Select Committee on the Natural Environment and Rural Communities Act 2006

Corrected oral evidence: Natural Environment and Rural Communities Act 2006

Tuesday 24 October 2017
11.05 am

Watch the meeting

Members present: Lord Cameron of Dillington (The Chairman); Earl of Arran; Baroness Byford; Earl of Caithness; Lord Cavendish of Furness; Viscount Chandos; Lord Faulkner of Worcester; Countess of Mar; Baroness Parminter; Baroness Scott of Needham Market; Baroness Whitaker.

Evidence Session No. 8 Heard in Public Questions 59 - 66

Witness

I: Dieter Helm CBE, Professor of Economic Policy, University of Oxford and Chairman of the Natural Capital Committee.
Examination of witness

Dieter Helm.

Q59 The Chairman: Good morning, Professor Helm. Thank you for coming to see us. We know that you have to leave us at 11.50 am, and we will try to organise things so that you do. If not, just walk out.

Dieter Helm: Not my style.

The Chairman: You have in front of you a list of interests that have been declared by members of the Committee. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the Committee website, and you will have the opportunity to make corrections to it where necessary.

I will ask the first question. What is natural capital—a reference to the committee that you chair—and how do we measure it? What do we measure well and less well? How easy is it, and less easy, to measure such capital? More importantly, how do we integrate such a system of examining our environment into our system of governance?

Dieter Helm: That is quite a few questions.

The Chairman: I know. I apologise.

Dieter Helm: Let me try to unpack them. Natural capital is just one of the three pillars of the capital of any economy. There is manufactured capital, human capital and natural capital. Many people would argue that neither of the other two can function without natural capital. Some people would say that it is primary. It is absolutely core to any economy and the functioning of any economy and to economic growth. It is capital, so it is about assets and the state of assets. Assets yield services, but this is not an eco-service approach; this is looking at hard capital assets and such things as current-cost accounting and capital maintenance—hard accounting concepts to apply in this area.

It is natural in that nature gives it to us for free, and in the case of renewable natural capital it goes on giving itself to us for free for ever, provided that we do not deplete it below a level where it cannot contain itself. Think of the herring stocks in the North Sea. They might still be there in 100,000 years’ time yielding nature’s bounty for free, but if you overfish them there will be none. Non-renewables, such as oil, gas and minerals, are crucial to the economy, but you can use them only once. That essentially is what it is.

On your question about whether we can measure it, there are two parts to the answer. One is the perfect versus the good. We cannot measure manufactured capital or human capital very well, but we get by with it. The crucial thing in natural capital is to work out which bits really matter and to focus on the measurement of those. Of all the things in natural capital that you really want to measure well it is the renewables bit—the bit that nature would go on giving us for free for future generations for
ever—and the ones in that category that are at risk of falling below a threshold where they cannot renew themselves.

We can make a pretty good estimate of the value of core parts of this framework, and it is always best to be roughly right than precisely wrong, which is what people do when they do not try to value these assets, because too often they are treated as being of zero value. That is why one is always making an approximation.

The Chairman: Excellent. What about integrating such a system into our system of governance?

Dieter Helm: That has a variety of different levels. The crucial thing is to integrate natural capital with the other forms of capital at the heart of the Treasury. This should be core to economic policy. This is about the economy, and economic growth is about combining our various sorts of assets to produce the best outcome for people over time. That is the starting point.

When the Natural Capital Committee was set up it was set up to report the economic sub-committee of the Cabinet, which was utterly crucial to the structure. The front of the 2011 White Paper *The Natural Choice*, of which the Natural Capital Committee is a product, was all about why we will only take natural assets, nature and the environment seriously if they are treated as a core part of economy policy. That is the big integration bit.

Below that, you have a plethora of different institutions and organisations, which I am sure we will come on to, some of which are better designed than others, many of which overlap. My personal remark is that the sum of what could be achieved is much higher than what is actually achieved by the structure that we have in place.

Baroness Scott of Needham Market: May I cheat a little and start by asking a supplementary question? I absolutely understand your examples of herring and renewables, but can you just describe what a natural-capital approach to, say, air quality might be? That is not a renewable issue, but it clearly has impacts on society in terms of quality of life and cost.

Dieter Helm: In a strict sense, it is a renewable; the atmosphere continues to renew itself, and the forests and trees—look out of the window here—are releasing oxygen and clearing up quite a lot of the mess. In our very first report, we emphasised that the economic benefits from dealing with air pollution in cities were of an order of magnitude bigger than anything else that we found. There are many natural-capital things that you can do in cities such as London, Manchester and other great cities that make a great deal of difference in lots of different ways. Trees are really important. You can imagine, if you were stargazing, planting every street in London with trees, and actually the cost is not that high for those kinds of activities. Green spaces in the city are important for enabling people to get out of the traffic and inhale air that
is somewhat better, as is access to green spaces for children, green corridors and so on.

There are lots of practical things here that have their economic benefits, such as health gains, educational benefits and well-being benefits, which are every bit as important as wages. They are part and parcel of what a good economy comprises. So the example is a great one, and there is a huge amount that we can do.

**Q60 Baroness Scott of Needham Market:** Thank you. My main question is this. The Treasury, business and so on will all have to be persuaded by the evidence of the benefits and all that to take this approach. What is your assessment of the quality of the data that we have from which those judgments can be made?

**Dieter Helm:** On your first point about business et cetera, we have done a lot of work on how these things should be brought on to the balance sheet of companies and organisations. If you are a farmer, you can see straightforwardly that almost all your assets are natural capital; if your soil is no good you are in trouble, and if you do not maintain it your assets will depreciate. However, we on the committee, particularly my colleague Colin Mayer, developed a template very early on for how corporate accounts should be done to incorporate natural capital along with other sorts of assets, capital maintenance and current-cost evaluation. All the standard accounting stuff should be applied to this frame.

In due course—we do not recommend this yet—since we require companies to report quite a lot of risks, if companies own renewable natural capital that is at risk it should be on a risk register, and ultimately it should be identified in accounts.

There is quite a lot of data. Indeed, I often reflect that Britain has the most intensively empirically-documented decline of its natural capital of any country in the world. Naturalists have been following the decline of each and every species for a century, and there are books on every one that is going down, so we have a lot of back data, and natural history is understood much better than in most countries in the world, right back from Gilbert White, Darwin and others. So we have that. We also have quite a lot of assessment of what is out there.

There are two really important points to make about the data. First, we are genuinely on the cusp of a technical revolution that enables the amount of data that we can have to be dramatically increased. You can know to a very close resolution what is going on in every fraction of a hectare in this country. You can see from the higher-level stewardship schemes, field margins and so on that it is no longer a question of inspectors from some organisation going out and checking that people are doing what they are supposed to be doing; you can do it from the air now very quickly. This GPS-style data will transform what we know about our landscape. We in the committee have spent some time helping Defra to think about how to do that, and there is enormous potential for
facilitating that process. Back to your example of air quality, we can now know with very close resolution what the air quality is in almost every street in London, so we know what to concentrate on. This is a huge advantage. That is one area that we as the Natural Capital Committee are really keen to push along.

The other area is in accounting. We think it is really important that natural capital is naturally incorporated into national accounting, like any other form of capital. The Government have a commitment to produce green national accounts by 2020—an outcome of the Rio meeting. I think it was Nick Clegg who pushed that particularly hard, although I may be wrong about that. The ONS is already producing partial natural capital accounts for the economy. If you want to enhance the natural capital of the economy—if that is your policy objective—if you do not measure it in accounting terms, you cannot tell whether you have preserved the assets or not. So the ONS is one route.

Then there is the huge plethora of new digital information that we have. That should make the whole practice of how we monitor and assess what is going on in our natural environment both very much better and, for any given level of knowledge, incredibly cheaper. That should be built in. It is a fantastic opportunity.

**The Countess of Mar:** May I go back a step? Very little has been said about soil and soil quality in the papers that we have here, yet it is probably one of the most important assets that we have, apart from air and water. Everything comes from the soil: what we eat, what we wear, and everything else—our fuel comes from the earth. Do you regard soil as a renewable or as being at risk?

**Dieter Helm:** There are two points. If I may slightly disagree, not everything comes from the soil; we have marine assets and all sorts of other assets. But I take your point. Is it incredibly important? Of course it is. We farm 70% or 80% of Britain’s land area, and our soils are enormously important reserves, not just for the minerals and the fibre that we need to grow crops but for carbon, and trees require soil. Of course it is an absolutely crucial part. It is also a renewable. It is true that if you deplete it below a certain threshold you will destroy your soils. You can look at the dust bowl in America and chunks of China, which are desertifying because we have not looked after the soil.

**The Countess of Mar:** We heard yesterday that East Anglia is losing 5 centimetres of soil a year.

**Dieter Helm:** That sounds entirely plausible to me, although I could not confirm or deny the precise number. If you look at the precise accounts of a farm, where is the asset soil on the accounts and where is the capital maintenance requirement to maintain that soil as a cost to the business? If you think about this as assets in perpetuity, which these renewable national assets are, you use current cost accounting, so you never depreciate them as you would in historic cost accounting, and you have to provide capital maintenance to do that. So one way of answering your
question is that it is pretty obvious that, in this country, as an economy as a whole we are not providing sufficient capital maintenance to maintain the stock of soils so that future generations have the benefit of those soils. Yes, it is very serious indeed. It is more serious in some parts of the country than in others, but there are all sorts of other dimensions, not just the agricultural one: water run-off, water quality, how much we pay through our water bills to deal with the consequences of how soils have been treated, dredging rivers. It is an enormously important part of the frame.

Baroness Whitaker: Good morning. I am a great fan of the concept of natural capital, which I think came after biodiversity, although to some extent it includes it. Could I follow the Chairman’s question by asking you whether you think that public authorities should have a duty towards natural capital that would extend or absorb the NERC Act duty to have regard for biodiversity? Would this be phrased better as a duty to “have regard to” or to “enhance” natural capital rather than focusing on biodiversity?

Dieter Helm: Your Committee is looking at a particular Act. Since then, there has been a White Paper, which sets out a clear objective of the Government in 2011 to be the first generation to leave the natural environment in a better state than it found it. That is absolutely clear and it lies behind everything that the Natural Capital Committee does. The Natural Capital Committee suggested that the way to do this was to draw up a 25-year environmental plan, and we suggested that pilots should be taken forward. At the 2010 election, all three of the then major parties supported the 25-year plan concept. Unfortunately, in 2017 only two of the parties did, and one of them neglected to put it in its manifesto. We now have a Secretary of State who is committed to producing that 25-year plan, and we at the Natural Capital Committee have given our advice on that.

In that advice we say that that 25-year environmental plan should be put on a statutory basis. Therefore, I envisage a natural capital Act, or something similar, which embeds the 25-year plan, in an analogous but not quite the same way as the Climate Change Act embeds the commitment to reduce emissions by 2050. Once you do that, you cascade down and ask yourself, “What would the architecture in institutional terms”—local authorities and the bodies that you are looking at—“look like to achieve that?” We advise clearly that this plan will never be achieved unless a single body is given the statutory duty to deliver that outcome: the improvement of natural capital. That leads one to think radically about the role of the Environment Agency in particular. We have no environment protection agency in Britain, for example, and much of the Environment Agency’s work is taken up with floods, as well as a lot of production activities. Natural England has a different remit within that frame.

My approach to your question is to start by asking what the objective, the central purpose, of the policy is that you are trying to achieve? Once you set that out as an objective, what are the institutions that you need to
achieve that? I would then subsume consideration of what you do with the NERC Act under that framework.

**Baroness Whitaker:** In that case, biodiversity might figure lower down in the hierarchy of obligations under a natural capital instrument.

**Dieter Helm:** It is hard to think about improving natural capital without improving biodiversity. It is an absolutely central part of it. The trouble with having the objective of biodiversity as currently pursued is that it is not clear what it means. It is very hard to measure biodiversity as a concept, by the way. Do you think that biodiversity is doing very well in the current framework?

**Baroness Whitaker:** Personally, no.

**Dieter Helm:** We know—it is well plotted—that it is doing very badly. The response to that should be to observe that one reason why it is doing very badly is because it is already well down in the hierarchy. It is not actually right up top but in particular institutions, which are set within a framework that has lots of other things in play. I do not think that in a natural capital world we would downgrade biodiversity. We would upgrade it. It is very downgraded within the existing framework.

**Baroness Whitaker:** Thank you.

**Baroness Byford:** My question follows on from that. Obviously, we have the environment plan, which we have all had a chance to look at, but we are waiting for the food strategy policy to come out. Do you think that the two should go together or should they be separate? Clearly, there are overlaps in some instances.

**Dieter Helm:** We do not have a 25-year environment plan yet. We are promised one, and we have given advice on it. I have always been deeply concerned by the idea of two separate pillars: a farming plan and an environment plan. This to me is nonsense, because agricultural land is absolutely the critical part of natural capital and therefore the natural environment. What happens when you have two separate plans is that the lobbyists in each area pursue their own interests. Whatever view one takes about what should happen after the common agricultural policy, I find it hard to believe that anyone can think that it has been an environmental success. I can think of lots of reasons why it has been environmentally extremely damaging at times, particularly in its early period in the 1970s and into the 1980s. So I have always been clear that there should be an overarching 25-year environment plan, and agriculture is a crucial part of that. My understanding is that that is what the Secretary of State has said in effect, and I think he is absolutely right.

**Baroness Byford:** Thank you for the clarification.

**Lord Faulkner of Worcester:** You have written about the deep pockets of developers and how they can muster advice at inquiries and similar places that can often swamp the pro-environmental, pro-biodiversity
experts. What can be done to help local authorities and other relevant public bodies to implement natural-capital accounting effectively at local level? Is there enough understanding of what is actually needed?

**Dieter Helm:** In a variety of areas in our economy where there are substantial economic rents to be gained from public policy, and therefore understandably deep vested interests, there is always the problem of who represents the public interest, particularly future generations’ public interest. It is true in agriculture, because it is a subsidy-driven industry, so it is bound to powerful lobby groups. I make no criticism of them at all, but they pursue those arguments and they have the resource to do so. It is true in energy, where there are very large-scale subsidies and now powerful lobby groups to pursue those interests. Again, I make no criticism of those bodies. It is also true in planning; the value of different designations of land to potential developers means that planning permission is a huge and binary one-nought—you either make a lot of money or you do not. The problem in all these cases is not that those people are representing those interests; it is that the public interest is not represented. The best advice and the highest fees, to advisers, to experts et cetera, are always paid by the people in receipt of these benefits.

So the question is: how do you lean into the wind of vested interests to make sure that this wider interest is taken into account? Here I have a number of thoughts, the first and most important of which is clearly statutory duties. That is why I think that the 25-year plan has to have a statutory frame. Then, it is not a question of bending the rules here and there; it is clear. We have not got to this in the Natural Capital Committee, but I have set this out in my book on natural capital: anyone who damages renewable natural capital should have to compensate for that damage. Once you embed the principle of compensation, the balance of these interests changes very substantially.

Finally, if you have these statutory duties and set up appropriate databases and so on, you have to resource this properly. The evidence is that we do not resource looking after our natural capital particularly well. Why? Because it is going down, and it has been going down for a substantial period of time. Also in that framework should be duties on companies to have proper asset registers in order to identify assets at risk under the normal accounting rules. All these things are ways in which you cut away some of the thicket of lobbying and expose the key component parts. From that basis you can start to apply the analysis et cetera.

Lots of areas of our economy have these problems. It is so serious here, because we have damage to our assets that will undermine the whole of our economic performance if we carry on as we are carrying on at the moment, not just in particular sectors—we had the example of soils and farming earlier—but more generally. This is not a sustainable path, and if it is not sustainable it will not be sustained, and we will suffer in economic growth and performance terms.

**The Earl of Caithness:** May I follow on from public authorities to the
public themselves? It is very interesting to see how this debate and these discussions have evolved since you floated this idea some years ago. Natural capital has become a buzz word, but nobody really understands what it means. As politicians we have to sell it. Have you given the Secretary of State a format or an idea of how we can include it in the 25-year plan and how we are going to sell this to the public, because in some cases preserving biodiversity and the environment by following your process through will very much go against what local opinion wants? Given that we will be in a new era, giving compensation in the right places, this will cause a lot of antagonism. How do we get the message across to the public?

**Dieter Helm:** There are quite a lot of component parts to this. The first is that natural capital is a hard concept in the way that sustainability is not. We have solved unsustainability by making the concept almost meaningless, so that everyone can say that anything they do is sustainable and then they tick the box. I am quite serious; sustainability is one of those really plastic concepts—nobody can be against it, but what counts as it? It is very hard to measure, if possible. Natural capital is a very hard concept. It is grounded in economics. It is about assets. It is about the asset state, the asset quality, capital maintenance. Take the soil example. There is soil, it is physically there, and you can assess the state of that asset. That is the first point.

The second point is that if you simply say that whenever people do not really care about natural capital—they care about something else in the short term—we should just sacrifice natural capital. Of course, you can be utilitarian and weigh everything up in the balance in a short-term maximising way, but you will damage the interests of future generations substantially and reduce their choices. Most of this stuff is not instant; it happens over time. We can see in a lot of other areas of our public life just how much damage we have done to the prospects not just of future generations but of the next generation compared with ours. So that is part of it.

The third point is that because we have degraded natural capital next to people so much, many people do not experience it, so they do not know what they are missing. I was horrified recently when I asked one of my students what they would say if no more swallows turned up in the summer. It was quite obvious to me that they did not know how to identify a swallow. That is a reflection of the fact that they have no experience of nature. Where that matters is next to people: city parks, green spaces for children, green-belt land right next to cities—all these core assets. We have kind of taken that away.

In the end, however, you are a politician and I am not. All I can say is that by taking natural capital seriously we will be better off in aggregate. Some people will not be able to do some of the things they want to do, others will have greater opportunities, but if you as politicians cannot persuade people to take their natural environment seriously, you at least have to look in the mirror and ask, “What am I promising my
grandchildren will be here in Britain in 20, 25, 30 years’ time, that they will have left? And how exactly will they grow the food without the soils?”

These things are fundamental: education, accounting, hard principle and proper national reflection. We do this in other areas of our life, and I do not see why it cannot be done here. I would like to see it in the Budget Report—“This is what has happened to our natural capital over the last year. This is the economic outlook for the economy, taking account of what we have not maintained”—and taken forward.

I am very glad not to be a politician and to have to try to do what you have to do.

Q63 **The Countess of Mar:** My question is twofold. First, I have a supplementary question to ask. You have painted a terribly depressing picture of our loss of natural capital. Can we build it up again? Secondly, my main question is: do you think that the natural-capital approach would tend to enhance or weaken the protections afforded by current nature conservation legislation?

**Dieter Helm:** The scale of the opportunities out there is absolutely enormous. Our discussions so far have focused mainly on the fact that our natural capital is in decline, in some areas more than others, but the economic opportunities to improve this are very large, and many of them very practicable. Let us think of two or three. One is air quality in cities. We know what the economic detriment is. We know what it costs the health service, roughly. We know these kinds of numbers.

This is perfectly fixable. It is not as if sorting out the air quality outside this building is rocket science, just as it was not rocket science to clean up the big stink that made your predecessors have to leave this site. Observe the first thing: rivers and river catchments. There are phenomenal opportunities in river catchments to improve what is there. We currently pay the water companies to clean up the mess that goes into them, which is partly from agricultural land and which, regulated and subsidised, is completely separate from the way the water companies operate. Then we have the Environment Agency looking after flood defence as a completely separate activity. We have no catchment system plans or integrated approach to catchments. This is perfectly plausible and does not involve substantive greater costs.

You mentioned the agricultural example. We know what to do; farmers know how to maintain their soils. If they do not, we are in serious difficulty. This can be done. Take cities and imagination. In the 19th century, when we were much poorer, cities could think quite seriously about their infrastructure. In fact, many of the green spaces come from earlier decisions. We can do a great deal about urban greenness and improve the lot of people, particularly the most disadvantaged. It is not a Natural Capital Committee proposal, but I think we should toy with the idea that no child should be within X-hundred metres of a green space. That would put a lot of resources into creating such small environments in poor urban areas.
**The Countess of Mar:** You said no child. Did you mean every child?

**Dieter Helm:** Sorry, too many negatives. No child should not be within that distance. Those things can be done. This is why you need a national plan within which the local bits are set, which is the framework. Lots of this stuff is locally delivered by local authorities. I would have river catchment authorities within the framework. That is not a Natural Capital Committee view but my view. We can seriously get the institutions structured up to deliver this. It is not very expensive. In many of these cases the benefits are much larger than the costs.

**The Countess of Mar:** Do you think that the natural capital approach would tend to enhance or weaken the protections afforded by current nature conservation legislation?

**Dieter Helm:** It would certainly improve them, because if you do not know what the state of the assets are, you are hardly likely to know when you are damaging them where their value-added is in making investments—so absolutely, yes.

**Baroness Byford:** May I move on to the next question, which is about the objectives and functions of Natural England? Before I do so, I refer back to the paper you gave us on the triennial review of the Environment Agency and Natural England. In it, you have clearly suggested that there could be a change of structure in what they do and how they do it. Particularly on the biodiversity side you recommend that a new body could be set up between those involved in SSSIs and the RSPB. My question is: if you are creating a new body, to whom will it be responsible, and what effect will it have on Natural England’s current responsibilities?

**Dieter Helm:** When I wrote that paper, quite a long time ago, in the context of the triennial review of the Environment Agency and Natural England, this was pre natural capital discussions. The 25-year plan was not imagined at that stage. Broadly, I always start with the Environment Agency rather than Natural England, because it is so big and it has such a core responsibility. I have always been in favour of breaking up the Environment Agency. It is 10,000-plus people, it combines policy advisory functions with a large production activity—that is, flood defence management—prosecutions, and so on. I would start with a small, tight environmental protection agency that enforces the law. If you look across the environmental territory, particularly waste at the moment—fly-tipping, and so on—you will find that there is a real question about whether all this is enforced. It would be a small enforcement agency, and its chief executive would not be worried about whether they would have to appear on Sunday and deal with the flood, flying back from holiday or doing whatever they have to do to do that stuff. They would just focus on their core duty. This is what HMIP used to do. When the Environment Agency was set up, HMIP was a small protection agency only for, essentially, air quality. It was merged and then subsumed within the National Rivers Authority.
I would take the flood defence stuff away and put it in the catchment framework. Then you have to ask: who would look after the land in the broader sense? That is the body that I think—my committee did not take a view on this, so this is my view—is statutorily responsible for delivering the 25-year plan. Natural England in its current form is not resourced, designed or structured to do that. It could, but so could something else. That comes back to your concern with the NERC Act. That Act focused on a very narrow dimension of this problem and dealt with, in my view, the rearrangement of the deck chairs. If you go back through the Nature Conservancy Council, English Nature, Natural England, this has been a saga of moving from one body to the next, and it has not been thought of within the framework of integrating our environmental policy.

If you have an Act of Parliament to entrench the 25-year plan that is analogous to the Climate Change Act, and you have a serious body that is independent of this to do environmental protection, prosecution and regulation properly, you then need a body to look after the delivery and to co-ordinate the functions with the local authorities, the NGOs and lots of other players out there. That is how I go about answering the question, rather than starting with Natural England and asking what I would do to tweak a power here or there. That is subsumed into the wider question of whether you really want a 25-year plan, whether you really mean it and whether you really want Parliament to commit to do this and hold people statutorily to account for delivering it in the way we have done on the climate change side.

The Chairman: Would this committee report to the Treasury, the Cabinet Office, or to Parliament?

Dieter Helm: Again, this is an analogy, because the Climate Change Committee is not quite the same. Climate change, dare I say it, is easy from a technical point of view; you just measure a small number of gases and it does not matter where they are emitted. In contrast, the natural environment and natural capital biodiversity are very location-specific, and there are a whole set of complexities about measuring them that are different from climate change. The Climate Change Committee reports to Parliament, as I understand these things—I am not an expert. It does not report to Defra, to BEIS or to the Treasury. If this is a parliamentary Act, it seems to me that this should be a stand-alone body and report essentially directly. I am not an expert on how to design agencies and rules, but independence matters a lot. As with the climate change committee, you have to have the power to say, “Your policies are not consistent with this. Either go back to Parliament and legislate to stop doing this, and give up on your 25-year plan, or here are the measures you would have to pursue”.

Baroness Byford: You would then have three different bodies to do the work that two are currently supposedly not doing as well as they might, in your view, and we have a blank sheet of paper on which we can start again.
**Dieter Helm:** No, I would have an environment protection agency and a body to deliver the 25-year plan.

**Baroness Byford:** That is statutory.

**Dieter Helm:** That is it.

**Baroness Byford:** But you are taking away flood protection to give to another bit and then taking away biodiversity to another bit, unless I have misunderstood you.

**Dieter Helm:** No, I would not take biodiversity anywhere else. On flood protection, I suggested that, as in the electricity system, we have a system operator—a national grid, although I question whether it should be a national one—who is responsible for securing supplies of energy. I have in mind that in the catchments we would have a catchment system operator responsible for co-ordinating between the farmers, flood defence and the water activities and put out to tender the stuff that needs to be done. Effectively, that is what the Environment Agency does. It does not build flood defences; it goes out to companies to tender. I would do that in an integrated way. We have done a lot of work, and the pioneering in Carlisle shows that taking an integrated approach can be a much more cost-effective and environmentally benign way of protection from floods than what currently goes on on a short-term Treasury budget. I think we should do that anyway.

Of course, Ofwat’s role would change quite a lot, because there are a lot of other bodies here, but I would treat river catchments as we treat the electricity system; you need a system operator to make sure that the thing adds up. So I would suggest two bodies, not three, and I would slim down the Environment Agency substantially. I do not understand how, even with the best-quality management you can conceive of, people are capable of managing simultaneously operations, emergency staff, regulation, prosecution and policy advice. The ambit which the board is supposed to control and operate across is just huge, and it is not surprising that there are questions about the consequences of that.

**The Chairman:** Just so that I am clear, are you saying that your new national rivers authority should be lots of little different bodies looking after individual catchments? There would be no national flood defence body, such as the NRA, which I thought was a good body.

**Dieter Helm:** Let me disagree with you; I thought it was a bad body. The NRA had 6,000 people, to start with. It was not a system operator and a co-ordinator; it was an organisation with lots of employees doing production jobs. I think one should be very careful about the distinction between what public bodies should do and what companies, organisations and contractors should do. The NRA was always essentially an amalgamation of little NRAs for each catchment. The co-ordination between dealing with the catchment of the Derwent and the catchment of the Thames or of the Itchen is zilch. We have no overarching body that makes Thames Water co-ordinate with Yorkshire Water, and there is no
reason why we have to have the national co-ordination of flood defence. Floods happen in catchments, and each catchment is local. Local authorities have more claim to being part of this frame than some national organisation. That is slightly tangential to this, but it fits within the framework of the overall organisation and structure.

If you ask yourself what you want to achieve here, and if the answer is an overarching objective, as in the White Paper in 2011, to leave the natural environment in a better state and enhance its natural capital, then you ask what institutions you need in order to do that. My fear is that you say, “We’ve got this existing institutions. We’ve changed the question, but we’re now going to try to get them together to do something different”, and you inherit all the current characteristics of these organisations. You see it in the natural capital territory; people think, “We’ll take this bit over and take that bit over”.

How well are the catchment pioneers going? Not as well as they could. An important reason for having a pilot is to learn lessons, and our observation and advice was that they are not going as well as they should because nobody is in charge of each one. No one is trying to say that it is their responsibility to deliver on the ground in Manchester, Cumbria, north Devon or elsewhere.

Q65 The Earl of Arran: You have already answered this question, but just to keep the Chairman happy I will quickly ask it again. What changes could be made to Natural England’s objectives and structure to improve how the natural environment is protected and valued?

Dieter Helm: My answer is that I would not start with that question; I would start with the top-level question and work back down.

Q66 Baroness Parminter: Can you share with us your views on the necessary changes to the governance arrangements for nature conservation and agriculture if you are going to deliver the 25-year plan? Is anything additional needed following Brexit?

Dieter Helm: The biggest issue for the natural environment post Brexit is what happens to the agricultural subsidies: who administers them and how they are taken forward. Again, in our advice to the Secretary of State, the Natural Capital Committee said quite a lot about what should come after the common agricultural policy, and we broadly endorsed the public goods for public money argument which the Treasury advanced back in 2005.

My own view is that, beyond that, we should build on farmers’ knowledge of what they have and encourage them to come forward with innovative ideas about how they can improve their natural capital and the natural environment. You can think of that as an auction without prices. In other words, you can say, “We’ve so much money available for these tasks. Bid, in the sense of come forward with proposals as to how that money could be spent on your farms and so on, and explain exactly what the benefits are going to be and what the measurable outcomes of that product will be”. I like a bottom-up farmer driven approach to this. Other
people have a much more top-down view of how that should be done. All I can say very briefly is that urgent consideration should now be given not so much to what the money will be spent on in aggregate but to how it will be administered.

**The Chairman:** Have you given thought, post Brexit, to who keeps their finger on the Government’s environmental performance? At the moment, the Commission does quite a lot of that with regard to dirty beaches and so forth.

**Dieter Helm:** An environmental protection agency is incredibly important to who is enforcing this stuff and who is in charge of the regulation. If you are enforcing and in charge of the regulation, of course, you have a role in giving advice on how that regulation should be changed over time. That would be my very tight environmental protection agency.

In the absence of the EU’s framework, and even with the Bill incorporating all this stuff back into British law, someone has to be in charge of enforcing it. I do not believe that can be the Environment Agency. I think it does an extraordinary job for what it has been asked to do, but the really focused issue is the enforcement and ownership of the rules and the responsibility for them, and I just do not see anything like that in the current architecture. In the case of the Environment Agency, it is natural, particularly in a winter period and if you have heavy rainfall, that all the minds of the board and the key people are on floods. The question I always ask is, “How much time do you spend thinking about enforcement?” Of course, it just drags the resource in a particular direction.

**The Earl of Caithness:** There is an EPA in America, but it is not a powerful body. The body that you want here has to be one that can hold the Government to account.

**Dieter Helm:** Yes, but we do not even have the starting point for this, which is a clearly focused body just enforcing the law as we have it. When someone fly-tips on your land, who does what and with what resources? Who has the expertise to do this? What are the other calls on the resources that these people have? If someone suspects you of not declaring your proper VAT requirements, it is pretty clear what happens; there is a focus body that comes after you for that. In the environment and waste areas it is quite lax, and in the waste area what is happening is quite alarming.

**The Chairman:** It is 11.53 am. I was going to ask you one final question, but perhaps you can write to us about it. It is: what one recommendation would you like to see us make as a result of this?

**Dieter Helm:** Embedding the 25-year plan in a new statute, in line with my advice.

**The Chairman:** Right. Thank you, and thank you very much for a very interesting session.