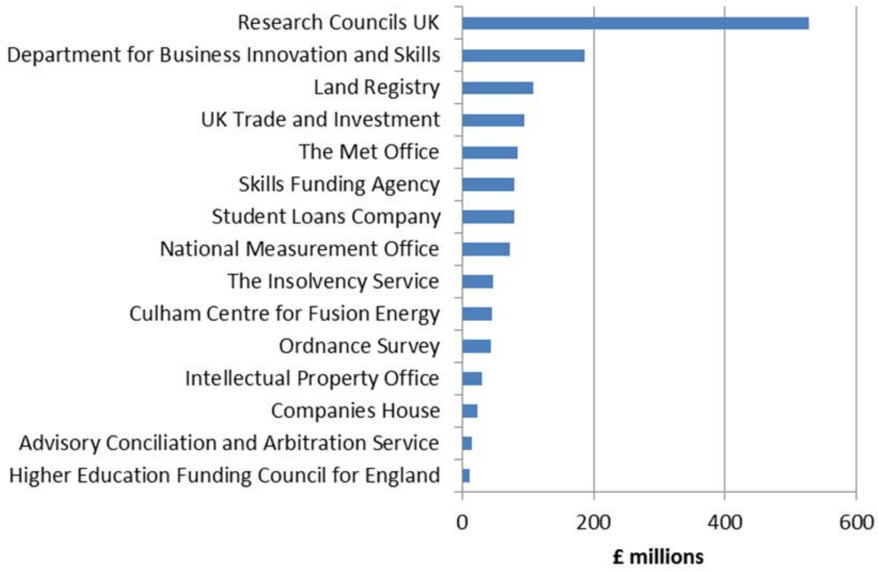
- the scale and nature of procurement activities within the Department and its partner organisations; and
- progress on embedding sustainability within procurement processes.

The nature and scale of procurement activity

4.5 Expenditure on procurement for the core Department and its partner organisations amounted to £1,450 million in 2012-13. The research councils account for £527 million (36 per cent) of this total (Figure 13).

Figure 13

Procurement expenditure by organisation

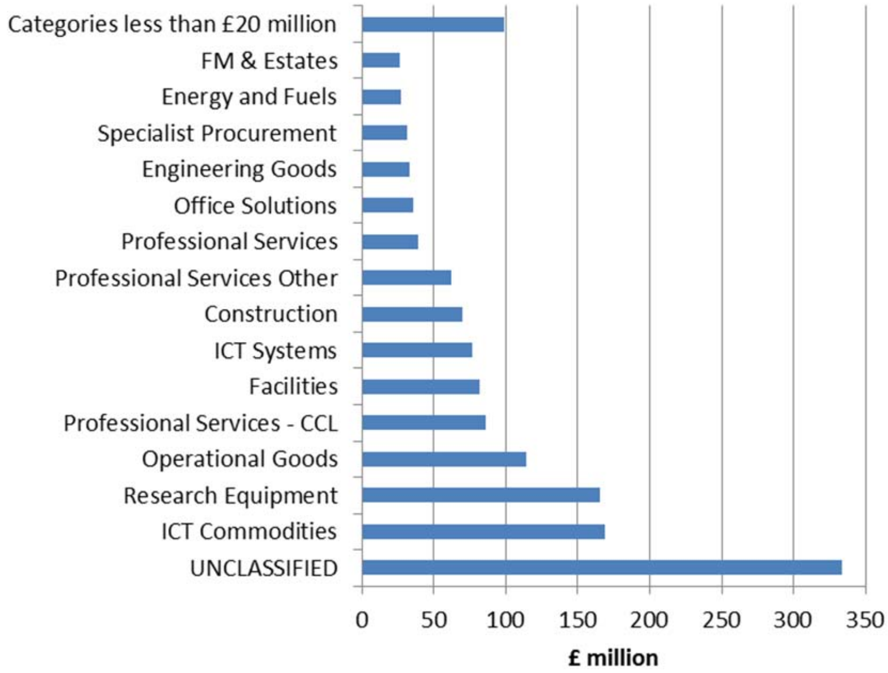


Source: Business, Innovation and Skills

4.6 Procurement expenditure covers a wide range of goods and services. The key areas of spend across the departmental group are shown in Figure 14. Over 20 per cent of expenditure has not been allocated to standard central government procurement categories. This is due to a range of factors such as the need for UK SBS to scrutinise in detail and categorise data transferred to it by other partner organisations, the absence of suitable categories within the GPS category structure for research expenditure, and the fact that purchases from non-UK suppliers cannot automatically be allocated a category code. UK SBS is currently engaged on a project that will significantly reduce the level of uncategorised spend in the course of this year.

Figure 14

Procurement expenditure by category



NOTES

1. 'Operational Goods' include childcare vouchers, workplace assessments, towel dispensers etc
2. 'Professional services - CCL' refers to 'consultancy and contingent labour'.
3. 'Other professional services' refers, in particular, to legal services.

Source: Business, Innovation and Skills

Performance

4.7 The Department provides limited information on procurement in its annual Sustainability Report and in the data it provides to the Department of the Environment, Food and Rural affairs to enable them to monitor progress against Greening Government Commitments. For example:

- The Department is unable to identify the extent to which its contracts comply with Government Buying Standards nor how many contracts are in place in each main area of procurement.
- With regard to the six specific product areas which departments were required to report on for the Greening Government 2011-12 annual report (paragraph 4.2),

the Department did not provide any information on ICT, construction, or vehicles. On timber procurement, it stated that all refurbishment projects included a question on the UK Government Timber procurement policy within tenders, but did not clarify whether final contracts were compliant with the government's timber procurement policy.

4.8 The reasons for the low level of information available include the lack of centralised records of Departmental procurement activity and resultant contracts, and the fact that Greening Government reporting requirements had not been built into processes for collecting operational data. Such weaknesses in the quality of management information are common across government: in its Greening Government annual report published in December 2012, Defra recognised that many departments had not been able to provide the information it required on sustainable procurement.

4.9 The Department expects the quality of internal management information on procurement and the transparency of reporting to improve with the transference of procurement responsibilities to UK SBS and the increased use of UK SBS by its partner organisations. This will also facilitate the use of common systems to support consistency in data collection and analysis, and UK SBS has established a contracts database to track and manage procurement activities. Under an agreement with the Government Procurement Service in December 2012, UK SBS also acts as the cross-government lead for a number of procurement categories, including research consumables and equipment, market research, economic and social research, and construction.

4.10 In the latest Greening Government Commitments annual report for 2011-12, the Department commented that RC Shared Service Centre was working towards level 5 of the Flexible Framework (the highest level of performance), with a target date of 31 December 2012. The Flexible Framework refers to a progressive set of criteria for departmental performance on sustainable procurement which was developed in 2007.

4.11 RC Shared Service Centre did not achieve this target largely due to the Department's radical re-organisation of procurement activities over the last two years leading to the creation of UK SBS in 2013. UK SBS is now developing its strategy. It works with customers to consider sustainability issues within their procurement requirements and is signed up to the Cambridge Programme for Sustainability Leadership Compacts on zero carbon catering, transport and energy.

Annex: Best practice criteria

Overall criterion: Is the department fully contributing to the Government's sustainable development objectives?

Key Question	Areas	Criteria
1. Does the department's governance and leadership promote sustainable development objectives?	Role and responsibilities	Does the department have clear objectives, priorities and targets to progress sustainable development? Are there any departmental objectives which conflict with sustainable development objectives? Are sustainable development objectives embedded in the remits of all the department's agencies and NDPBs? Does the department have any targets which relate to the sustainable development performance indicators? In relation to carbon budget management, has the department set any targets relating to its policy-related carbon footprint?
	Accountability and decision making	Is there an Executive Board member who is responsible for sustainable development? Are sustainability objectives embedded in the remits of all the department's internal boards and committees? Are sustainability issues regularly considered by the Executive Board and other internal committees? Does the department have other mechanisms (for example, a Sustainable Development Unit) for ensuring that sustainability is embedded within decision-making processes? Does the department's business plan include any consideration of sustainability objectives?
	Sustainability monitoring and reporting	Does the department monitor its sustainable development and carbon footprints? (eg in scorecards, business reports etc) Has the Defra Sustainable Development Unit raised any issues in its monitoring of progress against the department's business plan? Does the department comply with Treasury and Greening Government reporting requirements in relation to sustainable development? Does the department transparently report on its sustainability impacts in published reports and on its website?
	Leadership and staff engagement	Are there clear responsibilities for championing of sustainable development within the department below board level? Are sustainable development objectives incorporated within induction and training of staff? Are sustainable development objectives incorporated within staff performance and appraisal systems? Does the department provide strategic leadership to others in those aspects of sustainable development it can influence?

Key Question	Areas	Criteria
2. Are the department's policies and policy-making consistent with sustainable development objectives?	Level of ambition	Are the department's policy intentions ambitious enough to achieve the Government's sustainable development objectives and commitments?
	Policy development	Has the department assessed the wider sustainability impacts of its policies, and identified specific priority areas in which to focus its efforts to embed sustainable development? Does the department have mechanisms in place to ensure policy development accounts for sustainability? Does the department conform to HMT Green Book and other sustainability guidance? How does the department deal with non-monetary impacts and present these on a common basis? For relevant policies, did the policy decision making and delivery process take into account sustainability?
	Monitoring	Are policies achieving sustainable outcomes in line with UK government objectives? Are policies joined up with those of other departments, in terms of achieving sustainable outcomes? What impact are the department's policies likely to have on the UK sustainable development indicators?
3. Is the department managing its estate and operations in a manner consistent with sustainable development objectives?	Mechanisms	Does the department have systems and processes in place for accurately reporting on its environmental impacts? (eg an environmental management system)
	Reporting	Does the department comply with PES, FReM, and GGC reporting requirements in relation to sustainable development? (As above) Does the department's external reporting present a fair and balanced picture of how the department is performing?
	Performance / impacts	How does the department's performance compare with that of other departments?
4. Is the department conducting its procurement in a manner consistent with sustainable development objectives?	Mechanisms	To what extent does the department utilise cross-government framework contracts, and how is its choice influenced by sustainability considerations? Where a department procures goods and services for itself, how does it ensure that sustainability is fully embedded within procurement decisions? Is the department doing as much as it could to promote sustainability with its suppliers and supply chains?
	Performance / impacts	Is the department reducing the environmental impacts of its procurement activity?

Source: National Audit Office

NAO

National Audit Office