



House of Commons

Committee of Public Accounts

**Building for the future:
Sustainable
construction and
refurbishment on the
government estate**

Third Report of Session 2007–08

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House of Commons
Committee of Public Accounts

Building for the future: Sustainable construction and refurbishment on the government estate

Third Report of Session 2007–08

*Report, together with formal minutes, oral and
written evidence*

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The Committee of Public Accounts

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Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Philip Jones (Committee Assistant), Emma Sawyer (Committee Assistant), Pam Morris (Committee Secretary) and Alex Paterson (Media Officer).

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Summary

Each year government departments and agencies spend in the region of £3 billion on new buildings and major refurbishments. The government has set estate-wide sustainability standards for the construction and refurbishment of its buildings.

Much remains to be done across government to meet these standards. Mandatory environmental assessments were carried out in only 35% of new builds and 18% of major refurbishment projects in 2005–06, and only 9% of projects could be shown to meet the required environmental standards. Departmental uptake of mandatory “Quick Wins”, products pre-assessed to be more sustainable, was limited. Monitoring against estate-wide operational sustainability targets does not set out clearly performance against Quick Wins or sustainability targets for individual projects. Departments did not undertake post-occupancy evaluations, which can be an effective way of identifying improvements, and did not carry out whole life costing which is necessary if the most sustainable option is to be chosen.

Several initiatives are being pursued to encourage the take-up of sustainable options and change the perception of conflict between sustainability and budgetary constraints. Guidance on whole life costing has already been clarified, emphasising that wider benefits form part of that assessment. The development of cross-departmental common contracts, such as the recent “green tariff” contract for energy, offers new opportunities to departments to obtain environmental benefits. There are also plans to improve the Gateway process to take full account of environmental objectives at an earlier stage. The Property Benchmarking Programme, which will collect estate-wide information, is also expected to assist in future performance monitoring.

On the basis of a report by the Comptroller and Auditor General,¹ the Committee took evidence from the Office of Government Commerce and the Department for Environment, Food and Rural Affairs on the reasons for the limited progress made to date and the prospects for improvement.

¹ C&AG's Report, *Building for the future: Sustainable construction and refurbishment on the government estate*, HC (Session 2006–07) 324

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Conclusions and Recommendations

- 1. Departments are not meeting the sustainability standards for the construction and refurbishment of buildings on the government estate.** Mandatory environmental assessments were carried out in only 35% of new builds and 18% of major refurbishment projects in 2005–06, and only 9% of projects could be shown to meet the required environmental standards. To lead public debate on environmental and sustainability issues the government should be setting an example in meeting the standards. The Treasury, DEFRA and the Office of Government Commerce (OGC) need to lead and support departments in adopting more sustainable approaches to their work.
- 2. Lines of accountability, enforcement and leadership are split across different organisations and departments, and systems for monitoring compliance with environmental standards have been inadequate.** The government has recently introduced new initiatives to improve procurement in central government, but responsibilities for securing compliance with environmental standards remain unclear. DEFRA should say how performance against BREEAM targets and the take-up of the Quick Wins will be reported, which department is responsible for doing so, and what DEFRA's own responsibilities are in this respect. The underlying departmental performance data should be made available.
- 3. Performance in incorporating sustainability objectives is particularly poor in smaller construction and refurbishment projects, where a full BREEAM assessment is not deemed appropriate.** DEFRA should assist departments by developing a lighter-weight alternative to BREEAM, and specifying in more detail when to use different assessment methods.
- 4. Departments are failing to implement Treasury guidance and assess costs and benefits of sustainable design options on a whole-life basis, partly because of pressure to reduce initial capital costs.** The Treasury should simplify the application of whole-life costing, promote and monitor its take-up by departments, and improve consistency in its application. It should identify mechanisms to allow flexibility on capital spending and actively assist departments to use them in order to achieve significant savings in whole-life costs.
- 5. Departments are making poor progress against their environmental targets for estate management, which include significant reductions in water consumption and carbon emissions and the achievement of carbon neutrality by 2012.** The Office of Government Commerce should develop standard clauses for outcome-related environmental specifications to be incorporated in all construction contracts, and see that they are adopted by departments.
- 6. There is greater scope for many departments to incorporate environmental specifications within contracts for facilities management—for example, in purchasing energy.** The development of cross-government contracts offers an opportunity for them to do so, and the Office of Government Commerce should take full account of environmental considerations in negotiating these contracts.

7. **There has been no means of securing compliance with the requirement for Departments to incorporate environmental objectives, including 'Quick Wins', in new construction and major refurbishment projects.** The Office of Government Commerce has recently been given responsibility for assessing the adequacy of the procurement process in individual departments. In addition to DEFRA's responsibilities in this area, the OGC needs to find ways of encouraging departments to meet environmental objectives and achieve better take-up of Quick Wins, perhaps including incentives or recognition schemes to encourage greater compliance.
8. **Departments are not assessing properly the operational performance of buildings, and the Property Benchmarking Programme being developed by the Office of Government Commerce currently covers only a small percentage of the central government estate.** Post-occupancy evaluations should be carried out on all new properties and major refurbishments, and departments should register all their properties in the Programme so as to achieve the Office of Government Commerce's aim of complete coverage by the end of 2008.
9. **The poor performance against sustainability standards reflects the low priority accorded to this agenda within individual departments.** Departmental Management Boards should take responsibility for reporting progress against targets in Sustainable Development Action Plans and annual departmental reports.

1 Central departments' oversight of progress

1. Each year, central government departments and executive agencies spend in the region of £3 billion on construction and refurbishment projects. For some years, the performance of buildings on the government estate has been subject to environmental targets and initiatives. In 2005, the OGC published the Common Minimum Standards for both construction and refurbishment projects and also for the operational use of buildings. The Standards referred to and drew on earlier guidance and standards. These included the requirement, since 2002, for departments to carry out an environmental assessment on projects using the Building Research Establishment's Environmental Assessment Method (BREEAM) or equivalent and to achieve a very good rating (for refurbishments) or excellent rating (for new builds). Since 2002, government has required departments to meet estate-wide environmental targets covering energy, water, waste, travel, construction and procurement. And since 2003 departments are required to use "Quick Wins"—products endorsed by OGC as being more sustainable.²

2. The standards expected of the government estate have also been raised. In 2006, DEFRA launched revised targets for Sustainable Operations on the Government Estate (the "SOGE" targets), covering energy, water, waste, travel, construction and procurement. These targets were more demanding in some respects—including, for example, a requirement for the central government estate to achieve carbon neutrality by 2012. In particular, both new builds and major refurbishment projects were required to achieve a BREEAM rating, or equivalent, of "excellent". These efforts to raise the bar have been running in parallel with cross-departmental initiatives which affect construction and refurbishment on the government estate. These include:

- the Gershon Efficiency Review (2004) which has created pressure to seek cost savings in construction and refurbishment projects;
- the Lyons Review (2004) which has resulted in a programme to relocate departmental functions away from the South East, and a consequent need for major refurbishments or new buildings; and
- the High Performing Property Initiative (2006), coordinated by the OGC, which aimed to integrate property management into central government's strategic business delivery.³

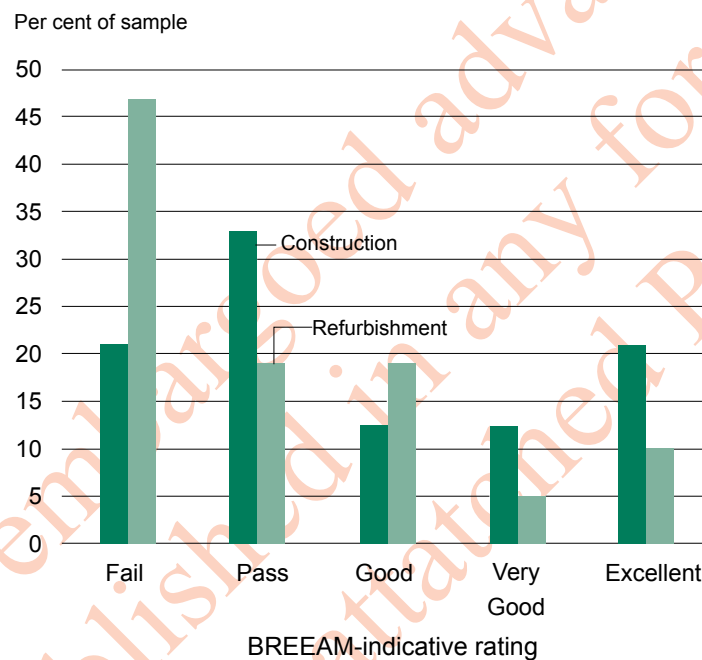
3. Despite the attention given to targets and mandatory practices to deliver sustainability, much remains to be done if departments and agencies are to achieve key targets set out in the Common Minimum Standards. Mandatory environmental (BREEAM or equivalent) assessments were carried out in just 35% of new build projects and 18% of major refurbishment projects during 2005–06. The required environmental standards could be shown to have been met in only 9% of projects. The NAO's own assessment of a sample of

2 Qq 49, 80, 98 ; C&AG's Report, paras 1.4, 1.7, 1.9, 2.2, 2.4

3 Qq 2, 13, 38, 56, 60, 62; C&AG's Report, paras 1.8–1.10, Figure 4

projects in 2005–06 found that many projects fell short of the required standards (**Figure 1**). The take-up of Quick Wins was also limited, despite being mandatory since 2003. Departments often did not conduct post-occupancy evaluations, though these are a well-recognised tool for improving building design and operation, and also a requirement of OGC’s Gateway Review process.⁴

Figure 1: Sustainability ratings of a sample of 45 construction and refurbishment projects examined by the NAO



Source: National Audit Office/Arup survey of 2005–06 construction and refurbishment projects

4. Nonetheless, there are examples of good practice across government which others might follow—as **Figure 1** shows, one in five new builds examined by the NAO did achieve an excellent rating. Other more specific examples include:

- the Department for Environment, Food and Rural Affairs (DEFRA) achieving BREEAM excellent or equivalent ratings for all its new builds and major refurbishments;
- over 80% of projects examined by the NAO using timber from sustainable sources;
- higher take-up of Quick Wins in energy efficient white goods such as refrigerators;
- the use of natural ventilation and daylight in refurbished vehicle test centres, by the Vehicle and Operator Services Agency;
- Defence Estates’ increasing the extent to which recycled content is used in its modernisation of single living accommodation;
- the Treasury’s use of a novel “gain-share” arrangement with its PFI contractor to encourage energy efficiency, in the modernisation of its headquarters building;

4 Qq 2, 3, 5, 7–8, 18, 20, 27–30, 49, 101, 103; C&AG’s Report, paras 2.2, 2.4, 2.7, 2.19–2.22; Figures 6 and 7

- DEFRA's insistence on BREEAM excellence, despite initial landlord resistance, in the sale and leaseback of its offices in Whitehall Place;
- the former Home Office's use of its intranet and visual displays, to communicate sustainability messages to its staff; and
- the use of integrated teams, combining building sponsors, designers, facilities managers and building contractors, in the construction of the Defence Sixth Form College at Welbeck.⁵

5. Accountability, enforcement and leadership for sustainable construction and refurbishment are split between several individuals and departments.

- Individual Accounting Officers are responsible for deciding the correct course of action in their own departments to achieve the construction and refurbishment sustainability outcomes, within the framework and targets set out by the OGC and DEFRA in terms of common minimum standards and procurement and sustainability policies.
- DEFRA is responsible for providing advice to both the OGC in the form of the "Quick Wins" list, and directly to departments about products and processes that are most likely to achieve sustainable outcomes, as well as to lead by example. DEFRA is also responsible for overseeing the targets for Sustainable Operations on the Government Estate.
- Individual departments are responsible for meeting the targets for Sustainable Operations on the Government Estate. Departments report on progress against targets through providing data annually to the DEFRA-sponsored Sustainable Development Commission (SDC), and through departmental Sustainable Development Action Plans and departmental annual reports.
- The Department for Business, Enterprise and Regulatory Reform has responsibility for the construction sector and for sustainable construction more generally, whilst the Department for Communities and Local Government is responsible for buildings regulations.⁶

6. The Government has set in place new initiatives and structures to improve performance, accountability and leadership, particularly through the Treasury's 'Transforming public procurement' (January 2007) and the 'UK Sustainable Procurement Action Plan' (March 2007). Clearer roles have been defined for individual departments for sustainable procurement; and for the OGC in embedding agreed procurement policies throughout the procurement profession in government, with new powers to set standards, require performance against them and hold Permanent Secretaries to account for procurement. Ministerial oversight is to be exercised through the Cabinet Energy and the Environment Committee. The Head of the Home Civil Service will oversee delivery of the Action Plan. Finally, a new Government Procurement Service has been created, bringing together

⁵ C&AG's Report, paras 2.4, 2.17, 2.20; Case Example 4 on page 20, para 3.16, Figure 14, paras 4.7, 4.8 and 4.11

⁶ Qq 2, 3, 12, 16, 18, 23, 25, 45-48, 51, 61, 63, 66, 81, 91, 102; C&AG's Report, Figure 3

procurement professionals across government, for which the Chief Executive of the OGC is now responsible. The new Service's principal aim is to implement a more professional approach to procurement across the estate, as well as to improve capability and exchange best practice.⁷

7. The lack of reliable data has hampered government's ability to track its own performance. The OGC's Property Benchmarking Programme, launched in 2006 and now being rolled out to all departments, should provide basic information across the estate and allow every holding to be measured against sustainability criteria, such as annual water consumption per person and energy consumption per square metre. This database of government buildings can be analysed and benchmarked against sectoral, national and international comparators. OGC is working towards capturing a comprehensive analysis of the sustainability performance of each of the 9,000 holdings on the estate within 18 months.⁸

7 Qq 2, 21, 33, 81

8 Qq 13–15, 19, 65, 66, 79

2 Steps to help departments identify and select more sustainable options

8. More sustainable options can and should provide better value for money in the long term. But trade-offs can arise between sustainability and affordability in a large capital programme because of the higher capital cost of a more sustainable building, even though the more sustainable option may offer lower costs and greater benefits in the long term.⁹

9. Treasury guidance suggests that whole-life costing is a key tool to promote sustainability and value for money. This approach involves estimating both costs and benefits over the long term at the beginning of a project and is able to indicate the most sustainable procurement option. Whole-life costing is complex and requires considerable financial and technical expertise. Despite previous NAO recommendations to departments to make decisions about construction projects based on whole-life value, departments have struggled to implement the Treasury guidance.¹⁰

10. Action was being taken to simplify the process of whole-life costing and to encourage departments to use it. The Treasury issued a clarification of the guidance on whole-life costing in March 2007 which re-emphasised that wider benefits, and not just the immediate economic ones, should form part of that assessment. A more detailed note on the application of whole-life costing was being developed by the Public Sector Construction Clients' Forum, a group of public sector staff involved in commissioning building projects.¹¹

11. Other steps are being pursued to raise the profile of sustainability in departments. As part of the OGC's new role and powers since January 2007, it is undertaking procurement capability reviews of departments, including their ability to undertake sustainability assessments. There are also proposals to improve the Gateway Review process to take full account of environmental objectives at the outset, which will help improve the quality of business cases and the application of whole-life costing techniques. But as the Gateway process covers larger projects, there will still be a need to address take-up in smaller projects, where the C&AG's report has identified particular problems.¹²

12. Other initiatives should help make it easier for departments to identify and adopt more sustainable options. Departmental uptake of mandatory "Quick Wins" is limited (see **Figure 2** below). But DEFRA expected departments now to be more focused on them, and the list of products is constantly being improved. DEFRA's recent "Act on CO2" campaign aims to provide all departments with information on simple ways to save energy and reduce waste, and the Department is intending to launch an online carbon calculator for all the departments to use. Departmental financing rules have also been changed to allow departments to use loan finance to help fund more sustainable energy efficiency measures,

9 Qq 38, 43–44, 51, 88, 89, 91, 92, 98–100, 102

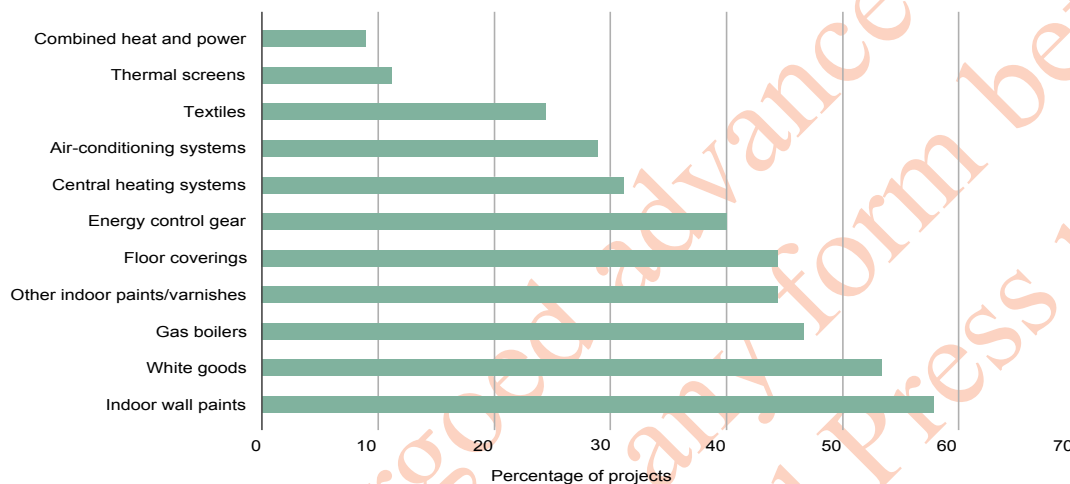
10 Qq 39–40, 44, 102; C&AG's Report, paras 3.13–3.19; C&AG's Report, *Improving Public Services through better construction*, HC (Session 2004–05) 364-I

11 Qq 39; C&AG's Report, *Improving Public Services through better construction*, HC (Session 2004–05) 364-I

12 Qq 18, 19, 21–23, 39, 40

to be paid for from energy savings in the future. Negotiations are underway with four departments but there has not yet been any take-up in central government.¹³

Figure 2: Percentage of projects incorporating Quick Wins



Source: National Audit Office/Arup survey of 2005–06 construction and refurbishment projects

13. In a similar manner, the development of common contracts by the OGC could offer substantial opportunities to departments to obtain environmental benefits as well as value-for-money. For example, the OGC announced recently a new cross-government contract for the supply of green electricity, available at no premium. This contract would enable departments to move towards the target of carbon neutrality on the office estate by 2012 without investing in, for example, renewable energy projects, some of which can have long payback periods.¹⁴

14. Another way to promote sustainability at key stages in projects is the mandatory use of the BREEAM (or equivalent) method to assess the sustainability of new build and refurbishments. Although DEFRA and the OGC remain fully supportive of retaining BREEAM as a standard, departments are concerned that the standard is not equally applicable in every case. For example, the Air Accidents Investigation Branch (part of the Department for Transport) could not locate its premises close to a train station, and as a result was penalised in its BREEAM assessment. And there is a case for developing an alternative assessment tool for use on smaller projects which cannot easily accommodate the cost of a full BREEAM assessment.¹⁵

13 Qq 34, 49–51, 89–91; Ev 15

14 Qq 61, 91, 92

15 Qq 5, 9–12, 31–33, 92, 103; C&AG's Report, para 55

Formal Minutes

Monday 10 December 2007

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr Ian Davidson
Mr Philip Dunne

Mr Austin Mitchell
Dr John Pugh
Mr Alan Williams

Draft Report (*Building for the future: Sustainable construction and refurbishment on the government estate*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 14 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

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

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

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Wednesday 12 December at 3.30 pm.]

Witnesses

Monday 18 June 2007

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Peter Fanning, Acting Chief Executive, Office of Government Commerce,
and **Helen Ghosh**, Permanent Secretary, Department for Environment, Food
and Rural Affairs

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List of written evidence

Department for Environment, Food and Rural Affairs

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Oral evidence

Taken before the Public Accounts Committee

on Monday 18 June 2007

Members present:

Mr Edward Leigh, in the Chair

Annette Brooke
Mr Philip Dunne
Ian Lucas

Mr Don Touhig
Mr Iain Wright

Sir John Bourn KCB, Comptroller and Auditor General, **Tim Burr**, Deputy Comptroller and Auditor General, and **Joe Cavanagh**, Director, National Audit Office, were in attendance.

Marius Gallaher, Alternate Treasury Officer of Accounts, was in attendance and gave oral evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Building for the Future: Sustainable Construction and Refurbishment on the Government Estate (HC 324)

Witnesses: **Peter Fanning**, Acting Chief Executive and Accounting Officer, Office of Government Commerce, and **Helen Ghosh**, Permanent Secretary and Accounting Officer, Department for Environment, Food and Rural Affairs, gave evidence.

Q1 Chairman: Good afternoon. Welcome to the Public Accounts Committee, where today we are looking at the Comptroller and Auditor General's Report, *Building for the Future: Sustainable Construction and Refurbishment on the Government Estate*. We welcome to the Committee for the first time Peter Fanning, the Acting Chief Executive at the Office of Government Commerce. Is it right that this is your first time?

Peter Fanning: Yes.

Q2 Chairman: What a pleasure you have in store. Helen Ghosh has been here before. It is lovely to see her again. She is the Accounting Officer at the Department for Environment, Food and Rural Affairs. We are looking at the important subject of how committed the Government are to making their own buildings environmentally sustainable. It is not a very good Report really, is it Mrs Ghosh? If you look, for example, at paragraph 2.22 on page 17, you will see a damning statement for a National Audit Office Report. It states that: "Our results, set out above, demonstrate a serious and widespread failure on the part of Departments and Agencies to achieve key targets set out in the Common Minimum Standards".

What can you say to that?

Helen Ghosh: We think that it is an excellent Report and accurate in its analysis of the situation as it was in 2005-06. We will be welcoming and agreeing with its recommendations. It makes clear that we have now put in place a number of actions that should make things much better for the future. In June 2006, the statement of the key set of outcome targets—the sustainable operations for the Government's targets announced by the Prime Minister—gave us what we have to achieve. That is acknowledged in the Report.

The Government's response to the sustainable procurement task force in its action plan explains the roles. There is now a much clearer role for Peter and the Office of Government Commerce team and for Departments. There is clearer governance through the Energy and the Environment Committee and various Committees that were set up under Gus O'Donnell's leadership, and the Sustainable Development Commission has a very clear watchdog role. We think that we can now exert much better traction across the Government.

Q3 Chairman: Well, we get very frustrated because we are told constantly, "We are very grateful for this Report. It is an excellent Report and everything has now been set right." But after all the Report is dated April 2007, which is not so long ago. Let us look, for instance, at page 11. It states that only: "35% . . . new build projects have carried out, or plan to carry out, BREEAM assessments . . . only 18% . . . major refurbishment projects have carried out, or plan to carry out, BREEAM assessments or equivalent." Of those that have carried it out, let us look at figure 7 on page 13. It is dealt with under paragraph 2.4 on page 12. We can see that: "only 9% of projects . . . met the required" ratings. That is appalling.

All the projects grouped at the left-hand side of figure 7 under the line show that even the ones for which there has been an assessment are simply not meeting your targets. It is supposed to be a matter of key public policy. We are all supposed to be terribly concerned about carbon emissions. They are your own buildings, and you are falling woefully short of your own targets, let alone anybody else's.

Helen Ghosh: Three things quickly: the incentives that Accounting Officers and Departments now have with clear outcome targets will make a significant difference to performance. Secondly, inevitably, there is a big lead time on some of this.

Office of Government Commerce & Department for Environment, Food and Rural Affairs

Many of the buildings that you were sampling last year will have been commissioned long before. Peter will be able to say something about that. The political focus and dynamic behind improving our performance in Government, signalled by the Prime Minister's targets, will make a step change in what we do.

I agree that what we have done at the moment is set up the infrastructure. It sounds like jam tomorrow, but we have everything there to deliver the jam tomorrow.

Q4 Chairman: Yes, but you were not ordered by Ministers to provide jam tomorrow. You were asked to build sustainably—not next year, not the year after, but now. Why are you defying Ministers, Mrs Ghosh? You are defying Ministers, or else you are totally inefficient.

Helen Ghosh: Before I hand over to Peter to talk about the lag time, the other thing brought out by the Report is that there are a large number of excellent—

Q5 Chairman: No. I asked you a question. I want to know why you are not meeting targets. Paragraph 2.10 states that: “the requirement for departments to carry out BREEAM assessments (along with other environmental standards) was introduced” not this or next year, but “in 2002”. You have not carried out that requirement, have you? Why are you defying Ministers?

Helen Ghosh: The matter involves a number of Departments and their Accounting Officers; I am not answering for all Departments. I have not defied Ministers.

Q6 Chairman: So you are doing all right, but the others are rubbish?

Helen Ghosh: No; the Report makes it very clear that people in a number of Departments are—

Q7 Chairman: Not according to the figures contained in the Report to which you have agreed.

Helen Ghosh: But a number of significant buildings are achieving the standards that are going through the process.

Q8 Chairman: I am sorry; only 9% of projects met the required ratings.

Peter Fanning: May I say something?

Chairman: Yes, you may.

Peter Fanning: We in the OGC are very keen on standards.

Q9 Chairman: If you are very keen, why are you not doing anything about it?

Peter Fanning: We are, and I shall perhaps explain that in a moment. I shall first make a point about the BREEAM standard. It is a good standard, but it does not work in every situation.

Q10 Chairman: Ah, it is the fault of the standard, so why did you accept it, and why did you not have a lighter-weight alternative? You are in charge, and you could have done it.

Peter Fanning: We could have done.

Q11 Chairman: If the standard is no good, how come you are failing to meet it? What is the point of having standards that you do not meet?

Peter Fanning: It is a perfectly good standard, but it does not apply—

Q12 Chairman: So why did you criticise it a moment ago?

Peter Fanning: I did not criticise it; I made the observation that it does not apply well in all circumstances. Page 17 of the Report points out that there are certain situations in which the standard may not apply in practice, so the Accounting Officer has to make a practical decision, for which he must also account to the Committee. For example, the air accidents investigation branch, which is part of the Department for Transport, was simply unable to locate itself close to a railway station. Consequently, I understand it suffered a six-point reduction in its BREEAM standard.

Pursuing standards is desirable, and OGC does so with vigour. However, Accounting Officers have to make their own judgments in the circumstances in which they find themselves. If we are not careful, there could be perverse consequences.

There is another example in the Report. It does not relate to a standard, but what could have been a standard. Eland House was leading-edge when it was built, and it had a combined heat and power system. It has since been discovered that such a system is not always the best option.

The Report also mentions Nottingham Prison.

Q13 Chairman: Of course, you can always aduce individual requirements, but we must look at your overall record of meeting your own targets. You are reorganising the OGC, which obviously has a pretty hopeless record on these matters. Will your management make a difference?

Peter Fanning: We are making a substantial difference. The NAO and the Chief Secretary to the Treasury launched the high-performing property plan for the entire Government estate in the spring. That resulted in an implementation timetable, which we published in March. We have conducted stock-takes with Departments every six months. By the end of March 2008, we will have a comprehensive view of the basic information on the entire estate. Within 18 months, we should be able to measure every holding on the estate against sustainability criteria.

Q14 Chairman: The process started in 2002. Will you be able to do something by, say, 2009?

Peter Fanning: Certainly.

Q15 Chairman: The answer to that question is yes, is it?

Peter Fanning: Yes.

Q16 Mr Touhig: Every time I attend one of these sittings, I come away with two distinct impressions. First, no one is held responsible when projects fail to

Office of Government Commerce & Department for Environment, Food and Rural Affairs

meet their objectives. Secondly, and perhaps more importantly, senior civil servants have a complete aversion to undertaking lessons-learned exercises. The Chairman's brief states that: "sustainable buildings can deliver tangible benefits but these need to be managed", so why is paragraph 4.3 on page 25 of the Report introduced with the phrase: "the benefits of sustainable buildings are generally not measured or quantified"?

Helen Ghosh: Senior civil servants—in this case, Accounting Officers—are held to account. This Committee obviously has a role to play in that accountability. They will be held even more strongly to account in future, because of the kinds of commitments to which we are all now signed up and which are in our personal performance agreements, following the sustainable operations targets that the Prime Minister set last year. There is strong political interest and high commitment from both the Prime Minister and the Chancellor in that area. Very close interest is also being taken by Gus O'Donnell and others. We will be tracked through our systems. The activities of the Sustainable Development Commission do not make me feel that no one is holding me to account. For example, I much regret the fact that DEFRA was not among the stars in the report that the SDC did last year on our operations, although that related to a different set of targets. It received lots of public scrutiny, and I have now implemented a one-planet DEFRA programme. It intends to put the situation right extremely rapidly, because I expect close scrutiny.

The NAO Report cites—Peter may wish to comment on this—a number of ways in which we are increasingly testing what the benefits realisation cases are. For example, it contains an excellent table showing benefits realisation in relation to a broad range of sustainable outcomes, whether health, well-being, carbon and so on.

Q17 Mr Touhig: But you have agreed the Report. I am sorry to cut in, but, as you know, our time is limited.

Helen Ghosh: We have agreed the Report.

Q18 Mr Touhig: Paragraph 4.3 states: "Post-occupancy evaluation of construction and refurbishment projects is a well recognised and powerful tool for bringing about improvements in building design and operation. However, our case examples indicated that Departments often do not conduct such evaluations." So they do not bother with any lessons learned.

Helen Ghosh: As I said, I agree with the Report's findings. Our structures, accountabilities and outcome targets—this will be in our response to the Committee—will set a far more stringent and effective accountability system. We need to use the gateway review system, for example, more stringently to ensure that we get benefits.

Peter Fanning: Yes, indeed.

Q19 Mr Touhig: The Report also says that Departments are: "missing opportunities to assess whether the buildings have been built in accordance

with their specification, are functioning as well as they might, and are meeting Departments' expectations." That is pretty basic stuff. If you buy something, you have to test whether it works, but you don't do so.

Helen Ghosh: Indeed. Another key theme of the Report is about improving capability, where the OGC has a key role to play.

Peter Fanning: Yes, perhaps I may explain that. We know quite a lot about 4% of the estate: 370 properties out of the 9,000 holdings that we have. The knowledge that we have gained on that benchmarking study will be rolled out to the entire estate, so that within 18 months, we should be able to supply a comprehensive analysis of the sustainability performance of every single holding in the estate to anyone who asks for one.

Q20 Mr Touhig: But you say that as though everybody wants to ask for it. It is like one of those 9 o'clock Monday morning situations. When someone is asked what they do on Monday morning, they say, "Oh, I file that in the draw on the Monday morning." When they are then asked why they do that, they say, "Oh, I don't know why I do it, I just do it every morning at 9 o'clock." Surely you should be much more proactive. Indeed, the experts that the NAO called in concluded that: "post-occupancy evaluations were significantly under-utilised by government bodies". So you do not bother.

Peter Fanning: Post-occupancy evaluation should be being done. As part of OGC's work on holding Departments to account for their procurement performance, it is the sort of thing that we would be looking at. There is currently no mechanism for holding individual Departments to account for whether they are good or bad buyers.

Q21 Mr Touhig: So all this is just candy floss, is it not? It involves a great big huff and so on, but we are not getting any outcomes.

Peter Fanning: Let us consider the situation for someone on the other end of one of these performance capability reviews that the OGC is conducting. We have only been doing them since I received the powers from Government under *Transforming Government Procurement*; we have only had them since January and have already produced a report.

Q22 Mr Touhig: You have got powers. Do you have the powers to direct Permanent Secretaries by saying that this is Government policy and that you want this problem tackled?

Peter Fanning: Yes.

Q23 Mr Touhig: And can you hold them to account for procurement?

Peter Fanning: Yes. I can set standards on procurement and require performance against them, and we are doing that. We have only had those powers since January, and I have already written to Permanent Secretaries on two occasions. One matter

is in connection with the civil estate. I intend—and I am sure my successor will as well—to use those powers to hold Departments to account.

Q24 Mr Touhig: Did you say your successor? You have only just got the job.

Helen Ghosh: He is acting.

Q25 Mr Touhig: I see. Is it one of those revolving-door jobs?

Helen Ghosh: Until Parliament changes our roles, individual Accounting Officers will decide on the correct set of actions to achieve the outcomes we want.

Turning now to the power of public scrutiny, may I invite anyone who goes into the Cabinet Office to look at the notice boards? There are big posters in the entrance, put there by Gus O'Donnell personally.

Q26 Mr Touhig: Pictures of Ministers?

Helen Ghosh: The posters show Cabinet Office performance against a range of sustainable development outcomes, including water, waste horizons and other things. We can see how we are doing this month, how we did last month and how we need to do next month. The power of the political focus and the Prime Minister's targets have reached the Cabinet Office. I say no more.

Q27 Mr Touhig: Well done. A little waste transfer station in France has been doing that for 10 years. May we move on now? We are told in paragraph 4.4 that the DTI has developed a post-occupancy evaluation method. Why is that not being shared across government, or is it?

Peter Fanning: It is one thing to share the information, and another to get people to use it. That is why we are learning how to require Departments—

Q28 Mr Touhig: This particular reference says that the DTI: "has developed a post-occupancy evaluation method tailored to the first twelve months of a building's occupancy, with the aim of promoting the more widespread uptake of post-occupancy evaluation." Why is that not being rolled out across government?

Peter Fanning: I am sure that it is available across government. However, it is one thing to promulgate the information about best practice and quite another to get people to use it. The other point that I would make is that I am not entirely convinced of the merits of burdening busy Accounting Officers with yet more process. It is much more effective to hold them to account for delivering major change.

Q29 Mr Touhig: This DTI paper was published in 2003. You will catch up some time, will you not?

Peter Fanning: The point that I am trying to draw out is that a post-occupancy evaluation does not help the planet at all. [Interruption.] If I may finish, what helps the planet is whether the properties that are being used by the Departments have become less harmful to the planet.

Helen Ghosh: Exactly.

Q30 Mr Touhig: You say that it does not necessarily help. You mentioned Eland House. The problem with Eland House was that the staff did not understand how to change the system manually, and the temperatures went haywire and did whatever they wanted. That problem was down to education.

Peter Fanning: Yes, I am sure that the person in charge of Eland House has learned from that.

Q31 Mr Touhig: I am running out of time, but a defence estate for which I had some responsibility in a previous life had a dream. Do you know about its dream?

Helen Ghosh: Yes. It is its version of BREEAM.

Q32 Mr Touhig: Is it working?

Helen Ghosh: Yes.

Q33 Mr Touhig: Again, has it been taken up by anyone else?

Helen Ghosh: It is rather like the bespoke version—

Mr Touhig: I know that it is bespoke.

Helen Ghosh: We will be encouraging people to do the best thing for the situation that they are in. Clearly, they picked a version of the environmental assessment model that fitted their circumstances. Equally, there is a BREEAM for prisons and one for schools. If there are things to be learned from the defence example, they will be learned.

The other thing that we have not mentioned is that there is an increasingly effective network of procurement professionals across government who will be exchanging that kind of best practice. If BREEAM has things to offer, other Departments with similar environmental challenges will take them up. It is the outcomes that are important—for example, those relating to a reduction in the environmental burden.

Q34 Mr Touhig: The much-maligned Home Office which, according to some people, is not fit for purpose, is certainly fit for purpose if we look at paragraph 4.7 on page 27. The Department uses very expensive flat screens, which are in every Department these days, to give staff information about how they can best use the building. It is pretty basic stuff, so why is it not running across government? We should share good practice.

Helen Ghosh: We all do things such as that. For many years, I had a sustainable development communication scheme within my Department run by the sustainable development unit. However, we will be launching our own version of the *Act on CO₂* campaign with all Departments. That will give about half a million civil servants very simple information about turning off screens and lights and how to deal with waste. Later this week, we will launch an online carbon calculator. DEFRA is providing that kind of resource for all the Departments to use.

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Q35 Mr Touhig: But it uses the flat screens to communicate information to its staff. I am not talking about turning them off; they are used to communicate information.

Helen Ghosh: Indeed; and information on the *Act on CO₂* campaign can come out through the flat screens.

Q36 Mr Touhig: Marsham Street is not too far from Eland House, where manual adjustments to the heating and ventilation system negated the whole operation, did they not?

Helen Ghosh: That emphasises the point that it is not only about looking at the construction process, but how you manage the building.

Q37 Mr Touhig: So are you a convert to the “lessons learned” theory?

Helen Ghosh: As you know from my previous appearances, I am.

Mr Touhig: We will wait and see.

Peter Fanning: I should also make the point that if you have the screens in existence, a great way to use them is to communicate information. If you do not have them, you may harm the environment by purchasing them, because they add to the heat burden.

Mr Touhig: Well, there will be much rejoicing at one sinner who repenteth. Well done.

Q38 Annette Brooke: In March 2005, the National Audit Office Report *Improving Public Services through Better Construction* suggested that annual savings of up to £500 million could be made through the implementation of good practice in general. How much do you expect to save through the implementation of sustainability practices during 2006-07 and next year? Do you have any targets for savings?

Helen Ghosh: What we have are outcome targets. We are not targeting financial savings, as we did successfully through the Gershon programme, which produced financial savings—some of which arose from increasing sustainable development. The new set of targets explicitly looks at environmental outcomes. Many of them will also produce financial savings, and as we move into comprehensive spending review 2007, all Departments will have to live within 5% year-on-year administrative reductions. There will be an increasing incentive to us to look for savings from energy, water use, travel costs and so on.

The answer to your question is not that we have valued the savings as a value, but that we have set targets in terms of environmental outcomes. This brings us back to value for money and how one estimates it. In fact, over time, and in some cases immediately, they will produce financial savings.

Q39 Annette Brooke: Yes, I just wonder whether in some cases the financial savings might be the driving force. That Report also mentioned whole-life costing and recommended that that should be used more widely. There seems to be a lack of use of

whole-life costing, yet it is part of Treasury guidance. What are you doing to ensure that Treasury guidance is implemented on that aspect?

Peter Fanning: Perhaps I can help on that. The first point is that the Treasury guidance is absolutely clear, as you say; whole-life costing is the balance between the costs on a whole-life basis and the user requirement. Essentially, the Report points to difficulties in financial analysis and across Government Departments. The first thing is that it has only recently been the case that all finance directors in Departments have to be financially qualified, so that they have the basic skills to undertake the complex calculations. Secondly, my colleague Mary Keegan has undertaken a capability review of financial capability across Government Departments, and that will make a difference.

In its review of the procurement capability of Departments, the Office of Government Commerce is specifically considering the ability to undertake sustainability calculations to make sure that full benefit is taken of the flexibility available in the Treasury. We are also operating on the people. The Government Procurement Service, which has been reinvigorated following *Transforming Government Procurement*, is specifically—

Q40 Annette Brooke: May I ask about the time scales? It is really good to hear that you are doing all that, but when will it all happen? This year, next year?

Peter Fanning: It is happening this year. As I said, the OGC has been able to make some of the major changes that I am describing only since January this year, when we were given new powers under *Transforming Government Procurement*. We are building on work that was done previously, but the more intrusive and demanding role that the OGC has now been asked to take is very new.

Helen Ghosh: Another thing that is happening, subject to correction from the Treasury Office of Accounts, is that the Treasury has re-emphasised that sustainable development benefits are absolutely part of a whole lifetime costing assessment. That is stated in the sustainable procurement action plan response. The Treasury has re-emphasised that because, as the NAO and others have said, there is still confusion out there about whether we are supposed to go for the cheapest immediate option or are allowed to take into account the wider range of environmental impacts.

You give very good examples of that, but there is additional Green Book advice out, which I have in front of me, that says that: “value for money must be assessed over the whole lifetime of a project, including disposal... estimating the costs and benefits to society as a whole, not simply those directly relevant to the purchaser—eg environmental impact—as set out in the Treasury’s Green Book”. So, it has done what it promised to do in response to the Simms Report.

Marius Gallaher: That note was published on 2 March this year, so it is out there.

Helen Ghosh: And you and others could hold us, as Accounting Officers, to account if we do not take that into account.

Q41 Annette Brooke: Perhaps we should return to that in a year's time to find out if it is happening. I shall come back to that point, but I want to change direction for a moment. In September 2000, the Prime Minister announced that all timber used in construction contracts would be procured from legal and sustainable sources. Given most of the statistics in the Report, the compliance figure is quite high—more than 80% of projects use timber—but things are still quite a long way from the Prime Minister's statement. Is that high figure because of the constant pressure from Greenpeace, which says that it is continually finding that unsustainable wood is used in Government buildings, some of which are not far from where we are sitting? Is it the pressure from Greenpeace that is bringing about change or are the Departments doing what is asked of them—in this case, by the Prime Minister in 2000?

Helen Ghosh: As you say, it was pleasing to see such a high compliance rate. We have driven through a high compliance rate by having quite a lot of bureaucracy. Certificates have to be signed off and individual—

Q42 Annette Brooke: So, why are you still failing? The latest Greenpeace information that I found, from September 2006, said that it had found timber in the £5 million restructuring of the press area during renovation work.

Helen Ghosh: I would be happy to respond to the Greenpeace note, with more information, if you would like me to do so.¹ There are often difficulties regarding the reliability of the supply chain certification that individual Departments get. Peter may know that from his OGC experience. You cannot necessarily rely, in 100% of cases, right back down the supply chain on what you are signing off to the best of your belief. However, we think that we have the processes in place, at our end, for ensuring compliance.

This issue has been strongly politically driven. As you will be aware, Barry Gardiner, the Minister with responsibility for biodiversity, recently drove through and announced changes that will further tighten requirements from April 2009, so that only legal and sustainable timber will be acceptable. Clearly, there is some kind of cause and effect, but we are policing it and there is a strong political drive. However, we need to make sure that we clear up the loopholes in the supply chain system.

Q43 Annette Brooke: There do seem to be some issues.

I should like to return quickly to an earlier point and ask Mr Fanning something, although he might not be able to answer it. It has struck me, throughout, that few Departments use the green assessments. I have come across a case in my constituency in which the Home Office called in designs for a new custody

suite and redesigned them, presumably using the green assessment, but the project is no longer going ahead because the Home Office has not allocated enough money for it. Again, people probably are not looking at the whole-life situation. How is that situation being managed in government?

I could give more examples from the building schools for the future programme. The Department for Education and Skills can give the criteria that you are setting and can do what you have told them to do, but we know that schools with projects in our constituencies are cutting back to meet their budgets. However much you tell me is happening throughout central Government, how are you going to make sure that the whole-life thing happens in all the projects in my constituency and everybody else's constituencies?

Helen Ghosh: Can I give a general comment before handing over to Peter to discuss the technicalities? Of course, the issue was at the heart of what we are trying to achieve here. People and Departments—increasingly going to CSR/07—will have a limited amount of money. In any case, an accounting officer is saying, "What is the best that I can achieve for the amount of money that I have?" It might be a trade-off between refurbishing or building a smaller number of schools to an excellent standard, and refurbishing or building a larger number of schools to a very good standard. There will always be a trade-off, and we cannot assume that we will always have as much money as we need to finance the best possible option.

We need to turn the debate—this is where OGC will play a role—around and say to the construction industry and suppliers, "These are the outcomes we want in terms of carbon, water, waste or whatever it may be. You find the best way to deliver them, you give us the spec for what you will do to deliver them, and we will choose the option that is the cheapest way of delivering the outcomes we want." Because we have suffered in the past—

Q44 Annette Brooke: But where is the whole-life approach? You are losing it.

Helen Ghosh: No, you are not losing the whole-life, because then you will look at them and say, "These are the outcomes we want over life, so that waste and carbon emissions go down or whatever it may be." When you analyse the business case and look at the various bids that you get, you will precisely be building the whole-life approach into the choice that you make. But you will be doing it against a set of outcomes for the long-term running of that building, rather than saying, "Let's have a school and, oh, let's just add on some sustainable development outputs as an addition." You will be building it into your choices, but you still may not—unless Parliament votes us infinite amounts of money—always be able to choose the best option. I do not know whether Peter agrees with that.

Peter Fanning: I should add that there is always a resource constraint. It is difficult for central Government Departments to influence the wider public sector; it is practically very difficult. Most of the expenditure on construction is in the wider

¹ Ev 12–13

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public sector—something like 85% of the demand comes from local government, which is not directly within OGC's remit. As I said, there should be no trade-off between expenditure today if that generates a benefit tomorrow, provided value for money is achieved. There are financing arrangements that are already widely used to ensure that you can achieve the sustainability options.

Q45 Mr Wright: The title of the Report is *Sustainable Construction and Refurbishment on the Government Estate*. Who is in charge of sustainable construction and refurbishment on the Government estate?

Helen Ghosh: Individual Departments are responsible for individual projects, within the framework that is set by OGC in terms of common minimum standards and procurement and sustainability policies. We in DEFRA have a significant role to play in providing advice both to OGC in the form of the "Quick Wins" list, and directly to Departments about products and processes that are most likely to achieve the sustainable outcome. So it is a three-part accountability structure.

Q46 Mr Wright: Figure 3 shows a little bit of the confusion. You have not really mentioned the DTI. Do you think they play a role?

Helen Ghosh: The DTI has an overarching role in the construction industry as a whole, so the kind of work that they are doing on the review of and strategy for sustainable construction is for public sector-private sector, encouraging, in particular, the private sector to set ambition targets for itself. But it is just one contextual piece of policy within which public sector construction and refurbishment sits.

Q47 Mr Wright: But looking at figure 3, do you accept that there is an element of confusion that has probably helped to contribute to the fact that you seem to be failing quite badly?

Helen Ghosh: I do not think there is evidence—actually, I do not think the Report produces evidence—to suggest that the reason that people were not responding or meeting the targets that have been set in terms of assessment was anything to do with, "We didn't know who to go to." I think they are very clear who to go to, and if you look at this chart on page 9, the difference in responsibilities is very clear in terms of building on building regulations. If you look at the DCLG and the DTI, they are essentially looking at the whole construction sector and the building regulations as a whole. What we are doing is supporting Departments in how they procure and deliver their own construction.

Q48 Mr Wright: So ultimately, DEFRA is in charge?

Helen Ghosh: No. Individual Accounting Officers are in charge. We provide information and facilitation, very much in partnership with the Office of Government Commerce, so that Departments know what the sustainable approaches are, what the

latest information is and whether they should go for CHP (Combined Heat and Power), natural ventilation or whatever. We are responsible for that; I am not responsible for the choices and decisions that Ian Andrews, Hugh Taylor or David Bell make when they are looking at an individual construction or refurbishment—

Q49 Mr Wright: You mentioned the close relationship between DEFRA and trying to get "Quick Wins", but it should be "Quick Losses", should it not? Nothing has happened.

Helen Ghosh: On the contrary; the "Quick Wins" list is not used as much as it should be, and we shall be encouraging people to do so, but there is good evidence that—

Peter Fanning: There is good evidence that it is being used. I would make the point that there are many voices in this game: taxpayers, the buyers, the suppliers, individuals, communities and, if you like, the wider environment. One of the things that we need to do is work closely together. I know that this might sound a bit like motherhood and apple pie, but if you deny any one of these Departments a role in this debate, you are effectively disfranchising one of the voices that I mentioned. The trick is to work together.

Q50 Mr Wright: I have taken a lot of drugs today—for my cold, that is—but I do not think that I am hallucinating that much. The title of paragraph 2.19, for example, is "Uptake of the 'Quick Wins' is limited". You are putting a fantastic gloss on it, but ultimately Departments are just not taking any notice of DEFRA on this whatever.

Helen Ghosh: It is actually an OGC list supported by DEFRA—

Q51 Mr Wright: Well, OGC, DTI, DEFRA—take your pick.

Helen Ghosh: I go back to my opening remarks. Until—and I think that the time has now come—Departments are faced with real public scrutiny, parliamentary scrutiny through you and political scrutiny, through the publications of the Sustainable Development Commission, against the Prime Minister's very demanding targets, as well as the extremely tight spending constraints in the CSR 07, their minds might not have been concentrated wonderfully. I can assure you that their minds are indeed concentrated wonderfully now. We would expect the "Quick Wins" list, which we are constantly improving, to be much more visible.

Q52 Mr Wright: Is your mind concentrated?

Helen Ghosh: If you look at the DEFRA record, you can see that we have consistently produced excellent BREEAM buildings, in both our major refurbishments and our new buildings. That reinforces my point. We cannot afford not to set a good example in our new construction and refurbishment. I am very sorry, as David Miliband was, that we did not do as well as we should have on waste arisings or water in our sustainable

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operations. But, because we are so visible and have to take a leadership role in Government, our record on construction and refurbishment is very good.

Q53 Mr Wright: Can I take you to paragraph 1.9? I might also refer to paragraph 3.24, too, because I am interested to see how well DEFRA does on those targets. The first bullet point in paragraph 1.9 refers to achieving: “a 30% improvement in energy efficiency by 2020”. Are you on board to do that?

Helen Ghosh: We have set up with BioRegional, which is—

Q54 Mr Wright: What does that mean? Yes or no?

Helen Ghosh: Sorry, it is a long way away—

Q55 Mr Wright: I thought that you would say that, because paragraph 3.24 indicates that there needs to be a: “15% improvement in energy efficiency by 2010”. That is two and a half years away. Are you on board to do that?

Helen Ghosh: Yes, I would say that we were on track to do that. We are on track to do that for a number of reasons. We are reducing our occupancy, so that we are moving out of a number of buildings. We are moving, on the whole, into more energy efficient buildings, into which we can build much more sensitive environmental management systems. I shall send the Committee a note about this, but we have just bought an environmental management system that will give us blow-by-blow information about, I think, energy use and water use. So, we are in a smaller number of buildings, many of which have recently been refurbished to a higher environmental standard. We are working closely with our staff, through the *Act on CO₂* process, to ensure that, as well as being in fewer buildings and in buildings of a higher standard, we behave in the right way. So, we are on track.²

Q56 Mr Wright: I am conscious of time. Are you on track to make the central Government office estate carbon neutral by 2012?

Helen Ghosh: Yes. Of course the judgment that has to be made—there has been a lot of coverage of this in the papers today—is to what extent the Government will go for carbon offsetting, which we will need for carbon neutrality, as opposed to

reduction in energy use. Our primary aim will be to reduce energy use in the central estate and to offset the remainder. However, primarily we need to look for energy efficiency.

Q57 Mr Wright: Are you reducing water consumption to an appropriate level? Are you on track to meet that target?

Helen Ghosh: Having had a blip last year, yes, we are on track to do that. As I said, we are setting in train the mechanisms to achieve it.

Q58 Mr Wright: Why was there a blip?

Helen Ghosh: I shall let you know. Sorry, it is in the SDC (Sustainable Development Commission) Report. I shall send you a note.

Q59 Mr Wright: The final requirement: “reduce waste arisings by 5%, and recycle 40% of waste, by 2010.”

Helen Ghosh: We are getting a very close grip on that already. There are bizarre things about waste arisings. I brought in batteries from home and put them in the big DEFRA buckets for recycling batteries in our entrance hall, but was told counter-intuitively that that was increasing DEFRA’s waste arisings. There are all sorts of ways of controlling that, which we are now doing.

Q60 Mr Wright: If DEFRA is on track to do a lot, and given that this has gone up the political agenda—the Prime Minister, the Chancellor and the Secretary of State for Environment, Food and Rural Affairs are on board—why do you not have the authority to say to your colleagues at Permanent-Secretary level, “Look, this is what we have achieved. Why have you not done the same?”

Helen Ghosh: But that is exactly what we are doing through the Prime Minister’s targets.

Q61 Mr Wright: But you are not.

Helen Ghosh: Yes we are. I am sorry, but going forward, the targets for sustainable operations in Government are being monitored by the SDC. I can assure you that this time next year there will be a Report that will name and shame Departments. It is being overseen by a Ministerial Committee chaired by David Miliband who is nagging me at every weekly business meeting that we have. He says, “How are we getting on with one-planet DEFRA?” He is extremely conscious of that, as are his ministerial colleagues. That is a much more powerful way in which to get Departments to achieve the Prime Minister’s targets than my having direct intervention and saying, “Change your water system! Change your energy system!” But then we are providing Departments effectively with an undeniable opportunity to buy into the most sustainably defensible options through common contracts.

Peter Fanning: Through common contracts. But before I mention that I should point out that it takes two to three years to procure a construction or facilities management contract. Typically, it takes four to five years to deliver the whole cycle because

² *Note by witness:* Latest figures for the period April 2006 to March 2007 show an indicative 2% improvement in energy efficiency from the previous year. This is an indicative figure, as our energy return has only just been submitted to BRE and they have yet weather corrected the data. This improvement combined with the specific energy efficiency/carbon reduction measures implemented throughout the estate, indicates DEFRA is on track to achieve the SOGE energy efficiency targets. DEFRA has a clear, costed programme of energy efficiency/carbon reduction projects for the 2007–10 period. Results from the first quarter of this year, (April–June 2007) show higher than expected increases in energy efficiency which will in turn lower our carbon emissions. Provisional figures for 2006–07, show a 3% reduction in water consumption compared with 2005–06. The total waste arisings for the Department have decreased by 8.12%, from 5,716 tonnes in 2005–06 to 5,252 tonnes in 2006–07. The recycling rates have increased from 47% in 2005–06 to 55% in 2006–07. Excluding hazardous waste the recycling figures have increased from 61% to 67%.

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normally you are moving people around and, therefore, this work, done originally in 2005-06, included projects initiated four years earlier and those that were started, but will not come to fruition for four years. At the moment, whatever we do, we are taking a snapshot. The key thing to do is to ensure that we have comprehensive information so that we can account back to you and demonstrate a trend. This demonstrates that there are successes and failures, which is a good baseline from which to develop that trend.

Q62 Mr Dunne: Mrs Ghosh, I refer you to paragraph 1.9 on page 10. Do you accept that the Government set a target for the Government office estate to be carbon neutral by 2012?

Helen Ghosh: I do.

Q63 Mr Dunne: Who is responsible for delivering on that commitment?

Helen Ghosh: Individual Permanent Secretaries are responsible for achieving that within their estates. They are overseen by the SDC as the watchdog, Ministerial Committees and Gus O'Donnell as the leader of the group of Permanent Secretaries.

Q64 Mr Dunne: Does that mean that ultimately Gus O'Donnell is responsible for delivering on the target?

Helen Ghosh: Yes. I am happy to say that that outcome is not in my performance target. Every individual Permanent Secretary has it as one of their targets.

Q65 Mr Dunne: Who is responsible for measuring progress towards achieving that target?

Helen Ghosh: That will be done partly through Peter's systems and the property—I cannot remember what it is called.

Peter Fanning: The property benchmarking system.

Helen Ghosh: Yes. We will try to get accurate data. You are quite right—it was a very good point. Getting accurate data is tricky. Peter will say more about that. The SDC will say whether we have done it or not. However, there will be an interesting mixture of energy efficiency and offsetting.

Q66 Mr Dunne: What progress has been made towards achieving that target so far?

Helen Ghosh: I cannot tell that up mentally sitting in front of you, but the carbon reductions or increases have been set out in the SDC Report. Clearly, the first measure against that target, which was set for us last year only, will be in the SDC Report next year. That will be our first serious statistical crack at that. But you are getting information alongside that, Peter.

Peter Fanning: We are getting information. We are working with the SDC to be the common source of information to the SDC to hold the Government to account.

Q67 Mr Dunne: Mr Fanning, I think that you just told us that in many cases it takes four to five years to be able to turn round some buildings of this type.

Peter Fanning: Yes.

Q68 Mr Dunne: Given that you have only five years left in which to achieve carbon neutrality, you have no hope of doing so, have you?

Helen Ghosh: Carbon neutrality does not mean zero carbon. Sorry—the terminology in the area is tricky. It does not mean that there will be zero carbon emissions; it means that there will be carbon neutrality as a mixture of carbon emissions and carbon offsetting to the standards that we shall set after our current consultation. We shall aim to reduce our energy use as far as possible, and to reduce carbon emissions more generally, but we cannot set bounds.

Q69 Mr Dunne: Are you saying that if you cannot achieve it within the buildings, you will pay for it by buying carbon offset?

Helen Ghosh: Absolutely. That is what carbon neutrality means. It is what it means for us and for M&S.

Q70 Mr Dunne: Right. What is the current cost of carbon offset across Government?

Helen Ghosh: I can send the Committee a note on that. The most prominent official system of carbon offset—possibly the only current one—is the carbon system for flights, of which all Departments are members. I shall send you the cost of that.³

Q71 Mr Dunne: I would appreciate that. Is there a budget for carbon offsetting across Government?

Helen Ghosh: There is an agreed budget.

Q72 Mr Dunne: Could you provide details of it, rather than going into it now?

Helen Ghosh: Yes. There are agreed contributions, and there is a table that shows the contributions of each Department to my Department; that is effectively how it works.

Q73 Mr Dunne: Thank you. Is there also a budget for energy efficiency measures across Government that shows the amount of money to be set aside by Government in promoting energy efficiency in Government buildings?

Helen Ghosh: There are schemes in the wider public sector, of which Salix is an example.

Q74 Mr Dunne: We are talking specifically about the Government office estate.

Helen Ghosh: I am not aware of any specific fund for that.

Q75 Mr Dunne: If there is no budget and if there is limited funding to purchase carbon offset at present, how can you assess whether you have any prospect of achieving carbon neutrality by 2012?

Helen Ghosh: Carbon neutrality by 2012 was explicitly set by Ministers as a challenging but achievable target that was very much in line with similar targets in the private sector.

³ Ev 13

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Q76 Mr Dunne: But are they asking you to achieve that with no funding?

Helen Ghosh: Apart from the pretty substantial funding streams that already go into management of our estates.

Q77 Mr Dunne: Indeed, but we have already heard that £3 billion is going into that for refurbishment.

Helen Ghosh: Yes.

Peter Fanning: Yes.

Q78 Mr Dunne: Mr Fanning, you just told us that that money will take four to five years to feed through to individual projects.

Peter Fanning: It could do, yes.

Q79 Mr Dunne: I do not know the size of the total Government estate. Did you mention 9,000 buildings?

Peter Fanning: It is about 9,000 holdings.

Q80 Mr Dunne: What proportion of those is covered by the annual £3 billion refurbishment programme?

Peter Fanning: All of it will be covered by the £3 billion.

Helen Ghosh: But much can be done, of course, by determining how to use the estate, as I think emerges clearly from the Report.

Q81 Mr Dunne: Let us move to that in a moment, because my time is limited. I would like to receive the figures that you just highlighted.

Paragraph 2.27 on page 18 contains what I imagine to be the rather embarrassing conclusion from the NAO—it applies to both of you, Mrs Ghosh and Mr Fanning—that there is insufficient leadership on sustainable construction and refurbishment. Could you comment on the competence of the officials in both of your Departments to advise properly on achieving sustainable development in buildings? How many officers allocated to that task does each of you have and where are they located?

Helen Ghosh: The first point to make is that, as I said in my opening statement, we believe that the clarity of leadership has been significantly increased by our response to Neville Simms' report. In my Department, the issue arises specifically in two places. I have a sustainable procurement unit in my finance team—I can give you precise figures but the people in that unit number in their tens—and they provide Government-wide advice on specific issues, including timber and food procurement, and advice within DEFRA on the refurbishment and construction programmes that we have. They work with my estates people in a very integrated team, as the report recommends. In the Climate Group there is also something called the Environmental Business and Consumer unit.⁴

Q82 Mr Dunne: Could you send us a chart that shows how many people there are and where they are located?

Helen Ghosh: Exactly. There are not vast numbers of people; there are five or 10. They are the people who do the product standards.

Q83 Mr Dunne: Are they all in London?

Helen Ghosh: No, a large number are in York, because that is our relocated centre, and some are in London. We will send an organisation chart.

Chairman: Within two weeks, please.

Q84 Mr Dunne: An interesting example is given on page 21—case 4—of the value for money question in relation to the installation of a wind turbine at the Grantham testing station of the Vehicle and Operator Services Agency. Given the 18-year payback for installation of a wind turbine, do you regard that as good value for money?

Helen Ghosh: I am not going to second-guess that—

Q85 Mr Dunne: Does that mean yes or no?

Helen Ghosh: I am not going to second-guess what appeared to be good value for money to the person who made that estimate. I am not going to step in.

Q86 Mr Dunne: Will you be recommending, through your advisers, a different payback period for the installation of energy efficiency measures, or do you think 18 years is acceptable?

Helen Ghosh: I am not going to second-guess either the accounting officer or the advice that would come out of the Green Book.

Q87 Mr Dunne: Do you have criteria for value for money for the installation of energy efficiency measures?

Helen Ghosh: What we have is advice on what are the most likely energy efficiency measures that would achieve particular outcomes.

Q88 Mr Dunne: Could you set out for us the criteria that apply to the different energy efficiency measures? Because there is another example in the Report on page 23 paragraph 3.17, of Nottingham prison, where solar water heating and grey water recycling at a cost of £2.1 million was scored out of that redevelopment because it was too expensive. Presumably, whoever made that decision decided that was not good value for money.

Helen Ghosh: To go back to your earlier question, what we will undoubtedly have advice on is in what period you would expect to get a return. It is then a question for the Accounting Officer to decide whether or not they are prepared to spend that much to achieve their overall environmental outcomes. It comes back to the point that there will always be a limited amount of money, and the Accounting Officer or the person making the decision must decide where they want to put their investment.

Q89 Mr Dunne: Exactly. There is a clear trade-off, as we were discussing earlier, between environmental concerns and value for money. What comes out of this Report is that at the moment, value for money, which might be desirable from this

⁴ Ev 14

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Committee's point of view, seems to win out. Therefore, the prospects of achieving the goals you have been set seem ever more distant.

May I have a final question, Mr Chairman? On page 23, paragraph 3.19 refers to the Carbon Trust setting up a company, Salix, to provide loans to be matched by local authorities to encourage energy efficiency. Could you tell us how many loans have been issued under that scheme?

Helen Ghosh: No, but we will send you a note.⁵

Q90 Mr Dunne: Are you aware that any loans have been issued under that scheme?

Helen Ghosh: I believe that loans have been issued under that scheme.

Q91 Mr Dunne: Could you kindly send us the number by year and the amount and by which local authority they have been matched?

Helen Ghosh: Certainly.

Peter Fanning: Perhaps I may make an observation on the value for money point. The point is that accounting officers have to make a decision on the best available information they have at the time, and the information changes. It gives me an opportunity to make the observation that today OGC announced a new electricity deal for the public sector, which gives all parts of the public sector access to green electricity at no premium. The contract will cover about 33% of the total volumes until 2011.

I simply make the point that the person who did the numbers in Nottinghamshire may have had reason to believe that circumstances would change. Somebody doing the numbers today would have to take account of today's announcement. The key point is to focus on the outcomes, and to hold people to account for them. As I said, OGC will provide information to the Sustainable Development Commission if we can get agreement to that effect, which will essentially give yourselves a common framework by which to judge—

Mr Dunne: Mr Fanning, I am not surprised to learn that technological advance is driving the cost of energy efficiency measures down. I think many of us are delighted by that and would expect it to happen. What has come out of the Report is that there is a lack of accountability across Government for this issue, because it does not fall within a particular Department. We have seen that from the NAO Report.

Chairman: Thank you very much, Mr Dunne. The last questioner is Ian Lucas.

Q92 Ian Lucas: Picking up on the green energy point, I should like to talk about energy generation from renewable sources. Paragraph 2.18 tells us that "35% of the projects" in the NAO sample "carried out feasibility studies into on-site energy generation from renewable sources". Bear in mind the target that we heard about—making the estate carbon neutral by 2012. That means that 65% of projects do not even make an assessment. Why is that?

Helen Ghosh: Because making an assessment, if you look at the BREEAM criteria, is not in itself a requirement. What people are required to do through the BREEAM process—this is also driven by the outcome targets that we have set—is to aim at the best possible reduction in CO₂ outputs that they can get against standard building regulation targets. In that case, the commissioner might choose to go for energy generation from renewable sources, but it is not a prerequisite. For example, it might be much better—we will be encouraging Departments to do so—for any new building to be powered using those cross-Government contracts. We are not requiring it.

Q93 Ian Lucas: Yes, but that has only just been introduced. We are talking about 2005-06, are we not? Some 65% did not even look at the issue.

Peter Fanning: Perhaps I can help on that.

Q94 Ian Lucas: Is that right or is it wrong, Mrs Ghosh?

Helen Ghosh: I am sure that it is right, because of the—

Q95 Ian Lucas: Is it acceptable that they did not even look at the issue?

Helen Ghosh: What you would expect to do when commissioning the building is to ask the person supplying to say, "This is the outcome that we want. You provide us with the thing that best produces that outcome." It might be from renewable sources; it might be from other sources.

Q96 Ian Lucas: Was that done? Can I have an answer to the question, please?

Helen Ghosh: I am not for one moment disputing the fact that, as the NAO has found, it was not done in those particular projects, but it was not a requirement. That is the point that I am making. It was not a central requirement.

Q97 Ian Lucas: Should it be a requirement?

Peter Fanning: Not unless it is demonstrably going to generate value for money in a sustainable way. Perhaps if I can point you to items—

Q98 Ian Lucas: But has anyone looked at it? What we have heard throughout this session—we have all listened long and hard—is the patent failure of various Departments to reach the various targets that were set and to abide by what are, after all, compulsory assessments. I understand the difference between the BREEAM assessments, which are compulsory, and looking at renewable sources, which is not compulsory. But what is happening is that no one has been ensuring that the compulsory assessments have been followed.

Peter Fanning: It may not have been a sensible thing to do, and that may have been obvious from the calculations. If you look at page 13 of the NAO Report, it is very clear that there were a large number of small projects in the sample. For most of those projects, the average cost was well under £5 million.

⁵ Ev 14-15

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Q99 Ian Lucas: Five million or billion?

Peter Fanning: Million. It says so on page 13. It is pretty clearly the case that if you are going to go for renewable sources of energy, there is a capital cost. The smaller the project, the more sensitive the value for money assessment will be to that capital cost. I am therefore not surprised that an Accounting Officer or financial advisers looking at a small project would say that it is simply not worth spending a lot of time and effort looking at capital investment in order to use energy from renewable sources, specifically when they know that energy prices may be so low that it would not be worth it. You can inspect the numbers and come up with such fairly clear conclusions at the time.

Helen Ghosh: This comes back to the essential point: what we are not doing, whether through BREEAM or the frameworks that we are now setting up, is telling people how to do things. It may be in certain circumstances that renewable sources are the best way in which to do it, but that is for the project to decide, for the construction company to suggest and for the people making the decision to decide. It would be very dangerous if we in DEFRA or Peter in OGC said that you must put in a photovoltaic cell.

Q100 Ian Lucas: It is quite correct that you are not telling people how to do it, but the fact is that they are not doing it at all. That is the problem, is it not?

Peter Fanning: In 65% of the cases, it may have been prima face not sensible to do it because it was obvious.

Q101 Ian Lucas: I am not talking about renewable energy. I am talking about the BREEAM standards.

Helen Ghosh: Exactly. As I said at the beginning, we put our hands up.

Q102 Ian Lucas: Yes, but this has gone on for five years. I fail to understand how a compulsory process cannot be followed in numerous Government Departments, yet no one has done anything about it. Why is that?

Helen Ghosh: No one has done anything about it because of the understanding that it is for accounting officers and the people making the decisions on the contracts to make the decisions overall on value for money bases, including the very clear guidance in the Green Book about long-term

sustainability and whole-life costings. It is ultimately for those people to decide. The framework that we have now set out for very clear outcome targets, very clear public accountability—including the messages that will be sent out by the NAO Report and this Committee—and the increasing political focus on the matter will mean that this situation will not occur again in the future.

Q103 Ian Lucas: Is not the reality that no one thought that BREEAM targets were very important?

Helen Ghosh: You are putting what I said another way round. Yes, it was not seen as a sufficient priority against the other targets and pressures that people had. In the world that we are now in, it will be seen as a priority, not least because of the scrutiny of this Committee and others.

Peter Fanning: To say that no one took the targets would be incorrect, because clearly some Departments have. Indeed, the Treasury building on Horse Guards proudly boasts its excellent BREEAM certificate on the vestibule on the way in. It is on the left-hand side.

Q104 Ian Lucas: Can we be confident when we see you again that these lamentable figures will not be repeated?

Helen Ghosh: What I would like to be confident about is that you will see an ever-increasing improvement in the outcomes that we are achieving across the estate. As Peter said, you will still get some lag of the projects coming through, but I can assure you that you will not see such levels of non-compliance against such targets.

Chairman: That concludes our hearing. Sir John, it is rather sad that we have had to wait for the National Audit Office to reveal the inadequacies of Government Departments in this respect, and we would encourage you to look again at the matter in this Parliament, because various promises have been made to us. It is quite clear that, despite promises made, it is a low priority and only 9% of Government buildings meet your own targets.

It is a poor Report and nothing that you, Mrs Ghosh and Mr Fanning, have said has really convinced us very much. You can expect a roasting in our Report. Let us hope that it does not add any more carbon emissions. Thank you very much.

Supplementary memorandum submitted by the Department for Environment, Food and Rural Affairs

Question 42 (Annette Brooke): *Response to Greenpeace's note on unsustainable wood used in government buildings*

All central government departments and their executive agencies are required to actively seek to purchase their timber from legal and sustainable sources. The model condition of their contract, which departments are advised to use, obliges all government contractors to supply legally harvested timber and to produce credible evidence of the source if requested. In the absence of proof of legal harvesting of timber from high risk countries it is reasonable to speculate that some or all of the timber may have been illegally harvested.

In the seven years that the policy has been operational Greenpeace has made public demonstrations of possible non-compliance with this policy in three instances. The refurbishment of 22 Whitehall, the new build Home Office HQ at Marsham Street and the refurbishment of Admiralty Arch. Greenpeace has exposed other instances of supplies to public sector bodies, including the Palace of Westminster, of timber that may have been illegally harvested but these bodies are no subject to the Government's policy.

The Government has learnt valuable lessons from each incident and has sought to tighten procedures and improve guidance as a result. Non-compliances are most likely to occur on building sites and are often due to a lack of understanding within the supply chain. Mistakes are then compounded by lapses in supervision. The Government and its appointed Central Point of Expertise on Timber (CPET) is currently working with a number of companies in the construction and facilities management sector to develop measures for better management of sub-contractors in their timber purchasing practices. In addition, CPET runs training workshops that are freely available to public sector bodies and their suppliers.

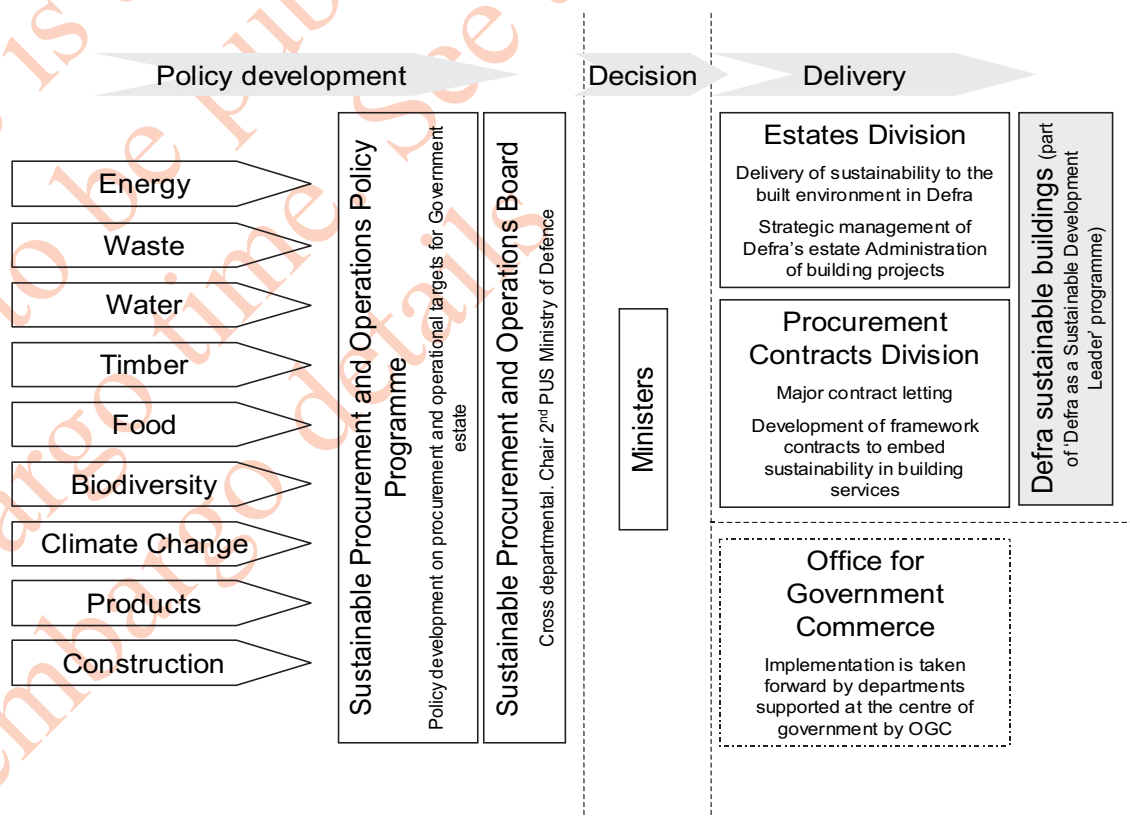
The Government is determined to minimise the risk of illegally harvested timber inadvertently getting into its supply chains. In this respect Greenpeace and other environmental NGOs have made a very positive contribution to development of the policy, as has the UK timber trade.

Question 70 (Mr Philip Dunne): *Government Carbon Offsetting Fund (GCOF) for air travel*

The Government Carbon Offsetting Fund covers all central government departments (apart from FCO, who operate their own offsetting scheme for air travel). Defra is finalising a contract with EEA Fund Management who will provide up to 305,000 Certified Emission Reductions (CERs) by the end of April 2009. These CERs will be used to offset emissions attributable to official and ministerial air travel between April 2006 and April 2009. Each CER will cost £9.91, resulting in a total potential cost of £3,022,550. The final actual cost is dependant on the quantity of CO₂ needing to be offset over the period of the scheme, which cannot be determined until April 2009.

The cost of offsetting through the GCOF is met by each participating member of the scheme. It is at their discretion which budgets the payments come from. In that sense, there is not an overarching budget established across government. However, departments are aware of the likely financial commitment to the scheme.

ESTIMATED DEPARTMENTAL CONTRIBUTIONS



This was drawn up during preparation of the scheme. It is important to be aware that actual and more up to date data is now being reported by departments.

We also discussed during the evidence session the potential cost of implementing the policy to make the central government office estate carbon neutral by 2012. Based on estimated carbon emissions data from offices during 2005/06, the total cost of offsetting for the office estate (based on offsetting costing £10 per tonne of carbon) is in the region of £7.3 million. Clearly the final cost will depend on many factors.

Question 81 (Mr Philip Dunne): *Defra organisational chart on officials that advise on sustainable development in buildings*

<i>Department</i>	<i>Amount of Carbon Dioxide pa/tonnes</i>	<i>Number of CERs to be purchased (including full climate impact)</i>	<i>GCOF Contribution at £10 per CER/£pa</i>
Department for International Development	8,676	17,351	173,515
Ministry of Defence	7,583	15,166	151,659
HMRC	4,155	8,310	83,105
Department for Trade and Industry	3,404	6,808	68,075
Home Office	2,362	4,723	47,234
Department of Work and Pensions	1,997	3,993	39,930
Treasury	1,662	3,324	33,242
Department for Environment Food and Rural Affairs	1,350	2,700	27,000
Department of Health	955	1,910	19,095
Cabinet Office	818	1,636	16,360
Department for Transport	520	1,039	10,391
Office of the Deputy Prime Minister	340	679	6,795
Office of National Statistics	190	381	3,809
Department for Education and Skills	148	296	2,960
Law Officers Department CPS	228	457	4,568
DCMS	151	302	3,023
Law Officers Department SFO	133	266	2,664
Department for Constitutional Affairs	139	279	2,785
Office of Government Commerce	111	222	2,216
ECGD	128	257	2,566
CEFAS	80	159	1,593
LSLO	30	60	603
GAD	23	46	457
Debt Management Office	4	8	83
Total	35,186	70,373	703,729

This chart illustrates how we take forward work on delivering sustainable development on the DEFRA estate. I have 28 people working in estates division, a team of 8 will be in the Sustainable Procurement and Operations Policy Programme, and 7.4 working on procurement. It is important to note that Defra does not provide specific policy advice on sustainable operations in buildings, but rather helps to develop the outcomes central government should be aspiring towards. Implementation is take forward by Departments supported at the centre of government by OGC.

Question 89 (Mr Philip Dunne): *Salix Finance*

Salix Finance was set up in 2004 to provide finance to allow the public sector to invest in energy saving measures. Its business model is designed to help overcome the funding and accounting barriers to investment confronted by the public sector.

Salix is an integral part of the UK's Climate Change Programme and has been allocated Defra and Welsh Assembly funding of up to £25 million between 2004 and 2008.

Salix provides funding of typically £250,000 to each public sector client. This is matched by clients and fed into a ring-fenced fund to be spent on individual energy saving and renewable projects with a payback of less than five years—such as boilers, lighting, insulation and controls. Salix also provides much wider advice and support to help organisation set up and manage the funds and deliver the projects.

The energy savings realised by the projects are returned to the fund until the original project investment is repaid. Repayments are then recycled to other projects so that the fund becomes self sustaining over time. Once the original project loan is repaid the energy savings can be kept by clients and spent on front-line services. Salix's original contribution to the fund can be reclaimed when the organisation runs out of compliant projects. We expect this recycling to take, on average, 7-10 years.

Salix began as a Carbon Trust pilot in 19 local authorities. However, following an injection of £20 million in the 2005 Pre-Budget Report, Salix is accelerating its funding across the public sector. Currently they have set up funds worth in total around £25 million (including matched funding) with 63 clients, 48 of these were local authorities, 8 universities, 4 NHS foundation trusts and 3 police/fire authorities. The key statistics are:

- To date out clients have spent £4.27 million on 560 individual projects, which save 100,000t CO₂ over the lifetime of the projects.
- In 2006–07 we funded 251 projects costing £2.2 million delivering just over 40,000t CO₂ (lifetime).
- By the end of the current year we expect to have spent around £16 million out of a total fund size of £40 million.

Salix has allocated up to £1 million for central government. It has recently begun negotiations to set up funds in 4 departments: DEFRA, the Cabinet Office, DCLG and the National Archives.

As part of the sustainable procurement agenda Salix is working closely with Defra to understand the barriers to central government investment in energy efficiency and how Salix will contribute in the future.

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