

T: 0300 244 4000  
E: [scottish.ministers@gov.scot](mailto:scottish.ministers@gov.scot)

Edward Mountain MSP  
Convener  
Net Zero, Energy and Transport Committee  
The Scottish Parliament  
Edinburgh  
EH99 1SP

By email: [netzero.committee@parliament.scot](mailto:netzero.committee@parliament.scot)

## **NZET EVIDENCE SESSION ON 2026-27 CLIMATE ACTION AND ENERGY BUDGET**

19 February 2026

Dear Edward,

Thank you for the opportunity to appear before the Net Zero, Energy and Transport Committee on 10<sup>th</sup> February 2026 to discuss the Climate Action and Energy Portfolio's 2026-27 budget.

During the session, I committed to providing further information on the following areas:

- Allocation of ScotWind funds
- Scottish Environmental Protection Agency
- Net Zero Assessment in practice
- Funding of Wave Energy Scotland

Further details are provided in the following Annex.

I hope this additional information clarifies the points raised and reinforces the Scottish Government's commitment to achieving our ambitious net zero targets in a just and fair way. I look forward to continuing our constructive dialogue as we advance these crucial initiatives.

Yours sincerely,



**GILLIAN MARTIN**

## **ANNEX A: FOLLOW UP TO ITEMS RAISED DURING 2026-27 CAE BUDGET EVIDENCE SESSION**

### **1. Utilisation of Scotwind Funds**

I would like to clarify that the figures that were provided during the session on Scotwind allocations were for 2025-26 allocations not for 2026-27 and onwards.

Crown Estate Revenues – Scotwind and INTOG – Crown Estate revenues can be used to support both the resource position and capital projects. The amount of these revenues included in the 2025-26 initial Budget was £364m (£341m of Capital and £23m of Resource), leaving £350m unallocated. The forecast requirement for Scotwind in 2025-26 has now been reduced to £176m (£153m of Capital and £23m of Resource). Therefore, £538m is available for deployment. Over the SSR period, we will use the limited levers at our disposal to boost the funding available and achieve a smoother funding profile. As in recent years, our opening position will assume initial forecast allocations of Crown Estate revenues to support both the resource position and support climate action through priority capital projects.

As we have also done in prior years however, we will work to manage down the utilisation of this revenue to preserve its capacity for future deployment on priority areas that deliver lasting benefit for Scotland. We intend to drawdown £507m of ScotWind revenues to invest in our priorities across the Spending Review – split across Resource (£316m) and Capital (£191m).

The Climate Action and Energy portfolio specifically, is planned to receive £29.4m in 2027-28 and £30m 2029-30 of capital ScotWind funding:

- Supporting a Just Transition, including at Grangemouth, safeguarding its role as a leading industrial cluster;
- Supporting our investment in the Nature Restoration Fund to deliver our Scottish Biodiversity Strategy and our aim of halting biodiversity loss and being nature positive by 2030.

### **2. Scottish Environmental Protection Agency (SEPA)**

In comparison to the 2025-26 Autumn Budget Revision (ABR) position SEPA's allocation has reduced 1.8%. However, the ABR comparator includes in-year transfers predominantly for delivery of River Basin Management Plans and Marine funding which are expected to be repeated in 2026-27. Compared to the 2025-26 Budget Bill SEPA's funding has actually increased by £1.9m, to enable SEPA to deliver its statutory responsibilities. SEPA will also receive in-year funding (in line with recent years) that will support, for example, the Water Environment Fund. 'Core' funding for SEPA has therefore increased, with project funding to be confirmed in-year, in line with standard practice. SEPA fund 57% of their operating

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costs from charging schemes, applying the principle of 'polluter pays'. SEPA income forecast increases by 5% in 2026-27, reducing demand for public funding.

SEPA	2026-27 Scottish Budget £million	% Change 2026-27 on 2025-26	What it buys	Explanation of significant changes from previous year (ABR)
SEPA Capital	<b>6.103</b>	-15.4%	Capital expenditure on infrastructure assets.	funding in line with progress on digital infrastructure programmes and core maintenance requirements
SEPA Resource - Staff Costs	<b>78.000</b>	4.6%	For delivery of statutory functions: the regulation of activities or processes that may pollute water, air or land; the regulation of waste storage, transport, treatment and disposal; the regulation of keeping and disposing of radioactive materials; the management of radioactive waste and; running Scotland's flood warning systems.	Increase in line with operating cost requirements offset by increased cost recovery through charging schemes
SEPA Resource - Depreciation	<b>7.400</b>	0.3%	Charges relating to depreciation of capital items.	technical accounting adjustment
SEPA Resource - Other	<b>25.836</b>	-1.6%	Programme and other Operating expenditure incurred by SEPA in delivering the aims to protect and improve air, water, and land quality while supporting sustainable business growth.	minor movement reflecting efficiencies and productivity improvements
SEPA Income	<b>(58.990)</b>	5.3%	Charging schemes and other resource income.	increased forecast for statutory charging schemes deploying the principle of "Polluter Pays"
<b>TOTAL</b>	<b>58.349</b>	<b>-1.8%</b>		

### 3. Net Zero Assessment (NZA)– How it works in practice?

The Net Zero Assessment (NZA) is a tool that embeds quantitative carbon assessment in the early stages of SG policy development. Officials will consider the need for a NZA when developing new policies. The NZA has been designed to be proportionate and operates a de-minimis threshold of 10,000 tons of CO<sub>2</sub>e per year – only policies estimated to produce emissions above this level require an NZA. This means that the majority of new polices will not have to complete an NZA.

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The NZA is a two-stage process that ‘filters’ policies at stage 1 to determine whether they require a stage 2 detailed quantitative emissions assessment. Policy and analytical officials will work together to determine when policies should be screened in or out and when carrying out the full carbon assessment. Where a NZA is completed, officials will provide the outputs of the assessment in advice to Ministers – this includes the forecast emissions impact of the policy and options to reduce or mitigate these emissions.

Officials will provide annual reports on the NZA to the Cabinet Secretary for Climate Action and Energy and the Net Zero, Energy and Transport Committee with the first report due to the Committee in early 2027. In summer 2026, there will be a 6-month review of the NZA. This will assess the progress of NZA, appropriateness of the de-minimis threshold, and will inform the future development of the NZA

#### **4. Funding of Wave Energy Scotland**

We have invested over £70 million in funding for marine energy since Wave Energy Scotland’s (WES) inception in 2014. The decision to reduce Scottish Government support to WES was made in the context of a challenging fiscal envelope and the need to make difficult decisions regarding spending in 2026/27 and beyond. We recognise concerns regarding the loss of jobs at WES and the wider wave energy sector which is why we are working closely with WES, Highlands and Islands Enterprise and other partners to sustain operations while future alternative sources of funding are identified. This will give the organisation and the wider wave energy sector the certainty needed to continue their work.

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St Andrew’s House, Regent Road, Edinburgh EH1 3DG  
[www.gov.scot](http://www.gov.scot)

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