



OFFICIAL REPORT
AITHISG OIFIGEIL

Net Zero, Energy and Transport Committee

Tuesday 7 November 2023

Session 6



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NET ZERO, ENERGY AND TRANSPORT COMMITTEE

31st Meeting 2023, Session 6

CONVENER

*Edward Mountain (Highlands and Islands) (Con)

DEPUTY CONVENER

*Ben Macpherson (Edinburgh Northern and Leith) (SNP)

COMMITTEE MEMBERS

Bob Doris (Glasgow Maryhill and Springburn) (SNP)

*Jackie Dunbar (Aberdeen Donside) (SNP)

*Monica Lennon (Central Scotland) (Lab)

*Douglas Lumsden (North East Scotland) (Con)

*Mark Ruskell (Mid Scotland and Fife) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Emma Ash (Consumer Scotland)

Sarah Boyack (Lothian) (Lab)

Jim Fairlie (Perthshire South and Kinross-shire) (SNP) (Committee Substitute)

Patrick Harvie (Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights)

James Hemphill (Scottish Government)

Suzanne Le Miere (Scottish Government)

Tracey Reilly (Consumer Scotland)

Fraser Stewart (Consumer Scotland)

Alan Sutherland (Water Industry Commission for Scotland)

CLERK TO THE COMMITTEE

Peter McGrath

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Net Zero, Energy and Transport Committee

Tuesday 7 November 2023

[The Convener opened the meeting at 09:19]

Decision on Taking Business in Private

The Convener (Edward Mountain): Good morning, and welcome to the 31st meeting in 2023 of the Net Zero, Energy and Transport Committee.

I welcome Jim Fairlie, who is here as a substitute. I believe that Sarah Boyack may attend the meeting at some stage.

Agenda item 1 is to decide whether to take agenda items 6, 7 and 8 in private. Under item 6, we will consider a draft letter on our pre-budget scrutiny; under item 7, we will consider the evidence that we will hear under item 4; and under item 8, we will consider the evidence that we will hear under item 5. Do members agree to take those items in private?

Members indicated agreement.

Subordinate Legislation

Heat Networks (Supply Targets) (Scotland) Regulations 2023 [Draft]

09:20

The Convener: Agenda item 2 is consideration of a draft statutory instrument. I am pleased to welcome the Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights, Patrick Harvie. I also welcome from the Scottish Government James Hemphill, who is head of the heat networks policy unit, and—I will probably pronounce this name wrongly, but I will try hard—Suzanne Le Miere, who is head of the heat networks policy team. I hope that I got that name right. I see that I did—good. Thank you for joining us today.

The instrument was laid under the affirmative procedure, which means that it cannot come into force unless the Parliament approves it. Following this evidence session, the committee will be invited, under the next agenda item, to consider a motion for the committee to recommend that the instrument be approved.

I remind everyone that officials can speak under this agenda item, but not in the debate that follows.

I believe that the minister wants to make a brief opening statement.

The Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights (Patrick Harvie): Thank you very much, convener. I give my sincere apologies for the short delay—that is more than I got from the train announcement as we were held outside Waverley station. I am sorry to have taken a few minutes longer than expected to get here.

I am grateful for the chance to speak to the instrument, which supports our ambition to grow the number and scale of heat networks in Scotland. I know that it is widely recognised that heat networks should and will be an increasingly significant part of our transition from fossil fuels for heating our homes, workplaces and buildings to clean heat.

The Heat Networks (Scotland) Act 2021 requires that we set a target for 2035. As well as the fact that it is a requirement, the target is in and of itself useful. It will send a clear signal to the heat network sector that the Scottish Government and, indeed, future Scottish Governments are committed to the growth of heat networks.

The proposed target of 7 terawatt hours—TWh—is one of the three options that we proposed in our consultation. Each of those options was evidence based and developed using

data from the report “First National Assessment of Potential Heat Network Zones”. However, as we set out in the Government’s response to that consultation, the data about the sector that we have is limited at the moment. We have to continue to use the powers that we have in the act to obtain more accurate and reliable information so that we can report on the progress that we are making against all the statutory targets. Recognising that, the Government’s response also committed to keeping that target and other targets under review as further evidence emerges on the potential for heat networks across Scotland—for example, as local authorities produce their local heat and energy efficiency strategies, or LHEES.

Setting that target is just one of the things that we are doing to help to grow the sector. We are taking a range of other concerted actions to meet the targets that have been set and that we are proposing now to allow the heat network sector to flourish. We are resourcing and providing technical support to local authorities to develop their LHEES, which are identifying opportunities across Scotland for heat network development. In February 2022, we launched the heat network support unit, which provides skills, capacity and other resources to local authorities to help them through the pre-capital stages of heat network development. We have also launched Scotland’s heat network fund, which makes £300 million available to large-scale district and communal heating projects across Scotland. In May this year, we also commenced legislation that requires Scottish public buildings to produce building assessment reports as soon as practical.

Collectively, those actions will help us to achieve our proposed target and increase the likelihood that consumers will want to connect into heat networks. Based on the analytics that we have done in combination with the broad support that we received in response to the consultation, I am very happy to be here to move the motion and to ask the committee to agree to set a new target for heat network deployment in Scotland of at least 7TWh by 2035.

The Convener: Thank you, minister. I will start the questions.

I think that we produce about 1.18TWh of heat through heat networks. What are the targets to get us to the 2035 target of 7TWh?

Patrick Harvie: As we set out in the consultation, the three proposed targets were based on not only the information from the first assessment report, which looked at where heat network zones will be, but a range of scenarios about the viability of heat networks—a high or low scenario might mean more or fewer heat networks respectively in those areas that have been found

to be suitable—and assumptions about a connection rate of 50 per cent.

As we go forward, we will have to address some of the issues around demand assurance so that those developing and investing in heat networks have confidence that there will be consumers connecting to them. However, we made that connection rate assumption for the short period ahead, before the demand assurance measures are in place.

Therefore, from those three factors, we derived proposals for targets of 6TWh and 7TWh and the other stretch target of 12.5TWh. Although a case can be made for any of those targets, it was felt pretty clearly that the target of 7TWh was stretching in terms of achieving significant growth in the sector but also achievable.

The Convener: What are the targets between now and 2035? That is the question that I asked. Or do we just have to get to 7TWh by 2035?

Patrick Harvie: The act set the initial targets. The new target that we are setting is for 2035. We do not have annual targets in between those.

Suzanne Le Miere (Scottish Government): The specific targets that the act sets are 2.6TWh by 2027 and 6TWh by 2030. One of the other things that we considered as part of the consultation was the advice from the Climate Change Committee that the UK should look to achieve around 20 per cent of heat demand through heat networks.

The Convener: In effect, within three years, we have to more than double what we are doing at the moment. Is that achievable?

Patrick Harvie: Those are the existing targets under the act. The 2035 target is for what happens beyond that.

The Convener: That might well be what happens beyond the current targets, but I have just been told by Suzanne that the target is 2.6TWh by 2027. Therefore, is it possible to double what we are producing at the moment in less than three years?

Patrick Harvie: In the previous parliamentary session, the committee debated the targets that should be set in the act. The 2030 target was the result of a committee amendment rather than a Government proposal. The view of the Climate Change Committee, as the independent adviser, is that the 2030 target is a stretch target—a bit of an outlier. We are committed to doing everything that we can to meet it. That includes the range of actions that we have set out, including the heat network support unit, the heat network fund and trying to ensure that the heat networks that come forward are investable propositions that are also attractive to non-Government investors.

I have set out the range of actions that we are already taking to meet the initial targets that were set under the act. Today, we are proposing the 2035 target, and the act requires us to set a 2035 target.

The Convener: I completely understand that. I am trying to work out in my brain whether the 2035 target that you have proposed is remotely achievable.

Patrick Harvie: We believe that it is.

The Convener: Okay. What is it going to cost?

Patrick Harvie: The overall investment will come partly from public funds and partly from institutional investors. Unlike decarbonisation through energy efficiency, heat networks generate a revenue stream, which makes them potentially attractive for institutional investors. It is not possible at this point to produce an individual costing for every network that will be built between now and 2035.

That is why local authorities are undertaking their local heat and energy efficiency strategies to identify the most likely sites. Glasgow, for example, has huge potential for heat networks. It probably has significantly more potential than some less densely built parts of the country. However, it will be for the local authority to take forward individual propositions for specific networks.

09:30

The Convener: So you are setting a target before the local councils have reported and without a clear idea of what that will cost. Is that correct?

Patrick Harvie: As I have said, the 2021 act requires us to set a 2035 target. We are doing that to comply with the act, but setting the target is helpful in itself as a clear signal to the sector.

It is a little bit like the wider heat in buildings agenda that we have been discussing recently and on which we will consult shortly. The Government's setting a clear direction of travel is the clear signal that industry needs that Scotland is serious about getting the work done. That, indeed, can focus not only minds but investment capacity to achieve the targets.

In many ways, that is what happened with renewable electricity generation. Successive Scottish Governments set a clear direction of travel and gave clear market signals that Scotland was serious about renewable electricity. If we had not done that, setting targets alone would not have been effective.

By the range of actions that I have set out, Scotland is demonstrating not only the will but the

focus that is necessary to achieve the targets that we are setting today.

The Convener: I will make an observation. If people see that there is an aspirational direction of travel, it might inspire them to take that direction but, at the end of the day, if they do not see a return for the capital that they have invested in the project, you could set whatever target you like and make it as aspirational as you like, but it will not mean much. What I have heard from you, minister, does not give me confidence that the 7TWh is achievable. That is my concern.

Mark Ruskell (Mid Scotland and Fife) (Green): I very much welcome a target being set for 2035. I think that it was on the back of one of my amendments that the provision to set a 2035 target was put into the Heat Networks (Scotland) Act 2021—James Hemphill is nodding. At the time, it was difficult to put a figure on that and there was a lot of discussion with the minister about it. Therefore, it is good to see a figure being set and the work that is being done to construct it.

How does that work relate to the LHEES? It appears that those are on track. A lot of granular work has been done in local authorities to work out exactly where district heating schemes can be put in place. Do we have enough of a picture now through the work that has been done by the 32 local authorities to build the certainty that industry wants and enable us to peg a target to 2035, which is obviously still some way off?

Patrick Harvie: It is developing. As I mentioned, some local authorities are further ahead than others and some have higher heat network potential than others. Earlier in the process, Glasgow was already beginning to take forward some of the work on LHEES. I think that the council had already begun to undertake that work before it was a legal requirement. The city is clearly one of the areas that have significant potential for heat networks, which is necessary given that there is a high density of homes there that will be difficult to decarbonise in other ways.

A significant number of local authorities have completed their LHEES and others are due to complete the work by the end of the year. The picture that is emerging, local authority by local authority, demonstrates that we have a handle on where heat networks are likely to be introduced, as well as—to address the convener's concern once again—being confident that they will generate a return on investment. The developments will generate an income stream, which is one of the things that will make them attractive for investment.

Mark Ruskell: Do you still see opportunities for municipal ownership of heat networks? Is that a model that could flourish?

Patrick Harvie: Yes. We have been exploring a range of models of operation. That might involve direct municipal ownership; it might involve joint ventures between local authorities and other partners. The opportunity exists not only to ensure that heat decarbonisation is achievable for people—that householders and businesses feel that a service is available to them and that it will provide them with long-term certainty about the consumer protection that is being built in and about low-carbon and affordable heat—but that they trust that it is being operated to a large extent in the public interest.

As Mark Ruskell knows, Denmark has generously shared its experience and expertise on heat networks and it has been advising us for a number of years on the development and implementation of the 2021 act. Denmark has been developing heat networks for 50 years and it is still rolling them out, because there is high demand for them in the third or so of the country that does not have access to them yet. People want to be connected to them, because they know that they are an affordable way to meet their heating needs, and that is the case more than ever given the cost of living crisis.

Denmark knows that the public have a high degree of trust in the operation of such systems in the public interest. If we can emulate that in as much of Scotland as possible, we will not only achieve decarbonisation and do it affordably, but—we hope—achieve the high degree of public trust that our neighbours in Denmark have achieved.

Mark Ruskell: Thank you.

The Convener: Thanks, Mark. Douglas Lumsden is next. Jim, do you want in, too?

Jim Fairlie (Perthshire South and Kinross-shire) (SNP): Yes, eventually.

The Convener: Okay. Douglas will be first, then Jim.

Douglas Lumsden (North East Scotland) (Con): I am a big fan of heat networks, but I go back to the convener's point. Setting a target is one thing, but when will we see a plan for how we are going to achieve it? As you mentioned, minister, it might be easier in places such as Glasgow, but we also have rural areas and rural local authorities. Can you assure us that they will not be penalised for not moving forward as quickly as everyone else? It is obviously a lot harder to do this work in a rural area than it is in Glasgow.

Patrick Harvie: The heat networks that exist at the moment—some are district networks that serve multiple buildings and others are communal networks that serve multiple customers in a single building—are found in a range of urban and rural

settings, including in some island communities. It is clear that there will be a high level of potential in dense urban environments such as Glasgow, but that should in no way inhibit the development of networks in other parts of Scotland where they represent the most suitable approach to decarbonisation. That is why we are asking all local authorities to lead on the development of the LHEES. It would be wrong for central Government to say, "We're going to decide what is appropriate in each local area." Local leadership is necessary if we are to achieve this.

Douglas Lumsden: What are the next steps? Will there be an overall plan? When should we start seeing money in the Government's capital plan, for example, to assist with heat networks?

Patrick Harvie: As I mentioned in my opening remarks, we already have the heat network support unit and the heat network fund. The unit is providing pre-capital support and the fund is providing capital support.

On the question about when this will happen, it is already happening. Local authorities are producing their LHEES and we completed the first national assessment report some time ago. Local work is being done to develop the LHEES and they are coming in local authority by local authority. I think that they are all expected and due in by the end of the year. Is that correct, James?

James Hemphill (Scottish Government): Yes.

Patrick Harvie: The picture is already emerging and it will continue to develop. We have other powers under the 2021 act to continue to improve data collection and we can use them to gain a richer understanding of the heat networks that are in development and in operation.

Douglas Lumsden: Do you expect an overall plan for all the local authorities to be presented to Parliament so that we can get assurance that the target for 2035 will be met? What will happen if that target is not met?

Patrick Harvie: Local authorities will produce their LHEES and provide them to Government. I think that they are all to be provided to the committee as well. They will be made public.

James Hemphill: Yes—they will all be made public. We have six or seven out to draft at the moment, which is good progress. We are also undertaking an independent collation of the 32 strategies so that we have something that we can present to the committee and others with an interest. I guess that that will map the opportunity areas across the country and give us an aggregate or total sum.

Based on some of the drafts that we have seen so far, I think that local authorities are—quite rightly—applying some stringent scenarios and

some less stringent ones, so we will see quite a range of potential. That collation work should be completed next year and I am sure that we will be able to share it with the committee.

We also have the heat network delivery plan, which we will also have to do again. As we were required to under the act—due to, I think, Mr Ruskell's amendment—we published the heat network delivery plan in March 2022. We are under a duty to review that and to report on progress every two years, as well as on the impact that our policies and programmes have had. We have to keep that continually updated every two years.

Douglas Lumsden: Following up on that point about every two years, when will the first one come back?

James Hemphill: The review will be in March 2024. We will need to speak to clerks about where that goes to, but presumably it will go to the committee to review.

Douglas Lumsden: In relation to the other question that I raised about not meeting targets, will local authorities be set targets as well, or will it simply be an overall target?

James Hemphill: It is a national target.

Douglas Lumsden: What happens if it is not met?

Patrick Harvie: The act allows us to continue to review the target. I think that it is at least a fair possibility that we will review the target upwards rather than downwards but, if a future Government decides that heat networks have not been the success that I believe that they will be, it would be for it to come back to committee and Parliament and ask to review the target in the other direction. However, I think that there is a stronger likelihood that we will see greater progress. We should be throwing our weight behind the development of heat networks as one of the most effective ways to decarbonise Scotland.

Douglas Lumsden: You mentioned institutional investors. Can you give us any more details on what discussions have been held so far and how likely such investment is?

Patrick Harvie: A range of discussions have taken place not only with individual potential investors—the Scottish Government has an investor panel that advises it—but through the green heat finance task force. As the committee knows, that has now been meeting for some significant time. Its first report will be due out very soon, alongside the imminent consultation on the heat in buildings proposals more generally. The expectation is that the first phase of that task force report will focus on individual approaches and that the second phase report will look at the more

communal, area-based approaches, which might include greater focus on heat networks. A significant amount of work is happening in that area.

Douglas Lumsden: There must be a lot of regulation going on behind the scenes as well. I would imagine that, if you had a heat network, it would be about whether or not you want competition—basically, so that you do not get somebody simply increasing the prices to a huge amount. A huge amount of work must have to go on behind that, in legislation, to make sure that it works for everyone.

Patrick Harvie: Yes. The legislation that was passed in the previous session of the Scottish Parliament to get the work under way was done before we knew that the United Kingdom Energy Act 2023 was coming, so we have taken account of some of the changes that took place in that. The committee will be very pleased to know that there were some areas where the Scottish and UK Governments were able to work together on useful changes to that energy legislation, in particular in dealing with some of the consumer protection issues. However, some other changes require us to perhaps reconsider some aspects of how we approach the implementation of the Scottish heat networks act. For example, in the light of the UK legislative changes, we will consider our approach to permitting and consenting and ensure that we have got the balance right. Over the course of time, there will no doubt be other legislative changes.

A critical thing that we are still awaiting from the UK Government is the rebalancing of electricity and gas prices. Whether the current UK Government makes good on that or whether we have to wait on a successor Government, we know that that is one of the critical issues that will spur not only the viability of decarbonisation of heat but its attractiveness. For example, as we decarbonise existing heat networks, some of them will shift over to using devices such as heat pumps as one of their energy sources. If those are using electricity rather than gas, that is great to decarbonise those existing networks, but the rebalancing of prices will be one of the things that are critical to making that viable and attractive to customers.

Douglas Lumsden: As yet, you are open as to whether it is private companies putting in heat networks or local authorities running them. That is still up in the air.

Patrick Harvie: As I said, we have been exploring a number of different models for the development and operation. We think that it will be an attractive area for private investment, but we also know that there is a need for the public sector to give leadership, particularly at local level, where

local authorities understand both the building stock and the energy resources that they can bring to bear. That is why they are leading on the development of LHEES. As I said, we have looked at a range of models, including direct municipal ownership and joint ventures.

09:45

Jim Fairlie: I will try to be very quick. If I ask daft laddie questions, I apologise—I am just catching up with what this is.

The briefing papers say that the

“Strategies will identify ... potential heating system changes that may occur in a local area following extensive analysis and consultation”.

I am going to lead to where Douglas Lumsden was a minute ago, but first I want to get clear in my head: how is this heat going to be used? How will you physically get it to the consumer?

Patrick Harvie: I would encourage the member and others in the committee, if they have not yet taken the chance, to visit some of the heat networks that are already in operation, including some that are being expanded or redeveloped.

In essence, the networks are made up of highly insulated pipes that go under the ground and come from a central heat source. They might involve the deliberate generation of heat for the network, or they might use a waste heat source. At the moment, we are letting valuable warmth from some waste heat sources go to waste, and heat networks can bring that heat to the consumer.

With heat networks, individual businesses or households would not need to have their own boilers, except, potentially, as an emergency back-up. They might choose to have something in reserve, but their main heating needs—and, in some circumstances, cooling needs—would be met via the network.

Jim Fairlie: If I have this right, you are saying that, in effect, heat will be pumped into a building via a pipe network. The heat that is being distributed to a property will have to be paid for—is that correct?

Patrick Harvie: That is correct. That is what generates a revenue stream for the network, which is what makes it an attractive proposition for investors. The experience with heat networks in this country—and, I think, in Denmark, where they are used the most extensively of any European country—is that they tend to be affordable and attractive for that reason, compared with individual consumption of gas or other fuels.

Jim Fairlie: I apologise for asking another question, convener, but that leads me to the regulatory side of energy. Minister, do you foresee

yourself coming up against the UK Government when it comes to how you regulate the price of the heat that goes into properties?

Patrick Harvie: The aspiration is always to work together on issues that sit between devolved and reserved powers. Sometimes we are more successful at achieving that co-operation than at other times. As I mentioned, some of the changes that were recently made to the Energy Act 2016 at Westminster were agreeable, and we made good progress on some of those issues, although not necessarily all of them. We will continue to try to work together.

Of course my preference would be that we are able to make those regulatory changes here in Scotland. We have to work with the situation that we are in as we continue to—as the member knows—make the case for Scotland at some point taking those powers to itself. However, that certainly should not prevent us from rolling out heat networks urgently, because they are one of the most obvious ways to decarbonise Scotland, and particularly urban Scotland.

Jim Fairlie: There are things that we will need to negotiate going forward, but we do not stop going forward, because we hope that we will find agreement.

Patrick Harvie: Yes, and the appointment of the Office of Gas and Electricity Markets as the regulator is one example of that. We need to ensure that there is consumer protection, and the appointment of Ofgem in that capacity will help to achieve that.

Jim Fairlie: I have a final question, convener.

Earlier the convener talked about going from 1.6TWh now to 7TWh in 2035. Will it not require a huge workforce to be able to modify and change our existing infrastructure? Do we have that workforce, and do we have that skills base?

Patrick Harvie: That question is relevant to the whole heat in buildings agenda. We know that we need to scale up and skill up. I have been working closely with Graeme Dey on the skills and education side of things. Work on the supply chain delivery plan is also including voices from industry who see the agenda as an opportunity.

I genuinely think that there is huge potential for us to see the heat in buildings agenda as an economic opportunity for Scotland. There is work to be had in decarbonising, and high-quality careers to be had from doing that work, not just between now and 2045 but beyond that, in maintaining and operating those systems.

James Hemphill wants to come in on your previous point.

James Hemphill: On working with the UK Government, we have colleagues who join the various forums that UK Government colleagues have for designing consumer and technical standards, so we have a route into informing that work.

To add to what the minister said on the other question, some of the big energy companies in Scotland are actively involved in heat networks and are increasingly interested in them. We know that there is interest there.

The Convener: There are some other questions, but I have got a quick one first.

Minister, you made the point that heat networks are used in Denmark and that they are very attractive in Glasgow. In most cases in Denmark and Glasgow, we are talking about urban conurbations or larger conurbations. Given that the biggest cost for heat pumps is surely the piping and the insulating of the piping, are they ever going to become attractive in rural areas, where houses are spread out?

Patrick Harvie: It will depend on the specific settings in each area. That is why LHEES are being taken forward at the local level.

If the committee has not had the chance to learn about the heat network in Shetland, for example, I think that that would be instructive. It has been in operation for 25 years, and the company is now looking to expand and extend it, including to potential customers who are not right in the town centre.

There are some energy losses that come from extensive heat networks, but the experience of Denmark is that you can have them over a very wide area, and they do not just have value in the inner core of a city, so we would like to ensure that as many parts of Scotland as can benefit from heat networks do so.

Of course, in less densely populated areas, other approaches to decarbonisation—including individual heat pumps and other technologies—will be, and already are, extremely successful.

The Convener: I will avoid the temptation to talk about heat pumps in old houses. Douglas Lumsden, do you want to ask a question?

Douglas Lumsden: Yes. Minister, you mentioned gas boilers being used as an emergency back-up, potentially. Do you still feel that there is going to be a market and a demand for gas boilers going forward, even though people may be part of a heat network?

Patrick Harvie: Well, the proposals that we are about to consult on on heat in buildings set out how the heat standard will work, and they recognise that fossil fuel systems for emergency

back-up might continue to be necessary. It is probably more likely that those would be portable systems, rather than an installed gas boiler.

We have an opportunity to ensure that the vast majority of the heat that is consumed comes from sustainable sources and is non-polluting. We also have an opportunity to ensure that we achieve that in a way that is consistent with affordability, tackling fuel poverty and other objectives.

Douglas Lumsden: Would the ban on gas boilers be relaxed for emergency back-up purposes, or how would that work?

Patrick Harvie: As I said, we will be consulting on the wider heat in buildings proposals very soon, so the detail will be published in that. It does not affect the setting of the target for heat networks.

Douglas Lumsden: I cannot remember what year the Scottish Government said that the ban on gas boilers will take effect, so is that going to be met or not?

Patrick Harvie: Sorry, it is—

The Convener: That is slightly off the topic, Douglas. I encourage the minister to respond to you afterwards, on that separate subject, but I want to keep the focus on the instrument that we are looking at. I think that you have pushed that topic as far as you can, for the moment.

Monica Lennon (Central Scotland) (Lab): Good morning, minister and officials. I have a brief question. Can you clarify what role energy from waste facilities will have in meeting the important targets that have been set?

Patrick Harvie: Sorry, I did not catch that.

Monica Lennon: Oh, sorry. How reliant will the Government be on the existing use of energy from waste facilities and incinerators? Can you clarify what contribution they will make to the achievement of the targets?

Patrick Harvie: I see no reason why we should not be using waste heat from a facility that already exists. Waste heat is a resource that, at the moment, is going to waste.

Separately, quite unconnected to the specific policy of heat network targets, the Government has an approach on incineration that aims to move away from the development of new incinerators. However, the use of any source of waste heat from an existing facility—whether it is energy from a waste plant, a data centre or an industrial site—makes a valuable contribution by putting heat into a heat network.

Monica Lennon: That is helpful, and it is good to hear about the proposal to put a moratorium on incineration.

We have the Circular Economy (Scotland) Bill, and we obviously want to see a reduction in consumption overall. If some existing facilities become less viable and feasible as businesses opportunities and start to close down or decommission early, will that have an impact on your targets?

Patrick Harvie: Heat networks are particularly viable and effective when they have a range of different heat consumers—not all domestic but some commercial, some industrial, and large public buildings, for example—and a range of heat sources. Some networks will have a heavy reliance on a single heat source or small number of heat sources. Existing networks will be under a duty to bring forward a plan to decarbonise if they have a polluting heat source.

However, over time, as we see the extensive development of heat networks, we are likely to see that viability become an incentive for any operator to diversify its heat sources. That might be by using banks of heat pumps. In the Glasgow area, it might be using the River Clyde as a heat source, as Queen's Quay does. It could also include industrial sources of heat, such as waste heat and other options. The diversification of heat producers and heat consumers is one of the things that will make the networks more viable for the long term.

Monica Lennon: Thank you.

The Convener: Jim Fairlie, very quickly.

Jim Fairlie: I am sorry, but questions keep getting sparked by other people asking questions.

Monica Lennon was asking about energy from waste, and there is a presumption against building new incinerator plants. I think that I am also right in saying that there is a ban on municipal waste for landfill. Is there not value in continuing to get better technology into incinerator plants if we are going to develop those energy from waste systems?

Patrick Harvie: That question is probably best directed at colleagues who work on the waste side. There are many reasons why there is an environmental desire to move away from burning our waste—to put it simply—even with modern technology. As Monica Lennon's question hinted at, it requires a continual feed of waste material going in, and it is not consistent with a circular economy approach.

The approach with regard to heat networks is that, where an existing facility has waste heat that is going into the air and is not benefiting anyone, we might as well plug that into a heat network and get some value and use out of it.

Jim Fairlie: I completely agree, and we want to move to a circular economy. However, that does not mean that we will genuinely reduce the

amount of waste to the point where we do not need landfill. We are still going to have waste, and probably considerable amounts of it.

The Convener: You are stretching it, Mr Fairlie, but if the minister wants to answer that question, he can do so briefly.

Jim Fairlie: It is not a trick question—it is just out of curiosity.

Patrick Harvie: I am sure that it is a sincere question, but I think that it is one for colleagues whose remit and portfolio is around circular economy and waste management, rather than one that is about the setting of a heat network target.

Sarah Boyack (Lothian) (Lab): My question is about accountability and consumer protection. Heat networks are being developed; I have visited ones in Clydebank and Midlothian that are owned by the council but operated through a private partnership approach, so there is accountability for the residents. By contrast, Edinburgh has dozens of heat networks; they are not run by the council, but they are also not for residential properties as a rule. As the approach is rolled out, it raises a critical issue about accountability and consumer protection—and not just in the short term. When the source of energy shifts, you will need accountability with regard to costings. How is that consumer protection issue feeding into these regulations?

I guess that it comes back to Mark Ruskell's point about municipal ownership and how critical councils are to the planning process. After all, as far as housing is concerned, whether it be new or old, councils have, as you say, the knowledge. Is there not an accountability issue here? Should we not be focusing on those council leadership approaches? Does the public-private approach not provide that accountability rather than the private route that you have mentioned?

10:00

The Convener: I am absolutely interested in hearing the answer to that question, but the problem is that we are talking about setting a target of 7TWh by 2035. I would be delighted if the minister could respond briefly to that and shape his response as much as he can to the target that he is hoping to set.

Patrick Harvie: I would like to see ambition coming from local authorities and, indeed, other bodies such as social landlords, which would see connection to a heat network as something that is in the interests of their tenants as well as their business model. If we do see that level of ambition from public bodies, including local authorities, it will contribute very substantially to meeting the 7TWh target.

As for some of the consumer protection issues that Sarah Boyack quite rightly raises, they are, as we are all aware, reserved, but the recent legislation and the appointment of Ofgem to its role will go a significant way towards addressing them. I very much wish that we were able to legislate for those matters here. As things stand, we are not, and we therefore need to work with the UK Government, which is what we have been doing.

Sarah Boyack: Thank you, minister. The reason for asking the question, convener, is that the issue is about how these new heat networks are supplied and the critical role played by local authorities not only in planning and leadership, as has been mentioned, but accountability. That is why I was keen to ask the question. Moreover, if this is done properly, it will result in income generation for local communities and low bills for people. The feedback that I have had from local authorities is that they are under massive financial pressure to take this forward, which brings us back to the £300 million fund. It will be very interesting to see how that will be spent.

The Convener: Thank you.

If there are no other questions, we move to agenda item 3, which is formal consideration of motion S6M-10778. I remind everyone that only the minister and members of the committee may speak in this debate, and I invite the minister to move the motion.

Motion moved,

That the Net Zero, Energy and Transport Committee recommends that the Heat Networks (Supply Targets) (Scotland) Regulations 2023 [draft] be approved.—[*Patrick Harvie*]

The Convener: I seek comments from the committee. I have a comment, but I am happy to take others' comments first.

If there are no comments, I have to say, minister, that I understand the need to set and achieve a target. The problem, though, is the target that you have set, which is based on a current production of 1.18TWh and goes to 2.6TWh in 2027 and 7TWh in 2035. Those figures might be aspirational, but I have no idea whether they are achievable, and you have neither convinced me that they are nor given me any indication of cost.

So I am stuck. I would like to agree a target, but I do not see the current target as having been correctly justified. Can you have one more go at setting my mind at rest, please, minister?

Patrick Harvie: As we have discussed in the evidence session that we have just held, the Scottish Government has consulted widely on a number of options for this target. Not only is it a

legal requirement that we set a 2035 target, it sends, I believe, a very positive signal to the industry that we are serious about the development of heat networks.

We could have set a very stretching and much more aspirational target. I think that the target that we have set is more achievable; it still shows an aspiration to grow heat networks significantly in Scotland, but it is achievable. The target is consistent with the advice that we have had from the UK Climate Change Committee and consistent with the position that was widely supported in the consultation.

I will also mention that the business and regulatory impact assessment that has been provided suggests that the cost of meeting the target that was set in the Scottish statutory instrument could be up to £6.2 billion and that it is likely that that cost will be shared between the public support that has been made available and private investment.

The Convener: The cost is estimated to be £6.2 billion, of which, at the moment, you have put up £300 million. Is that right?

Patrick Harvie: Yes, £300 million of public funding.

The Convener: Therefore, the rest will come from the private sector.

Patrick Harvie: It will come from a range of sources.

The Convener: Okay. I remain sceptical. Do members have any further questions?

Mark Ruskell: The Government's approach perhaps justified not putting a target for 2035 in the original legislation, because it is clear that a lot of work has been needed, particularly at a local level and with councils, to really understand, in a granular way, how the target can be met and, indeed, what it should be. I am pleased that the groundwork has been done, and I think that we now have a target that will drive that private investment, which is going to be critical in meeting the gap and ensuring that we have real projects on the ground that are well regulated and protect consumers. Within that, we hope that there will also be opportunities for municipal ownership and public benefit.

It is good to see the stretching target brought forward, but it is good to see that it is going to be based on the reality of what is possible and what is going to be investable and bankable.

Douglas Lumsden: I am actually more concerned now that I have heard the figure of £6.2 billion. Mark Ruskell said that a lot of the groundwork has been done, but I do not think that it has been done. I have not seen anything that

shows that we have any idea how we would reach that target. As much as I would like to reach that target, I have no idea how we would get there.

I know where only £300 million of the £6.2 billion is going to come from. I do not know where the other £5.9 billion is going to come from, so I am concerned that we are setting a target without knowing how on earth we are going to get there.

The Convener: Minister, as there are no other comments, I invite you to sum up and respond to the debate.

Patrick Harvie: Once again, I would say that we have consulted widely on a range of evidence-based targets. The target that we are setting was widely supported in the consultation. It sets out strong growth in the heat network sector, which we believe not only sends a signal about what we intend to achieve and builds confidence among investors but represents an achievable target that will help to decarbonise Scotland. I genuinely hope that, as we develop policy and the wider heat in buildings approach, members across the chamber will recognise not only the opportunity but the necessity of decarbonising Scotland's heat.

The Convener: The question is, that motion S6M-10778, in the name of Patrick Harvie, be agreed to. Are we agreed?

Members: No.

The Convener: There will be a division.

For

Dunbar, Jackie (Aberdeen Donside) (SNP)
Fairlie, Jim (Perthshire South and Kinross-shire) (SNP)
Lennon, Monica (Central Scotland) (Lab)
Macpherson, Ben (Edinburgh Northern and Leith) (SNP)
Ruskell, Mark (Mid Scotland and Fife) (Green)

Abstentions

Lumsden, Douglas (North East Scotland) (Con)
Mountain, Edward (Highlands and Islands) (Con)

The Convener: The result of the division is: For 5, Against 0, Abstentions 2.

Motion agreed to,

That the Net Zero, Energy and Transport Committee recommends that the Heat Networks (Supply Targets) (Scotland) Regulations 2023 [draft] be approved.

The Convener: The committee will report on the outcome of this instrument in due course. I invite the committee to delegate authority to me as convener to finalise the report for publication. Are we happy as a committee to do that? No one said no, so I will take that as a yes.

Members *indicated agreement.*

The Convener: Thank you, committee, and thank you, minister and your officials, for attending.

I will briefly suspend the meeting before the next agenda item.

10:09

Meeting suspended.

10:14

On resuming—

Water Industry

The Convener: Welcome back. Agenda item 4 is an evidence session with Scotland's water industry regulators: Consumer Scotland and the Water Industry Commission for Scotland. Today's session follows on from our meeting last week, when we heard from Scottish Water on its latest annual report and accounts and the main challenges for the water industry in Scotland. We will continue to explore those issues with today's panel.

I am pleased to welcome from Consumer Scotland Emma Ash, water policy manager; Tracey Reilly, head of policy and markets; and Fraser Stewart, research manager; and Alan Sutherland, chief executive of the Water Industry Commission for Scotland.

Thank you for joining us. I am sorry that we are a little behind time-wise. Before we move on to our many questions, I invite Emma Ash and Alan Sutherland to make brief opening statements.

10:15

Emma Ash (Consumer Scotland): Thank you for inviting us to this evidence session on Scottish Water and for giving me the opportunity to make an opening statement.

Consumer Scotland is a non-ministerial office that was set up by the Scottish Parliament under the Consumer Scotland Act 2020. As the statutory body for consumers in Scotland, our core purpose is to improve the lives of current and future consumers. Our strategic objectives, which are relevant to the water industry as well as to other markets that we work in, include enhancing understanding and awareness of consumer issues through our research and analysis, and using our findings to inspire and influence the public, private and third sectors to put consumer interests at the heart of what they do. We also want to enable the active participation of consumers in a fairer economy by improving access to information and support.

Throughout our work, we take a partnership approach, collaborating closely with other organisations with interests and expertise in consumer issues.

Our core funding comes from the Scottish Government's annual budget, but we also receive levy funding for our work relating to water. Our levy funding is £358,000 for this year.

In our current work programme on the water sector, we are focusing on four key themes:

climate change adaptation; equitable investment; fair markets; and affordable services.

As part of our statutory role, we work with the Scottish Government, sector regulators and Scottish Water to ensure that consumers' needs and interests are represented in the design and delivery of Scottish Water's capital investment strategy.

Our work includes producing research that promotes positive outcomes for consumers in key areas such as water and waste water services to ensure that they remain affordable, are resilient to climate change and meet the needs of current and future consumers. We are also developing evidence to promote a non-domestic market that is fair and which operates in a way that protects the interests of its customers as well as the wider good of the market.

Recent Consumer Scotland research that has been shared with the committee includes a report on the importance of blue-green infrastructure in helping to reduce flooding caused by climate change and a survey on consumer attitudes towards the transition to net zero.

Thank you again for inviting us to give evidence. We look forward to answering your questions.

The Convener: Thanks very much, Emma.

Alan Sutherland (Water Industry Commission for Scotland): Good morning, everyone. Thanks for inviting me. It is always good to hear your questions.

As you know, the Water Industry Commission for Scotland is the economic regulator for the water industry in Scotland. Our statutory duty is to promote the interests of customers—both today's customers and, importantly, future customers. At the end of 2020, we published our strategic review. I will give a bit of context to—I hope—help you to understand what we are doing. That review is the mechanism by which we established the lowest reasonable overall cost for Scottish Water to deliver on the objectives of the Scottish ministers within their principles of charging.

As we were going through the review, it became clear that Scottish Water would need to increase its maintenance and replacement expenditure by a factor of about three if it is to prevent the asset deterioration that we are seeing from continuing. Why is that important? Asset deterioration might not always be seen—in fact, it is rarely seen until it is too late—but it puts significant upward pressure on operating costs and carbon emissions and it makes it much more difficult to adapt to climate change.

At the end of a process of substantial engagement with stakeholders, and with input from the Organisation for Economic Co-operation

and Development, we concluded that that investment could and should be phased but that we need to get to a more sustainable level by about 2040, which coincides with Scottish Water's net zero target.

In the review, we also saw improved operating and capital expenditure efficiency. Even with that, however, there will still have to be substantial increases in charges, and we concluded that they should be phased. That was before we knew that inflation was going to be the issue that it is. Obviously, no one wants a higher bill, but we want to be able to rely on a sustainable waste water and drainage service. Steps were taken at the beginning of this regulatory period to protect vulnerable customers through the council tax reduction scheme, but more will be required, quite frankly.

Last week, the committee heard evidence from Scottish Water that, because the board had opted for lower charge limits than we set in the determination, it would have £500 million less to invest in that period. What it did not tell you was that, if charges were to increase in line with inflation over that period—at the moment, they are increasing by about 4.5 per cent less than inflation—in future regulatory periods, from 2027 onwards, Scottish Water would have £200 million less every year to invest in the maintenance and replacement of infrastructure. That impacts levels of service and the ability to adapt to climate change.

Why is all that important? To me, it is obvious that we need to be in a position to have a proper response to climate change. Let us consider what is happening in England and Wales. Since Scottish Water was formed in 2002, investment levels in England and Wales have been 40 per cent lower than in Scotland. Companies in England are proposing huge increases in investment now, which would be followed by huge price increases.

In the next five years alone, companies in England will be asking, on average, for a 30 per cent real-terms increase in their tariffs. Of the companies that have produced sensible answers—I am taking out the higher outliers—the average figure represents a doubling of charges in real terms by 2040. That compares with the figure of 40 per cent in our strategic review. Those companies are not addressing the replacement and refurbishment of assets in the way that we are trying to do in Scotland.

Over the past 23 years, our focus has been to get much more clarity on what is being invested and why and how. That is much more challenging than it used to be because we have moved away from discrete improvements to meet European standards to focus increasingly on investments in replacing and refurbishing assets, which tend to

be much smaller, more discrete projects that are harder to see.

Even more challenging than that are the green-blue solutions. On those, there are two issues. First, can we get the incentives right for people to pursue those green-blue solutions in the right way? That is not always easy. Secondly, we need to monitor that sufficient progress is happening on that, which is quite a challenge.

That is what we are looking for with regard to prioritisation. There has been some progress in the past year, but that has not been as fast as I would like, to be quite frank. We are now beginning the preparations for the next strategic review, which starts in 2027. At that time, we will be looking for Scottish Water to evidence in a way that is genuinely compelling to its customers and Scotland more broadly what it needs to invest and why. We are expecting to publish a methodology for that review by February next year. That is by way of context, convener.

The Convener: Thank you, Alan. We have lots of questions, and Jackie Dunbar will start us off today.

Jackie Dunbar (Aberdeen Donside) (SNP): Good morning. Thank you for coming along. What is your broad assessment of Scottish Water's performance over the past year? I will start with Emma Ash, please.

Emma Ash: In our statutory role, we work regularly with stakeholders, including Scottish Water. We attend various statutory meetings with the organisation and engage with it regularly to represent the consumer interest. As a new organisation, we have found that process to be fairly collaborative. Scottish Water is keen to see the research that we develop and to let that help to inform some of their decision making, which is very welcome.

Jackie Dunbar: Could you maybe go into some depth about whether you think that Scottish Water has performed well during the past year?

Emma Ash: Scottish Water monitors its own level of customer experience and customer service, and there has been an improvement in that, which is good.

This year, through research, we have had opportunities to speak with consumers. When we have done so, we have found that they are generally quite happy with Scottish Water's brand and its product—the water that they receive. There are opportunities for it to give more information on particular issues, such as climate adaptation, what the opportunities are and what the scale of the problem is.

Jackie Dunbar: Alan Sutherland, can I have your views, please?

Alan Sutherland: I think that its performance during the past year was broadly similar to that of the previous year. Its capital programme is running between six and 12 months behind, based on the latest estimates and forecasts. Customer service levels, as measured by our overall performance assessment, are broadly flat year on year.

It would be nice to see more demonstrable improvement in efficiency than we have seen. Scottish Water has a target to improve its underlying operating cost efficiency and its capital expenditure efficiency, and the jury is out as to whether it is achieving that. It is unfair to base its performance on one year—we have to look at that over a period—but the jury is out as to whether it will achieve that during this regulatory period.

Jackie Dunbar: I will take that further. Have you seen any evidence that Scottish Water is getting back on track? You said that there is still a six-month slippage, but are you confident that you are seeing movement towards getting back on track? I know that Scottish Water is not where it needs to be yet.

Alan Sutherland: There has been an improvement during the past year, particularly during the previous six or eight months, in its level of engagement, on what it is delivering and on how it is delivering it, but there is still some way to go.

Jackie Dunbar: Could you maybe expand a little bit on what the impact is to the project delays—sorry, let me put my teeth back in. What is the impact of the project delays on the quality of service that Scottish Water provides?

Alan Sutherland: Scottish Water runs a massive asset base. At price levels of five years ago—and let us say that we have had capital inflation of 25 to 30 per cent during that five-year period—its asset base would have been valued at about £70 billion, so about £100 million to £200-million worth of slippage in investment will not necessarily be seen. However, the slippage is happening, and it is making things a little bit more challenging and a little bit more difficult than they otherwise would be.

Could—should—that be managed? When we see the quality of the operational responses that Scottish Water generates to issues, we know that it is very good at managing things, so we probably do not experience any issues because of that, but that does not mean that the work is being done as well as it could be, and it is certainly not being done as cost effectively as it could be. Responses are always more expensive than proactive intervention to stop the issue happening in the first place.

Jackie Dunbar: Okay. Thank you.

The Convener: I think that Jim Fairlie wants to come in here. Is that right?

Jim Fairlie: Yes. Alan Sutherland, you just said that stopping a problem from happening is probably a better solution than dealing with it after it happens. That takes me on to an area of questioning that the convener might try to stop me from talking about; it is a constituency issue. However, the point that I will raise was brought up in the minutes of your meeting on 21 September 2022, about the Glenfarg project.

The Glenfarg project is clearly being developed, and a lot of money is being spent on it, but it involves putting three or four storage tanks at the water source, for a system that is supposed to supply Glenrothes, which is 17 miles away. The piping to the system in Glenrothes has various leakages that are known about, but the storage tanks are being put in at the source rather than at the other end.

10:30

You have raised issues in the past about the completeness of the information that you get from Scottish Water, and what you are not getting from it, to allow you to perform your regulator role. Do you have any oversight of the operational side of that? There is something that I do not understand. In one of your group meetings, in September 2022, David Satti commented that £799 million of funding had gone into Scottish Water, but he could not determine whether there had been any great improvements.

Now, I am hearing about a project that is getting several million pounds of investment, but the storage is being put in at the source rather than at the place where it will be consumed. If there is a leak or something else happens in the 17-mile pipe system from the source to the consumer, what is the point of having a storage system at the source when it could quite easily be at the consumer end? It makes no sense whatsoever. Are you able to answer that?

Alan Sutherland: I wish that I could. I am not an engineer and I could not sensibly comment on the specific design of a particular project. However, I would expect that there is a full and proper appraisal that should be able to explain why Scottish Water has done what it has done.

Jim Fairlie: Okay. The convener was probably right in not wanting to allow me to ask that question, but I have it now on the record.

The Convener: I have given up trying to stop you, Jim. You are as tenacious as they come. I will just say that you have put the question on the record now and I am sure that Scottish Water will be listening to this.

Jim Fairlie: We will be having that conversation.

The Convener: I have no doubt that Scottish Water will want to respond. If I could get you to move on to the next question, I would appreciate it.

Jim Fairlie: Absolutely. The committee is aware that WICS has raised concerns about the quality and completeness of the information that Scottish Water provides. I refer again to the meeting of September 2022. The minutes state that Alan Sutherland

“noted that it is difficult to understand the consequences of SW’s decisions for future investment needs. He asked how SW would report any disconnect between maintenance and asset replacement in terms of the long-term position.”

Are you getting the information that you require? There is a whole range of other things in the minutes—I will not take up the committee’s time going over them—that show, quite clearly, that WICS has not been getting the information or the information was not put to it in such a way that it could make a determination. Has the situation improved?

Alan Sutherland: It is starting to improve, but it has not improved to anything like the level that it needs to get to.

Jim Fairlie: Okay; thank you.

The Convener: That is a telling comment. Monica Lennon has a question, and then I will ask some questions.

Monica Lennon: Jackie Dunbar’s initial questions touched on general performance and the public’s general perception of Scottish Water. I want to ask about the perception around sewage pollution, which is an issue that we raised with Scottish Water last week. That is an area of concern to communities and environmental groups. I am keen to hear from the panel what impact the local concerns and media reports are having on consumer perceptions and, importantly, trust in Scottish Water. I will start with Consumer Scotland.

Emma Ash: Thank you for the question. We are in the middle of quite a large piece of research with consumers that has taken place over a couple of months, looking at some of the big issues in the water sector and how it adapts to climate change. Part of that is looking at CSOs—combined sewer overflows—and what consumers think about that.

The conversations are quite broad. The same participants come to the research sessions every week, so they are getting a real sense of the issues at hand, as well as an opportunity to discuss them in more detail. It is quite early in the process and the research is on-going, but we are getting a sense that consumers are concerned

about CSOs. Although they understand that they are a function of the drainage system, the concept can feel quite unpalatable.

Consumers are interested in discussing the solutions, which is coming across quite strongly across a range of issues to do with adaptation. That is as important as the investment that will be required in order to make sure that CSOs are not operating when they should not be and that improvements are made where possible. However, there are other opportunities, and consumers are keen to learn more about them. They are not aware of many of the options, which could include reducing blockages or thinking about blue-green infrastructure, which has been mentioned, and the opportunity that that presents for removing rainwater from the system.

Monica Lennon: It would be good to hear more about the research. I am sure that you will not want to get into specific community examples. However, in some of the emails and letters that we get, people are very concerned about the impact of sewage on human health, nature and the environment. We have heard from Scottish Water that it does not accept how things are being characterised in the media and by some consumers and community interest groups. Is there a gap in the research and, if so, how can we address that? If there is a division between Scottish Water saying that it does not recognise those concerns and people getting increasingly vocal, how could we resolve that? I will put that to Fraser Stewart.

Fraser Stewart (Consumer Scotland): Our organisation is building its evidence base, but we are mindful of the messages that are coming back from the campaigning organisations and the constituency cases received by committee members. We are mindful that this is a live issue and that people, quite rightly, feel strongly about it. We have started to explore the issue, among many others, in the piece of work that Emma Ash has mentioned. The research is deliberative and has a lot of breadth as it looks at climate change adaptation as a whole. Part of it will be looking at CSOs and trying to understand how consumers feel about them for the country as a whole as well as how they impact them in their communities and as individuals. There are concerns around public health, as you have mentioned.

We see this as the first stage in building our evidence base. We are finding that the deliberative methodology allows us to dig deep into exploring the issue so that we can get away from the immediate responses. If you ask people a survey question about sewage spillages on a local beach, you will get an immediate reaction to that and most of us would be horrified by the idea of that happening. However, looking at the issue in a little

more detail and using more qualitative approaches will allow us to dig deeper.

I offer a word of caution that this is from pre-analysis and we do not have the final report as yet, but the messages that are coming through from the research so far show that people want to have a say in what the solutions might look like. They are also looking for leadership from Scottish Water and from the Scottish Government. We do not just accept spillages as a factor of the system; there must be ways of dealing with the issue in the future so that we can live in nicer places.

Monica Lennon: That is a really important piece of work. Thank you for explaining it. Before I go to Alan Sutherland to get his perspective, will that research look not only at overflow events but also at dry spill incidents?

Fraser Stewart: The piece of research is at a higher level; it will not look at specifics of wet and dry spills. We are moving towards thinking that we will probably have to do a bespoke piece of work in the future that will look specifically at that issue, because it is coming up as important when we are talking to consumers and campaigning organisations. The media coverage on it is quite extensive.

Monica Lennon: Thank you. That is really informative. What is Alan Sutherland's perspective on that?

Alan Sutherland: Like all of you, when I read or hear about people's experiences, I say, "Urgh!" It is quite horrible.

However, I have some sympathy for Scottish Water regarding some of the characterisations that we read in the media. We read about raw sewage or something having been pumped into a river, but it was not pumped and it was not raw sewage—it was very heavily diluted. That is not to excuse it; I am simply saying that the media characterisation and the actuality are a bit different from each other. We get our information from the media and respond to the presented answer rather than the actual answer.

There are things that we have to think very hard about societally, and there are potential roles for the Parliament. For example, the fact that we allow gardens to be paved over so that people can park their cars in them increases the amount of hard-standing and therefore increases the amount of rain water that does not drain away naturally but finds its way into the sewers. People did not do that when the sewer systems were designed. That is a new problem, and it has to be dealt with.

In my introductory remarks, I talked about the levels of maintenance that we have been engaging in. We have sought to minimise costs and bills—there are good reasons for doing that—

but that means that we have not maintained sewer systems with quite the diligence that we might have done. The odd brick or two out of place means that you use less water—it is like having a brick in your cistern. There is less room for the water to go through, so it is more likely to spill than it would have been if the sewer was in absolutely perfect nick.

When we look at solving that, we have to ask ourselves a really serious question. I differ from the Department for Environment, Food and Rural Affairs in England, which appears to be suggesting that one can build one's way out of this. I do not accept that. The Thames tideway tunnel, which European legislation encouraged to be built in the year 2000, will be finished relatively shortly. The latest forecast is that it will be full a year or two years after it was built. Why did we not build that a bit bigger? We did not know.

When we look at potential rainfall patterns for 30, 40 or 50 years' time, we see that there is no realistic way in which we are going to build an infrastructure that could cope with that amount of water coming so quickly, so we will have to do things very differently. That is where blue-green solutions, sponge cities and the reopening of culverted watercourses to become natural streams or rivers in cities will be critically important because, without them, we will simply not manage the levels of surface water that we will see in 30 or 40 years.

At one level, we should be looking at this as a really important learning experience for ourselves. We have to do things differently; if we do not, we will have a big problem on our hands. Things will get an awful lot worse if we try to stick our heads in the sand and pretend that we just have to fix a few CSOs. That is not the issue.

Monica Lennon: Thank you for very eloquently taking us through some of the big challenges and possible solutions. I will not go into that too much, because I know that we do not have time to do so.

To go back to Scottish Water, notwithstanding some of the wider challenges, which are not all within Scottish Water's control, we have a potentially growing problem around CSOs and people are concerned about human waste ending up in our watercourses and the impact of that on public health and the environment. Scottish Water is saying that it is not getting its lawyers on to the media, and I asked it about that last week. I asked whether the stories are so wildly exaggerated that it is going to get its lawyers involved, but it is not doing that. We do not want to have a breakdown in public trust and confidence.

As good as it is to have all the research, I am sure that the team at Consumer Scotland has other things that it would prefer to be researching.

What advice would you give to Scottish Water on speaking to communities and doing that education work, and ultimately doing better because we need better outcomes?

10:45

Alan Sutherland: Scottish Water does a lot of valuable work, including in paid media and television, telling us not to flush wipes and so on. That is good. I gave you the future look at investment that I did—which concerns what happens in future because of charging decisions now—because I would like to see Scottish Water doing things an awful lot better. If it is to have a proper discussion with its customers, it needs to explain what the medium-term and long-term effects will be. My experience from sitting down with members of communities is that they really want to talk about such things over the medium and long term. They accept that things will go wrong in the short term, and they might not like that, but they want to know how they are going to get out of it. The more we can look to the future and explain why just building something new is not going to solve things and why we have to think differently, the better.

It is amazing, for example, to consider the differences in intensity of rainfall that we will get in 40 or 50 years' time. It is quite difficult to believe it at first. However, if we look back into history we can see what has happened in the past five or 10 years, and we will say "Oh, all right. I get it." We have to be exposed to that, however. That is where Scottish Water could do more.

Monica Lennon: That was very helpful.

Jim Fairlie: Alan Sutherland, you talked about replacing a brick in a sewer—or potentially not doing as much of that work. We have all received a briefing from Unison, which is headed "Scottish Water—privatisation by stealth and union busting". Unison makes the claim that

"Scottish Water is being hollowed out."

There are clearly issues that will have to be addressed regarding the relationships between Scottish Water and consumers and between Scottish Water and its workforce. I am not going to get into the specifics of it, but I raise that because I want to come back to the point that I was asking you about earlier. When you are getting information from Scottish Water, do you have sufficient powers to compel it to give you the information that you require so that we can avoid such situations happening in the first place?

Alan Sutherland: We have plenty of powers to ask for information and to require its receipt. We do not have any particular powers over the quality

of that information, unfortunately—other than asking again, which is what we do.

Jim Fairlie: It sounds to me like you are getting obfuscation when you are asking for answers to legitimate questions.

Alan Sutherland: "Obfuscation" is a rather strong word. I would say that the information is not as good as it should be.

Let me give you a concrete example. We ask for a comprehensive annual return, which is based on something that the Water Services Regulation Authority—Ofwat—adapted from the Treasury back in the 1980s, so it has been going for yonks. Going back about 10 years, we would have had six, seven or eight queries on the information that we got from Scottish Water in a return. Last year, we had well over 100 queries. Those are essentially from people who are new in role or less experienced, or who are less diligent than their predecessors—I do not know which. The fact is, however, that there are many more queries today than there were before with the same return. I hope that gives you a clear indication of why we are frustrated.

The Convener: I have some questions for you, Alan. In 2021-22, you raised approximately £4.5 million from levy. Is that right?

Alan Sutherland: Yes, it was about that.

The Convener: Of that, about £3 million goes to staff costs. It was £2.9-something million in 2021-22, but let us say £3 million, and that allowed you a surplus of £600,000 in that year to offset the £600,000 loss from the previous year.

Alan Sutherland: Yes.

The Convener: There seem to be quite big fluctuations between profit and loss. Is the levy right, or are you getting too much money in?

Alan Sutherland: That is a good question, is it not?

I am sure that there are other organisations that have a worse revenue income level than we have, but in the period from 2021 to 2027, our income from Scottish Water goes up by 1 per cent a year—1 per cent nominal, not 1 per cent real—and our revenue from licensed providers goes up by 3 per cent nominal per year.

The fact that we have become increasingly active in supporting the Scottish Government's hydro nation initiative has meant that we have done substantial projects in Romania and New Zealand, which have brought in a substantial amount of money. We have a surplus because, last year, we received more than £1.1 million from the New Zealand Government for our time and services and our advice.

The Convener: We are talking about quite a large amount of money in quite a small budget. You have 26 employees and a £3 million wage packet. On average—of course, some employees will get paid more than others, will they not, Alan?—that amounts to £100,000 per employee before we add on the pension. Is that about right?

Alan Sutherland: The salary cost in the accounts includes people's base salary, their pension and the employer on-costs. All of those go into that salary number. However, your basic math is correct; to get the fully loaded cost of an employee, take the total salary cost and divide by the number of employees.

The Convener: Basically, in that year, the top end of the salary scale is £185,000. We seem to be talking about quite big salaries for 26 people. Given that that money is raised from levy and there is a surplus in the year, one must ask whether we have got those figures right. Are you convinced that we have?

Alan Sutherland: All that I can tell you is that it would be impossible for me to go out and recruit the analytical talent that I need in the market. I have to develop and train my own analytical talent. Each of the three directors who work for me, who are analytical in their bent, started their career with me at some point in the past 24 years. One has been with me consistently for 11 or 12 years. The other two were with me for a period, left to get more experience somewhere else and then came back. Both the ones who came back earn less now than they would have done if they had not come back. They came back for reasons of public service.

I am not suggesting that we are not well paid. We are well paid—there is no question about that—but we are paid less than the market rate for the job, if that matters.

The Convener: No. My concern is that I want to know that taxpayers are getting value for money. Last week, we found out that, with bonuses, the salary of the chief executive of Scottish Water could top £430,000, which seemed a huge amount of money. It would be improper of me not to ask such questions.

Alan Sutherland: Indeed. I make it clear to the committee that there are no bonuses—

The Convener: I see that.

Alan Sutherland: —and, in my case, there is no pension contribution, because I am not eligible for one.

The Convener: I saw that as well. I read the accounts with interest.

Douglas Lumsden: As did I, convener.

Going back to customer charging, I have a question for Alan Sutherland. I had been going to ask whether you think that Scottish Water is striking the right balance in delivering on its investment commitments and keeping bills low for customers, but you touched on that in your opening remarks. Do you think that the charges should be increased more to the level that they could be at?

Alan Sutherland: When inflation is running in double digits, it is incredibly difficult to get more money from people on many income levels in society. I go back to the convener's question: should I pay more? Yes, because I can afford to pay more, but I am not typical. In that sense, none of us in this room will be typical.

The real question for us is how we are going to protect those who genuinely cannot pay. We in Scotland are better at that than they are elsewhere in Great Britain, because we charge relative to council tax; some forms of relief are available, and wealthier people in bigger houses are asked to pay a bit more. To be honest, however, I am not sure that that is enough. If we are going to have the sorts of revenue adjustment that are required for the industry, more will need to be done, but that is essentially a political decision. I can only advise and try to explain that raising revenue and increasing levels of indebtedness are not a way forward. An increase is sustainable only if people can pay it.

Douglas Lumsden: Do you think that we could slice the overall pot in a different way? Should the charge go back up to the consumer prices index plus 2 per cent? As you suggested earlier, if we do not go back to that, we are just going to store up problems for future generations.

Alan Sutherland: You have to look at it in the context of inflation, wage growth and that sort of thing. You have to look at how much you are trying to raise and what else you could do to protect those who cannot pay, and there are things that could be done in that respect.

An in-the-round solution might be possible. I hope that inflation will start to come down, although I am not as optimistic as I would like to be about that. I hope that it will come down more quickly than some suggest, but it will be challenging. You cannot increase total revenues by 40 to 50 per cent in our case and by 100 per cent south of the border and not have some people struggling to pay. The question is about how to balance that and make it possible.

Douglas Lumsden: You said that you might have some suggestions for the Government. How do you suggest the Government raises that money without impacting the lowest earners?

Alan Sutherland: Perhaps I can give you an example. In the past, I have suggested that the rate of relief, which is 35 per cent for someone on 100 per cent council tax benefit, could be increased marginally every year, which would mean a nominal freeze in that household's bill year on year. It would go from 35 per cent to 36.8 per cent—I know that that is a spuriously accurate number, but I do spuriously accurate numbers—and then up to 38.5 per cent or something. That would mean that people who have been tested as being the most vulnerable and who are receiving 100 per cent council tax benefit would not see any increase. That would be quite a good thing to do, and the cost of doing that would be a rounding error and relatively trivial to the rest of us. We could look at doing that. Again, though, it is a political decision.

Douglas Lumsden: Do you think that it is right for customers to be paying more? You mentioned earlier that there are still problems with efficiencies at Scottish Water and the quality of information that you are getting. For example, there seems to be an issue with how Scottish Water is spending its money on bonuses. Do you think it is right to ask customers to pay more when there are still underlying issues with Scottish Water?

Alan Sutherland: We must try to keep two things separate. The first is our need to invest for the medium to longer term, and I am suggesting that people pay more so that we can address our future investment needs.

I agree that there are steps that could and should be taken in relation to operating costs. Those costs should be trending down in real terms, but at the moment they are not. I would like to see that happen. Let me be absolutely clear: when we set our price caps, we assume that that efficiency happens. If it does not happen, we will start to ask questions when we reach the point of analytical confidence that it is not happening. We will explore why it has not happened and what will be done about it.

11:00

Douglas Lumsden: Do you think that it is right to pay those bonuses when efficiencies are not being met?

Alan Sutherland: It is not for me to comment on the level of bonuses.

Douglas Lumsden: Okay.

I will turn to Consumer Scotland now. Perhaps you have not done any research on this yet, but is there an appetite for customers to pay more if more is going to be spent on the service, whether that means better quality or more value for money?

Emma Ash: There are two pieces of research that might help. The first is our overall research, as part of which we are speaking to consumers about how we adapt to climate change and about investment in that respect. We will have a sense of what consumers think once we have more findings with regard to what the costs might be for them.

Secondly, there is some internal analysis that we have done. It is a piece of research that looks at the affordability of bills for consumers in the context of the water charge reduction scheme and other schemes that are available. It has not yet been published, but we will share it with you when it is. At the moment, the team that has developed the research is engaging with stakeholders.

The analysis shows that water poverty has fallen in the past couple of years, likely as a result of lower-than-inflationary increases in bills. The level of reduction in the water charge reduction scheme increased from 25 to 35 per cent, but we are likely to see that unwind if bills go up. That is the area where we are looking to develop some policy. We have the modelling, and we are looking at the different impacts of bill increases and what policy recommendations can be made on support for consumer groups, particularly those on a low income.

In developing that research—which, as I have said, we will certainly share with the committee—we have become aware that any increase is going to have an impact. We need to think about the pace of bills and communicating with consumers about how their money is being spent and why that needs to happen.

Douglas Lumsden: I gather, then, that you have not completed any of this research so that people understand that although they might be paying more, they are doing so because it is needed for the future. That work has not been done yet, has it?

Emma Ash: Do you mean our research?

Douglas Lumsden: Yes.

Emma Ash: It is on-going. We are still in the middle of what is a two-month workshop session with consumers.

Douglas Lumsden: Should the Scottish Government be doing more to help to ease the pressure on any increase in water charges?

Emma Ash: The Government will have to think about certain decisions with regard to the water charge reduction scheme, but we are also conscious that people who are eligible for the scheme can often fall into debt, because they do not know that they are still liable for the charge. Although there is a 35 per cent reduction, they still have to pay some of the charge, even though they are exempt from the council tax. Sometimes that

can cause confusion that results in consumers not paying, and they fall into debt as a result.

A couple of months ago, we asked the Government to consider asking local authorities to do a bit more to support consumers with ability-to-pay assessments when somebody falls into debt as a result of not paying their water charge, to try to stop the issue becoming bigger than it already is for those particular households.

Douglas Lumsden: Thank you.

Mark Ruskell: My question is on the back of that last one. I am interested in getting a sense of whether the consumer research shows that consumers who can afford to pay might be prepared to pay more if it is linked to tangible environmental improvements. The question, crudely put, might be this: would people be prepared to pay an extra 30p if they get improvements in a river, a cleaner beach or whatever? Is that kind of thinking coming through?

Emma Ash: It might be a bit too early to know that. Fraser Stewart might be able to comment.

Fraser Stewart: It is very difficult for us to say that, based on our deliberative research, because the work is not about how much more people are willing to pay for climate change adaptation projects.

However, before the pandemic and the cost of living crisis, the previous customer forum did some work on pricing that showed that consumers were willing to absorb a small price increase to improve infrastructure for climate change purposes. That research is probably somewhat out of date now and there is an argument for revisiting the issue, given that things have moved on and that the country has had to face a few major crises.

As we are not doing any work at the moment on willingness to pay, it is difficult to say exactly what the appetite for risk is. It would certainly be worth exploring that further. We have a sense that people recognise that we have not got to where we want to be as a country, but we have not been able to use our consumer research to put a figure on that.

Mark Ruskell: It would certainly be interesting to see what the research throws up, given that, as you have said, things have moved on. That is not only because of the pandemic, but because there is now a different narrative about how we use our water resources and the impact of sewage.

I have a question for Alan Sutherland about the role of WICS. Are you having to evolve your regulatory approach because of the challenges of climate change? I am mindful of Audit Scotland's approach, which involves much more carbon counting and looking at how the public sector is delivering the long-term change that is needed.

What does that look like for WICS? You were set up with a very specific remit under the Water Services etc (Scotland) Act 2005 as a predominantly economic regulator, but we are now in a world that is quite different to the one of 2005. How are you adjusting your regulatory approach to meet the challenges that we now face?

Alan Sutherland: That is a great question. We are having to do things differently and, indeed, we want to do things differently.

There is a hidden suggestion in your question that economists are only interested in pounds, shillings and pence, which I do not think is quite right. It is certainly not right for me or the people I work with; we are very interested in externality costs, whether they come from carbon, social benefits or other sources.

I can give you a couple of examples of how things are different. In our most recent price review, we ring fenced an amount of money in light of the fact that some environmentally friendly investment solutions are cheaper in cash terms while others more expensive. If the carbon or other societal benefits outweigh the difference in cash, we will give extra cash for the more expensive, more environmentally friendly solution. That is an open offer, and it is out there for Scottish Water to take advantage of. It has not done so yet, but the promise was there that we would give it the money if it took those steps.

Turning my attention to green-blue natural solutions, I would say that one of the things that we are trying to encourage is the use of an appropriate timescale when considering the costs and benefits of such solutions. With a standard engineering appraisal, you might be looking at a project over a 20 or 25-year time horizon, but that will not show you the upgrades in concrete and future rebuilds that will be required beyond the time horizon of your analysis. What if I were to switch to just opening culverts and having natural river flow? Once I have done it, it is done. I might occasionally have to cut the grass around it, but I do not have to do anything else. If you use a 50 or 60-year time horizon, you will quite often see that sort of solution becoming cheaper than the standard grey solution.

The way in which you go about analysing the project will have to be different, which is why the need for long-term strategic thinking is as important as it is. That is what we are trying to do. We are trying to give Scottish Water as much flexibility as possible, but I think that it has taken the flexibility and been rather less good about the accountability of what it is specifically doing. That is what we have to rein back and get a degree of proper control over.

Mark Ruskell: Thanks for that. That was a good, clear example of the challenges. I recognise your work in ensuring that externalities get internalised over a number of years, so please do not read anything else into what I am saying.

I have another question about the role of WICS. We are heading towards new legislation on water and sewage. Do you see the role of WICS and the way in which it is set up as fit for purpose for where we are now? Is there a need to look again at the role of WICS and its duties? Are you unable to comment on that, or do you not feel that there is anything worth commenting on?

Alan Sutherland: My perspective is that the Parliament was pretty clever in what it asked us to do. Much as I would like to think that I value sustainable development and a climate-friendly Scotland as important things, I do not really think that it is for WICS to set policy. In fact, I know that to be the case. The increasingly important point is that the objectives that come to us to be costed need to be thought about in that broader space. I think that the Scottish Government has been moving in that general direction, but more could be done in that respect.

The consideration of charging separately for drainage and sewerage is probably sensible, because it will create incentives to harvest rainwater, manage the surface area, put down porous surfaces rather than hard surfaces and take other good measures. However, as the convener said earlier, people will only do these things if there is going to be a return on their money.

Mark Ruskell: Thanks.

The Convener: That is an interesting concept. It would require a massive amount of work on most properties and buildings to separate waste water from dirty water.

Alan Sutherland: It depends on what you are talking about. If you are talking about the internal plumbing, that would be very difficult. If you are talking about roof water that goes from the drains and comes down through guttering, that could probably be done much more easily than something internal. There are things that could be done, and every little bit helps here.

The Convener: I agree. I am just thinking about all the buildings that I see around Edinburgh that have gutters that disappear under the ground. I am not sure whether anyone knows where they are connected into.

Alan Sutherland: I think that that goes into the same category as those paved-over gardens in central Edinburgh. It has the same effect.

11:15

The Convener: Thank you.

Do members have any more questions on this section before we move on to the next bit? Monica, I think that you had a question on project delivery. Are you happy that it has been answered?

Monica Lennon: I had a broad question about net zero delivery and whether the panel agrees with Scottish Water's assessment that it remains on track to deliver its net zero commitments.

The Convener: Are you happy that the question has been answered or would you like Alan Sutherland to comment on that?

Monica Lennon: A yes or no might be the ultimate answer, but there might be nothing to add, because the jury is still out.

Alan Sutherland: On net zero progress, there is always more that can be done. The day that a regulator is satisfied that enough is being done is probably the day that they are no longer a regulator.

The Convener: Sarah, did you want to add something?

Sarah Boyack: I just wanted to highlight that, at last week's meeting, I asked about Scottish Water using its renewables infrastructure for income generation. To what extent does that infrastructure give it additional income that might help keep household bills down? I know that it is a short question on quite a complex issue.

Alan Sutherland: It is quite complicated, but household bills will ultimately be kept down if Scottish Water earns a return above its capital costs on whatever non-core activities it is engaged in. Its only source of funding—the seed capital, if you like—for those activities is the profit that it makes in its core business or the profit that has already been made. That money gets reinvested, so we as customers are contributing to all of that. Hopefully, those activities will all earn returns and bring down bills.

However, it is not just a matter of bringing down bills; it is about the contribution that those activities are making to Scottish Water's net zero challenge. That bit has to be monetised—or at least considered—too. If you do not want to monetise it, you will have to consider it in the same breath as the costs.

Sarah Boyack: Thanks.

The Convener: Thank you very much. That brings this session to an end, although we are going to keep some of the witnesses on. I briefly suspend the meeting to allow Alan Sutherland and Emma Ash to slip away.

11:18

Meeting suspended.

11:25

On resuming—

Circular Economy (Scotland) Bill: Stage 1

The Convener: Welcome back. Item 5 is an evidence session with Consumer Scotland as part of our stage 1 scrutiny of the Circular Economy (Scotland) Bill. I am pleased to welcome back Tracey Reilly, head of policy and markets for Consumer Scotland, and Fraser Stewart, its research manager. I thank them for providing a written submission to the committee. I will start off with a couple of questions on that. Let us see whether I have got them right.

The witnesses said in their submission that consumers have bought into the bill's requirement for circular measures but that there is some confusion between, or dubiety about, consumption and sustainability. Does the bill deal with those two things, which might butt up against each other a bit?

Tracey Reilly (Consumer Scotland): It is important to say that we welcome the bill. It will support consumers and businesses to reduce consumption and use resources more efficiently.

In broad terms, we know that consumers are concerned about climate change. They want to do more and sometimes do not know what they need to do. We want the bill and the strategy that will be developed under it to focus on the actions that have the highest impact on sustainability.

Fraser Stewart might want to speak a little bit about our recent research in a moment, but we found that two thirds of consumers did not know or were not sure about what they needed to do to help Scotland reach its net zero targets. That is a concern to us. On the back of that research, we think that there remains significant scope to build consumers' understanding of what they might do and what actions they might need to take and to look at the role that consumers have in helping us meet our climate targets. We want to ensure that consumers are at the heart of that transition and that the impacts on small businesses and consumers are considered when net zero and climate-related policies are assessed.

The Convener: The bill is framework legislation. Are you saying that it is as important to see what is behind it as it is to see what it enables?

Tracey Reilly: The bill is very much a framework measure. It sets a broad suite of measures that the Government may then introduce further measures to implement, whether by regulation or by strategies.

A strategy is desirable. In preparing for the bill, Zero Waste Scotland undertook international research on comparisons, which showed that having statutory measures rather than voluntary ones helped to prioritise the key measures to adopt and provided a framework for interrelated policies. There are a lot of policies that need to work together, and a strategy is one way of ensuring that they do so, whether that be the national performance framework, the climate change plan, the sector plans that underlie that, packaging regulations or price marking orders. All of those things need to operate in alignment for consumers to get the best out of the bill. Therefore, although it is a framework bill, the things that come under it will be just as important as the bill itself.

The Convener: Fraser Stewart, do you want to come in briefly on that?

Fraser Stewart: We have shared with the committee the research report on the survey work that we recently completed. It shows that consumers are concerned about climate change. They see it as one of the big challenges for us as a society and a country, but what comes through from that work is that there is a lot of confusion as well. Consumers do not know what they need to do to be able to make a contribution to achieving the targets. What makes that more complex is that it depends on the market that we are talking about, and the level of interest and engagement around what people are being asked to do. Our evidence shows that at present, there can be a lack of information.

We often hear from local authorities that they provide information on how to take part in recycling or reuse schemes, but when we speak to our consumers, that is not always the message that comes back from them, so there is probably a need to simplify things and ensure that the core message is getting across. We would see the bill as an opportunity to get some of that stuff done.

11:30

The Convener: You suggested that targets are going to be a way of helping people to buy into this and inspiring them to be part of the solution. Can you highlight some areas in which you think that targets would be particularly helpful, in a bill that appears to be quite frameworky?

Tracey Reilly: I know that the committee has had quite a detailed session with Zero Waste Scotland. Recycling is one of those areas in which quite a lot of progress has been made, but that progress is now beginning to plateau, which is one of the reasons that we think that legislation is necessary, rather than just leaving it to a voluntary approach. I think that some targets in that area will

continue to need to be met, in particular on the percentages for waste going to various ways of disposing of it, whether that is—as we talked about earlier—incineration, landfill or recycling.

One way in which the bill can help to drive sustainable changes is by helping to increase the degree to which we focus not just on recycling but on moving things further up the waste hierarchy, so that we are talking about reusing and repairing things, and extracting the value from these resources more effectively and keeping them in use for longer. Targets around those types of measures that are quite strictly related to the waste hierarchy would be of definite benefit.

The Convener: Fraser, are there any areas on top of those ones in which you think that targets might be helpful, or are you happy with those?

Fraser Stewart: Targets are useful for getting over the message that we are trying to head somewhere, but we need to be realistic. When it comes to people making decisions day to day, a Government target is probably not at the forefront of people's minds. They are probably thinking, "I've got all this stuff and I don't actually know what to do with it." Clearer messaging is useful, but there also needs to be the correct infrastructure and the facility to do something simply in a way that fits in with the rhythm of people's everyday lives, given that they have a lot of competing things to achieve day to day.

The Convener: I have one more point before I bring in Monica Lennon. You are saying that if there is a target that is easy to achieve, it becomes second nature, so that is what we should aim for, rather than something aspirational that says that we are going to have 100 per cent of waste recycled. Is that what you are saying?

Tracey Reilly: Fraser Stewart will correct me if I am being too broad in what I am saying. The two areas that come through strongly in our research when we ask consumers why they are not making more sustainable choices are convenience and cost. There need to be affordable alternatives to things that are not currently sustainable.

As Fraser said, there need to be things that people can fit into their everyday lives, which is why we have made reasonable progress on recycling. It does not require as much effort as, say, seeking out a repair shop and physically taking something there, whether that be a small electrical item or a piece of clothing.

There are some great initiatives out there such as the Edinburgh Remakery and the Edinburgh Tool Library—a lot of things are in the deputy convener's constituency—but we would like those things to be second nature, not just to people who live in that area but across the rest of the country. Rather than just buying new things constantly,

perhaps people can approach a consumption decision differently by looking at whether the thing that they buy would actually last longer or could be repaired rather than just buying the newest, shiniest version of the thing every time it is available. There are all sorts of ways in which we need consumers to change their consumption patterns.

The Convener: In fairness to other members of the committee, there are great places outside of Ben Macpherson's constituency that do recycling.

Monica Lennon: I do not want to get in the middle of that debate.

Thank you for your written submission. On powers for single-use charges, your written submission emphasises the need to consider impacts on people on lower incomes and vulnerable people. How should single-use charges be introduced, and how should they be balanced with other measures or supports to ensure that they are fair?

Tracey Reilly: As I alluded to, single-use charges are probably most effective where there are accessible, affordable, sustainable and available alternatives to the product that you are charging for or considering banning. For example, there were relatively affordable available alternatives to plastic carrier bags. Whether consumers in vulnerable circumstances, such as those in low-income households, will be disproportionately impacted by charges such as that will depend on how that system is designed, and we know that that will come through secondary legislation.

The fairer Scotland duty assessment suggests that measures might be needed to support households to purchase longer-lasting goods. Although those are cost effective in the long term, they could be initially unaffordable unless there is targeted support. In the case of more expensive items, it is possible that more targeted financial support might be needed.

As you allude to, charges are only part of the solution. We need to look at how we can improve consumer awareness about the impacts of choosing single-use items. We also need to work with manufacturers to develop more sustainable products, consider using alternative materials and exploit the technological advances that are now available. There is a range of measures—at one end, working with manufacturers and at the other end, working with consumers. That type of action will need to be taken at both ends of that spectrum.

Monica Lennon: When you say targeted support, do you mean, for example, grants funded by central or local government, or something else?

Tracey Reilly: It could be about working with existing community organisations to supply alternative products to the people whom they work with. That is perhaps particularly important in relation to hygiene for groups that have health needs or in food-related settings. It is often easier for those types of initiatives to be successful if you are working in environments where people already go. If you are working with a community group and people are already visiting the location, it is easier to make those products accessible to consumers, whether that be a food bank, library, community centre or any other community-based organisation or support service.

Monica Lennon: In order to achieve a just transition for consumers, would you suggest any other changes to the bill?

Tracey Reilly: As the convener said, it is very much a framework bill, so at this stage it is difficult to identify any issues of that nature. We would be more likely to be able to identify them when, for example, the strategy is brought forward for consultation and we can look at importing it, or when there are regulations on single-use charging. We are in touch with the Government team that is working on single-use charging, and we would be very happy to work with it.

Monica Lennon: Is there a disadvantage to that "frameworky" approach, as the convener called it, or are you happy that the strategy will pick up a lot of the operational stuff?

Tracey Reilly: It is always a balance. If you put too much in primary legislation, it can have the effect of fossilising the approach, meaning that you need to go back and introduce more primary legislation to amend what you have just brought in. At a time when there are a lot of technological advances, it probably makes sense to leave some flexibility to the implementation.

The challenge that then arises, as you heard from the hospitality and food and drink panel, is that businesses, including small businesses, want clarity and consistency and need to have a long enough timeframe to adapt to those changes. Ultimately, whether that balance is right is probably a question for the committee. It is a difficult balance.

Monica Lennon: It is a discussion for this committee.

I will pick up on the disposal of unsold goods. Can you talk us through what the risks and opportunities are for consumers and business of introducing restrictions on disposal of unsold goods? Have you looked at examples from other countries, such as redistribution schemes for food or other goods, to understand the impacts?

Tracey Reilly: We have not had a chance to do that research yet. As was mentioned earlier, we are in only our second full year of operation. We might consider in future years looking at international comparisons of what has and has not worked.

I note that there was some discussion with a previous panel of the definition of “consumer goods” and the width of that. It is fair to say that it has a very broad definition. Different considerations might apply to different types of goods. For example, the considerations for textiles or electronics, which are longer life, will be different from the considerations for food or beauty products, which might have a shorter shelf life. It is important that businesses and retailers are able to understand what exactly will be caught by the definition of “consumer goods”.

On the plus side, the measures can probably help reduce overproduction and encourage more sustainable stock control measures, once they are in place and businesses have had a chance to adapt to them. If they are delivered effectively, they should be able to help reduce raw material usage and ensure that we get maximum usage of the materials that have been brought into life. They might also, as other panels alluded to, allow for the development of new economic opportunities to connect different parts of the supply chain, in terms of distributing goods that will no longer be able to be destroyed for onward use.

One of the risks that we would like to see addressed is the risk that goods that are subject to recall or that are unsafe or counterfeit might be at risk of entering the supply chain again. The provisions will simply need to be constructed in a way that ensures that that does not happen. We would recommend that trading standards bodies be brought into those discussions, because they have considerable expertise, along with the Office for Product Safety and Standards, which works on product recalls.

Those are my headline thoughts on that. I am happy to answer anything else.

Monica Lennon: Thank you.

The Convener: Ben Macpherson has some questions.

Ben Macpherson (Edinburgh Northern and Leith) (SNP): Good morning. Building on what you have already said in response to my colleagues, are there other areas of the bill, such as the proposed powers in relation to waste and surplus reporting by business, that could be used to support the sustainable consumer choices that you have talked about, for example by making information about environmental impacts more transparent and accessible? In general, what

information do consumers need to make sustainable choices, and to what extent is that information currently available?

Tracey Reilly: The question about reporting surpluses is not one that I have previously heard. Zero Waste Scotland is probably better equipped to answer it.

At a very broad level, I can say yes, having that type of information available would help to identify where surpluses were and whether further action needed to be taken. I am sure that the witnesses on your previous panels would tell you that you need to be mindful of the burden of reporting requirements as well. I would defer to any thoughts that Zero Waste Scotland might have.

Sorry—what was the second limb to your question?

Ben Macpherson: What information do consumers need to make sustainable choices? That question feeds into what Mr Stewart said about people being busy and having other things on their mind. Let us put ourselves in the shoes of the consumers. What information do they need, and to what extent is information currently available that can be highlighted?

Tracey Reilly: In all honesty, that area is difficult and confusing. Many of us want to make the right decisions, but it is very difficult to judge green claims. I know that the Competition and Markets Authority and the Advertising Standards Authority are continuing to work on the issue of greenwashing to ensure that consumers can expect transparent and accurate information.

Generally, consumers need reliable and trustworthy information. They need to be able to get a sense of how long something will last and whether that is value for money. They need a sense of whether, if they are buying a longer-life item, that item can be repaired. They need to be able to understand labelling. If they are buying textiles and the label says something about sustainability, what metrics are employed in that? Are those metrics trustworthy? Information about repairing and recycling can be quite confusing, as can recycling labels themselves. It can be difficult to know whether something can be recycled, particularly when different arrangements are in place across different local authorities.

Those are the types of information that I can think of that would help consumers to make a more sustainable choice in the moment. I do not know whether there is anything else from our report, Fraser, that you would like to highlight.

11:45

Fraser Stewart: As has come through from our research, consumers tell us that they want the

information, but it needs to be understandable and it needs to be something that they can put into action. It is not just a case of having an extensive list of unfathomable information on the back of all products that has no bearing on what facilities are available in the local community. The message that we are getting is that people want to know more, but it needs to be simple information, which they can then put into practice, and that fits with their family life.

We are trying to get across the point that this is not just a matter of providing huge amounts of information to people and then leaving it to them to make up their minds about what they can do or how they go about it. The information needs to be appropriate, and it needs to be delivered in the right way at the right time. That allows people to see themselves as part of the solution.

Ben Macpherson: Building on that point, you said in your written evidence that the new consumer duty will likely be relevant to measures under the bill, including strategic decisions on waste infrastructure and targets. Could you expand on that? How could the new duty interact with the new circular economy regulations, if the bill is passed? How can the guidance support best practice in that situation?

Tracey Reilly: The consumer duty will come into force at the end of this year. We have a statutory power to issue guidance to public authorities under that duty, and that guidance must be approved by the Scottish ministers. Regulations designating the bodies that the duty will apply to will be laid by the Scottish Government nearer to that time.

We are working on the guidance, but it will effectively require public bodies to consider consumer interests when they take strategic decisions. That might apply, for example, to the provision of recycling schemes and to considerations about local businesses, how public bodies support local businesses and what the priorities are in that respect.

Until we have that guidance, which is still being worked on, it is difficult to know in practice. There will be a one-year period of implementation before the arrangements really begin to be enforced. There are opportunities to bring the needs of consumers closer to the top of the agenda to ensure that they are considered more as part of decision making, rather than just considering the convenience or the operational nature of decisions.

We think that there are opportunities to streamline things so that the needs of consumers are not the last thing to be thought of at the end of the process, and so that they are built in much more from the start. We are talking to the

Government about how, for example, the consumer duty approach will integrate with some of the impact assessments that are already being made and with business impact assessments. We hope that we can begin to develop a more coherent approach to all those things through integrating the different sources of information.

Ben Macpherson: Do you have any other comments on the bill that you have not had the opportunity to make or to emphasise in your answers to our questions?

Tracey Reilly: I do not think so. Our plea would be for the needs of consumers to be thought about as part of the processes. That involves consistent messaging and thinking about whether there are accessible and affordable alternatives and how those alternatives can be delivered, particularly to consumers who might be vulnerable. Those are the things that we would really like to highlight to the committee at this stage.

We think that the bill will provide significant opportunity for dealing with some of those issues, but the strategy will be crucial in aligning a very complicated landscape and in trying to ensure that the different layers within that landscape are sitting in harmony.

Ben Macpherson: Those are such important points. It is not just about affordability, which is significantly pertinent, but about accessibility and being able to transport yourself to where alternatives and facilities are available. Those things are certainly on my mind.

Tracey Reilly: We need to learn lessons from previous things that have been done, particularly when it comes to charging for and banning single-use plastics. We have examples, such as the banning of single-use cutlery, which had unintended consequences in the initial stages, with implications for disability groups. Those were addressed and dealt with.

We had a relatively successful introduction of plastic carrier bag charging, and we have lessons that can be learned from that in terms of communities understanding why the charge is being brought in, what effect it will have and what is being done with the money that is being generated under those schemes.

There are some really good lessons that can be drawn on from previous things that have been done. It is just about taking those into account in the design of any new schemes.

Ben Macpherson: It is about taking people with you, effectively.

Tracey Reilly: Exactly.

The Convener: Sarah Boyack has some brief questions.

Sarah Boyack: In paragraph 21 of your submission, you suggest that there could be legal targets for the transportation and packaging of goods. Do you want to comment on that? Obviously, a huge amount of Scotland is rural and there has been a huge increase in packages being delivered since the pandemic. What would those targets look like? You suggest that there should be mandatory reporting of transport emissions. That would raise awareness, but how should the Government do that?

Tracey Reilly: That is a difficult one because, as consumers, we have all become accustomed to clicking a button to get next-day delivery at no extra cost when we order goods. There will be some work to do to test consumer perceptions of whether they are willing to consider alternatives, whether that be grouping deliveries into batches, using parcel lockers, looking at aggregating deliveries or potentially integrating parcel deliveries with other things that are already there. We know that that happens in the Highlands, for example.

Later this year, we will be doing research that looks at consumer attitudes to decarbonisation. Fraser Stewart might be able to add something on that. One of the issues that we would want to test is how consumers feel about such a delivery charging model and what potential there is for change in a sustainable sense.

Fraser Stewart: I do not have much to add on that, other than that our post policy team is commissioning an attitudes survey this year. As Tracey said, that will look at decarbonisation of the parcel sector in a bit more detail than we were able to do in our survey work and, specifically, try to get on top of the issues around decarbonisation in the postal and world parcels market.

Sarah Boyack: That is useful. The bill process is on-going, and we are moving towards the amendment stage, so it would be useful for the committee to be kept updated on that issue.

The Convener: As there are no other questions from members, I will ask one. As advocates on behalf of consumers and representing consumer interests, in your written evidence you said:

“It would be beneficial for strategies to be aligned as much as possible with strategies from other UK nations”.

One of the things that we have to understand is whether the bill will create problems for the United Kingdom internal market and what would happen if it does. What are your views? Is it all clear cut and simple, with no conflict, or are there potential areas that we should be looking at?

Tracey Reilly: The Office for the Internal Market is relatively new still, so it is challenging to ascertain what the implications of that office will

be. We know that trade between the UK nations is certainly important in economic terms, and we know that, in carrying out that trade, businesses will be looking for certainty, clarity and consistency.

Generally speaking, businesses are still reporting that trade is working well within the UK nations. If you look at the Office for the Internal Market’s recently published annual report, it is important to recognise that only a minority of UK businesses trade within the nations. Where requests under the United Kingdom Internal Market Act 2020 are made, we think that very early engagement is the key factor that can influence the success or otherwise of those measures. All that we would want to say is to urge that the implications of any decisions for consumers and small businesses are identified at an early stage during those intergovernmental discussions and that they are considered as part of the assessment process.

The Convener: It strikes me that, if targets and regulations are placed on products up here and not south of the border, it is not that inconvenient to make sure that you do not have to pay the extra costs that may be incurred by buying those products in Scotland. Do you think that that is a realistic issue?

Tracey Reilly: It is too early for us to tell what business behaviour will be as a result of the operation of the Office for the Internal Market at this stage. It may be that the office is in a better position to answer that. We would not have any evidence either way.

The Convener: But you would encourage early dialogue.

Tracey Reilly: We would encourage early dialogue and an identification of the implications for consumers and small businesses, both financial and otherwise.

The Convener: I was going to say that that was a perfect point on which to end, but Mark Ruskell is going to trump me.

Mark Ruskell: Your comments have inspired a further question. Has regulatory innovation from devolved Administrations been useful in this space? You talked earlier about single-use plastics and carrier bag charges. There is the issue of the operation of an internal market, but what is your assessment of policy innovation?

Tracey Reilly: It would not always have been a bad thing to have some nations taking the lead. The legislation recognises that there are times when Governments might want to diverge in order to reflect more local needs or differing strategic priorities within the nations. Certainly, there are things that have been done by one nation that

have gone on to be adopted by other nations once they have seen how they work. For example, Wales put forward some measures that have then been adopted. The Office for the Internal Market has been considering detailed proposals including in relation to peat-free compost. That can lead to the development of more UK-wide solutions that are based on seeing how things work in practice in one of the nations, or at least it can ensure that, where divergence develops, that is based on evidence.

Mark Ruskell: Does that outweigh any potential confusion from consumers when, for example, they go to Wales and say, "I didn't realise that this wasn't on sale, because it has been banned"?

Tracey Reilly: It would be difficult to speculate on that at a general level. You would have to look at an individual measure in order to say how much confusion or otherwise that would cause. It is probably more difficult for businesses. If they are operating UK-wide, they need to be able to plan and they need certainty to encourage that planning. However, as we know, not every business is going to trade either within Europe or within the UK, so it is difficult to give a broad answer in that respect.

The Convener: That was a very useful session, and we are now at the end of it. Thank you very much for coming, for sitting through both sessions and for answering our questions in the latter session. It was very helpful for us.

11:59

Meeting continued in private until 12:23.

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