

Scottish Government Draft Budget 2016-17

Written submission to the Infrastructure and Capital investment Committee

WWF Scotland

1. Introduction

This evidence to the Infrastructure and Investment Committee focuses on the vital role that public sector infrastructure investment can play in improving the energy efficiency of Scotland's existing housing stock, in supporting the deployment of low-carbon heating and in supporting Scotland's shift to a low-carbon transport system. WWF Scotland also supports the evidence submitted by the Existing Homes Alliance and by the Scotland's Way Ahead initiative.

The transition to a low carbon economy is an investment that is not only necessary to tackle climate change but essential if we want to build a fairer society. Work by the Global Commission on the Economy and the Climateⁱ highlighted that the transition to a low. As Nicholas Stern says:

*“The decisions we make now will determine the future of our economy and our climate. **If we choose low-carbon investment we can generate strong, high-quality growth** – not just in the future, but now. But if we continue down the high-carbon route, climate change will bring severe risks to long-term prosperity.”* **Nicholas Stern**, Co-Chair of the Global Commission on the Economy and Climateⁱⁱ

This conclusion was echoed by the First Minister who recently said:

“We know that moving to a low carbon future isn't simply a moral imperative, it is also a massive economic opportunity.”
Nicola Sturgeon MSP, 22nd September 2015ⁱⁱⁱ

Analysis by Cambridge Econometrics for WWF-UK also made a strong economic case for low carbon investment at a UK level.^{iv} It found that hitting future climate targets would lead to higher household income and spending, GDP growth, job creation and improved energy security versus the higher carbon alternative.

In summary our key points in relation to the draft budget for 2016/17 are:

- i. That **the draft budget should fulfil the Cabinet commitment to “embed climate change in this autumn’s budget process”** and it should clearly match the requirements of the Report on Proposals and Policies (RPP) to give confidence that future annual climate change targets will be hit.
- ii. The Scottish Government’s 2016/17 budget should reflect the welcome new commitment to making energy efficiency a National Infrastructure Priority.
- iii. Investment in low carbon infrastructure by the Scottish Government can result in multiple economic, environmental and social benefits.
- iv. **A much greater proportion of the capital budget than in past years needs to be allocated to low carbon infrastructure.** A Low Carbon

Infrastructure Commission should be established to help ensure the next Infrastructure Investment Plan is consistent with the infrastructure of Scotland's low carbon future.

- v. The District Heating Loan fund should be maintained and supported by a Development Fund for district heating and combined heat and power projects.

2. Progress against the Climate Change (Scotland) Act

Scotland has missed the first four annual targets under the Climate Change Act. With greater policy effort Scotland's most recent target (for 2013) could have been reached. Indeed, Scotland has now emitted 17.5m more tonnes of CO₂ than allowed by the first four annual climate change targets set by the Scottish Parliament under the Climate Act. The Act (Section 36) requires new policies from the Scottish Government to compensate for these excess emissions.

The need for greater policy effort in order to hit future targets has been recognised by the Scottish Government's independent climate change advisors, the UK Committee on Climate Change, who said in the conclusion of their most recent Scotland progress report, "*More action is needed to meet future targets. We recommend that the Scottish Government strengthens policies for low-carbon heat, energy efficiency, the public sector, transport and agriculture and land use.*"^v It has also been recognised in the past by the ICI Committee, which said in its report on last year's Draft Budget (2015/16) that "significant effort will be required to meet the targets in future years"^{vi}. And most importantly it has been recognised by the Scottish Government itself:

"Where policies and proposals are not being delivered, we will seek to bring forward new policies to achieve the same, if not a greater, level of emissions abatement."

Aileen McLeod MSP, Minister for Environment, Climate Change and Land Reform, 7th January 2015^{vii}

WWF Scotland therefore hopes the Draft Budget for 2016/17 reflects both the advice of the UK CCC and the statement from the Minister, and sets out new policies and increased funding to deliver the RPP.

3. Priorities for draft 2016/17 budget

In a June 2015 statement, responding to the news that Scotland had missed its fourth climate change target, the Minister for Environment, Climate Change and Land Reform announced that the "***Cabinet has agreed to embed climate change in this autumn's budget process.***"^{viii} This welcome commitment must now be reflected in the draft budget. In particular we hope to see:

- i. **Clear read across between the Scottish Government Report on Proposals and Policies and the draft Budget.** This has not been the case in previous years and makes it particularly challenging to assess the alignment between these two documents.

- ii. The Scottish Government's 2016/17 budget should reflect the new commitment to making energy efficiency a National Infrastructure Priority and be consistent with achieving Scotland's climate change targets.
- iii. **The Scottish Government should set an objective for the National Infrastructure Priority of supporting all homes to reach an EPC 'C' standard or higher by 2025.** This is the minimum goal required, to allow our climate change targets to be met.
- iv. 2016/17 and 2017/18 are transitional years and the energy efficiency budget should be sufficient to allow for current programmes to continue, for the piloting of new programmes on behaviour change, loans, and to attract European funding.

The need for a concerted and holistic approach to home energy efficiency is demonstrated by the annual fluctuations in emissions we see from the housing sector. Firstly, in 2009/10 emissions from the residential sector rose by 15%, the following year they fell by 21% and then for 2011/12 they rose again by 11%. It is apparent that our homes remain at the mercy of cold snaps and, as a result, household money is wasted burning fossil fuels that heat the air outside our homes.

WWF Scotland shares the view of the Existing Homes Alliance that the homes and communities sector is not on target to reach the 37% reduction in emissions envisioned in the RPP, and there is no clear plan on how the 51% reduction by 2027 will be met. The latest 2013 greenhouse gas emissions inventory shows that the residential sector has reduced emissions by only 12.4% since 1990.

The Scottish Government's commitment to recognising energy efficiency as a National Infrastructure Priority was made in the Minister for Environment, Climate Change and Land Reform's Ministerial Statement on climate change in June. The Minister more recently told the RACCE Committee that "*the measures that we have brought forward [in the June statement] will be in the budget.*"^{ix}

We hope that this means that the draft 2016/17 budget reflects the National Infrastructure Priority commitment and that the Scottish Government takes the opportunity to set an objective of supporting all homes to reach at least an EPC 'C' standard or higher by 2025.

4. The value of increased investment in low carbon infrastructure

WWF Scotland is one of the members of the Low Carbon Infrastructure Task Force^x. Investing in low carbon infrastructure will result in several key social and economic benefits. Earlier investment in low-carbon infrastructure will maintain a low-cost route to decarbonising Scotland's economy, and avoid more expensive infrastructure changes being required at a later stage.

Independent work by Green Alliance^{xi} sets out the many benefits to be enjoyed as a result of public sector supported investment in low carbon infrastructure. These are summarised in Table 1 below.

Table 1

Economic	Environmental	Social
Economic progress and resilience	Reduces carbon emissions	Health benefits
Job creation & skills development	Improves air quality	Reduces fuel poverty
Supports domestic industry & drives innovation	Supports low carbon behaviour change	Strengthens local communities
Energy security		

The public sector in Scotland also has unique potential to act as an investor in certain situations. These include investing in:

Table 2

Enabling infrastructure	Securing the benefits of low carbon infrastructure will depend on enabling infrastructure, such as grid capacity and connections, being in place.
Emerging infrastructure needs	Public investment is well placed to accelerate the development of emerging technologies, such as energy storage, that will benefit a wide range of low carbon infrastructure projects and technologies but are at risk of failing to secure substantial private sector investment.
Innovation	A number of factors mitigate against private sector investment in low carbon research and development at the scale needed. Without intervention, evidence suggests that research and development will remain focused on traditional, higher carbon sectors. Public investment can act as a vital correction to this, helping low carbon technologies become commercial, competitive investment propositions.
Demand side approaches to infrastructure	Demand side approaches to infrastructure can be harder to package as private sector investment opportunities, especially while they are still gaining traction. This highlights another important opportunity for public sector investment, with energy efficiency being a good example.
Investment to leverage private sector funding	Public sector money can create confidence in a sector and leverage additional private sector funding into it.

If the Scottish Government is to secure the benefits described above and fulfil its leadership role with regard to low carbon infrastructure, the draft budget for 2016/17 must mark a significant shift towards low-carbon capital expenditure. Recent independent research found that, currently, only 52% of Scotland’s current infrastructure investment pipeline could be described as ‘Low Carbon’^{xii}. This is despite welcome recent investments like the Borders Rail project and Scottish Futures Trust investment into LED street lighting.

A much greater proportion of Scottish Government capital spend needs to be allocated to projects that help to realise a low-carbon Scotland, and the next

Scottish Spending Review should make a commitment to continue this for the entirety of the next Scottish Parliamentary term. The Scottish Budget for 2016/17 should kick-start this shift and make a commitment to the long-term development of a robust low-carbon infrastructure pipeline.

We also recommend that a Low Carbon Infrastructure Investment Commission is established to provide independent review of the Infrastructure Investment Plan and its alignment with the Climate Change Act.

5. Investment in renewable heat

Space and water heating accounts for approximately 50% of Scotland's emissions^{xiii}. However, just 4% of our current heating needs are met by renewables^{xiv} and the most recent report from the UK CCC concluded that the current pipeline of projects "is insufficient to meet the renewable energy target"^{xv}. The case for increased support is strengthened in the consultation analysis of the Scottish Government's draft Heat Generation Policy Statement (HGPS) which states that more than 50% of respondents thought that existing financial support mechanisms were insufficient to support delivery of district heating systems.^{xvi}

In response to this call for greater funding support we recommend that the Scottish Government **establishes a Development Fund for District Heating and Combined Heat and Power projects, maintains the District Heating Loan Fund, and instigates a Loan Guarantee Fund to cover the early phase financing of district heating projects.**

6. Decarbonising Scotland's transport system

Transport continues to be the most significant area where little progress has been made in reducing Scotland's climate change emissions. Emissions from transport still languish at roughly 1990 levels and represent around a quarter of Scotland's emissions overall. The RPP contains no Scottish-level policies to reduce the transport sector's climate change emissions.

Although some transport initiatives were announced by the Minister for Environment, Climate Change and Land Reform in her June statement on climate change^{xvii}, none of these could be described as significant or transformative. There is a continued need for transformative new policies to reduce emissions from the transport sector.

The 2016/17 draft budget is an opportunity to signal support for transformative low carbon transport infrastructure that tackles emissions, air pollution and health simultaneously.

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ⁱ See <http://newclimateeconomy.report/>

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- ⁱⁱ Speaking on the launch of the Better Growth, Better Climate report, 16th September 2014, <http://newclimateeconomy.net/content/press-release-economic-growth-and-action-climate-change-can-now-be-achieved-together-finds>
- ⁱⁱⁱ Video for the Climate Group, <http://bit.ly/1ZXJgby> (1min59)
- ^{iv} Cambridge Econometrics (2014) *The Economics of Climate Change Policy in the UK*: [http://www.wwf.org.uk/what we do/tackling climate change/how we re tackling climate change/our climate work in the uk/the value of a low carbon britain/](http://www.wwf.org.uk/what-we-do/tackling-climate-change/how-we-re-tackling-climate-change/our-climate-work-in-the-uk/the-value-of-a-low-carbon-britain/)
- ^v Committee on Climate Change, (March 2015) *Reducing emissions in Scotland – 2015 progress report*. <https://www.theccc.org.uk/publication/reducing-emissions-in-scotland-2015-progress-report/>
- ^{vi} Paragraph 17 of ICI Committee's Report on Draft Budget 2015-16: <http://bit.ly/1LjyQYP>
- ^{vii} During portfolio questions, 7th January 2015, <http://www.scottish.parliament.uk/parliamentarybusiness/report.aspx?r=9709>
- ^{viii} See Ministerial statement by Aileen McLeod MSP, 9th June 2015, <http://bit.ly/1LEWBMf>
- ^{ix} Aileen McLeod MSP, 11th November 2015, giving evidence to the RACCE Committee on 'Paris 2015: 21st Conference of the Parties' <http://bit.ly/1l24Knq>
- ^x See www.ScotlandsWayAhead.org.uk for more details
- ^{xi} See <https://scotlandswayahead.org.uk/news/scotlands-way-ahead-the-case-for-low-carbon-infrastructure-in-scotland> for the full report.
- ^{xii} Ibid.
- ^{xiii} See Department for Energy and Climate Change (DECC) (2010) Renewable Heat Incentive Consultation- www.decc.gov.uk/en/content/cms/consultations/rhi/rhi.aspx
- ^{xiv} See <http://www.scotland.gov.uk/Topics/Business-Industry/Energy/Energy-sources/19185/Heat/RHUpdate2014>
- ^{xv} See http://www.theccc.org.uk/wp-content/uploads/2014/03/1871_CCC_Scots_Report_bookmarked.pdf
- ^{xvi} See <http://www.scotland.gov.uk/Resource/0046/00460648.pdf> (only 5% thought current support was sufficient).
- ^{xvii} Scottish Government press release, 'Climate change action heats up', 9th June 2015, <http://bit.ly/1HmSAh9>