The Committee will meet at 9.30 am in the Robert Burns Room (CR1).

1. **Decision on taking business in private:** The Committee will decide whether to take item 6 in private.

2. **Declaration of interests:** Gillian Martin will be invited to declare any relevant interests.

3. **Choice of Convener:** The Committee will choose a Convener.

4. **Pre-Budget Scrutiny 2019-20:** The Committee will take evidence on the Scottish Government’s Budget for 2019-20 from—

   Dr Sam Gardner, Acting Director, WWF Scotland;
   
   Dr Mark Williams, Head of Environmental Science and Regulation, Scottish Water;
   
   and then from—
   
   Derek Mackay, Cabinet Secretary for Finance, Economy and Fair Work,
   Simon Fuller, Deputy Director, Economic Analysis, Rachel Gwyon, Deputy Director, Infrastructure & Investment, and Clare Hamilton, Deputy Director, Decarbonisation Division, Scottish Government.

5. **Subordinate legislation:** The Committee will consider the following negative instruments—

   CRC Energy Efficiency Scheme (Revocation and Savings) Order 2018 (SI 2018/841)

6. **Pre-Budget Scrutiny 2019-20:** The Committee will consider evidence heard earlier in the meeting.
The papers for this meeting are as follows—

**Agenda item 3**
PRIVATE PAPER ECCLR/S5/18/24/1 (P)

**Agenda item 4**
Budget 2019-20 Cover Note ECCLR/S5/18/24/2
PRIVATE PAPER ECCLR/S5/18/24/3 (P)

**Agenda item 5**
Subordinate Legislation Cover Note ECCLR/S5/18/24/4
Environment, Climate Change and Land Reform Committee

24th Meeting, 2018 (Session 5)

Tuesday 11th September 2018

Scottish Government Budget 2019/20

Introduction

1. At its meeting on 11 September the Committee will consider the carbon impact of the capital budget to support the delivery of public infrastructure in Scotland, including spending on buildings, roads, rail and digital. The Committee will hear evidence from two panels: from WWF Scotland and Scottish Water, and then; from the Cabinet Secretary for Finance, Economy and Fair Work. Written submissions from those giving evidence can be found at Annexe A.

Background

ECCLR Committee Scrutiny of the draft Budget 2018-19

2. In its scrutiny of the Draft Budget 2018/19 the Committee reported on the carbon impact of the budget. In that report the Committee expressed concern that Scotland may not be investing sufficiently in low carbon infrastructure. The Committee stated that effective governance of the process for setting the Budget, assessing its carbon impact and ensuring the outcomes are delivered is vital. The Committee sought further detail on how Scotland's infrastructure investment plans align with Scotland's emission reduction targets including the more ambitious goals proposed in the Climate Change Bill and delivery of Scotland's Climate Change Plan.

3. The Committee also recommended the Scottish Government provide information on an annual basis, alongside the Budget, that enables a detailed assessment of the carbon impact of the infrastructure spend as set out in the Budget, including the balance of infrastructure spending directed to low vs high carbon investments. The Committee indicated this would enable a year on year assessment and comparison between budgets. The Committee received a response to its report from the Cabinet Secretary for Environment, Climate Change and Land Reform on 7 March.

4. The Scottish Government response made the following commitments: “When the Infrastructure Investment Plan is refreshed, it will take into account the requirements of Scotland’s climate change legislation at that point in time” and; “Officials will review each Draft Budget to set out the proportion of the overall capital budget allocated to low carbon projects and programmes, including infrastructure spend. This information will be made available to the Committee.”

ECCLR Committee Pre-Budget scrutiny 2019-20

5. The Committee considered its approach to scrutiny of the Scottish Government Budget 2019/20 at its meeting of 26 June 2018. In the period between June 2018 and February 2019 the Committee agreed to focus its Budget scrutiny on
preventative spending and the carbon impact of the capital budget. The Committee agreed to take oral evidence on preventative spend on 4 September and oral evidence on the carbon impact of the Budget, including a session with the Cabinet Secretary for Finance, Economy and Fair Work, on 11 September.

The Committee agreed to write to the Scottish Government and to the ECCLR public bodies seeking information on the main items their budget buys and the evidence they have which demonstrates how their spending over recent years has contributed to relevant national outcomes and preventative spending. The Scottish Government responded on 30 July.

6. In addition, the Committee also agreed to:

- Analyse the Financial Memorandum for the Climate Change Bill (the indirect costs and the public sector's contribution to the total expenditure required across the public and private sectors), and
- Consider options to improve the scrutiny process of climate change spend within the wider review of scrutiny of climate change, over the rest of the parliamentary session.

7. At its meeting on 4 September the Committee heard from a roundtable of witnesses and explored how the budget within the portfolio of the Cabinet Secretary for Environment, Climate Change and Land Reform contributes to national outcomes across the Scottish Government and how spending in some areas can potentially reduce future spend elsewhere.

**Call for Views**

8. The Committee hosted a call for views from 3 July 2018 until 10 August 2018. It received the following submissions:

- 001 Cairngorm National Park
- 002 Scottish Environment Protection Agency
- 003 Zero Waste Scotland
- 004 Royal Botanic Garden Edinburgh
- 005 Scottish Water
- 006 Scottish Natural Heritage
- 007 Loch Lomond and Trossachs National Park
- 008 Cycling Scotland
- 009 Paths for All
- 010 Andreas Wernsing
- 011 WWF Scotland
- 012 Edinburgh Centre for Carbon Innovation
- 013 VisitScotland
- 014 Confor
- 015 Unison
- 016 NHS Health Scotland

9. The Committee also canvassed the views of young people and others on the impact of preventative spend via Facebook.
Next Steps

10. Following its meeting on 11 September the Committee intends to write to the Scottish Government setting out its views, in advance of publication of the Scottish Government Budget later this year.

Clerks/SPICe
Environment, Climate Change and Land Reform Committee
Annexe A

The following written submissions were received from witnesses:

SUBMISSION FROM WWF (Scotland) .......................................................................................... 4
SUBMISSION FROM Scottish Water .............................................................................................. 13
SUBMISSION FROM the Scottish Government ........................................................................ 17

SUBMISSION FROM WWF (Scotland)

Spending on climate change mitigation is preventative spend

The Committee is seeking to identify cost-effective preventative spending measures, and spend on climate change strongly fits that criteria. Climate change poses extreme and chronic risks to natural and financial systems globally and domestically. Spending on climate action should be seen as risk management, because of the inherent uncertainty of high impact events and tipping points that become more and more likely with higher and higher levels of climate change. Increased spending on climate change action here in Scotland not only minimises these economic risks, but also opens up huge economic and social opportunities from Scotland leading the global transition to a zero-emission economy. Many climate mitigation investments, such as on energy efficiency or cleaner air, improve health and will save the NHS money, whilst others, particularly in innovation, will ensure that Scotland is ready to successfully compete in the technology markets of the future.

Capital investment and climate change

WWF Scotland led previous work to consider whether the balance of spend in the Scottish Government’s infrastructure investment pipeline was consistent with achieving Scotland’s climate change ambitions. A Low-carbon Infrastructure Taskforce was convened, with participation from organisations including the Institution of Civil Engineers, SCDI, Ramboll and Oxfam Scotland, and a series of reports published1.

One of the reports produced by this independent group provided an analysis of the Scottish Government’s Infrastructure Investment Plan which concluded that the pipeline of projects at the time was not consistent with Scotland’s climate change targets, and without a shift in investments risked locking Scotland into a high-carbon future. This work established a methodology for dividing planned capital investment spend into high-carbon, low-carbon and carbon neutral categories. The Scottish Government used a similar methodology to assess its direct infrastructure investments in its 2018-19 Draft Budget, and concluded that whilst the proportion of spending on low-carbon infrastructure was increasing year-on-year, low-carbon investment still only accounted for 29% of Scottish Government’s total capital spend2. WWF Scotland welcomes the commitment from the Scottish Government,

---

1 These reports are no longer publicly available on the internet, but are available on request from WWF Scotland, who are hosting an archive of the Taskforce’s work.
2 Correspondence from the Cabinet Secretary for Finance and the Constitution to the Convenor of the Finance and Constitution Committee, 19 January 2018.
made as part of the 2018-19 Draft Budget deal with the Scottish Green Party, to continuing to increase, year on year, the proportion of our capital budget that is spent on low carbon projects, throughout the remainder of this Parliament\(^3\). It is WWF Scotland’s view that current levels of investment in low-carbon infrastructure fall short of the levels required for existing climate change targets, let alone the higher ones that ought to be delivered through the Climate Change Bill currently in front of the Parliament.

The Low Carbon Infrastructure Taskforce’s project, ‘Scotland’s Way Ahead’, concluded by identifying three priority areas for increased public investment in the low-carbon future – adapting cities for active travel and public transport; building district heating networks into Scotland’s cities; and improving the energy efficiency of Scotland’s buildings and homes.

The ‘Scotland’s Way Ahead’ project also recommended that greater, permanent and independent expertise was needed to ensure that future Scottish Government Infrastructure Investment Plans are consistent with meeting Scotland’s climate change targets. The project recommended the creation of an independent Scottish Infrastructure Commission. Such a Commission could be responsible for undertaking a regular audit of Scotland’s infrastructure, and identifying the strategic and local infrastructure needed to transition Scotland to a zero-carbon future; as well as independently assessing whether Scottish Government capital investment plans are consistent with the achievement of future climate change targets. This would bring additional transparency and expertise to the scrutiny of capital budgets in relation to climate change.

**Aligning the budget and climate change targets**

Over time, a number of stakeholders including WWF Scotland, the ECCLR Committee and its predecessor the RACCE Committee have identified various difficulties with assessing whether the Scottish Government’s annual financial budgets are consistent with Scotland’s legislative climate change targets.

With twin opportunities created by reforms to the annual Budget process and the development of a new Climate Change Bill, WWF Scotland has been working with the University of Strathclyde’s International Public Policy Institute to develop proposals for solutions to this issue. Two briefings developed as a result of this collaboration are attached as appendices to this evidence submission.

Between these documents, WWF is proposing a number of changes to the information available to aid scrutiny of budget and climate alignment. However, in particular relation to the Budget documentation available at this time, WWF Scotland was disappointed that the first Medium Term Financial Strategy did not include meeting climate targets as one of the Scottish Government’s key cross-cutting spending priorities\(^4\). We propose that the Draft Budget when presented, and the next


MTFS, due for publication in May 2019, should include a clear commitment to funding the Climate Change Plan as part of the Medium Term Financial Strategy.

**APPENDIX 1**

**WWF Scotland; University of Scotland International Public Policy Institute**

**Budget Briefing 1**

**Measuring Carbon Reduction from the Scottish Budget**

What are the year on year carbon implications of the spending decisions in the Scottish Budget? How do we measure them? Many have asked these questions, but while the scrutiny of the Scottish Budget is well-developed and has many strengths, the impact of budget decisions on carbon reductions is not always clear. But this can change – and WWF Scotland’s Budget Briefings set out how.

**A new Climate Change Bill**

In 2009, the Scottish Parliament passed the Climate Change Act to set world-leading statutory targets to achieve reductions in greenhouse gas emissions. The Scottish Government’s Climate Change Bill is introducing new, more demanding targets.

IPPI and WWF welcome the Scottish Government’s commitments that the targets should be reviewed and strengthened, and the Government’s consideration of how the overall legislation can be enhanced.

Scotland’s climate legislation provides a strong framework to deliver carbon reductions. It is already delivering results. Yet it can be improved upon, both in ambition and in the effectiveness of delivery. An increase in both is required.

**What is the carbon impact of the Scottish Government’s Budget?**

The Climate Change (Scotland) Act 2009 included a specific requirement to help scrutinise the impact of the Scottish Budget on carbon emissions. Section 94 requires Scottish Ministers to publish an assessment of the “direct and indirect impact on greenhouse gas emissions of the activities to be funded” by the Budget. This has been published each year since 2009. The latest assessment for the 2018-19 Scottish Budget was published on 14 December 2017.

“The £40.6bn spending by the Scottish Government leads to emissions of 7.4mtc”

**How do these numbers relate to existing climate change targets?**

There are a range of different measures of Scotland’s climate emissions. These include

- **Consumption basis** - activities and spending of residents of Scotland, wherever emissions arise;

- **Production basis** - actual emissions or removals in Scotland, including international aviation and shipping, adjusted for Scotland’s participation in the EU-wide Emissions Trading Scheme.
The Carbon Assessment reports on the impact of the Scottish Budget are consumption-based estimates associated with the planned budget expenditure, and the latest figures available are for 2014.

“In 2014, the greenhouse gas emissions on a consumption basis were 76.8mtc, and on a production basis were 43.0mtc”

The annual emissions targets set under the 2009 legislation are on the production-based measure. The most recent data on Scottish Greenhouse Gas Emissions for 2016 published in June 2018, shows a further reduction in the production-based estimate. Carbon emissions as measured for the climate change targets fell in 2016 by a further 1.5mtce to 41.5mtce.

How the Budget leads to carbon reductions

The downward trend in carbon emissions reflects changing technologies, more efficient use of existing buildings, facilities and equipment, and changing behaviours. The Scottish Government can impact on each of these drivers through legislation, government spend and incentives, consumer and personal change, and business actions. All have a role to play, and support each other. These complex interactions make it difficult to disentangle the contribution of one set of actions (e.g. spend on low carbon infrastructure) from another.

While there is no simple way to measure how the Scottish Budget affects our carbon footprint, there would be great value in improving on the measures we currently have.

How is the annual impact measured?

The report is based on a robust Input-Output methodology, which was outlined in the first report under Section 94 to support the Scottish Budget 2010-11, followed by a further note on methodology the following year. A detailed paper was prepared by the Fraser of Allander Institute at the University of Strathclyde.

And it followed consultation with the Parliament’s Transport, Infrastructure and Climate Change Committee which took evidence, and a group of expert commentators.

It is the change in carbon impact that really matters

The information provided shows that – as the carbon content of energy use has fallen, so has the carbon impact of public services. Since 2010/11, greenhouse gas emissions attributed to the spending of the Scottish Government has fallen from 11.5mtc to 7.4mtc in 2018/19.

But the report only provides a snapshot of impact on emissions. The reductions we have seen since 2010 reflect many changes in the economy rather than changes in the allocation of government spend itself. And the annual assessment does not measure the cumulative, ongoing impact of government investment spending. The “second round” effects - whether beneficial in terms of reducing emissions (e.g. spending on energy efficiency, which reduces carbon emissions in future) or negative in terms of increasing emissions (e.g. spending on road infrastructure which increases carbon emissions in future).
What would be even more useful is to monitor progress by extending the study to cover the impact of the annual Scottish Budget on the change in greenhouse emissions. This would provide an assessment of which spending in the Scottish Budget is contributing to reducing emissions, by how much and by when.

In order to measure changes in emissions, two steps are needed:

- amend the Climate Change Act 2009 to include a requirement to publish a forecast of the change in emissions as a result of Scottish Government spending
- develop a robust forecasting methodology which can provide reliable and timely impact estimates.

WWF Scotland strongly supports the introduction of an improved annual report, published alongside the Scottish Budget. This would better assist Budget scrutiny, and monitoring of the implementation of the Carbon Change Plan.

**How to amend the legislation?**

Changing the legislation would be straightforward. An amendment could be included in the Climate Change Bill as follows – with new wording in **red**;

**Amendment to the Climate Change (Scotland) Act 2009:**

**Impact of budget proposals on emissions**

(1) The Scottish Ministers must, at the same time as laying before the Scottish Parliament any document setting out draft proposals for the use of resources in any financial year, lay before the Scottish Parliament a document describing the direct and indirect impact on, and a forecast of the annual change in, greenhouse gas emissions of the activities to be funded by virtue of the proposals.

**How would the analysis be prepared?**

The analysis would require an initial audit of current spending to identify areas of expenditure which have a material impact on changes in greenhouse gas emissions. The Scottish Budget is already split between revenue spend and capital spend, and it is likely that the majority of spending on ongoing activities are unlikely to increase or reduce emissions to the same extent as the capital budget.

The approach to modelling could be top-down or bottom-up, or utilise both strategies. A top-down approach would seek to develop estimates of changes in emissions arising from key expenditure items to create impact multipliers for key spending lines. This would be most suited to items of revenue spending, such as financial incentives that encourage use of alternatives fuels or changed behaviours. This would assess how many thousand tonnes of carbon would be saved for every £1m spent on changing behaviour.

A bottom-up forecasting approach could be developed to build on the specific areas of spend identified as having a material effect on carbon reduction. This would suit specific items of capital expenditure, especially key green infrastructure projects. For many major transport projects, the range of data and analysis prepared could be
mined to prepare estimates of annual savings over time. The Carbon Account for Transport provides examples as a starting point for this analysis. In this way, capital investment on items like road, rail and energy infrastructure would be linked to estimates of future annual carbon reduction.

The first improved budget analysis report should be made available alongside a new Climate Plan Progress Report in October each year.

This briefing has been prepared with the support of the International Public Policy Institute at the University of Strathclyde.

APPENDIX 2

WWF Scotland; University of Scotland International Public Policy Institute

Budget Briefing 2

Aligning the new Scottish budget process and the Climate Change Bill

How does the Scottish Budget help deliver carbon reductions? Which budget lines matter most? How does the Scottish Parliament scrutinise the prioritisation of spend? The new Scottish Budget process, now agreed by the Scottish Parliament and Scottish Government, will transform engagement on budget issues, and the Climate Change Bill is laying out a new approach to scrutiny of decisions on carbon reduction. This Budget Briefing from WWF Scotland sets out how the new budget process and new climate legislation can bring greater visibility and scrutiny of spend on Climate Change.

Climate change and the Scottish Budget

In February, the Scottish Parliament approves a Scottish Budget for the forthcoming year, setting out future commitments to spending on health, education, transport and so on.

And in a parallel process each year, the Scottish Government takes forward its commitment to delivering its annual climate change targets, under its world-leading climate legislation.

Until now these processes have been largely separate, making it very difficult to scrutinise how the Scottish Budget contributes to realising our climate change ambitions. And the limited visibility of climate change costs and benefits has compromised the Parliament’s ability to scrutinise whether the Budget proposals will be adequate to achieve the future climate change targets.

Over the coming year, a new Budget process is being introduced, and a new Climate Change Bill is going through Parliament.

This Budget Briefing outlines how the weaknesses of the current process can be addressed, and how an improved budget process for climate change can be put in place.
The annual Scottish Budget process

Until last year, the detailed proposals for the Scottish Budget were published in December. Alongside this publication, and sometimes after Christmas, the Scottish Government has published a supplementary table detailing the estimated £550m which contributes to carbon reductions.

This document has been useful but it is not ideal, and not comprehensive. In 2017, the outgoing Rural Affairs, Climate Change and Environment (RACCE) Committee raised a number of concerns about the document.

The Legacy Report from the RACCE Committee in March 2016, noted that;

• “despite repeated calls for the information to be produced in time for committees to be able to make meaningful use of it, the Government continued to publish the document considerably after the publication of the budget and its associated documents;

• [The Committee] would not be able to effectively scrutinise all of the Scottish Government’s spending that impacts climate change, given that there is spending across the remits of many other committees; and.

• improvements need to be made in terms of committees’ engagement with climate change issues”.

More broadly, the Scottish Budget process has been subject to a major review by the Scottish Budget Process Review Group, whose final report was published in June 2017. This considered the current process and publications utilised by the Parliament in its consideration of the annual Scottish Budget, and made a series of recommendations to develop a budget process with an “emphasis on medium-term financial planning and a focus on outcomes”.

The BPRG did not recommend how the budget process should address climate change in the future, but recommended that the alignment of process “should be considered by the Scottish Government as it develops its climate change reporting approach”.

An opportunity for change

There is now a major opportunity to align the budget process with the Climate Change Plan.

• The Scottish Government and Scottish Parliament have agreed a new process for budget scrutiny, with an emphasis on pre-Budget scrutiny based on outcomes;

• The Climate Change Plan includes a new Monitoring Framework and the draft Climate Change Bill proposes a new annual monitoring approach.

The new Budget process and Climate Change Bill

The new Scottish Budget process is already underway, including;
• **publication in May of an annual Medium Term Financial Strategy** setting out broad financial plans/projections for at least five years ahead on a rolling basis. The Scottish Government published its first MTFS on 30 May 2018. It is disappointing that this document did not cover carbon reduction as one of the Scottish Governments key spending priorities;

• **An outcome focus**, with a commitment from the Scottish Government and public bodies to strengthen their performance planning and reporting; and

• **An emphasis on pre-Budget scrutiny**, ahead of the Draft Budget announcement in December, rather than in the New Year.

This new process will mean greater scrutiny of budgetary issues in the months prior to the Draft Budget announcements in December.

Separately, Section 19 of the draft Climate Change Bill includes a proposal to require Ministers to annually in October publish a series of reports assessing progress in achieving its five-yearly Climate Change Plans.

Taken together, the new Budget process and the Bill provide the opportunity to greatly improve our approach to carbon reduction.

**An outcomes-based scrutiny approach**

WWF Scotland propose that this Annual Progress Report published in October should;

• **Monitor progress on implementation of the Climate Change Plan**, taking into account the advice of the Committee on Climate Change and the Monitoring Framework being implemented as part of the Plan;

• **Outline broad spending requirements to deliver on the Government’s climate change targets**, to enhance the understanding and engagement of budgetary decisions (and replace the current ‘Details of funding for climate change mitigation measures’ table);

• **Provide information for pre-Budget scrutiny** on how the Scottish Budget is contributing to achievement of the climate change targets to facilitate more detailed scrutiny by the Parliament’s Committees, and enable them to prepare the pre-Budget assessments proposed in the new Budget process.

WWF Scotland also propose that the next MTFS, due for publication in May 2019, should include a clear commitment to funding the five-yearly Climate Change Plan as part of the medium term financial strategy.

This approach will align the Climate Change Plan Monitoring Framework and the annual Budget process – and meet the principles of enhanced Parliamentary scrutiny agreed by the Government and Parliament.
<table>
<thead>
<tr>
<th>Old Budget Timetable</th>
<th>Climate Change Annual Publications</th>
<th>New Budget Timetable</th>
</tr>
</thead>
<tbody>
<tr>
<td>May</td>
<td></td>
<td>• Medium Term Financial Strategy</td>
</tr>
<tr>
<td>June</td>
<td>• Outturn Emissions Data (year-2)</td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>• Committee on Climate Change: annual Scotland Progress Report</td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>• Detailed Outturn Emissions Data (year-2) • Annual Climate Change Plan Progress Reports (NEW)</td>
<td>• Pre-Budget Reports (Committee Priorities)</td>
</tr>
<tr>
<td>November</td>
<td></td>
<td>• Pre-Budget Reports (Ministerial Responses)</td>
</tr>
<tr>
<td>December</td>
<td>• Draft Scottish Budget (year+1) • Carbon Assessment (Section 94 Report) • Level 4 Details published</td>
<td>• Draft Scottish Budget</td>
</tr>
<tr>
<td>January</td>
<td>• Scrutiny in Parliament</td>
<td>• Further scrutiny in Parliament</td>
</tr>
<tr>
<td>February</td>
<td>• Scottish Budget Agreed</td>
<td>• Scottish Budget Agreed</td>
</tr>
</tbody>
</table>

This briefing has been prepared with the support of the International Public Policy Institute at the University of Strathclyde.
SUBMISSION FROM Scottish Water

Response to the request from the Environment, Climate Change and Land Reform Committee in relation to Scottish Water’s contributions towards the Scottish Government’s National Outcomes, particularly on health and the economy.

Thank you for the opportunity to provide views on the Environment Climate Change and Land Reform Committee’s scrutiny of the Scottish Government Draft Budget 2019/20 and Scottish Water’s contributions towards the Scottish Government’s National Outcomes.

As an organisation that provides water and waste water services to over 5 million customers throughout Scotland we believe we are in a strong position to play a positive role across many of the national outcomes.

Scottish Water’s current delivery plan covers a six year investment period from 2015 to 2021 and has been set to ensure we are meeting objectives set by Scottish Ministers which have been established following considerable engagement with our regulators as well as consultation with customers and key stakeholders. A delivery plan refresh 2018 is available on Scottish Water’s website and highlights our progress so far as well as providing updates and revisions to our delivery plan as we move further into the investment period:

https://www.scottishwater.co.uk/assets/about%20us/files/key%20publications/2018deliveryplanupdatemarch2018.pdf

We are continuing our commitment to deliver significant further improvements for our customers and to out-perform our commitments as well as build on our success to date to provide our customers a leading service while at the same time reducing their charges in real terms. We have delivered strong financial out-performance to date on revenue and costs and are forecasting that this will allow us to manage the pressures and opportunities associated with our investment programme within the price limits set out in the 2014 Final Determination and the agreed borrowing from the Scottish Government. We are also continuing to deliver below inflation increases in charges for customers and anticipate that, for 2019-20, the level of customer charges will remain consistent with key commitments in our delivery plan.

Our ongoing efficiency and productivity improvement programme will deliver savings of around 1% per annum on our controllable operating costs that offset the forecast operating cost pressures associated with delivering higher service levels and meeting new statutory objectives. We have set ourselves a stretching challenge to deliver efficiencies of approximately 16% in our investment programme covering the 2015-21 period.

For the total period of 2015 to 2021, Scottish Water plans to invest around £3.9 billion to meet key ministerial objectives. In 2017/18 we invested £647m across Scotland and we are forecasting similarly high levels of investment for the remainder of this regulatory period. This investment continues to focus on:

- the maintenance of our treatment works and infrastructure to help sustain high levels of service for our customers;
continuing to provide a high standard of drinking water quality;
• improvements on waste water treatment works and infrastructure to play a key role in protecting the natural environment;
• And helping to support economic growth and the development of communities across Scotland by increasing capacity in our infrastructure and at water and waste water treatment works as well as reducing water leaking from pipes.

We believe these key deliverables and efficiency targets agreed with Scottish Ministers and Regulators offer significant value to customers and play an important part in achieving the National Outcomes.

We would like to briefly highlight a few of the key areas where Scottish Water is aligned with Scottish Government National Outcomes as we deliver essential water and waste water services to customers across Scotland:

Scottish Water’s carbon footprint and energy strategy

Scottish Water has seen its operational carbon footprint (CFP) fall by nearly 32% since we started reporting in 2006/07. Our water service continues to have the lowest carbon intensity in the UK, largely due to the use of gravity to supply many of our customers, and the carbon intensity of our waste water service is lower than the UK average.

Grid electricity is by far the largest contributor to Scottish Water’s carbon footprint at 69%. Energy management and efficiency play a key role, with an ongoing objective to reduce our operating costs and carbon footprint. Our energy strategy supports the Scottish Government’s Hydro Nation ambitions of a greener and stronger economy and is a key part of our strategy to reduce the cost of delivering water and waste water services for customers.

A major milestone was reached in March 2018 when the amount of renewable energy generated or hosted on our land exceeded twice the amount of electricity used annually – around 440 GWh. More detailed information is available within our Sustainability Report, which is available on our website at: https://www.scottishwater.co.uk/About-Us/Corporate-Responsibility/Climate-Change/Climate-Change-Documents

Economic Growth

New connections: Scottish Water continues to support new housing and economic development across the length and breadth of Scotland. In the period 2015-18, over 65,000 new households and businesses have been connected to our network. In addition, we have broadened our investment approach to provide strategic capacity for additional business demand (specifically in terms of water and domestic sewerage needs) as well as new housing. We are forecasting that supporting the capacity for these new connections will continue to be at significant levels for 2019-20 and be a key aim of our delivery plan throughout the 2015-21 period.

Procurement strategy: More than 70% of Scottish Water suppliers are Small Medium Enterprises (SMEs), and more than 70% of our spend is focused on organisations with locations in Scotland. Scottish Water is supporting an estimated 3,000-plus supply chain jobs and the majority of these are within Scotland and the
UK, covering areas such as construction trades, manufacturing skills and, increasingly, digital skills.

**Resilience and Enhancing the Environment**

**Resilience:** Maintaining water supplies to customers is of key importance and we are investing to improve our ability to adapt our operational practices to be more resilient and reduce the risk of customers experiencing significant interruptions to their water supplies. We are achieving this by evaluating the response of our largest water systems to a wide range of potential hazards and investing to extend our ability to transfer water between supply systems in the event of potential failures.

An example of our current investment in this regard is our ongoing investment in Ayrshire’s water supply to build a water interconnector between Ayrshire and Glasgow to provide resilience of supply for many thousands of customers and future generations while improving water quality and supporting economic growth in Ayrshire.

**Flooding:** Reducing flooding and pollution from sewers is one of our customers’ highest priorities, and we continue to deliver our strategy to address internal flooding for those customers at highest risk (greater than 10% chance per annum of being flooded internally). This is an increasing challenge for Scottish Water as the number of properties identified as being at highest risk of internal sewer flooding is increasing and the solutions required to protect the properties known to be at risk are typically more complex now compared to previous regulatory periods. In the order of £170 million is being invested in the 2015-21 period to improve the hydraulic capability of our sewer network so that we can remove customers in this category of high risk internal sewer flooding as quickly as possible, typically within four years of their problem being confirmed.

Although we are reducing the risk to a significant number of properties, there are always new properties being identified and we are anticipating that investment in this area will continue to be a key priority for Scottish Water, as well as continuing our work with SEPA and other responsible flooding authorities to improve our understanding of, and identifying the most appropriate course of action in relation to, flooding and deliver the key aims of the Flood Risk Management (Scotland) Act. Longer term, we intend to work with local authorities and other public bodies to enable a move towards more blue | green infrastructure.

**Investing in Natural Capital:** Water companies interact directly with the water environment across the entire range of water catchment types, from managing water sources in upland areas through to urban drainage and waste water recycling to rivers and seas. As a sector, the UK water industry is considering how to include natural and social capital in its activities and its approach to decision making. Scottish Water is exploring how to apply this at project and programme level for rural and urban decision making.

In addition to this, for 2019-20, we will be continuing to evaluate our raw water sources and identify suitable projects where catchment management can deliver improvements to drinking water quality. For example, Scottish Water has worked closely with Scottish National Heritage and the Peatland Action Fund at Sandy Loch,
Shetland and will be continuing this engagement to identify potential joint peat restoration projects in other drinking water catchments.

**Wellbeing**

Scottish Water is continuing to promote wellbeing through our customer engagement campaigns, including:

- ‘Your Water Your Life’ campaign to encourage customers to carry a refillable bottle and top up from the tap when out and about.
- To promote the importance of hydration through our 3-year partnership with Scottish Swimming’s Learn to Swim programme.
- Our key partnership in GoSafe Scotland, a national health and safety resource, continues to take water-related safety messages into primary schools across Scotland.
- And our ‘keep the water cycle running smoothly’ which highlights how everyone can do their part in helping to keep Scotland’s water cycle moving by taking simple steps to save water and prevent blockages in pipes.

We hope that this has provided the Environment, Climate Change and Land Reform Committee with a brief overview of Scottish Water’s key investment and operational priorities as part of their consideration of the Scottish Government’s Draft Budget for 2019-20. In addition to meeting our key objectives for the 2015-21 period, we are also now starting to look beyond this period and have launched our largest ever customer consultation, Shaping the Future. We are aiming to secure over 10,000 responses, gathering customers’ and stakeholders’ views on the future of their water and waste water services, and their thoughts on the challenges, opportunities and ambitions ahead. This consultation is ongoing through August and more information can be found at [https://www.yourwater.scot/](https://www.yourwater.scot/).

We would be happy to provide the committee with more information about any of the points in our submission or in relation to specific national outcomes.

More detail can also be found on our contributions to the Scottish Government’s National Outcomes in the following publications which are available on our website at [www.scottishwater.co.uk](http://www.scottishwater.co.uk):

- Sustainability Report 2017
- Annual Report 2017/18
- Delivery Plan Refresh 2018
- Shaping the Future Consultation
- Innovation Report 2017
Dear John,

Thank you for your letter of 3 July regarding the Environment Climate Change and Land Reform (ECCLR) Committee scrutiny of the Scottish Government draft budget 2019/20.

Your letter asks for information on any assessment made by the Scottish Government on the extent to which funding within the ECCLR portfolio contributes to the delivery of the National Outcomes, particularly on health and the economy, and the Scottish Government’s purpose along with evidence of cost savings on other parts of the Budget. The Committee has also asked me to provide information to assist its analysis of the carbon impact of the capital budget.

A response is provided at the Annex. I am aware that a number of my portfolio public bodies are responding to the Committee with further details of the portfolio’s contribution.

I trust that the Committee will find this information helpful in its scrutiny of the 2019/20 Budget and I look forward to engaging further with the Committee after the draft 2019/20 budget has been published.

Yours,

ROSEANNA CUNNINGHAM

ANNEX

ECCLR portfolio contribution to the delivery of the National Outcomes and the Scottish Governments purpose

The new National Performance Framework (NPF), launched on 11 June 2018, refreshes the NPF which has been in place for many years, sets out a revised purpose to focus on creating a more successful country with opportunities for all of Scotland to flourish through increased wellbeing and sustainable inclusive growth, and provides a link to the Sustainable Development Goals.

The overarching aim of my portfolio is to protect and value Scotland’s environment and to build a strong and sustainable low carbon economy. Currently it is estimated that Scotland’s natural environment is worth more than £20 billion per annum and it supports more than 60,000 jobs.

Funding within my portfolio primarily addresses the important issues of tackling climate change, protecting our iconic landscapes, investing in biodiversity and natural capital, improving the quality of our air, land, seas and fresh water, and continuing to drive forward land reform. In so doing, my portfolio (through direct funding as well as the contributions of my portfolio public bodies working in collaboration with partners in the public, private and third sectors), plays a key role in supporting the Scottish Government’s overall Purpose and ambition.

In addition to delivering the National Outcome on valuing, enjoying, protecting and enhancing our environment, with which the committee is very familiar, my portfolio supports a number of other National Outcomes including those set out below.
National Outcome “We have a globally competitive, entrepreneurial, inclusive and sustainable economy”

The provision of water and wastewater services is a key enabler of economic growth as well as being fundamental to sustaining good health. Scottish Water’s investment in the current regulatory period, supported this year by £210m of Scottish Government lending by my portfolio, will fund projects in every part of the country providing water and sewerage services for new housing and business as well as improving the environment, drinking water and customer service standards.

Marine Scotland as the primary body responsible for marine planning and licensing of activities in the marine environment enable the sustainable growth of the marine renewables industry, sea fisheries, aquaculture and recreational fisheries. In 2015, Scotland’s marine economy, (excluding oil and gas extraction), generated £5.1bn in GVA and employed 79,000 people, accounting for 4.1% of total Scottish GVA and 3.1% of total Scottish employment.

The Scottish Government has placed the transition to a low carbon economy at the heart of our economic strategy and is a key example of investing now to avoid even costlier action in later years. Significant budgets in other portfolios support the delivery of cross Government policies designed to reduce greenhouse gas emissions and stimulate investment in low carbon technology. Investment by my portfolio provides for developing and implementing policy that drives that crossgovernment approach including this year the introduction of the new Climate Change Bill.

Through our support for Zero Waste Scotland (ZWS), which receives over £19m in SG funding, we are building the circular economy, including opportunities for investment and entrepreneurial solutions. ZWS also operates the Resource Efficient Scotland Service, supporting businesses to reduce waste, water and energy. We are committed to reducing waste, increasing recycling and sustainability. Our Expert Panel, chaired by Dame Sue Bruce, will provide advice to Ministers on a range of issues including single-use items such as disposable cups and plastic straws. We are implementing our commitment to introduce a Deposit Return Scheme for Scotland by holding a public consultation, and ZWS is engaging with the public over the summer to help them understand the possible components of the scheme and to give their views.

SEPA is working directly with businesses to develop sustainable growth agreements. Working with glass wool manufacturer Superglass, gave the company confidence to move from a position of non-compliance to £36m investment in new technology and develop innovative products. SEPA is also working with sectors as a whole to develop plans that help Scotland to take full advantage of the economic opportunities through focus on high environmental performance, such as the decommissioning of oil and gas infrastructure, which is estimated to be worth £60 billion. Sector Plans for sixteen sectors are currently being prepared and SEPA will develop such plans for every sector that it regulates, transforming the way it regulates.

Our two National Parks are amongst Scotland’s most important rural tourism destinations attracting around 7 million visitors each year. Loch Lomond and The Trossachs National Park Authority has invested significantly over a number of years,
along with many partners, in a range of projects to improve the area as a visitor
destination while preventing some of the negative pressures that can come with high
visitor numbers. This year approximately £900K (plus partner funding) will be spent
improving visitor facilities at popular locations and extending the network of
recreational and active travel routes alongside delivering innovative visitor
management measures. These projects are aimed at delivering sustainable and
inclusive economic growth through increased tourism benefits and business growth
balanced with protecting and improving the environment.

Innovation is also key to driving economic growth and my portfolio funds a significant
amount of research and development. While the research and monitoring
undertaken by the Royal Botanic Garden Edinburgh, SEPA and SNH are in direct
support of ECCLR, just under half of the investment in the programmes of research
supports directly the interests of the Cabinet Secretary Rural Economy and circa
£3m supports research of most relevance to the interests of the health portfolio.

National Outcome “We are healthy and active”

Scotland’s natural environment is a valuable health-promoting asset, but it is
currently underused. To help change this SNH and the National Parks are helping to
deliver the Scottish Government’s commitment in the National Planning Framework
3 to develop a National Long Distance Cycling and Walking Network that builds on
existing path and trail networks such as Scotland’s Great Trails, the National Walking
and Cycle Network and canal towpaths. Some £5.5m has been invested in the
National Walking and Cycling Network. The project will close key gaps, upgrade
connecting routes, link to public transport and promote shared use of paths. Active
travel and recreation will be easier and more accessible as a result. This brings
health and well-being benefits, improves landscapes and, as better routes attract
more visitors and tourism, it is good for local businesses and the wider economy too.

SNH is also working with a range of public sector partners on developing Our Natural
Health Service. An ageing population, more people with multiple conditions,
widespread chronic illness and medical advances – all put increasing pressure on
the health sector. Our Natural Health Service is responding to these pressures, and
will show how Scotland’s natural environment is a resource that can be used to help
tackle some of our key health issues. The initiative aims to bring about a step
change in the use of nature-based solutions to deliver health outcomes. Studies
suggest that environment and health-based interventions are cost effective and can
also contribute significantly to preventative spend:

- If just 1% of the sedentary population moves to a healthy pathway, 1,063 lives
  and £1.44 billion will be saved each year across the UK. The earlier this shift
  occurs during life, the greater the impact in health and society (UK National
  Ecosystem Assessment, Technical report 2011)

- Having good quality local greenspace, which people regularly use would
  contribute to saving the NHS in Scotland £94 million a year it currently spends
  on health treatment as a result of physical inactivity (NHS Health Scotland -
  Costing the burden of ill health related to Physical Inactivity for Scotland -
  2013). The Green Infrastructure Fund run by SNH has committed £5.5m of
funding to seven green infrastructure projects to be completed by the end of this year.

- Our National Parks play a nationally important role in providing opportunities for millions of people each year to enjoy the health and well-being benefits of these beautiful landscapes. In Loch Lomond & The Trossachs National Park, its Countryside Trust runs the innovative, yet simple ‘Walk in the Park’ programme, which has reached out to many previously inactive local people, giving them the opportunity and confidence to bring outdoor exercise into their lives.

- An analysis of the 8 week wildlife and nature activity programme in Perth & Kinross for patients with a variety of mental health problems produced as a social benefit £12.43 for each £1 spent (Tayside Woods for Health, 2012).

**Contribution to other outcomes**

*Towards a greener economy*

- We are open, connected and make a positive contribution internationally

  - In 2017, the Royal Botanic Garden Edinburgh (RBGE) attracted 904,956 people, the largest number of visits since the previous peak period of the 1930s. The global reach, profile and impact of research by RBGE includes cooperation agreements with China, Qatar and Italy; developing research programmes in Colombia, Peru, the Middle East, China, Indonesia and South Africa; and the publication of peer reviewed papers across Europe, South Africa, USA and India. In addition, they have over 600 students across the globe who currently study online.

  - The Cairngorms National Park has been recognised at a European level as internationally accredited sustainable tourism destination, the only place in Scotland to hold this award.

  - Scotland contributes to international efforts to tackle climate change, with the Climate Change Bill setting new targets in response to the aims of the UN Paris Agreement. The Sustainable Action Fund within my portfolio supports people in communities both in Scotland and in some of our African partner countries to take action on climate change.

*We live in communities that are inclusive, empowered, resilient and safe*

- We live in communities that are inclusive, empowered, resilient and safe

  - Our £10m pa Scottish Land Fund is aimed at increasing the amount of land in community ownership in support of this National Outcome.

  - The Central Scotland Green Network (CSGN) is Europe’s largest greenspace project. Stretching from Ayrshire, Inverclyde and Dunbartonshire in the west, to Fife and the Lothians in the east, it encompasses 19 local authorities across 10,000sq km and has the potential to benefit 3.5 million people, equating to 70 per cent of Scotland’s population. The CSGN is a long-term project up to 2050 and estimates suggest that it will bring over £6bn in benefits through a range of areas such as improved physical and mental health, carbon sequestration and reduced flood damage.
Scottish Water, Scottish Canals and Glasgow City Council, all entered into an agreement to transform North Glasgow into Scotland’s first dynamic canal-based urban surface water management system. The project has been underway since 2009 and will see the creation of an urban space that absorbs and manages water in a controlled way. Using predictive weather techniques, the system will provide advance warning of heavy rainfall that will trigger an automatic lowering of the water level in the canal in order to create capacity for excess surface water when the rain falls. This innovative agreement also enables land to be developed for approximately 2,500 homes.

Loch Lomond & The Trossachs National Park (LLTNPA) have adopted a place-based approach to planning to deliver a community led vision by running Planning Charrettes alongside facilitating Community Action Plans. Together with other public bodies, this has helped to deliver consensus and co-ordinate delivery of sustainable development and community empowerment opportunities to support rural communities. A notable example of community led planning has been southern expansion of Callander, which is now included as a Stirling Regional Deal project; the community led Callander Landscape Partnership delivering £2m worth of projects and the Callander Youth Project creating training opportunities for young people.

As a planning authority, Loch Lomond and the Trossachs National Park has heavily promoted microhydro energy projects leading to 35 sensitively developed new schemes becoming operational in the last few years providing 22MW, enough energy to meet the needs of every household in the National Park.

Carbon impact of the capital budget
The Scottish Government is committed to supporting the delivery of low-carbon infrastructure as a vital part of our long-term transition to a carbon-neutral Scotland. Our current Infrastructure Investment Plan, published in December 2015, supports Scotland’s climate change goals by making low carbon considerations one of the guiding principles upon which investments are prioritised. The current Plan includes a range of long-term low carbon commitments, such as; energy efficiency as a national infrastructure priority, broadband coverage and rail electrification. Future refreshes of the Plan will take into account the requirements of Scotland’s climate change legislation at that point in time.

A range of information is available to assist scrutiny of how spend from capital budgets supports Scotland’s low carbon transition.

The statutory Carbon Assessment of the Budget 2 provides a high-level estimate of the consumption-based carbon emissions associated with planned Scottish Government budget expenditure. Based on the scenarios for total capital spend set out in the Scottish Government’s Five Year Financial Strategy 3, the Carbon Assessment model can be used to provide provisional estimates of emissions impacts of that spend of: 894 thousand tonnes of carbon dioxide equivalent (ktCO2e) in 2018-19, 997 ktCO2e in 2019-20, 918 ktCO2e in 2020-21, 900 ktCO2e in 2021-22 and 914 ktCO2e in 2022-23. By way of context, these figures represent 2 - 3% of
Scotland’s current total greenhouse gas emissions (2016 statistics). It is important to note that the Carbon Assessment model covers only the initial impact of emissions associated with the construction of capital assets and not any longer term or wider impacts, which could include either reductions or increases in overall emissions. For example, infrastructure spend on active travel projects will generate construction phase emissions in the short term but will also contribute to overall emissions reductions in the longer term, as well as to health co-benefits. For specific infrastructure projects that are likely to have significant impacts on climatic factors, Strategic Environmental Assessment and Environmental Impact Assessment provide a means to define their short, medium and long term impacts on emissions.

The Scottish Government has committed to increasing the proportion of the capital budget that is spent on low carbon projects in each year of this Parliament. In January 2018, we launched the £60 million Low Carbon Innovation Fund to accelerate the delivery of low carbon energy infrastructure solutions. Scottish Government analysis using the Low Carbon Taskforce’s categorisation of “low”, “neutral” and “high” carbon infrastructure shows that the proportion of the 2018-19 capital budget spent on low carbon is 29%. Figures for future capital budgets can be made available to the Committee at the time when those budgets are set. It is important to note that the Low Carbon Taskforce categorisation is at a very high level and will not necessarily capture all low carbon spend. For example, efforts to maximise energy efficiency in schools or hospitals would not be reflected in the low carbon proportion, as these high-level categories are deemed “neutral”.

The Scottish Government has also made available in recent years a “Details of Funding for Climate Change Mitigation Measures” document summarising the principal lines within its draft budget that support the delivery of measures to reduce greenhouse gas emissions. It is not possible to produce a provisional forecast of the figures from this document for future budgets, as the analysis is based upon the most detailed levels (level 4) of budget information, which become available at the time each budget is set.

Following my letter to the Committee in response to its scrutiny of the 2018-19 budget, my officials have met with the Committee Clerks to explore the relationship between the current sources of climate change budget information, the monitoring framework being developed for the Climate Change Plan and the Committee’s engagement with the new budget process.

Footnotes
1 Infrastructure Investment Plan: http://www.gov.scot/Topics/Government/Finance/18232/IIP
Environment, Climate Change and Land Reform Committee

24th Meeting, 2018 (Session 5)

Tuesday 11th September, 2018

SI cover note for:

CRC Energy Efficiency Scheme (Revocation and Savings) Order 2018
(SI 2018/841)

SI 2018/841

Title of Instrument: CRC Energy Efficiency Scheme (Revocation and Savings) Order 2018 (SI 2018/841)

Type of Instrument: Negative

Laid Date: 18 July 2018

Circulated to Members: 3 August 2018

Meeting Date: 11 September 2018

Minister to attend meeting: No

Motion for annulment lodged: No

Drawn to the Parliament’s attention by the Delegated Powers and Law Reform Committee? No

Reporting deadline: 22 October 2018

Recommendation
1. The Committee is invited to consider any issues which it wishes to raise on this instrument.

Background

2. The Carbon Reduction Commitment Energy Efficiency scheme is a domestic climate change policy introduced in partnership by all four UK administrations in 2010. This Order makes provision for the early closure of the CRC Energy Efficiency Scheme at the end of the current phase on 1 April 2019. It revokes the CRC Energy Efficiency Scheme Order 2013 with savings for the purpose of the scheme phases prior to closure.

3. A copy of the Explanatory Memorandum, Explanatory Note and Policy Notes are included in Annexe A.

4. An Impact Assessment has also been produced by the UK Government on the revocation of the scheme.
Delegated Powers and Law Reform Committee

5. At its meeting on 4 September 2018, the Committee considered the instrument and determined that it did not need to draw the attention of the Parliament to the instrument on any grounds within its remit.

Procedure for Negative Instruments

6. Negative instruments are instruments that are “subject to annulment” by resolution of the Parliament for a period of 40 days after they are laid. All negative instruments are considered by the Delegated Powers and Law Reform Committee (on various technical grounds) and by the relevant lead committee (on policy grounds). Under Rule 10.4, any member (whether or not a member of the lead committee) may, within the 40-day period, lodge a motion for consideration by the lead committee recommending annulment of the instrument. If the motion is agreed to, the Parliamentary Bureau must then lodge a motion to annul the instrument for consideration by the Parliament.

7. If that is also agreed to, Scottish Ministers must revoke the instrument. Each negative instrument appears on a committee agenda at the first opportunity after the Delegated Powers and Law Reform Committee has reported on it. This means that, if questions are asked or concerns raised, consideration of the instrument can usually be continued to a later meeting to allow correspondence to be entered into or a Minister or officials invited to give evidence. In other cases, the Committee may be content simply to note the instrument and agree to make no recommendation on it.

Clerks
Environment, Climate Change and Land Reform Committee
Explanatory Memorandum

1. **Introduction**

1.1 This explanatory memorandum has been prepared by the Department for Business, Energy and Industrial Strategy and is laid before Parliament, the Scottish Parliament, the National Assembly for Wales, and the Northern Ireland Assembly by Command of Her Majesty.

2. **Purpose of the instrument**

2.1 This Order makes provision for the early closure of the CRC Energy Efficiency Scheme (“the CRC Scheme”), which is an emissions trading scheme. The current phase, which applies to emissions from relevant energy supplies from 1st April 2014 to 31st March 2019, will be the final phase of the CRC Scheme. The CRC Energy Efficiency Scheme Order 2013 (“the 2013 Order”), which provides for phases of the CRC scheme up to 2043, is revoked, with savings, and the 2013 Order is amended to the extent it continues to operate for the purpose of the current phase and the 2010 Order is amended to the extent it continues to operate for the purpose of the previous phase (which applied to emissions from relevant energy supplies from 1st April 2010 to 31st March 2014).

3. **Matters of special interest to Parliament**

*Matters of special interest to the Joint Committee on Statutory Instruments*

3.1 None.

*Matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business (English Votes for English Laws)*

3.2 As the instrument is subject to negative resolution procedure there are no matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business at this stage.

4. **Extent and Territorial Application**

4.1 The territorial extent of this instrument is the United Kingdom.

4.2 The territorial application of this instrument is the United Kingdom.

4.3 The definition of the extent of the United Kingdom in regard to this instrument is set out in section 89 of the Climate Change Act 2008.

5. **European Convention on Human Rights**

5.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.
6. **Legislative Context**

6.1 The CRC Scheme was introduced by the CRC Energy Efficiency Scheme Order 2010 ("the 2010 Order") under powers conferred by sections 44, 46(3) and 48 of and Schedule 2 and paragraphs 9, 10, 11 of Schedule 3 to the Climate Change Act 2008. The 2013 Order which simplified the CRC scheme for phases from 2014 onwards and revoked the 2010 Order with savings and amendments for the purpose of the first phase of the scheme. The CRC Energy Efficiency Scheme (Amendment) Order 2014 made amendments to the 2013 Order in order to finalise simplification of the CRC scheme.

6.2 To bring about early closure, this instrument revokes the 2013 Order, subject to savings for the purpose of the initial phase established under the 2013 Order with amendments, and makes amendments to the 2010 Order to the extent it has been saved for the purpose of the first phase established under the 2010 Order.

7. **Policy background**

*What is being done and why?*

7.1 The CRC Scheme is a mandatory UK-wide trading and reporting scheme. It was introduced in April 2010, although the qualification period for the scheme started in 2008. It was designed to improve energy efficiency and drive emission reductions in public and private sector organisations through the application of financial and reputational drivers. It is divided into phases. The first phase of the CRC Scheme ran from April 2010 to March 2014 and the second phase commenced in April 2014 and is due to end in March 2019. Each phase is divided into compliance years which run from 1st April to 31st March. The Environment Agency, the Scottish Environment Protection Agency, the Natural Resources Body for Wales and the Northern Ireland Chief Inspector administer the scheme. The existing legislation provides for the scheme to operate until 2043.

7.2 For organisations that meet the qualification criteria for a phase of the CRC scheme, they are required to among other things:

- record and report to the Administrator their energy use in scope of the CRC Scheme for a given compliance year, which runs from 1 April to 31 March, by the last working day of the following July.
- purchase (in sales that take place twice annually) and surrender sufficient allowances to cover emissions from that reported energy use by the last working day of the following October.
- keep records for a specified period.

7.3 Since the introduction of the CRC Scheme in April 2010, stakeholders have argued that it is overly complex and administratively burdensome. They have also stated that the organisational focus of the CRC Scheme is misaligned with their operational management structures and business processes. Government accordingly consulted on simplification proposals and enacted those through the 2013 Order.
7.4 At the 2015 Summer Budget the government announced that it would review the business energy efficiency tax landscape and consider approaches to further simplify and improve the effectiveness of the regime. A public consultation, “Reforming the business energy efficiency tax landscape” was launched on 28 September 2015 and closed on 9 November 2015. The purpose of the consultation was to obtain views on the business energy efficiency tax and reporting landscape, including the CRC Scheme, in order to review and consider the interactions between business energy efficiency policies and regulations. The consultation document set out proposals to reform the landscape in order to deliver a simpler and more stable environment for business.

7.5 In March 2016, Government published the response to the consultation. The Government stated that: “…The government has therefore decided to close the CRC energy efficiency scheme (CRC) following the 2018-19 compliance year, with no purchase of allowances required to cover emissions for energy supplied from April 2019. Organisations will report under the CRC for the last time by the end of July 2019, with a surrender of allowances for emissions from energy supplied in the 2018-19 compliance year by the end of October 2019. The government will work with the devolved administrations on scheme closure arrangements”.

7.6 This decision to close the CRC scheme forms part of a package of reforms to the energy efficiency taxation landscape. These include:

- recovering the revenue from early closure of the CRC scheme by increasing the main rates of the Climate Change Levy (“CCL”) from April 2019.
- rebalancing CCL rates for different fuel types.
- introducing a streamlined energy and carbon reporting framework for business by April 2019.

7.7 As a result of the early closure of the CRC scheme, the CRC compliance year 2018-2019 will be the last compliance year for which participants are obliged to report their energy use to the Administrator and to purchase and surrender CRC allowances to cover their CRC supplies and emissions. In this context this instrument makes the following provision:

7.7.1 There will be no phases of the CRC scheme after the end of the current phase. In effect, the CRC is closed early at the end of the current phase (2014 - 2019). Participants who qualified for the current phase or for the previous phase will still be required to comply with their obligations as usual, including, for participants in the current phase, their obligations to report their emissions to the Administrator by the last working day of July 2019 and to purchase and surrender sufficient allowances by the last working day of October 2019.

7.7.2 The Administrator is required to maintain the Registry until the end of March 2022. The Registry is the place where participants submit annual reports, order, buy, surrender and transfer allowances and also provide contact and organisational structure details. After the
end of March 2022, the Administrator must close the accounts opened for the purposes of the CRC scheme. After the end of March 2022, trading of allowances will not be permitted.

7.7.3 The Administrator will continue to have powers to monitor and enforce compliance by participants who qualified for the current phase or for the previous phase (2010 – 2014). After the end of February 2022, the Administrator will not be able to impose a penalty to require the purchase and surrender of additional allowances. After the end of March 2022, after the closure of the Registry, the Administrator will not be able to impose the penalty of blocking access to the Registry or of publication of a participant’s details on the Registry.

7.7.4 Participants who qualified for the current phase continue to be required to inform the Administrator about a change of address until 1st April 2025. The Administrator will maintain an up to date list of participants for the current phase and previous phase until the end of March 2025.

7.7.5 After the end of March 2022, the Administrator must also maintain a record of the information that had been held on the Registry until the end of March 2025.

7.7.6 Provision is made for how those who previously held an account for the purpose of the CRC scheme will be able to communicate with the Administrator once the Registry is closed, and how they can access the information concerning their accounts held in the Registry as at the end of March 2022.

7.7.7 Participants who qualified for the current phase will continue to be required to maintain their records until the end of March 2025. Participants who qualified for the previous phase will continue to be required to maintain their records until the end of March 2021.

7.8 Participants who have surrendered surplus allowances into the cancellation account continue to be able to apply for a refund until the end of March 2025. Participants who held allowances in a compliance account as at the end of March 2022 may also apply for a refund until the end of March 2025. A decision whether to refund continues to be at the discretion of the Secretary of State and guidance for participants is available at: https://www.gov.uk/government/publications/crc-guidance-for-participants-in-phase-2

8. **European Union (Withdrawal) Act/Withdrawal of the United Kingdom from the European Union**

8.1 This instrument does not relate to withdrawal from the European Union / trigger the statement requirements under the European Union (Withdrawal) Act.

9. **Consolidation**
9.1 This instrument revokes the 2013 Order with savings and amendments for the purpose of the current phase and the previous phase of the CRC scheme. The department does not intend to consolidate this legislation.

10. Consultation outcome

10.1 The Government held a public consultation on reforming the business energy efficiency landscape from 28 September 2015 to 9 November 2015. The consultation sought evidence from stakeholders and set out policy proposals to simplify and improve the effectiveness of the landscape in supporting the government’s objectives around simplicity, productivity, security of energy supplies and decarbonisation. The review was welcomed by industry, with particular support for simplification of the business energy landscape, particularly the abolition of the CRC Scheme and the move to a single tax, the CCL. Respondents cited several benefits including simplicity, reduction in collection errors and a reduction in administrative burdens.


10.2 The Committee on Climate Change (“the CCC”) has also been consulted, on the proposed early closure of the CRC Scheme UK-wide and in the individual nations of UK. The CCC, in letters in March 2016 and February 2018, agreed that abolition of the CRC scheme could contribute to a worthwhile rationalisation of the complex policy landscape with overlapping carbon price instruments and information requirements. The CCC also recommended that if the CRC Scheme is abolished then an alternative annual energy and emission reporting mechanism be introduced UK-wide with board sign off, that public sector action was also required and that the CCL rates should be increased to reflect the CRC Scheme closure.

10.3 The Devolved Administrations’ views have been sought on early closure of the CRC Scheme. The Devolved Administrations have all consented to UK-wide closure.

11. Guidance

11.1 Guidance on how to comply with the CRC scheme continues to be available and the Environment Agency will also continue operate a helpdesk for participants. Guidance for the purpose of the current phase of the CRC scheme is available at https://www.gov.uk/government/publications/crc-guidance-for-participants-in-phase-2.

12. Impact

12.1 The impact on the estimated 4,200 business, charities or voluntary bodies which are participants in the CRC Scheme will benefit from the simplification, in particular, the need to no longer deal with what is viewed by stakeholders as a complex trading and reporting scheme.
12.2 The impact on the public sector is the removal of a complex trading and reporting scheme for some 500 public sector participants.

12.3 A full Impact Assessment covering a package of reforms including the closure of the CRC scheme and introduction of the streamlined energy and carbon framework is submitted with this memorandum and published alongside the Explanatory Memorandum on the UK Government website at www.gov.uk and on the legislation.gov.uk website.

13. Regulating small business

13.1 The CRC Scheme generally does not apply to small businesses, given the eligibility requirement that organisations use over 6GWh of qualifying electricity in a specified year. Any small businesses in scope of the CRC scheme will benefit from the removal of the requirement to comply with the complex CRC scheme, including to report their emissions annually and to buy and surrender allowances for those emissions.

14. Monitoring & review

14.1 The approach to monitoring of this legislation is for the Department for Business, Energy and Industrial Strategy, and the Administrator, to continue to monitor the CRC scheme, including the ongoing activities after the end of the current phase, which is the final phase of the CRC Scheme.

14.2 The regulation does not include a statutory review clause and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015 and in line with the requirements of the Small Business, Enterprise and Employment Act 2015, the Rt. Hon Claire Perry MP, Minister of State for Energy and Clean Growth, has made the following statement:

In my view a statutory review clause is not appropriate. This legislation takes forward the outcome of a significant review of the CRC Energy Efficiency Scheme and wider business energy efficiency landscape. This legislation means that, rather than continuing to 2043, the 2018-19 compliance year is the last year for which participants will need to monitor, report and surrender allowances for their relevant emissions and the scheme is being closed early. Given the significant reduction of costs for participants I do not consider a further statutory review is appropriate on proportionality grounds.

15. Contact

15.1 Gary Shanahan at the Department for Business, Energy and Industrial Strategy, Telephone: 0300 068 6172 or email: gary.shanahan@beis.gov.uk can be contacted with any queries regarding the instrument.

15.2 Michael Rutter, Deputy Director – Business Energy Use, at the Department for Business, Energy and Industrial Strategy can confirm that this Explanatory Memorandum meets the required standard.

15.3 The Rt. Hon. Claire Perry, Minister of State for Energy and Clean
Growth, at the Department for Business, Energy and Industrial Strategy can confirm that this Explanatory Memorandum meets the required standard.

Explanatory Note

This Order revokes in the United Kingdom the CRC Energy Efficiency Scheme Order (“the 2013 Order”) with savings (article 3(1) and (2)). It also makes amendments to the 2013 Order to the extent that it continues to operate by virtue of those savings (Schedule 1); and amends the CRC Energy Efficiency Scheme Order (“the 2010 Order”) to the extent that it continues to operate following its revocation, with savings, by the 2013 Order (Schedule 2). Both the 2013 Order and the 2010 Order established an emissions trading scheme which applies to direct and indirect emissions from supplies of electricity and gas by public bodies and undertakings.

The 2013 Order remains in effect for the purpose of the initial phase of the scheme it established.

Under the initial phase, participants are required to monitor their supplies of electricity and gas from 1st April 2014 to 31st March 2019, and to annually purchase and surrender sufficient allowances to cover the related emissions. The surrender for the final year is due by the last working day of October 2019. The amendments made to the 2013 Order by Schedule 1 to this Order require the administrator to maintain the Registry used for this process, and participants’ and third parties’ access to the accounts for their allowances, until 31st March 2022. After that date, the administrator must close the accounts, is not required to maintain the Registry and is required to store the information that had been contained in the Registry, and to maintain the list of participants, until the end of March 2025 to facilitate any outstanding activities relating to the initial phase.

The 2010 Order also continues in effect for the purpose of the first phase of the scheme it created under article 3(3) of this Order. Under the first phase, participants are required to monitor their supplies of electricity and gas from 1st April 2010 to 31st March 2014, and to annually purchase and surrender sufficient allowances to cover the related emissions. The surrender for the final year was due by the last working day of October 2014. The amendments made to the 2010 Order by Schedule 2 to this Order require the administrator to maintain the Registry used for this process, and participants’ and third parties’ access to the accounts for their allowances, until 31st March 2022. After that date, the administrator must close the accounts, is not required to maintain the Registry and is required to store the information that had been contained in the Registry, and to maintain the list of participants, until the end of March 2025 to facilitate any outstanding activities relating to the first phase.

A full impact assessment of the effect that this instrument will have on the costs of business, the voluntary sector and the public sector is available from the Department for Business, Energy and Industrial Strategy, 1 Victoria Street, London, SW1H 0ET.
Policy Note

1. This Order will be made in exercise of the powers conferred by sections 44, 46(3) and 48 of and Schedule 2 and paragraphs 9, 10, 12 of Schedule 3 to the Climate Change Act 2008.

2. The instrument is subject to negative procedure.

Policy Objectives

3. This Order makes provision for the early closure of the CRC Energy Efficiency Scheme ("the CRC Scheme") at the end of the current phase on 1 April 2019. It revokes the CRC Energy Efficiency Scheme Order 2013 ("the 2013 Order") with savings for the purpose of the scheme phases prior to closure.

4. The CRC scheme is a domestic climate change policy introduced in partnership by all four UK administrations in 2010. For more information on how the CRC scheme was introduced and how it operates, please see the Explanatory Memorandum accompanying this Order on the legislation.gov.uk website.

5. Whilst the creation/revocation of the CRC scheme is a devolved matter under the Climate Change Act 2008, in practice its operation depends on reserved powers under the Finance Act 2008 to introduce a carbon price in the CRC Energy Efficiency Scheme (Allocation of Allowances for Payment) Regulations 2013.

6. There are around 125 Scottish participants in the CRC scheme from across the public and private sector. Since the introduction of the CRC scheme in 2010, and despite simplification in 2013, it has been criticised by stakeholders for being overly complex and burdensome. In March 2016 the UK Government announced a package of reforms to rationalise the business energy efficiency tax environment, including the closure of the CRC scheme. To maintain the level of emissions abatement, the UK Government decided to increase the Climate Change Levy and introduce new emissions reporting for the private sector via reserved regulations.

7. The effect of the UK Government’s decision to close the CRC scheme, in particular removing the price element, meant it could not continue to operate in Scotland in the manner originally intended. Furthermore the UK Government’s introduction of new reporting for business would mean that there would be duplicate reporting if the CRC scheme continued to operate in Scotland.

8. The process to close the CRC scheme UK-wide mirrors that to create it, requiring all four administrations to recommend an Order to Her Majesty in Council. The UK Government had not involved the Devolved Administrations in the 2016 decision to closure the CRC, but stated that it “will work with the devolved administrations on scheme closure arrangements”. Subsequently officials have engaged to resolve concerns raised by Scottish Ministers on closure arrangements.

9. Following consultation the Scottish Government has decided to recommend this Order. This Order does not affect Scottish Ministers powers to make provision
for emissions trading under the Climate Change Act 2008. However the closure of the CRC scheme, alongside the other measures in the UK Government’s package of reforms that replace it using reserved regulations, does reduce the accountability of the Scottish Parliament for emissions reduction. Scottish Ministers have written to the UK Government to express these concerns and to request that consideration is given to further devolution that might be needed to establish future emissions trading schemes in Scotland.

Consultation

10. To comply with the requirements of section 48(1) of the Climate Change Act 2008, before recommending this Order Scottish Ministers consulted with Scottish CRC participants (May 2018), and obtained and have taken into account the advice of the Committee on Climate Change (February 2018). This is in addition to the consultation carried out by the UK Government as explained in the Explanatory Memorandum.

11. Respondents to the consultation were overwhelmingly in favour of CRC closure in Scotland alongside England. They said it would remove administrative burdens and allow resources to be reallocated to energy efficiency improvements. The Committee on Climate Change advised that the net impact of the package of reforms announced by the UK Government in March 2016 would be a slight increase in emissions abatement in Scotland. On this basis the Scottish Ministers agreed to recommend this Order to Her Majesty in Council.

Impact Assessments

12. The UK Government has undertaken a full Impact Assessment on a package of reforms including the closure of the CRC scheme UK-wide, which is available on the legislation.gov.uk website. Therefore the Scottish Government has not undertaken separate impact assessment.

Financial Effects

13. The Minister for Energy, Connectivity and the Islands confirms that no BRIA is necessary as the instrument has no negative financial effects on the Scottish Government, local government or on business. Scottish participants in the CRC scheme will have reduced regulatory burden, and benefit from no longer needing to report on energy use and buy corresponding allowances. The UK Government has provided a combined Impact Assessment for their package of reforms which includes Scottish interest for CRC closure.

Scottish Government
Energy and Climate Change Directorate 05 July 2018