# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>Overview of Draft Budget 2016-17</td>
<td>4</td>
</tr>
<tr>
<td>Evidence</td>
<td>5</td>
</tr>
<tr>
<td>Discussion and Recommendations</td>
<td>7</td>
</tr>
<tr>
<td>Sustainable and active travel</td>
<td>9</td>
</tr>
<tr>
<td>Public Transport</td>
<td>11</td>
</tr>
<tr>
<td>Housing</td>
<td>12</td>
</tr>
<tr>
<td>Annexe A</td>
<td>18</td>
</tr>
<tr>
<td>Extracts from the Minutes and associated written evidence</td>
<td>18</td>
</tr>
<tr>
<td>Annexe B</td>
<td>19</td>
</tr>
<tr>
<td>List of other written evidence</td>
<td>19</td>
</tr>
<tr>
<td>Annexe C</td>
<td>19</td>
</tr>
<tr>
<td>Annexe D</td>
<td>21</td>
</tr>
</tbody>
</table>
Infrastructure and Capital Investment Committee

To consider and report on infrastructure, capital investment, transport, Scottish Water and other matters falling within the responsibility of the Cabinet Secretary for Infrastructure, Investment and Cities, and matters relating to housing and digital infrastructure.

www.scottish.parliament.uk/infrastructure

ici.committee@scottish.parliament.uk

0131 348 5229

Follow the Infrastructure and Capital Investment Committee @SP_ICIcom
Committee Membership

Convener
Jim Eadie
Scottish National Party

Deputy Convener
Adam Ingram
Scottish National Party

Clare Adamson
Scottish National Party

Alex Johnstone
Scottish Conservative and Unionist Party

Mike MacKenzie
Scottish National Party

Siobhan McMahon
Scottish Labour

David Stewart
Scottish Labour

Note: The membership of the Committee changed during the period covered by this report, as follows:
Clare Adamson joined the Committee on 11 November 2016, replacing James Dornan, Scottish National Party, Glasgow Cathcart, Glasgow.
Introduction

1. On 16 December 2015 the Scottish Government published its Draft Budget 2016-17. The document can be found at the following link:

   http://www.gov.scot/Publications/2015/12/9056

2. The Infrastructure and Capital Investment Committee has a duty to scrutinise the Scottish Government’s annual draft budget on the various subjects which fall under its remit, specifically: housing; transport; capital investment; digital infrastructure and broadband; Scottish Water; and public procurement.

3. In its report on the draft budget 2015-16, the Committee made a recommendation that, to help inform the next Scottish Government Spending Review, a systematic review of the Scottish Government’s infrastructure funding priorities was needed to help tackle climate change in light of the failure to meet annual targets to reduce greenhouse gas emissions.

4. In his response to the Committee’s recommendation for a systematic review of funding priorities, the Cabinet Secretary for Infrastructure, Investment and Cities said—

   The Committee’s report highlights a range of important issues. The Scottish Government will continue to take these into account in its budget setting, infrastructure investment and its approach to climate change. The Scottish Government will give further consideration to the Committee’s recommendations as part of this year’s budget process.

5. At its meeting on 24 June 2015 the Committee agreed to continue to focus its budget scrutiny on how the spending within the Committee’s remit affects the Scottish Government’s national performance indicator on reducing Scotland’s carbon footprint. In particular, what further action might be necessary going forward to help meet the Scottish Government’s climate change targets? It was considered important that the committee has access to information that links the Scottish Government programmes and policies relating to climate change mitigation with their spending plans outlined in Draft Budget 2016-17. Therefore the decision was taken to focus this year’s budget scrutiny process on the following themes:

   - Impact of current infrastructure programme in relation to climate change targets.
   - Quality of the information available to effectively evaluate the impact of Government Infrastructure expenditure.
   - Future programmes that could enable the achievement of the Scottish Government’s climate change targets.
• Potential gaps in infrastructure investment programmes that may inhibit the achievement of the Scottish Government’s climate change targets.

Delay in publication

6. While the draft budget is usually published in October, the Cabinet Secretary for Finance, Constitution and Economy said in a letter to the Finance Committee that the December publication was due to the later than expected announcement of the UK Government’s Spending Review on 25 November 2015. In addition to Draft Budget 2016-17 the Scottish Government also published its Infrastructure Investment Programme (IIP) 2015, which presents their priorities and plans for infrastructure investments for the period to 2035. The early publication of this programme is welcome and has informed the scrutiny of Draft Budget 2016-17, although given the timing of its publication it has not been possible to take any evidence on these proposals. However, a high level analysis in relation to the possible medium to long-term impact on carbon emissions and gap analysis in relation to RPP2 has been undertaken.

7. It was noted that the Report containing Details of the Climate Change Mitigation of Draft Budget 2016-17 was not published in time to assist in the scrutiny of Draft Budget 2016-17.

8. While this delay has limited the time available to the Infrastructure and Capital Investment Committee to scrutinise the Draft Budget 2016-17, it was agreed that it still wished to fully consider its implications and report to the Finance Committee. It therefore decided to gather evidence in advance of the publication of the Draft Budget so that it would be in a better position to respond to the Finance Committee within a significantly constrained timescale.

Oral evidence

9. At its meeting on 25 November 2015 the Committee heard from a range of groups with a particular interest in mitigating climate change as well as an academic with a specific knowledge of carbon accounting. Whilst the Draft Budget 2016-17 was not yet available, the session provided witnesses with an opportunity to comment on the outcomes of spending in 2015-16 and to suggest what more might need to be done, both in 2016-17 and beyond, to help reach the carbon emission targets.

10. The Committee subsequently heard from the Cabinet Secretary for Infrastructure, Investment and Cities, Keith Brown, and the Minister for Housing and Welfare, Margaret Burgess, in relation to their respective responsibilities for transport and housing.
Written evidence

11. The written submissions received on the Committee’s work can be found in annexes A and B.

Correspondence

12. The Committee wrote to the Cabinet Secretary for Finance, Constitution and Economy, John Swinney (please see Annexe C), in relation to his statement on 26 November 2015 informing Parliament of the Office for National Statistics’ decision to classify the Aberdeen Western Peripheral Route (AWPR) project to the public sector and its subsequent implications for the Draft Budget 2016-17. The Deputy First Minister’s response is also included in Annexe C.

13. This report sets out the Committee’s findings and recommendations to the Finance Committee.
Overview of Draft Budget 2016-17

14. The Draft Budget 2016-17 for Infrastructure and Capital Investment reflects changes made to Ministerial Responsibilities since Budget 2015-16. On a like for like basis the Infrastructure and Capital Investment Level 2 Budget has increased by 1.5% from £2,109.125m to £2,139.921m. However, after adjusting the Draft Budget 2015-16 for the reclassification of the AWPR as a public sector project, there is a reduction of £150.204m (equal to a 6.6% reduction). In this report any comparative analysis of Road Budget will use the adjusted Draft Budget 2015-16 figures.

15. Within the IIC Budget there has been a 7.1% reduction in the Rail Service budget, a 6.3% reduction in the Road Budget, a 0.3% increase in Bus Service budget, a 6.2% increase in Ferry Services and a 26.5% increase in Sustainable and Active Travel.

16. A definitive answer to the climate change impact of Draft Budget 2016-17 is not possible based on the information provided to date. There are instances of reduced expenditure on projects likely to increase or decrease future carbon emissions, increased expenditure on projects likely to increase or decrease future carbon emissions and no change on projects likely to increase or decrease future carbon emissions. It is estimated that there is an overall reduction of £22.8 million on policies/projects likely to reduce future carbon emissions and an overall reduction of £59.0 million on IIC policies/projects likely to increase future carbon emissions compared with the ICI Draft Budget 2015-16. Approximately 63% of the ICI Level 2 Budget relates to programmes likely to reduce medium to long term carbon emissions.

17. Figures produced by Transport Scotland in their latest Carbon Account of Transport (http://www.transportscotland.gov.uk/report/j408446-00.htm) suggest that without additional mitigation programmes, the net impact of the Road and Rail Transport Infrastructure programmes is likely to be an increase in carbon emissions. Details of the climate change impacts is contained in Table 1.

<table>
<thead>
<tr>
<th>Project title</th>
<th>Published emissions estimate ktCO2e p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A75 Dunragit Bypass</td>
<td>+4.0</td>
</tr>
<tr>
<td>M74 Raith Interchange</td>
<td>+10.0</td>
</tr>
<tr>
<td>M8 Associated Network Improvements</td>
<td>+2.0</td>
</tr>
<tr>
<td>M8 Baillieston-Newhouse</td>
<td>+30.0</td>
</tr>
<tr>
<td>A90 Balmedie-Tipperty</td>
<td>+2.0</td>
</tr>
<tr>
<td>A90 Aberdeen Western Peripheral Road</td>
<td>+10.0</td>
</tr>
<tr>
<td>Forth Replacement Crossing</td>
<td>+20.0</td>
</tr>
</tbody>
</table>
18. These emission estimates have been calculated using a variety of methodologies and it is not statistically valid to aggregate the individual figures or directly compare them with one another. However, Transport Scotland estimate that the combined impact of above projects will generate a small increase in overall emissions, with the long-run impact estimated at an additional 50 ktCO₂e p.a. by 2027. This is equivalent to an additional 0.4% on annual transport emissions. This would suggest that additional programmes will be needed to mitigate against this increase in carbon emissions in order to meet Transport’s contribution to carbon emissions reduction as specified in RPP2. The carbon impact of the 6.2% increase in Ferry Services in Draft Budget 2016-17 (or IIP 2015) is not included in Transport Scotland’s future carbon emissions projections.

19. Whilst recognising a 16% increase in funding in Fuel Poverty/Home Energy Efficiency, there is an overall reduction in funding for Energy & Energy Efficiency of £22.808 million in Draft Budget 2016-17, which represents an 11.6% reduction. Energy and energy efficiency has been identified by The Scottish Government as a major contributor to reducing Scotland’s carbon emissions.

Evidence

20. The majority of witnesses and written submissions praised the underlying policies and strategies the Scottish Government had developed in relation to climate change mitigation, however it was noted that Scottish Government had missed their recent emission targets and concerns expressed over the ability of the current infrastructure investment programmes to meet the 2020 and 2050 carbon reduction targets. The evidence presented questioned the appropriateness of the balance of infrastructure expenditure from the policy outcome of reducing carbon emissions, as well as, the overall level of low carbon infrastructure expenditure.

21. A common theme in the written and oral evidence was the lack of robust evidence of the carbon emission consequences of the proposed infrastructure programmes. In addition witnesses expressed their concern over a disconnect between the RPP2 programmes/policies, expenditure plans in previous Draft Budgets and Scottish Government outcomes and performance targets.

22. Witnesses noted that Scottish Government funded initiatives and pilot schemes had developed robust, practical solutions to assist in Scotland meeting its long
term greenhouse gas (GHG) emission reduction targets. However, a number of other opportunities to reduce carbon emissions were identified, as well as, programmes and policies issues that required additional effort and funding and gaps in the infrastructure programme were identified in the written evidence submitted and oral evidence presented to the committee.

23. The key issues identified in the evidence submitted to the committee were:

- Concerns over the future carbon emissions impact of the Government’s road building programmes.

- The potential benefits from increased investments in sustainable and active travel were not being achieved and that the Government should gradually increase the proportion of the Transport Budget spend on sustainable and active travel to 10%.

- A proposal that 1% of the Road Trunk Budget should be transferred to the active travel budget

- Potential benefits from greater investment in rail and other public transport services.

- The need for a substantial improvement in the rate of annual reduction of transport related emissions.

- Greater support was needed to assist in the transformation of the Scottish Vehicle fleet through the increase in the number of alternatively fueled private and commercial electric vehicles, in particular lights good vehicles.

- The potential benefits of low carbon transport hubs, better planning and community link projects.

- The potential benefits of improved traffic demand systems.

- Positive responses to establishing home energy efficiency as a national infrastructure priority, but concerns expressed over the level of investment in home energy efficiency programmes.

- A call for the government to commit to a £1.4 billion programme to upgrade all Scottish houses to EPC grade C by 2025.

- Concerns over under investment / funding of renewable heat programmes and calls for greater support from public sector organisations and expansion of district loan heating programme.

- The potential for investing in innovative low carbon technologies, including energy storage.

- The case for establishing an independent Infrastructure Commission.
• Concerns over the way in which carbon emissions were calculated and taken into account in evaluating investment programmes.

• Lack of connectedness between Climate Change Policy and Programmes and the presentation of the Draft Budget.

• Concerns that many of the social and environmental benefits of low carbon infrastructure were not adequately incorporated into the evaluation of infrastructure programmes.

24. Although there was considerable frustration that the effort invested in developing solutions and the capacity that has been built up could be wasted through a lack of commitment to sufficiently funding their implementation. However, Professor Jan Bebbington noted that—

> One of the innovations that is available to Scotland, especially given the passage of time since the passing of the [Climate Change] act, is that we can learn from ourselves. There is no silver bullet of innovation out there, but there must be multiple innovations around active travel, infrastructure and all sorts of things. That knowledge and learning is probably dispersed across our whole community so we need some way of drawing it together to find out what has really worked well in the past seven years, and what we might learn from it and take forward. That might be a convening role that the Parliament and the Government could exercise.  

5

25. The gaps identified between RPP2 and Draft Budget 2016-17, complemented by IIP 2015, that required additional consideration as to the level of funding included:

• Investments in the decarbonised heat sector

• Decarbonisation of road transport

• Wholesale adoption of electric cars and vans

• Modal shift towards public transport

• Modal shift towards active travel

• Significant decarbonisation of rail services

• Retrofit of existing housing into energy efficient homes to 2030

Discussion and Recommendations

General views of the impact of Draft Budget 2016-17 on greenhouse gas emissions

26. In its report on Draft Budget 2015-16 the committee noted with concern that Scotland had failed to meet its 2010, 2011 and 2012 GHG emission reduction targets and that significant effort was required to meet the targets in future years. The Committee notes that the Scottish Government has also failed to meet its
2013 targets and repeats its calls on all parties in Parliament to work together to achieve these challenging targets.

27. Also in its last report the Committee recommended that the Scottish Government undertake a systematic review of the consequences of its current and future infrastructure programmes and policies in relation to meeting its GHG emissions targets and reports back to the Committee or its or its successor committee ahead of the next spending review.

28. The Committee therefore welcomes the publication of the Infrastructure Investment Programme 2015 (IIP 2015) and its contents in relation to meeting its GHG emissions targets. However, the Committee still wishes to monitor how the Scottish Government’s future budgets will assist in meeting the targets contained in IIP 2015 and therefore recommends that it reports back to the Committee or its successor committee ahead of the next spending review.

Clarity of Presentation of Budgetary Information

29. The lack of a clear read-across different government reports, documents and draft budgets in budget documents relating to funding for Government programmes and carbon emissions targets was considered by the Committee as problematic. Issues included:

- Draft Budget 2016-17 and IIP 2015 did not make explicit links to RPP2.

- The Carbon Assessment of Draft Budget 2016-17 used carbon accounting that was inappropriate for the budget scrutiny of major infrastructure programmes.

- Only a selection of Road and Rail Transport Infrastructure programmes had any form of carbon emission impact and these did not include consideration of different scenarios or ‘what if’ analyses based on modelling different assumptions.

- The report detailing the funding for climate change mitigation measures was not issued in time for the budget scrutiny process.

30. There was strong support for a more systematic evaluation of the life cycle carbon consequences of all major infrastructure programme based on different future scenarios and assumptions. This would allow for more decision-useful evidence that would make visible the relationship of infrastructure changes and climate change, as well as, allowing a more informed trade-off between carbon emissions and other relevant government objectives, such as road safety, improved connectivity and employment opportunities.
31. The evidence received by the Committee suggests that a lifecycle/consequential approach to carbon impact assessment would result in more informed Government decision making and enable more effective budget scrutiny. The current carbon assessment methods could inadvertently result in resource allocation decisions that act against meeting Scotland’s GHG emission targets. The Committee recommends that the Scottish Government review the effectiveness of its methods of Carbon Assessment of Draft Budget 2016-17 and Infrastructure Investment Programme 2015 in line with the evidence submitted to the committee.

32. While the Committee acknowledges the difficulty in producing the report on climate change mitigation measures, the absence of the report this year did make it challenging for the Parliament and stakeholders to properly review the material during what was a very short scrutiny period. The Committee therefore repeats its recommendation contained in its Report of Draft Budget 210-15-16 which endorsed the Finance Committee’s recommendation in its report on the 2014-15 Draft Budget that “funding information for climate change mitigation measures should be published alongside publication of the draft budget” and calls on the Scottish Government to ensure that this happens in future years.

Sustainable and active travel

33. The Committee restates its recommendation from its report on the Draft Budget 2014-15 and Draft Budget 2015-16 that the Level Three Budget for Support for Sustainable and Active Travel, be separated into Support for Sustainable Travel and Support for Active Travel in future draft budgets, infrastructure investment programmes and climate change mitigation measures reports. (see response from the Scottish Government in Annex D)

34. There was general consensus amongst the witnesses and written submissions of the value from funding sustainable and active travel programmes and concerns expressed that the even the substantive increase in funding for sustainable and active travel was insufficient and only equated to 1.8% of the overall transport budget or 0.76% of the Motorway and Trunk Road budget. When witnesses benchmarked against countries with the levels of active travel the Government wish to emulate, they concluded that Scotland is considerably under-investing in SSAT. It was suggested that a figure of 10% of the overall travel budget (approximately £200m) would be an appropriate level of funding for sustainable and active travel. SPOKES had requested that the part of the increase for funding for active travel come from a 1% re-allocation of Motorway and Trunk Road Budget, which in the coming Financial year would equate to an additional £8.2m.
35. In response to questions as to appropriateness of the level of funding for Sustainable and Active Travel the Cabinet Secretary responded:

"Much of our transport budget is for long-term year-on-year contractual agreements. I have also made the point that much of the expenditure on road transport benefits active travel, too. I am not sure, therefore, that a 10 per cent figure can simply be drawn from the sustainable and active travel budget. There is much else that we do that helps with sustainable travel. One can argue—as I have—that travelling on a train that is powered by electric lines, which people will increasingly be able to do, is far more sustainable than using other forms of transport. We are working to make transport more sustainable right across the transport budget…"

"…The A9 project is probably the biggest project on the books at present. For it, we looked not only at the road itself but at the active travel route that runs alongside it. In a number of places, that route is not in very good condition, so we have considered whether it will be possible in the future, when we look at the contracts for upgrading and subsequently maintaining the road, to incorporate a contract to look after the active travel route.

We should therefore not look only at what the sustainable and active travel budget provides: we should look right across the transport piece. I am convinced that we have the balance right, although we will look to do more, as we have been doing. We have dramatically increased the budget for active and sustainable travel—it has gone up to £39 million, as I mentioned—and we will continue to try to do more in the future."

36. The Committee welcomes the substantial 26.5% increase in funding for sustainable and active travel. It nevertheless notes from evidence that there have been recommendations of further increased spend of between £8.2m (1% of the Motorway and Trunk Road budget) and £140m (to increase the spend to 10% of the overall transport budget) to this budget. The Committee therefore recommends that consideration be given to any appropriate in-year savings from across the transport budget be passed to the active and sustainable travel budget for the 2016-17 financial year. The Committee also recommends that the Scottish Government make further significant changes to the active and sustainable travel budget in future years.

37. It is also recommended that in the next spending review the Scottish Government make a step-change to the level of funding for sustainable and active travel, perhaps linking the budget to a percentage of the overall transport budget, taking into account the wide range of benefits associated with increasing levels of sustainable and active travel. The Scottish Government should also separately identify spending programmes on Sustainable travel and Active travel to reflect the substantive differences
between sustainable travel investments and active travel investments. The committee also requests that the Scottish Government provides a breakdown of road related infrastructure budgets that separately identifies expenditure related to facilitating improved levels of active transport.

Public Transport

38. Concern was expressed over a potential imbalance in the long term investment programmes in public transport sector and in road infrastructure expenditure, particularly in order to achieve targeted levels of modal switch. The committee recognised the positive social, safety and economic contributions of an enhanced road and public transport infrastructure, However, careful consideration of the timing and scale of road, rail and maritime infrastructure was required to balance any increased/decreased carbon emissions with the other policy outcomes. It was also recognized that investment in public transport infrastructure was only part of the solution to increasing the modal shift from cars to public or active transport. This modal shift would require a package of measures to change the fuel efficiency/carbon impact of their vehicles, behaviour of travellers and traffic management systems. It was also noted by committee members of the importance to address the specific problems of modal shift and carbon emission reductions associated with freight movements and heavy and light goods vehicles.

39. The Cabinet Secretary argued that the road building programme would not necessarily increase GHG emissions or that the building of new roads, repair of existing roads and enhanced road infrastructure will lead to more vehicle kilometres, car journeys and/or carbon emissions. However, in order to avoid the predicted increase in carbon emissions (see section 17) there is a need for complementary investment in demand reduction measures, alternatively fuelled vehicles, urban planning and public and active travel to counteract the predicted increase in road traffic. One method of achieving this would be to reduce the carbon from the fuels and road vehicles.

40. Evidence was also given of the level of alternatively fuelled vehicles that would be required to mitigate the expected increase in vehicle kilometers of an enhanced road network. It was suggested that this would require somewhere between 350,000 and 1.5 million electric vehicles, depending on future traffic level scenarios. Currently, only 1% of all new vehicle registrations in Scotland are hybrid/electric vehicles. This would suggest that of the 2.8million registered vehicles only around 28,000 could be classified as AFVs. Given the level of new registrations is around 240,000 per year the timescale to achieve this transformation in the Scottish vehicle fleet is substantial, without some form of intervention. SUSTRANS suggested that priority should be given to promote the alternative fueling of LGV’s given they are a major area of growth in transport emissions.
41. Greater investment and support for alternatively fuelled vehicles should be continued, but it has to be recognised that without adequate traffic demand reduction or management systems alternatively fuelled vehicles may worsen levels of road congestion and adversely affect modal shifts to public or active travel. Future investments in the road networks, road vehicles and demand reduction should be targeted to balance the social and economic benefits of improved connectivity within Scotland with its social, economic and environmental costs.

42. The importance of developing greater potential for modal shift for freight from road to maritime was discussed and the positive impact of introduction of hybrid ferries, and the work to consider the feasibility of converting ferries to the hydrogen. The Cabinet Secretary responded:

> The point about a hydrogen ferry is interesting. Research has been done on that at the University of St Andrews and there is potential for horizon or 2020 funding to help to develop that. Mr MacKenzie is right that, if we could develop a hydrogen-powered ferry in Scotland, the benefits would be substantial, given our large ferry network. If we are the first to develop that technology—we are doing something similar in relation to buses in Aberdeen—the benefits can be huge. Others may well be looking at how to go down that path, especially given that the new sulphur regulations mean that we have to look at retrofitting current ferries to meet environmental standards. When a small ferry in Bristol was converted to hydrogen, because the hydrogen power unit was so effective, more ballast had to be put in to replace the weight of the diesel engine that had been taken out. There is potentially a huge dividend in relation to efficiency and the environment. I hope that we can be the first to develop such ferries, through the work of shipbuilders or academics.\(^9\)

43. The committee welcomed this commitment to explore alternative fuelled ferries in terms of its contribution to reducing emissions, enhancing Scotland’s record of technical innovation and employment opportunities and recommended that the Scottish Government continue to support this innovative low carbon infrastructure technological development.

**Housing**

44. The committee welcomed the increase in funding for affordable homes, however it was noted that increasing the size of Scotland’s housing stock will increase in housing’s contribution to Scotland’s carbon emissions. In her evidence Margaret Burgess noted that new building standards will ensure that these new houses will be considerably more energy efficient, but that it was important that the
programme to improve the energy efficiency of existing houses should balance out these increased emissions—

Those homes will be built to higher standards and will be more energy efficient in any case. As the years go on and building methods improve, we will look at how they can be improved to make homes even more energy efficient if at all possible. At the same time, we are still running the programme to enable local authorities to meet the energy efficiency standards in their existing housing stock. That should improve the energy efficiency of, and reduce the carbon emissions from, the existing stock. SEEP, which will deal with buildings and houses in the private sector, will also be bedding in.

All those things together will reduce emissions from existing stock, and I hope that the methods of building the new stock will not increase emissions too much. I am not going to say that there will be an absolute balance or a net reduction, but our analysts will be looking at the situation. The Government is determined to meet our carbon reduction targets—we know that we have to do that—but, at the same time, we know that we have to increase the supply of housing. It is about finding a balance.  

45. Evidence from the Existing Homes Alliance and Low Carbon Infrastructure Task Force suggested that the Scottish Government should adopt a policy to ensure that all Scottish Houses should be rated at least level C, using Energy Performance Certificate Standards, by 2025.  

It was estimated that this would require annual expenditure of £140 million for the next 10 years. Margaret Burgess responded—

I do not have enough information, but I do not think that we should be looking at this point at all houses being rated at level C. I do not know whether a one-size-fits-all approach is appropriate for housing and other buildings across Scotland, which is very diverse, as you will be aware. However, I do think that we have to be aware of the carbon reduction plan and make homes energy efficient. We are making £100 million available for that this year and have committed to year-on-year funding for energy efficiency programmes.

We have already installed more than 900,000 energy efficiency measures—one in three houses has had energy efficiency measures installed. There has been a 70 per cent increase since 2010 in homes that are band C or above, including an 11 per cent increase in the past year, so we are making considerable progress given the tight constraints on us. What I will say about the ECO initiative is that the UK Government stopped the green deal home improvement scheme without any warning to us. Our programmes were based on receiving those consequentials.
46. The Committee welcomes the programme to increase the number of affordable houses contained in Draft Budget 2016-17 and Infrastructure Investment Plan 2015 and the Scottish Government's programme of energy efficiency for existing houses. The Committee nevertheless believes that this work should be accelerated given the established benefits of energy efficiency for existing homes in tackling climate change, promoting energy efficiency and cutting fuel poverty. The Committee repeats its recommendation made in previous years to continue to fund measures to enhance the future sustainability of all new houses built in Scotland, in particular locking in energy efficiency into the fabric of new houses.

Energy efficiency as a National Infrastructure Priority

47. The Committee noted that its recommendation in its report on Draft Budget 2015-16 that home energy efficiency as a national infrastructure priority had been adopted and that home energy efficiency was included in Infrastructure Investment Programme. However, it was considered important that there was sufficient funding for improved energy efficiency in existing houses. The committee welcomed the increase in expenditure in Fuel Poverty/Energy Efficiency, but noted that there was an overall decrease in funding for Energy Efficiency measures in Draft Budget 2016-17. Concern was also expressed at the impact of changes to the UK Energy Company's Obligation scheme, which was estimated by Sara Thiam of the Low Carbon Infrastructure Task Force as resulting in a shortfall of around £70m in 2016-17.

48. The Committee recommends that the Scottish Government fully investigates the appropriate level of funding for home energy efficiency improvements in the upcoming spending review and the programme identified in the IIP 2015. In this investigation the Scottish Government should produce estimates of the expected reduction in carbon emissions from this national infrastructure priority. The committee also requests that the Scottish Government should also clarify the impact of the changes to ECO and the Green Deal, what the precise figure is for 2016-17 and report back to the committer how they plan to deal with any expected reduction in funding.

49. Given that 50% of energy consumed in the home relates to heat and the wide range of benefits that arise from a warm house, the Committee recommends that the Scottish Government should investigate the contribution and appropriate levels of funding of home energy efficiency from renewable heat, particularly community owned and district heating schemes, in order to ensure that it meets its carbon emission targets.

---

1 The Committee acknowledges that there is some cross-over in this budget line with the remit of the Economy, Energy and Tourism Committee.
Aberdeen Western Peripheral Route and the Office of National Statistics ruling on the application of European Standards of Accounting 2010 reclassification

50. The Cabinet Secretary confirmed that this reclassification of AWPR and other health projects currently under review would not affect the delivery of this project, however it would affect how this project would be represented in the accounts of the Scottish Government. However, given the financial constraints of the Scottish Government, this reclassification and the need to provide up-front capital budget cover for the projects will have an opportunity cost for other capital programmes, which might mean that other projects may not be able to funded.

51. The Committee noted the impact of the Office of National Statistics ruling on the application of European Accounting Standard 2010 on the classification of existing and future infrastructure programmes. The Cabinet Secretary confirmed that this reclassification could have an impact on the viability of other innovative forms of funding adopted by the Scottish Government. However, it was reported that the implications of this ruling will be taken into account in the design and funding mechanisms of all future infrastructure programmes. Andy Watson (Deputy Director of Financial Strategy, Scottish Government) noted that

> The SFT has been asked to look at the future and how we might develop our infrastructure programme, reflecting the latest changes. We also have a wider consideration of how the revenue finance infrastructure programme matches against wherever we end up with the revised fiscal framework, wider capital borrowing powers and the future spending review. The task for Government is to look at the range of options that we have to deliver the pipeline, because there is no reduction in the level of our commitment to have that big pipeline of projects.14

52. The committee notes the potential negative impact of this ruling on the ability to fund future infrastructure programmes and requests that the Scottish Government reports back to the committee the results of its review of future funding mechanism with any implications for future programmes.

Evaluation of Social, Economic and Carbon Consequences of Infrastructure Expenditure Programmes

53. It was noted by the committee that many of the social, economic and environmental costs and benefits of infrastructure investment programmes, were not visible to those charged with scrutinizing the Scottish Government’s future expenditure plans or to other external stakeholders. Concern was expressed that this lack of visibility of key evidence could restrict the quality of their evaluation of Government Infrastructure programmes. For example, Professor Jan Bebbington, in her evidence, identified a number of potential limitations in the methods the Scottish Government currently used in evaluating the carbon emissions of its policies, programmes and funding proposals. In particular she stressed the
importance of considering the carbon emission consequences of infrastructure programmes across the whole life cycle of a programme, but considering these consequences in a number of different scenarios and policy contexts. She illustrated this point by referring to her written evidence that demonstrated the range of the estimates of carbon emissions from a Biomass energy project and how those savings depended upon different assumptions on how/where the biomass feedstock was sourced.

54. The importance of considering how different policies/programmes interact and exploring non-linear changes in underlying assumptions when estimating future carbon emission was stressed by a number of witnesses and committee members. An area of concern expressed the committee was the reliability of current estimates of carbon emissions from road building projects. Members of the committee stated that estimating future carbon emissions from road building projects should include different scenarios relating to the uptake of alternatively fueled vehicles, impact of changes in patterns of congestion on active travel, opportunities for modal shift and methods of traffic demand management. The committee noted that the provision of robust, decision-relevant carbon emission evidence was currently insufficient.

55. The Scottish Government should review the appropriateness of its carbon accounting methodologies, in light of the evidence presented to the committee and other developments in this field, in order to ensure that the evaluation of infrastructure expenditure plans takes into account the best possible estimate of life cycle carbon consequences. The committee also requests that a more comprehensive process of providing carbon emissions, economic costs/benefits and social costs/benefits for all infrastructure expenditure proposals is developed and forms part of future spending reviews and Draft Budgets.

IIP 2015

56. The Committee welcomes the publication of IIP and the opportunity for greater time for consultation and scrutiny in order to incorporate into the next spending review. The Committee considers the next spending review, combined with the outcome of the fiscal framework negotiation as a major opportunity for the Scottish Government to align its spending priorities with its objective of meeting its carbon emission targets for 2020 and beyond.

57. The committee requests that in order to improve the quality of its evaluation of IIP 2015 that the Scottish Government provides further details on the forecast carbon emission implications of each programme in sufficient time for the next spending review. In relation to recording wider social and economic benefits accrued from low carbon infrastructure programmes, the
Committee repeats its recommendation from previous years that a more holistic approach to making visible these benefits would strengthen the case for greater levels of low carbon infrastructure investments.

1 The Climate Change Mitigation of Draft Budget 2016-17 report was subsequently published on 13 January 2016.
2 In Draft Budget 2015-16 a figure of £181m was identified as the Estimated Capital Investment budget for AWPR. This figure is contained in the table Non-Profit Distributing Pipeline – Estimated Capital Investment Profile, Page 164. The revised Motorway and Trunk Road Budget for 2015-16 is £875.8m.
3 This reduction is based on a like for like revision of Draft Budget 2015-16 to take account of the reclassification of Aberdeen West Peripheral Route.
4 The carbon emissions reported in this table are drawn from Transport Scotland latest estimates of the net impact of future carbon emissions (source: Table 6 page 45 Carbon Account for Transport: 7th Edition 2015). In most cases the carbon emissions are the emissions estimate contained in the project specific Environmental Statement. The precise estimation methodology differs significantly depending upon the type of intervention and the modelling approach adopted. Road infrastructure projects use the Highways Agency Design Manual for Roads and Bridges (2009 version) and for railway related projects the Rail Emission Model produced for the Strategic Rail Authority was used. The impact figures reported are the net emissions impact at a national level and the time period of the annual net emissions of the different projects varies according to the life cycle of the specific infrastructure project and how the emission measurement protocols were applied by the independent consultants. The variability in how changes in levels of carbon emissions is such that these emissions estimates ‘are to be used as an informative guide to the direction of change and the order of magnitude only’ (source: page 35, Carbon Account for Transport: 7th Edition, 2015).
7 Spokes. Written submission.
8 Sustrans Scotland. Written submission.
Annexe A

Extracts from the Minutes and associated written evidence

20th Meeting, 2015 (Session 4), Wednesday 7 October 2015
1. Decision on taking business in private: The Committee decided to take items 3 and 4 in private.

24th Meeting, 2015 (Session 4), Wednesday 25 November 2015
1. Draft Budget 2016-17: The Committee took evidence in advance of the publication of the Scottish Government's Draft Budget 2016-17 from—Professor Jan Bebbington, Professor of Accounting and Sustainable Development, University of St Andrews; Teresa Bray, Chief Executive, Changeworks, representing the Existing Homes Alliance Scotland; Dr Sam Gardner, Head of Policy, WWF Scotland; John Lauder, National Director, SUSTRANS; and Sara Thiam, Director, ICE Scotland, representing the Low Carbon Infrastructure Task Force.

Written evidence – Wednesday 4 November 2015

Jan Bebbington and Matthew Brander (Universities of St Andrews and Edinburgh, respectively)
Existing Homes Alliance Scotland
Low Carbon Infrastructure Task Force
Sustrans Scotland
WWF Scotland
WWF Scotland supplementary submission

1st Meeting, 2016 (Session 4), Wednesday 6 January 2016
2. Draft Budget 2016-17: The Committee took evidence on the Scottish Government’s Draft Budget 2016-17 from—Keith Brown, Cabinet Secretary for Infrastructure, Investment and Cities, Mike Baxter, Director for Finance, Corporate and Analytical Services, and Andrew Watson, Deputy Director for Financial Strategy, Scottish Government; Margaret Burgess, Minister for Housing and Welfare, Bill Barron, Unit Head, Housing Support and Homelessness, Caroline Dicks, Unit Head, Affordable Housing Investment, Policy and Planning, Orlando Heijmer-Mason, Social Security Policy and Delivery Division, and Angus Macleod, Unit Head, Home Energy Efficiency Programmes for Scotland, Scottish Government.
2nd Meeting, 2016 (Session 4), Wednesday 13 January 2016

1. Draft Budget 2016-17 (in private): The Committee considered a draft report to the Finance Committee on the Scottish Government's Draft Budget 2016-17. Various changes were agreed to, and the report was agreed for publication.

Annexe B

List of other written evidence

- Institution of Civil Engineers (ICE) Scotland
- Spokes
- Spokes supplementary submission

Annexe C

Letter from the Convener of the Infrastructure and Capital Investment Committee to the Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy

European System of Accounts 2010 – Implications for capital projects

I refer to your statement on 26 November during which you informed the Parliament that the Office for National Statistics (ONS) has deemed that, in relation to the Aberdeen Western Peripheral Route (AWPR), the Special Purpose Vehicles (SPVs) that are in place to manage the project and the capital asset itself should be classified as public sector, rather than private sector.

I understand that the impact of this is that the capital value of the asset would count as conventional capital costs and would need to be accounted for at the time of construction in the Scottish Government’s capital budget. You indicated when making your statement that the Scottish Government is in discussion with Her Majesty’s Treasury on the consequential budgetary implications of the ONS decision and that you intend to reflect the outcomes of those discussions in the draft Budget when it is published in the next few days.

As you will appreciate, this is a matter of considerable interest to the Infrastructure and Capital Investment Committee. I would therefore request that, on publication of the draft Budget, the Committee is advised of how the Scottish Government intends to address this matter, if at all possible. The Committee would also wish to take the opportunity to question the Cabinet Secretary for Infrastructure, Investment and Cities on the potential implications for the AWPR project and other key infrastructure projects in Scotland when he appears to provide evidence on the draft Budget on 6 January.
I have copied this letter to the Cabinet Secretary for Infrastructure, Investment and Cities for information.

Jim Eadie MSP
10 December 2015

Response from the Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy

Thank you for your letter of 10 December.

As I indicated in my statement of 26 November, it has become clear that a rapid reversal of the Office for National Statistics’ (ONS) decision to classify the Aberdeen Western Peripheral Route (AWPR) project to the public sector will not be possible. This has no impact on the delivery of the project itself.

Given this position, the Draft Budget 2016-17 includes capital budget provision for the estimated construction costs of the Aberdeen Western Peripheral Route project (£183m) and four NPD Health projects (£215 million), which could in future attract the same public sector classification.

Going forward, I have asked the Scottish Futures Trust to continue to review the implications of the ONS opinion on the AWPR and their more recent response to the revised model that has been developed for the Hub programme, which ONS have indicated would lead to a private sector classification for projects delivered through the model.

I will be happy to provide a further update to Parliament when I am in a position to do so.

John Swinney MSP
Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy
22 December 2016
Annexe D

Response from the Scottish Government to the Committee’s request for a breakdown of Proposed Expenditure between Sustainable Travel and Active Travel

As promised by the Cabinet Secretary for Infrastructure, Investment and Cities during his appearance before the Committee on 5 January, please find attached in the table (below) further details of the spending plans announced in the Draft Budget for sustainable and active travel in 2016/17. It is not possible at this time to provide separated details of confirmed active travel allocations for 2016/17. This is because final decisions have still to be taken on the precise levels of allocations from the Future Transport Fund (FTF) and from the Support for Sustainable and Active Travel (SSAT) Revenue budgets. However, based on allocations made from the FTF to active travel in 2015/16, and based on the increase to the core SSAT budget line, we anticipate that the total funding available for active travel in 2016/17 will be in the region of £39 million. We can, if required, forward details of allocations made from the FTF and SSAT budgets in relation to active travel in 2015/16 in order to provide an indicative illustration of the likely budget split for active travel in 2016/17.

Funding for Sustainable and Active Travel 2016/17 Draft Budget

<table>
<thead>
<tr>
<th>Budget Line</th>
<th>Description</th>
<th>Amount of funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support for Sustainable and Active Travel (SSAT)</td>
<td>Supports the installation of infrastructure to facilitate cycling, walking and the use of Low Carbon Vehicles (LCVs) as well as softer measures such as cycling promotion and safety campaigns. Also includes support for businesses and organisations to adopt low carbon transport practices and development support for car clubs.</td>
<td>£28,900,000</td>
</tr>
<tr>
<td>Future Transport Fund (FTF)</td>
<td>Supports the adoption of various low carbon transport measures including the construction of cycling and walking infrastructure for everyday journeys, low carbon vehicle infrastructure, grant funding to stimulate the uptake of low carbon buses and support for freight facilities to enable the modal shift of freight from road to rail and sea.</td>
<td>£20,250,000</td>
</tr>
<tr>
<td>Cycling, Walking and Safer Streets (CWSS)</td>
<td>Ring-fenced grant funding allocated to Local Authorities for cycling and walking infrastructure for everyday journeys.</td>
<td>£5,900,000</td>
</tr>
<tr>
<td>Financial Transactions</td>
<td>Loan funding to support the uptake of Low Emission Vehicles</td>
<td>£7,000,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>£62,050,000</td>
</tr>
</tbody>
</table>