The Scottish Parliament
Pàrlamaid na h-Alba

Net Zero, Energy and Transport Committee

Gillian Martin MSP
Cabinet Secretary for Climate Action and Energy

1 December 2025

Dear Gillian,

Pre-budget representations of the Net Zero, Energy and Transport Committee

The theme of last year's pre-budget letter from the Committee was the overall preparedness of government, across departmental boundaries, to plan for delivery of the Climate Change Committee's "balanced pathway" to net zero by 2045. We follow up this year with a focus on linkage: between spending decisions set out in the Budget and the measures that will be needed to bring down carbon emissions in line with legal obligations. We do this mainly by reference to the three strands of work emerging from the Joint Budget Review that the Scottish Government has committed to bring forward and develop.

As we said in last year's letter, confidence about Scotland's net zero momentum has been dented in this 2021-2026 Parliamentary session. If it can convincingly "show its working" on how it expects specific spending decisions to drive emissions down, and by how much, the Scottish Government can begin to restore some confidence.

The next Climate Change Plan and the 2026-27 Scottish Budget

Delay in laying the next Climate Change Plan has been a major factor behind a perception of lost momentum this session. Whilst it is welcome that a draft Plan has now been laid, the timing is challenging. The gap between the end of Parliament's 120-day period of consideration and the Scottish Government laying a final Plan before the election (assuming that remains the aim) is narrow. It is hard to see how the Scottish Government will have time to fully reflect on what the Parliament may say about the draft and what could be changed.

This timing does mean that the Parliament will be considering the Budget Bill and the draft CCP at the same time, through much of January and all of February. Turnaround time for the Budget Bill will be even tighter than normal, if the Scottish Government sticks to its currently-stated schedule. This does, however, create a small window to check for read-across between both documents, ensuring that key policies or interventions in the Plan are consistent with the Budget Bill. This would apply to any evidence on the draft Plan taken by committees within that window, or any report or letters on it they published in that time.

Contact: Net Zero, Energy and Transport Committee, The Scottish Parliament, Edinburgh, EH99 1SP. Email netzero@parliament.scot. We welcome calls through Relay UK and in BSL through Contact Scotland BSL.

The Committee appreciates that a Budget Bill is for only one year whereas the CCP sets out a longer-term vision. But it is important that this first financial Budget under our new system of 5-yearly carbon budgets sets a clear opening signal - to key stakeholders and investors – about the Scottish Government's net zero commitment that is demonstrably consistent with climate change planning.

1. **The Committee asks the Scottish Government to use the scrutiny period for the draft Climate Change Plan as an opportunity to cross-check the Budget against the draft Plan for consistency in both.**

Climate change narrative and taxonomy in the Budget

This session, the Committee has tracked progress in implementing the Scottish Parliament and Scottish Government Joint Budget Review. Its remit was "to improve budget information on climate change – to understand and reduce spend that will 'lock in' future greenhouse gas emissions and increase alignment between the budget and climate change plans."[1]

Two of the three strands of future working set out in the JBR's July 2022 final report, which the Scottish Government pledged to implement and develop over the coming years, were:

- Strand 1: to establish a "climate impacts narrative section" within the Budget: a "qualitative description of the impacts of policy".
- Strand 2: to expand the taxonomy approach currently applied only to capital spending, to cover all resource and capital spending. The "taxonomy approach" is a classification system for budget spend lines, setting how they align (or don't) with emissions reduction goals. The 2022 report said this would be developed over the coming years, with the Scottish Government considering how to both "deepen" the taxonomy and expand its coverage so it will be more useful for scrutiny. The Scottish Government pledged to consult the Parliament as this is developed.

The Committee has noted and welcomed initial work to develop a climate narrative and taxonomy approach to accompany and inform the Budget but recognises that these require further development. This means providing more depth and detail of information or data provided, showing where it has come from and, where required, showing how it aligns with that source (e.g. work by the CCC or the Scottish Government's own work in preparing its annual monitoring report on the CCP).

The current taxonomy approach, essentially a traffic-light system, with spend lines graded as having a neutral, negative or positive impact on emissions reduction (these latter two categories, further graded "high" or "low" impact) has the advantage of simplicity and straightforwardness. But these categorisations are broad and lack enough detail to inform an understanding of how spending decisions are driving the transition to net zero. A number of the budget lines labelled as "positive" have appeared to have only a limited connection to climate change. Or an entire relatively

[1] after our predecessor Committee in the 2016-21 Parliamentary session called for a collaborative review focused on understanding the impact of Scotland's Budget on greenhouse gas emissions.

high-level spending area (for instance, the running costs of an environmental agency) has been labelled as “positive”, without further breakdown.

The current approach does not yet provide much insight into how these budget lines labelled “positive” will translate into reductions in emissions. For instance, while we can see that over time the proportion of low-carbon capital spending has increased, and high-carbon spending reduced, the taxonomy does not go on to “join the dots”: setting out how this has reduced emissions, whether these are locked in emissions, or what these spending trends mean in terms of meeting carbon budget envelopes within particular spending or policy areas.

Another question is whether there is further scope to capture in the climate narrative information or data that is key to making the Budget deliver for net zero but which might not normally appear in Budget documentation. The Scottish Government’s “catalysing” role in relation to private investment is such an example, given the consensus that, whatever financial benefits may accrue to it in the long run, government cannot pay for net zero by 2045 by itself. In areas such as decarbonising domestic heating, the government’s role is to provide clear signals to investors, by legislation, policies, targets, regulatory changes, etc., and to provide “seed funding” to incentivise others to spend, rather than itself being the main investor. Another example may be what the draft CCP labels “co-benefits”: planned or intended outcomes from net zero policies and interventions that achieve positive outcomes in other areas, e.g. new jobs, cleaner air.

2. **The Committee asks the Scottish Government how the climate narrative section of the Budget will utilise new sources of quantitative data to set out how spending in each portfolio is contributing to emissions reduction, or other climate action goals such as adaptation?**

3. **Will the Scottish Government use the climate narrative section to set out relevant information on the role of private capital in funding particular net zero goals, and its expectations about securing this in the light of the “signals” provided to investors by way of allocations made in the Budget and associated policy or legislative interventions?**

4. **Will it also use the narrative to set out its expectations as to the contribution towards key net zero policies the Scottish Government expects the UK Government contribution along with an assessment of associated risks; e.g. a failure to reach agreement because of divergent policy approaches? Without making any substantive comment on the risk of such policy divergence, an example might, for instance, be in relation to land use change-based mitigation measures, which benefit both Scotland and the UK in achieving net zero.**

5. **Now that the narrative section has been embedded, the Committee also seeks clarification that transparently setting out both**

improvements and backward steps since the last Budget round will form part of the narrative?

6. **The Committee asks the Scottish Government to respond to our observations about the need for further improvements to the taxonomy approach, such as to take a more granular approach to classifying spending (especially "positive" spending), based more on activities rather than broad spending categories, and to set out quantification (or estimates/ confidence levels) of the actual emissions impact of each spending line, with such level of accompanying narrative as is considered necessary.**

Net Zero Assessment

Strand 3 of the JBR's July 2022 report was development of a Net Zero Assessment process to evaluate the climate impact of policies and their associated budgets early in the policy development stage. This will filter policies, identifying those with a high impact and lead to more precise calculations on the impact of policy decisions on the climate. Again, the aim was for the Scottish Government to develop this over several years and consult the Scottish Parliament in the process.

In our pre-Budget exchange of correspondence last year, you informed the Committee that the Net Zero Assessment was not yet sufficiently developed to inform the 2025-26 Budget as the NZA pilot that had been run was still awaiting independent review. The Committee was interested to note that, despite this, the letter described the pilot as "successfully concluded".

The review published in June 2025 says that "between March and October 2024, the Scottish Government successfully piloted its new Net Zero Assessment methodology across a range of new policies". Amongst the various outcomes and recommendations, the Committee notes the key finding that "the pilot proved the methodology is workable and credible and can be recommended for wider roll out across the Scottish Government". Under challenges, it lists—

- Experience from implementation of other SG impact assessments highlights that intensive resources are required for the roll out across government. This would include advertising the NZA in the SG intranet and promoting it across management and staff groups, the development of training materials and training courses, the hosting of workshops and policy surgeries, and 1:1 work supporting individual policy areas.

- The NZA needs to align with other SG impact assessments, on governance, processes and analysis.

- The need to engage on the NZA with lead policy teams early in the policy development process is a challenge, even for established impact assessments.

The Committee also notes comments of the Scottish Government's deputy director for climate change that the net zero assessment must not be "seen as an additional burden but as something that helps and fits in very neatly with the other impact assessments. It has taken some work to make sure that that happens."[2].

7. **The Committee is pleased to note that the Net Zero Assessment is now ready for roll-out, following an independent assessment and report but several matters remain unclear, even in the light of the report:**

   a. **Will all recommendations of the independent review be taken forward?**

   b. **What policies were tested as part of the pilot? The report states that 30 were tested, from diverse portfolios. The Committee would welcome these being listed, alongside 2-3 short case studies, outlining how the Net Zero Assessment was used to help inform development of the policy.**

   c. **Going forward, what policies and interventions will be put through the Assessment? Will there be a threshold test to ensure the Assessment is used in a proportional way and that all major policies are tested? Can the Scottish Government assure the Committee that there will be no Scottish Government practice (formal or informal) of only applying the Assessment in relation to policies or interventions that look likely to be carbon neutral or positive? If so, please set out how the Scottish Government will avoid this.**

   d. **Linked to this, the final report indicates that the Assessment is to apply to "individual policies" and not "programmes". Can the Scottish Government confirm this is its position? If so, what will this mean in practice: is there a risk of major new government interventions not being caught by Assessment because they are not "policies"? Is Scottish Government procurement or support for or investment in a public infrastructure project a "policy"?**

   e. **How will Net Zero Assessments "translate" to the Budget and associated document? Will it be possible to see in the Budget (for instance in the climate narrative) how the Assessment has produced a tangible spending outcome?**

   f. **Will the Net Zero Assessment be applied to preparation of the CCP? Was it applied in the preparation of the draft CCP?**

[2] 9 September col 65

g. **The Committee requests an overview of how the Net Zero Assessment will be rolled out across the Scottish Government at a practical level? What additional resources and training will be provided?**

h. **Will the Net Zero Assessment be rolled out to arms-length public bodies with a key role in some aspects of environmental policy-making (e.g. NatureScot, SEPA) or to local government?**

i. **What mechanisms and governance arrangements are in place to "assess the assessment": to check its methodology and, in due course, its accuracy and success rate? Will there be an expert external element to any of this?**

In line with the usual protocols, I would be grateful for a response when the draft Scottish Budget issues in January.

Yours sincerely,

Edward Mountain MSP
Convener

Net Zero, Energy and Transport Committee