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Edward Mountain MSP
Convener of the Net Zero, Energy and Transport
Committee

3 February 2024

Dear Convener,

Corrections to figures in Annex J of the Budget

Further to the budget scrutiny session on 30th January, I am writing to the Committee to provide an update on corrections that we are making to eight of the figures in Annex J of the Budget and 14 of the figures in the supporting carbon assessment spreadsheet.

The corrections are limited to figures referenced in Annex J, and the supporting spreadsheet, with no impact to the overall climate change assessment. The total figure assessed as having a positive impact on delivering our climate change goals remains at £4.7 billion.

You had asked about the timescales for the discovery of the errors. Potential discrepancies were identified last week and officials undertook urgent initial investigations, concluding at the end of last week that the errors seemed only to be apparent and did not require any corrections. Officials undertook a full re-analysis for reassurance and this revealed late on Monday that there were a number of genuine errors with the taxonomy assessment. These errors were subsequently highlighted to me on Tuesday morning, shortly before the Committee session on the Budget.

A comprehensive and rapid exercise has been undertaken by officials this week to review, re-run and quality assure the climate change assessment to ensure accuracy. This has resulted in the need to update some of the figures, which the Committee can view in the attached copy of Annex J. The corrected figures have been highlighted.

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I apologise to the Committee for any inconvenience and hope that the Committee is assured that we have moved quickly to correct the discrepancies as soon as we became aware.

Yours sincerely,

MÀIRI MCALLAN

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Annex J – Climate Change Assessment of the Budget

This annex is divided into two parts. The first part presents an overarching climate narrative, drawing on highlighted spending areas from multiple portfolios across the Scottish Budget 2024-25 that all contribute towards our response to climate change. The second part provides a carbon assessment of the capital and resource budget.

Delivering the Just Transition to Net Zero

Successive budgets have demonstrated Scotland's commitment to addressing the twin crises of climate change and biodiversity loss, using all the power and resources at our disposal to accelerate the just transition to a net zero, climate-resilient and biodiverse Scotland.

The latest emissions data shows our emissions are down by nearly 50% since the 1990 baseline, halfway to net zero. However, we know the scale of change needed for the next part of our journey is significant. Delivering our net zero target by 2045 will require the transformation of our economy and society, underpinned by sustained investment, both public and private, in physical infrastructure.

The Climate Change Committee estimated that, to achieve our climate change targets, Scotland will need an additional £5-6 billion of investment in low-carbon infrastructure each and every year from 2030. However, delivering on our medium-term capital ambitions will not be easy when we are facing an almost 10% real terms cut to our UK capital funding between 2023-24 and 2027-28.

To capture the full economic, social and environmental benefits of the transition – delivering sustainable economic growth and creating new jobs and industries right across the country – we need targeted, impactful and long-term investment. As a result, the transition to net zero will require high levels of public and private capital investment at a time when public finances are extremely stretched, particularly with respect to capital. The cost of this transition cannot be borne by public sector funding alone and needs to be sustained over several decades, not simply in any one year's budget. Nevertheless, this Budget focuses investment and spending on areas critical for accelerating a just transition in the coming years.

The 2024-25 Budget and Climate Change

In 2024-25 we are committing £4.7 billion in capital and resource for activities that will have a positive impact on delivery of our climate change goals. This annex presents a selection of highlighted spending areas – across multiple portfolios – that are contributing towards our response to climate change.

Renewable energy

Support for the development of our offshore wind potential will be the cornerstone for realising the economic gains from our net zero ambitions and sealing Scotland's transformation into a globally leading renewable energy country. Funding of **£66.9 million** will aid realisation of key projects and development of the necessary support and support infrastructure.

Energy industries budgets of £43.7 million will maximise the economic and social outcomes of the transition to a net zero Scotland and continue our commitment to: invest in hydrogen, carbon capture, utilisation and storage and negative emissions technologies; support businesses in the North East of Scotland to grow and diversify; invest with energy-intensive manufacturing industries to reduce energy costs and emissions; and consider a strategic approach to supporting infrastructure and its place in the energy transition.

With funding of £2.2 million, the Carbon Neutral Islands project will demonstrate the low carbon energy potential of islands as hubs of innovation in relation to renewable energy and climate change resilience.

Energy efficiency and heat transition

Through funding of £556 million, the Affordable Housing Supply Programme will enable the delivery of more affordable homes across Scotland. From December, the programme will focus on delivering homes with zero emissions heat systems, boosting our transition to low emissions housing.

Support of £342 million in energy efficiency and decarbonisation will promote energy efficiency, continuing development of Energy Efficient Scotland and heat decarbonisation. This includes support for major capital funding programmes to decarbonise buildings in the non-domestic and public sectors; development of district heating regulations and legislation, and programmes of advice and support to home renewables and non-domestic energy efficiency measures.

Funding of £2.4 million will support a programme of research and professional advice to ensure the Building Standards system delivers its regulatory requirements, while support of £1.7 million of resource spend complements our capital investment of over £100 million to tackle fuel poverty and improve the quality of Scotland's housing.

International and strategic climate change

While the range of funding highlighted in this Annex will support climate change goals, targeted funding of £41.2 million will support key activities in delivering a just transition to net zero, including: the Just Transition Fund, investing in critical projects to support net zero; public and community engagement and the empowerment of local communities to lead action on climate change; and supporting climate change leadership in the public sector alongside the implementation of the Public Bodies Duties provisions of the Climate Change Act. The budget also highlights our continuing international climate change leadership through the Climate Justice Fund and support on Loss and Damage.

Transport

We will spend £2.5 billion overall on public transport to support our bus, rail and ferry networks, ensuring there are viable alternatives to car use for those who need it and for people to make sustainable choices. This includes investing more than £425

million in bus services via the Network Support Grant and our Under-22, Older and Disabled Persons schemes, as well as £965 million on ScotRail and Caledonian Sleeper passenger rail services. We will invest £220 million in Active Travel to continue increasing our investment in walking, wheeling and cycling, and provide £6 million in the community bus fund. £36 million of support will fund targeted programmes to reduce the impact of transport on our environment to support low carbon, zero emission and climate change.

Nature, forestry and landscape restoration

We will invest over £158 million in funding to maximise the power of our land and forests to help tackle climate change and protect nature. This funding will increase woodland creation and further protect and restore peatland, our iconic Atlantic rainforests and ancient Caledonian pinewoods, and deliver Scotland's Biodiversity Strategy. We are continuing to protect and restore our natural environment on land and at sea through our commitment to invest £500 million in our natural environment **over the lifetime of the Parliament**, to drive landscape scale change, including £65 million in the Nature Restoration Fund. Woodland creation, sustainable management of Scotland's national forests and land, and peatland restoration are part of our just transition to net zero, supporting Scotland's rural economy, creating economic opportunities and good green jobs.

Flood management

Scotland is embedding a sustainable and climate-resilient approach to flood risk management. Over 2024-25, we will invest £42 million to support measures to reduce flood risk, we have also committed an additional £150 million over the course of this Parliament to deliver improved flood resilience, recognising the likelihood of increases in storm severity and number.

Agriculture, rural affairs and marine

We continue to support the transformation of farming and food production, supporting Scotland to become a global leader in sustainable and regenerative agriculture, and supporting these industries to achieve our statutory emission targets. To do this, we will provide £20 million to deliver a range of activities through the National Test Programme, Agricultural Reform Programme and Agricultural Transformation Fund.

Funding of **£78 million** will continue to support our overall marine ambitions. Scotland's Blue Economy Vision sets out our ambition for the sustainable management and shared stewardship of Scotland's Sea, including the contribution of the blue economy and marine environment to reaching net zero by 2045. This includes: key contributions to Scotland's ScotMER programme to support the sustainable development of offshore renewable developments in Scottish waters; investment to deliver a sound scientific evidence base to inform our marine policies; and marine planning and licensing responsibilities which helps to promote sustainable economic growth from the marine renewables industry.

Zero waste and circular economy

We are providing £49 million to make progress in Scotland's transition to a circular economy and programmes to promote re-use of our resources and to reduce consumption, modernise recycling and to decarbonise the disposal of waste, including major delivery programmes for extended producer responsibility and digital waste tracking, as well as funding for Zero Waste Scotland.

Taxonomy

Through the Joint Budget Review, the Scottish Government and Parliament agreed to develop an enhanced taxonomy to provide a carbon assessment identifying and categorising the emissions impacts of all relevant spending lines in the 2024-25 budget cycle. This taxonomy refresh will standardise how the Scottish Government classifies both resource and capital budget spending lines relative to their climate impact.

In previous years, Scottish Government used a taxonomy to provide a summary carbon assessment of the annual capital budget. This approach allocated spending lines into three broad categories – Low, Neutral and High Carbon. Each capital spending line was assigned a low, medium or high category.

Introducing a single approach across both resource and capital budgets will allow greater consistency and the ability to give a more complete picture. The revised approach also incorporates some assessment of the magnitude of impact. The proposed approach classifies spend lines at the most detailed level:

- Positive-Neutral-Negative Environmental Alignment: this will identify if the spend line is positively aligned with the Scottish Government environmental outcomes, is neutral, or is negatively aligned. This already exists for the capital budget but would be new for the resource budget.
- High-Low Impact: the scale of impact on Scottish Government climate objectives are rated using this measure.

A taxonomy is being retained to support scrutiny, and adopting this approach represents an overall proportional improvement in future budget reporting. Because the taxonomy is new and different in approach to previous years, analysis of 2024-25 does not include a comparison to previous years; instead it aims to set a provisional baseline from which to learn. Local authority spend continues to be excluded from the classification because of the complexity of breakdown, but it is clear councils continue to rise to the challenge of the climate crisis and spend on net zero priorities.

Key points

Capital

2024-25 Capital Taxonomy (£m)				
Negative – High	Negative – Low	Neutral	Positive – Low	Positive – High
449	22	3,260	968	1,708
7%	0%	51%	15%	27%

The capital funding position for 2024-25 is £6.4 billion, it apportions around 42% of spend to Positive activities – in absolute terms, this is around £2.7 billion for Positive spend. The largest spend areas are focused on rail and major public transport projects, areas which have few direct emissions associated with them but are seen as enabling transition away from car usage, as well as action to decarbonise the stock. The rail and public transport spend accounts for around 18% of total capital spend while car, van and HGV emissions are around 20% of Scottish emissions.

Furthermore there has also been a shift as the affordable housing spend line moves from Neutral to Positive – Low. This switch is due to a change in guidance for the affordable housing supply programme requiring all applicants from 1 December 2023 to use zero-emission heating systems.

Sectors classed as Neutral primarily deliver activities which, while generating some emissions from consumption or operations such as heating, do not enable or influence wider emissions. These areas may be undertaking actions to reduce their emissions but they do not represent a significant share of the allocated spend and are difficult to identify. The main example of this is healthcare spending which is the largest neutral spend in both capital and resource programme areas.

The main areas of spending that fall into the Negative category relate to improving and maintaining our road and bridge networks, which is vital for road safety as well as the economy and connectivity. However, in line with the impacts envisaged by the spend highlighted above, this impact will start to diminish over time.

Resource

2024-25 Resource Taxonomy (£m)				
Negative – High	Negative – Low	Neutral	Positive – Low	Positive – High
632	117	33,694	693	1,298
1%	0%	75%	2%	3%

The total resource funding for 2024-25 is £36 billion, with the main focus of spend on the NHS, social security, public services, including local government, and wider anti-poverty measures.

In absolute terms the Positive spend on climate is smaller than the capital spend – approximately £2 billion. The largest sources are: agricultural greening payments, which actively look to reduce emissions; and rail, concessionary fares for bus and ferries which seek to divert activity away from cars and planes. SEPA is the other largest spend which covers a range of activities from regulating Industry to monitoring the environment and promoting adaptation.

The resource taxonomy is much more neutral than the capital budget. The Neutral spend of the resource budget of 2024-25 is around 75% of the resource budget. This is more significant than the capital budget both in terms of absolute spend and share of the budget, mainly because the majority of resource spend is on staffing costs,

alongside delivering healthcare, social care and disability payments, which have minimal carbon impact.

The main areas of spending that fall into the Negative category relate to agricultural support, largely through the emissions associated with livestock. This is along with costs around transport such as road maintenance, with car, van and HGV emissions causing around 20% of Scottish emissions.